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Adopting e-Strategic Enterprise Management for an Intolerant Economy

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Today's economy is placing pressure on corporations to rapidly make decisions and to predict where the company's operations and the market are headed. Shareholders, customers and suppliers are pressuring organizations to react more quickly and intelligently. The SEC's new Regulation on Fair Disclosure (Reg FD) is forcing companies to disclose information and corresponding strategic moves to the broad public much sooner than ever before. These changing dynamics are ushering in a new paradigm of ongoing iterative strategic planning and operations management replacing the traditional approach of annual strategic planning. Executives require new strategic enterprise reporting tools to not only provide a complete updated model across multiple data sources, but to provide "What if" scenario capabilities to meet these changing dynamics. The emergence of e-Strategic Enterprise Management (e-SEM) solutions is providing management consultants and their clients these capabilities with much lower implementation time and costs.

For years, companies have turned to management consultants and Strategic Enterprise Management (SEM) engagements to develop a strategic plan on which business and operational decisions are made. Consultants traditionally have been asked to propose recommendations on how the organization should manage both strategy and operations without the benefit of a comprehensive, accurate data model of the enterprise. Frequently this advice is based on conflicting opinions from surveys of the management team's personal view of business operations and tabulated summary data from various automation systems. Companies then attempt to simultaneously manage strategic objectives, risks, finances, customers and processes using information from across disparate data sources without the technology to create an integrated enterprise view. In order to meet the demands of today's economy with the assistance of management consultants, companies are implementing e-SEM solutions as the foundation for strategic planning and operational execution without the enormous expense of traditional software implementation manpower.

> *We will examine how the market has changed the dynamics of a prominent national retailer whose prior success can be attributed to significant growth in a robust economy. Now that that economy has cooled, our retailer must make strategic decisions to optimize operations many times during the quarter. Due to the rapid influx of automated systems and resulting dissimilar systems from acquisitions, rolling up information across the enterprise to determine profitability and expenses is all but impossible. Now our retailer must live in an intolerant economy, where shareholders, customers and partners are demanding that the retailer respond to changes in the marketplace. Simple questions*

like; "What is product line P&L?" "What would happen if certain operations were discontinued?", "What is the affect of a new product towards overall profitability?", "What will be the affect of changes in the Euro?" can not be easily answered. Our retailer must turn to outside help from management consultants and e-SEM to survive.

New Dynamics for an Intolerant Economy

Ask any top-level executive to name the single largest challenge he or she faces as a leader today, and the answer would undoubtedly revolve around how the intolerant economy is placing enormous pressure in a way that it never has before.

As the CEO of our prominent retail chain recently discovered, even with an excellent reputation for revenue growth, service and value, expectations among his company's shareholders, employees, customers, suppliers and partners are increasing substantially. Not only is the executive team responsible for predicting where the company's operations, sales and the market is going, but also now there is the additional strain of making strategic decisions without knowing the cause and effect surrounding them.

Over the past decade, companies have experienced tremendous growth through strategic partnerships, mergers, acquisitions and internal initiatives. There has been constant churn and reorganization, with one goal in mind: Market growth. The economy has been on a steady climb in which growth solved most problems. Inefficiencies and bad management decisions were often compensated for through growth. Productivity grew consistently quarter after quarter, through the combination of new implementation of technology and a growing market. The robust economy grew at a steady rate; so annual strategic planning was adequate. Even though management consultants didn't have an accurate handle on the operations of a company, they were still able to advise their clients on how to position themselves in a growing economy.

Now optimization is the critical success factor, and intense competition, shareholder expectations, customer demands, suppler management and the need to reduce costs are the critical drivers in today's economy. The new Reg FD disclosure rules require companies to share information earlier than ever before. Public companies are under extreme pressure to "preannounce" earnings and revenue growth and make corresponding changes before the actual results are finalized. Yet most executives do not have access to comprehensive financials down to the account or product level, or even the profitability numbers associated with their products or customers, to make such decisions.

The trend is now away from quarterly reports towards rolling budgets that compare revenue and expenditures on a monthly basis, predicting how changes will affect the company's future. Many organizations are forced to make large-scale tactical decisions outside of their strategic plan, based on incomplete data, due to these market pressures. How are companies supposed to predict sales, expenses and shipments two quarters out, when they don't have an accurate view of their current operations? The CEO then has to convince external groups that the company will meet these goals and that their corresponding moves will produce the expected results. This business climate is not allowing any room for error. If the CEO is off the mark slightly, then the market reacts negatively towards the company and the pressure to do something more aggressive mounts.

