

The Agile Enterprise Capital Asset Strategy



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Succeeding in today's volatile marketplace requires a new approach to strategic planning – An approach built on a closed-loop process that can be refined and reevaluated at the speed of change. Moving ahead requires a clear understanding of how capital assets can be maximized to improve the value chain. Moving forward requires Integrated Business Planning.



Capital Asset Strategy

Problem/Situation

Current strategic planning processes are intermittent exercises that typically take place at the department level. Each singular view or strategy serves as the department's approach for delivering the corporate plan. The aggregate of each individual game plan is then rolled-up and labeled, "The Corporate Strategic Plan."

These exercises in strategy, although honorable in their intent, frequently fail to deliver a quantifiable increase in financial performance. Therefore these laborious exercises are deemed counterproductive as they diminish shareholder value and further dilute a company's true potential.

The enemies of meaningful strategic planning are:

- **Isolation**

Planning is not holistic; therefore it can not optimize performance across the enterprise

- **Operations-Based**

Planning that is not strategically focused results in financial outcomes that are derivatives from the process; not central to the process. Financial measures should be inputs used in planning versus outputs coming from operations

Adverse to change

In many organizations, strategic planning is driven by a compelling event such as a merger or acquisition opportunity. Data is gathered and a "one-time" analysis is performed and a decision is made; often with spreadsheets serving as the primary instrument for decision support. But business operates in a dynamic and fluid environment. Variables are constantly shifting, yet strategic planning remains stagnant. While business leaders understand this dichotomy, analysts cannot update the hoards of spreadsheet models due to the accelerated rate-of-change that has become commonplace for most companies.

From supply chain to value chain

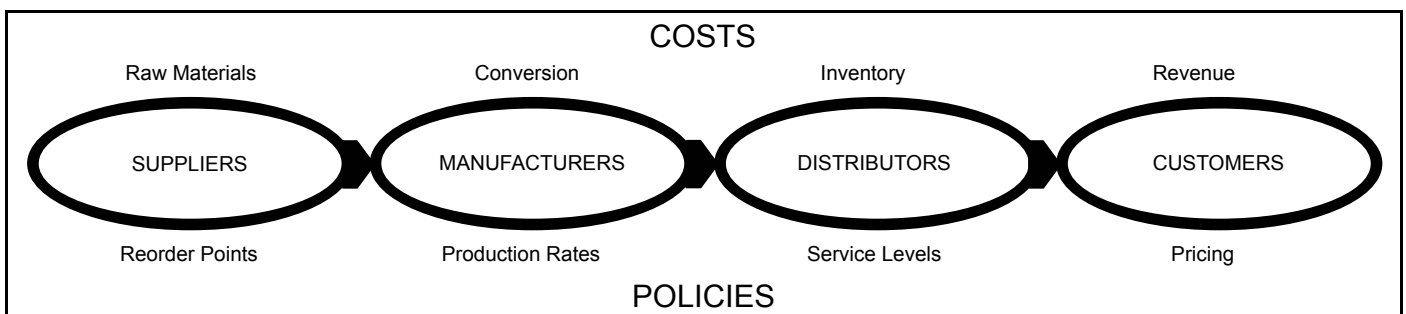
Many strategic decisions are made using is primarily operational data. As illustrated below, current policies and costs are used to evaluate the outcomes from different strategic alternatives using primarily operational metrics. Financial analyses, which are frequently conducted after the fact, focus on material flows and balancing supply and demand.

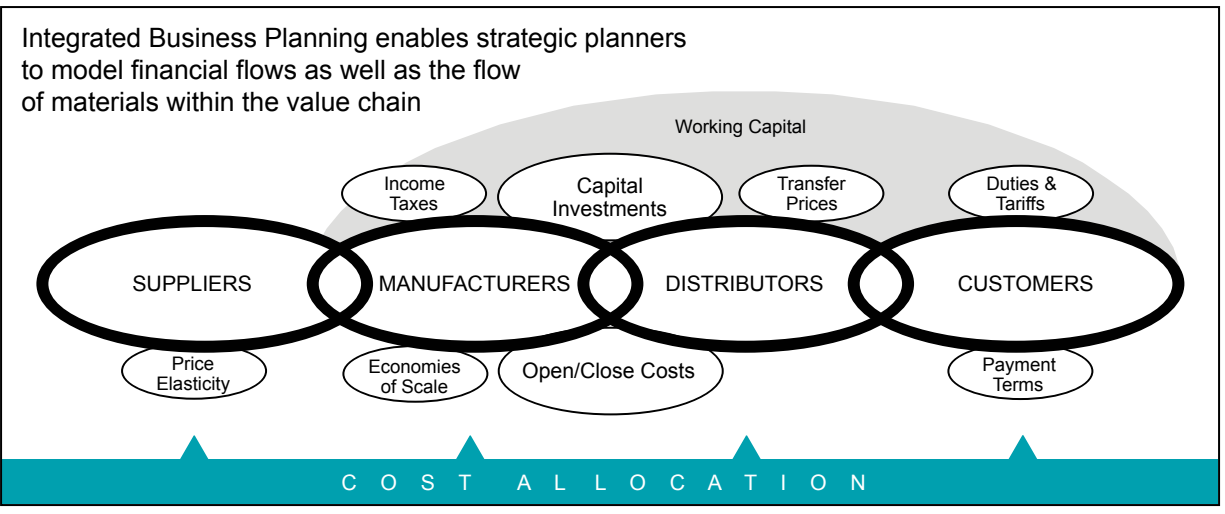
This approach ignores significant components of the value chain. While individual financial variables, such as the fixed cost associated with adding capacity, may be included, an integrated view that encompasses all relevant degrees of freedom in decision making is not available to strategic planners. The result is that the true impact of strategic decisions, expressed in financial terms, remains unknown.

