

# The Agile Enterprise Performance Monitoring



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The rate in which corporate decisions are made continues to escalate. Making the best decision, and doing it promptly, requires a system that quickly transforms information into insight. Scorecards, combined with predictive modeling, increase corporate agility by delivering faster and deeper insights, in near real-time.



# Performance Monitoring

## Scorecards / Reporting / Predictive Modeling

[Corporate \(Business\) Performance Management](#) (CPM/BPM) is one of the fastest growing technologies in enterprise software. The driving force is the need to make faster, better, more aligned decisions at both the strategic and operational levels. CPM, which involves strategy planning, financial planning, regulatory compliance and performance monitoring, also incorporates scorecards, reporting, and forecasting, or predictive modeling.

Once plans and decisions are made, Performance Monitoring attempts to answer the following questions:

1. How am I doing against plan?
2. If I maintain the current performance level or trend, what will my performance be for the remainder of the planning period?
3. Which key performance indicators (KPIs) should I pay attention to? What are the underlying drivers of these KPIs?

Rather than waiting until numbers are rolled up at the end of the month, Performance Monitoring delivers this information in near real-time.

The best known methodology for enterprise-wide deployment is the [Balanced Scorecard](#) system, created by Drs. Kaplan and Norton. The Balanced Scorecard attempts to create a view of performance that goes beyond financials, and includes market and operational metrics. This expanded view emphasizes the leading indicators that are likely to have the most impact on the company's ability to execute its strategy, and on its financial performance.

levels, they have failed to achieve broad success at the tactical and operational levels. Users and thought-leaders cite the following reasons:

- Users find it difficult to assess performance against plan as the scores (green, yellow, red, etc.) are determined subjectively, or estimated using spreadsheets.
- While they do a good job of estimating the performance of leading indicators based on historical trends and statistics, predictive models do not accurately forecast the impact of these leading indicators on the scorecard KPIs. For example, if the price of a key raw material increases, a predictive model is unable to properly estimate the impact on product costs, working capital investments, and customer profitability. Therefore users don't know when or how to react.
- The relationship between KPIs is not quantified, including the linkage from strategy to operations, as well as cross-functional relationships. Therefore, even when it is clear that performance is off-target, it is not always easy to determine the underlying root-causes and the best way to react.

These critical shortcomings exist because performance monitoring systems, which rely solely on conventional scorecards and analytics, are based on data models that cannot properly link KPIs, business constraints and financials.

# River Logic Scorecard & Predictive Modeling Solution

Built on the revolutionary COR technology and EO I Integrated Business Scorecard™ River Logic's Scorecard and Predictive Modeling Solution fully leverages the functionality, ease-of-use, and industry-leading total cost of ownership of Microsoft PerformancePoint Server (PPS) to deliver the most advanced performance monitoring solution.

This unique solution uses EO I Integrated Business Scorecard™ to model market factors, business operations, human resources, and financials that accurately quantify the relationships between leading indicators (booked orders, raw material contract prices, shipments, union contract rates) and their implications on financial and operational performance. Microsoft PPS aggregates, stores and serves the data to users via easy-to-use scorecards, Microsoft Office Excel® or Microsoft Office SharePoint®.

Core functions of a performance monitoring system include:

## 1. Optimal targets and alert bands

The ability to accurately quantify how leading indicators and operational KPIs affect strategic and financial performance. By evaluating “what-if” scenarios, managers correctly establish targets and the corresponding performance thresholds that may trigger an alert.

## 2. Better, more accurate visibility

At the right intervals during the monitoring period, the system uses projections of leading indicators to provide an accurate forecast of performance, including all operational KPIs and financials. Unlike data models that merely extrapolate numbers, the system takes into account all the relevant constraints within the organization. In addition to KPIs, the system also produces full financial forecasts that feed directly into the financial planning process.

## 3. Insights and understanding

When scorecards show or predict important deviations from performance, the system automatically highlights the KPIs that require attention. Users can also drill-down into possible

root-causes; then examine potential actions for prompt and efficient course-correction.

The solution fully integrates EO I Integrated Business Scorecard™ with Microsoft PerformancePoint Server to provide the most advanced features and capabilities including:

- Underlying model goes beyond data models to consider operational processes, market factors, business constraints, and financials. In doing so, an accurate, quantified relationship can be established between leading indicators, operational KPIs, and company financials.
- Predictive modeling provides unique visibility into expected performance, enabling users to react to leading indicators quickly and effectively
- Fast “what-if” analyses allow users to simulate movements in various KPIs to better set targets, as well as predict and react to unplanned events
- Use of interfaces familiar to users, including Microsoft Office Excel, and intuitive Microsoft PPS Monitoring & Analytics Scorecards
- Administration and management require limited coding, with model management occurring primarily through intuitive drag and drop interfaces
- Ease-of-integration and management leading to very low total cost of ownership

EO I Integrated Business Scorecard™ is easily expanded to support additional needs and can be ported into EO I Server 2008 to deliver Integrated Business Planning solutions.

## Result/Impact

Companies that deploy River Logic's Scorecard and Predictive Modeling solution report that for the first time they can generate real insights from their scorecards. This faster and deeper insight improves the company's agility, enabling prompt identification and resolution to situations as they arise. In many cases, these near real-time scorecards, combined with predictive modeling, flag the potential problem in advance, bringing even greater efficiencies to the process.

## Case in point:

A consumer products company recently found that higher demand from China and India were pushing up the price of a key raw material. Procurement managers forecasted a price increase for this key ingredient ranging from 25% - 50%, over a 3-month period. This projected increase would significantly reduce profits and threaten the company's position in the marketplace due to its large volume (nearly 1,000 SKUs) and its complex, global supply chain.

Under the old scorecard and reporting system, the company would use a data model-driven extrapolation of the price increase to assess its impact. The extrapolation would rely on standard costing techniques; resulting in a "peanut-butter spread" projection that would raise flags across all products and regions. In addition to generating too many issues, these flags were rarely actionable.

Using River Logic's solution, the company now accurately forecasts the impact of price increases on:

- Product costs
- Product profitability
- Inventory
- Working capital requirements
- Regional and plant cost and profitability
- And other important KPIs

The accuracy and granularity of the information allow the company to quickly determine the relative impact across products and regions, and to correctly assess the required course of action. In this case, the company quickly shifted its promotions, pricing, advertising, manufacturing, and procurement strategies to address the problem before it affected their bottom line.

This solution and the ability to extend into true Integrated Business Planning represent the future of performance management software.