One week prior to a mid quarter update conference call with financial analysts, our retail CEO realizes that revenues from the current quarter are running ten percent (10%) lower than originally thought. Under Reg FD, instead of announcing that they were on track and everything is working according to plan, he must notify them that they are having problems. Of course Wall Street then demands immediate action from the CEO in terms of what the company plans do going forward to correct the problem. In the past growth was always the answer. The CEO just grew the company in a vibrant economy through any problems they had. Maybe an acquisition here or there would solve a problem or two and satisfy his shareholders that the company was going in the right direction.

The economy is no longer providing growth to cover such mistakes. In an intolerant economy, the pressure made our CEO who did not have a real understanding of the situation, jump the gun and make incorrect decisions, which exacerbated the problem. ` In fact, our CEO now has to integrate, streamline and optimize his operations from past "problem solving" moves in a downturn, while still turning a profit. With substantial pressure from his board and management team to get things back on track, our CEO subsequently hired a management consulting firm to evaluate operations and propose a Strategic Plan to guide the company through these turbulent times.

Realizing the cost of losing is often great, companies across the globe have spent millions of dollars on technology to automate systems and build an enterprise infrastructure providing departmental information to improve productivity. Most of these systems have taken years to develop and with a changing business climate many are antiquated before they are even implemented.

Yet for the first time in many years, productivity is beginning to slow and a strategic enterprise data model in which strategic decisions are made has only been partially available for the top tier companies with huge budgets. Global 2000 companies are spending tens or hundreds of millions of dollars each year on systems and manpower attempting to bring all of the information together for strategic decision making, yet few have reached the ultimate goal. Most mid tier companies don't have a fraction of the finances or resources required to pull together information to make strategic decisions.

In order to make effective decisions that satisfy an intolerant economy, companies must have access to near real-time, accurate and complete information, allowing individuals in an organization to be more proactive in making strategic and operational decisions. Never before has it been so critical for a company to have an up-to-date, accurate view of their entire enterprise, and have the ability to make decisions at many levels of the enterprise about profitability, growth, mergers and acquisitions, restructuring and downsizing decisions in near time. Meeting these challenges requires the ability to quickly identify what is happening, evaluate alternative responses, select an operating strategy and deploy that strategy through the entire enterprise in a coordinated manner. While this encompasses the traditional role of finance, it goes well beyond to issues of aligning the operating strategy of the organization.

Develop the Strategic Plan

Our national retailer hired a management-consulting firm and embarked on a Strategic Enterprise Management engagement attempting to evaluate people, processes, opportunities, and competitive positioning to create a strategic plan with a profitability model. The consultant could not get an accurate handle on all of the interdependencies of the business to determine how strategic decisions will play out. Upon interviewing key executives and managers, there were too many conflicting stories. Due to substantial growth both internally and through acquisitions, different financial systems and polices were not integrated or "rolled up", until reporting time. The company had no idea of actual product line or customer profitability. Cross selling and leveraging existing customer relationships was nonexistent. Suppliers were not integrated into the model, so the company had no idea how to manage their supplier chain of even if it was more cost effective to do things in house.

When making strategic decisions, management consultants and executives are often confused by conflicting signals coming from many directions. Planning goals, budgetary targets, monthly and quarterly financial and operational results, customer requirements and employee incentive plans, typically have no common base or set of goals. Conflicts often occur because management processes are often not aligned within individual business units. Long-term strategic business goals are often not in sync with short-term tactical objectives. Insuring that strategic decisions are actually converted into concrete operational objectives for business units were a very real problem, as is ensuring that these objectives are understood and optimized at all levels of the enterprise. The complex nature of today's business climate, coupled with the lack of an automated system to provide an accurate near time enterprise-wide data model that enables the strategic plan, has created roadblocks for management consultants and executives alike.

The consultants determined that the first step was to create an enterprise model that encompassed all aspects of the business including, corporate, product, supplier and customer structure. To achieve this, executives and managers integrated strategic management processes that link functions for all operational enterprise units. The consultant used an e-Strategic Enterprise Management (e-SEM) solution from Virtual Strategy to create and implement a strategic plan that can encompass not only one's company, but the business environment and everything associated with the plan, while providing the capability to evaluate various "what if" scenarios before making decisions. The Virtual Strategy e-SEM solution was able to create an entire enterprise data model in two months instead of the normal two to three years other alternatives require.