River Logic Solution

River Logic's Capital Asset Management Solution allows strategic planners to model not only the material flows of the value chain, but the financial flows as well. Strategic planners can design the entire supply network to be aligned with the company's business strategy. This allows decision-makers to determine how unplanned events will impact the value chain. Using River Logic's solution, a closed-loop strategic planning process can be developed and refined that allows for a continuous reevaluation of the value chain. This reoccurring evaluation facilitates prompt course correction, thereby maximizing the return on capital assets, even during volatile times.

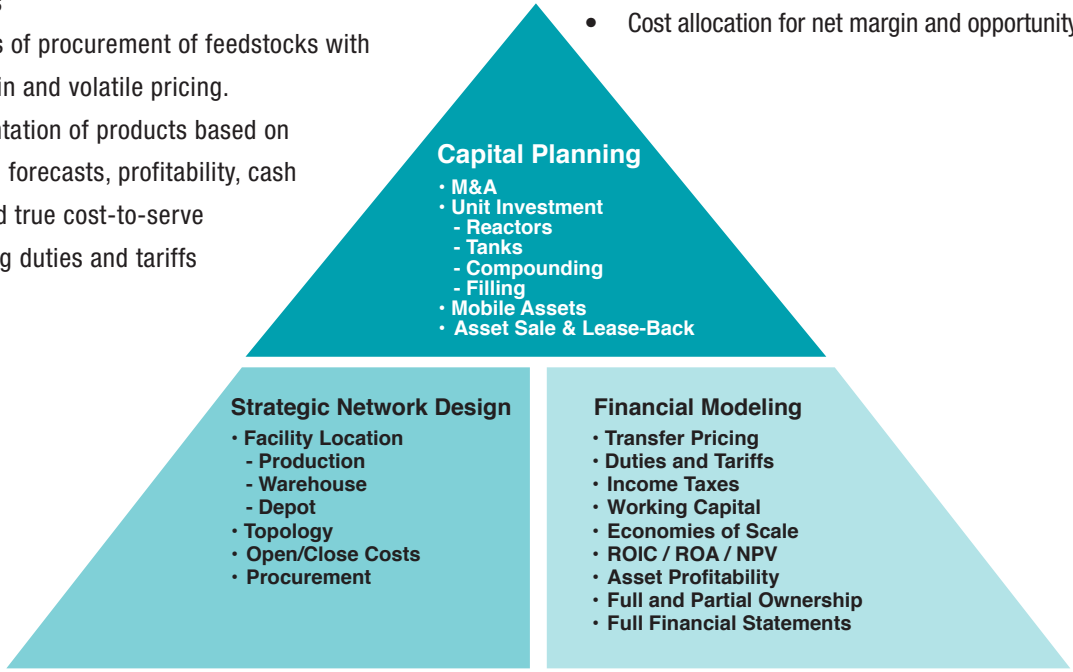
Built on the revolutionary [COR](#) technology and [Enterprise Optimizer® EO | Server 2008](#), River Logic's Capital Asset Strategy solution enables managers to determine the capital asset and network design strategy that best supports company's financial KPIs such as NPV, ROIC, Profitability and Cash-to-Cash Cycle Time.





As part of River Logic's **Integrated Business Planning (IBP)** system, the Capital Asset Strategy solution incorporates activity-based modeling, constraint-oriented process modeling and comprehensive financial modeling. EO's Capital Asset Strategy solution provides:

- A planning and decision-support platform uniting supply chain and financial chain flows in a single, holistic value chain business model
- Forward looking activity-based costing and advanced financial modeling methodologies for calculating full cost-to-serve that can be used to determine the effect of transfer pricing decisions on cross-border income taxes and profitability
- Evaluation of demand scenarios such as emerging markets
- Analysis of procurement of feedstocks with uncertain and volatile pricing.
- Segmentation of products based on demand forecasts, profitability, cash flow and true cost-to-serve including duties and tariffs
- Financial and operational analysis of :
 - Production facility
 - Warehouse and depot locations
 - Capacities, including labor costs, productivity, and efficiency
- Analysis of supply chain topology including lane utilization and transportation modes
- Impact of strategic network design decisions on Cash Flow and Balance Sheet line items at the location, division and enterprise levels, as well as by product segment
- Cash requirements and timing of cash flows for unit and mobile asset investment including open and close costs, salvage, and fixed and variable costs
- Evaluations of outsourcing and tolling opportunities
- Cost allocation for net margin and opportunity analysis



River Logic's Capital Asset Strategy Solution captures the entire value chain

Case in Point

Companies using EO for **Integrated Business Planning** have achieved ROIC of as much as 300%.

A multinational producer of emulsions for paper and paperboard coatings uses EO for strategic network design in the US and Europe. Scenarios considered include reactor upgrades and shutdowns, moving reactor assets and altering topology by closing warehouses. The original network included 15 plants, over 500 products, over 100 raw material and supplier combinations, and over 1000 customers. A strategic planning horizon of up to 10 years is evaluated.

The initial effort took under four months to complete, with over 90% of the data being obtained directly from the corporate ERP system. The model was validated using the actual performance of the company during the previous year as a benchmark. Once the application was able to reproduce the company's financial statements for the validation period, decision-makers became convinced of the model's accuracy and validity. Forward-looking analysis was then conducted for the scenarios described above.

Capital Asset Strategy Solution: Chemical Manufacturer

Client identified efficiency gains in excess of \$8 million in the first year