The Limitations of Solutions vs. the Demands of the Economy

Companies have typically implemented one of the numerous departmental Business Intelligence (BI) and data warehousing solutions with the goal being to organize information in a way that is beneficial to intelligent, corporate-driven decision-making.

Our CEO and his executive team were using several different BI solutions for departmental reporting and a data warehouse to collect information throughout the *enterprise. These solutions worked well when the executives asked typical business questions that were the course of normal business. When the VP of Business Development was looking into expanding presence by opening new branches, there was no way for her to determine the direct impact those branch additions would have on the entire company, or even on the mid west region, for that matter. Since BI solutions require companies to determine their business objectives ahead of time and equally long implementation cycles, they are limited to objectives that were preprogrammed into the model that are already detailed. The CEO wanted to explore different "What if" scenarios to examine different alternatives the company could take to increase profitability and lower expenses. This type of exercise comes up all of the time, but isn't possible with these limited systems. Finding the answer would require reprogramming and reloading of the model, which could take weeks, months or even years.*

In addition to the departmental BI solutions employed, our retailer built a data warehouse and deployed multiple data marts to provide information access to the enterprise for decision support. Traditional methods of data warehousing begin by building a repository, whose size is a multiple of the number of data dimensions and the number of entries in those dimensions. In other words, think of a spreadsheet that is miles long, with every conceivable field of scenarios, and their possible outcomes, for every layer of the entire enterprise. If the retailer wanted to see how product "X" fared in Store 45, for example, there would be a "cell" where the answer to these two dimensions would meet. Just imagine how large this "spreadsheet" would be for the retailer, who has hundreds of locations, let alone international operations. These required data fields, or "cells," must be cleansed, labeled, checked and loaded into the pre-defined data warehouse structure and this must be done every single time the data changes. In other words, if the CEO does decide to add two new stores in the mid west, the data warehouse structure is now incorrect and must be rebuilt which is a very expensive and time consuming process for the answer to one simple business question.

The architecture of BI and data warehousing technologies require the creation of inflexible, static data cubes or database schemas that are predicated on predetermined static business objectives and require substantial management involvement, excessive manpower and very long time frames for implementation. There are too many data sources within any company to construct an effective, manageable repository capable of delivering fast, accurate results using older multidimensional technology. These traditional models are very expensive and complex to build, and the CEO and his team still couldn't do scenario management or get a near real-time, enterprise-wide accurate view of their organization. For example a typical data warehouse takes two to three years and tens of millions of dollars to implement.

Introducing e-Strategic Enterprise Management (e-SEM)
Organizations such as GM and other financially secure companies have turned to Strategic Enterprise Management (SEM) engagements to make business and operational decisions across their organizations on a daily basis. The theories behind the term are at the cornerstone of consulting practices like PricewaterhouseCoopers, Deloitte Touche, Accenture and KPMG. While this new way of thinking about the entire enterprise, as opposed to departmentalizing the organization, is the direction companies are moving in there are still inherent problems in

actually implementing the theory. A strategic enterprise model in which SEM decisions are made and implemented has been partially available for the top tier companies with huge budgets, a large support staff and years of implementation.

With a difficult task at hand, SEM consultants frequently base their advice on the client's conflicting data and a survey of the management team's personal view of business operations. Clients accept these recommendations, which of course are based on logical theory, only to realize there is no way of actually deploying the advice. The client is left with lofty goals of simultaneously managing strategic objectives, risks, finances, customers and processes, while still using information from disparate sources. Without the technology to create a true enterprise-wide management view, clients are left feeling that "this is as good as it gets."

In order to meet the demands of today's economy with the assistance of management consultants, companies are looking for an electronic manifestation of the SEM engagement mentioned above. The vast infrastructure of BI and data warehousing solutions and SEM theories has provided the foundation for e-Strategic Enterprise Management (e-SEM). e-SEM solutions empower decision-makers with an accurate, near real-time, personalized, enterprise view, providing everything they need to survive and grow their enterprise. This includes addressing investors and customers by making well thought-out decisions concerning growth, mergers and acquisitions, restructuring, and profitability. e-SEM enables companies to proactively conquer an ever-changing market, while providing a way to implement the theories behind SEM in a matter of weeks or months.

> *Ultimately, the CEO of our regional retailer wanted to have collaboration and information sharing among different functional groups by simultaneously managing financials, HR, customers, products, risks and strategic objectives, while also providing individual personalized views of the enterprise. And he wanted to do this with minimal manpower and support. e-SEM works by gathering enterprise data from many different transactional systems and data stores together to facilitate analysis, decision making, scenario management and proactive consideration of alternatives, in near real-time.*
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> *The requirements of the e-SEM market proved to be directly in line with what the retailer's CEO and his executive team were looking for in an enterprise-wide solution:*

- *Dynamic personalized decision making of strategy, risk, and operations simultaneously, and on the fly, by many levels within an organization;*
- *Assess tactical and strategic alternatives for the enterprise, before the final decisions are made;*
- *Bring data together from transactional, departmental, personal, internal and external sources into a true enterprise view;*
- *Incrementally built vs. monolithic static design;*
- *Enterprise level breadth (specific information across all departments) and depth (all of the detailed information in one or more departments) of information in near real-time;*
- *Collaboration and information sharing;*
- *Low cost and fast implementation that extends existing solutions with a low Total Cost of Ownership;*
- *Leverage the business value from imperfect data;*

- *Flexibility to respond to ever changing business objectives without programming or redesign;*
- *Web based, very easy to use.*

Virtual Strategy is the only company that is able to leverage the retailer's previous investments in both strategic management consulting and technology, to create a breakthrough in operations management. The company provided the retailer's executives and managers up-to-the-minute ability to analyze their businesses as customer and market demands dictate, which is more important than ever. Every scenario, including profit and loss rollups from disparate systems, mergers and acquisitions evaluations, profit analysis right down to the product or customer level, and forward-looking scenario management is now possible in a drag and drop interface. Virtual Strategy provides the only solution on the market that allows the retailer's executives and customer service representatives alike, to determine what they want, how they want it and when they want it with the click of a mouse -- the results are delivered instantly. Finally, the ability to make expedient decisions without groups of people cutting and pasting spreadsheets or building complex models, as the retailer had previously done every time a major corporate initiative was being considered.

Implementing e-SEM and the Strategic Plan

This next-generation technology enables strategy and operations management by all levels within the retailer's corporate structure, with the goal being to answer complex business questions any time, anywhere. Virtual Strategy's Hierarchical Hybrid On Line Analytical Processing (H_2OLAP), technology enables e-SEM by providing the dynamic ability to access all information across the enterprise as well drilling down to the account level. As mentioned earlier, the answers to the CEO and his executive team's questions were hidden within their corporate data. This was information he and his team already had; they just had to find a different way to make sense of the information for business purposes.

One of the keys to Virtual Strategy's H_2OLAP success is that it leverages the fact that computers are great calculators, not search engines. Virtual Strategy took the retailer's data, in its existing formats, and built an object hierarchy from which actual business questions are answered using dense microCube™ models. These microCube models directly reflect how this particular retailer manages its business. Utilizing H_2OLAP, Virtual Strategy's microCube technology first realizes that certain data is required to answer business questions and then calculates their positions, instead of searching through massive structures. By focusing on the business questions actually asked and using the processing power of today's computers, Virtual Strategy solved the speed issues that the retailer's computers encountered when they were required to look through vast amounts of data in order to answer business questions.

Working with the retailer's existing BI and data warehousing solutions, Virtual Strategy's microCube models are dynamic, personalized, flexible, up-to-date and cached, providing incredible performance and minimum overhead on existing transaction systems. Virtual Strategy's H_2OLAP implementation and ongoing costs are only 10% to 20% of BI and data warehousing costs that the retailer was employing. A complete enterprise model accessing data from many transaction systems was assembled for the retailer in a month vs. years, using gigabytes vs. terabytes, with near real-time data vs. latent data, individually personalized vs. predetermined static data and on Intel machines vs. a large-scale data bank. As a result, the retailer's determined that certain products were losing millions of dollars. A quick analysis determined that the customers purchasing such products were costing the company millions overall. So the products were discontinued, resulting in a huge profit for the retailer. The return on investment and cost savings were realized within months instead of years.

Conclusion

Virtual Strategy's H_2OLAP based solution has become the enterprise management solution for our successful retailer who now has all of the information at the executive team's disposal. The retailer's CEO is now able to determine what new accounts are profitable and why. He can see precisely where the company is making money on these accounts, and the executive team is able to figure out what other items to cross-sell to further increase the company's bottom line. The most profitable stores, individual customers, top products and least-profitable product line is all for the executive team's asking with up to date information. Not only can the retailer obtain competitive advantage while improving the management of costs, it is now able to enhance its relationships with customers, partners, and suppliers, something that is vital especially when taking a business from the regional to the national level.

Organizations large and small, with or without existing solutions, have the ability to proactively test tactical and strategic alternatives with Virtual Strategy before final decisions are made.

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