

# Avoiding the CPM trap

Duncan Alexander of StrataBridge says it is vital to think through strategic direction before investing in CPM software.

Most consultants have been inside businesses where data and reporting is everywhere, but information is buried.

In one subsidiary of a major European brewer we worked with, there were several balanced scorecards, two EFQM projects, a red book (sales), a black book (production), a blue book (marketing), a brown book (supply chain), several thousand SAP reports, hundreds of legacy system reports, hundreds of newly developed SAP-BW queries, several intranets – and still no-one knew what was going on!

To quote the CEO: “By the time the board had worked out what the problem was, we were too exhausted to do anything about it!”

Recently, a major multinational confectionery company told us they had conducted a review of their reporting requirements and had agreed with their subsidiaries on 100 key performance indicators. Can they all be key?

We have also heard of a medium-sized oil company struggling to run 100 balanced scorecards. Were the KPIs that dissimilar between countries?

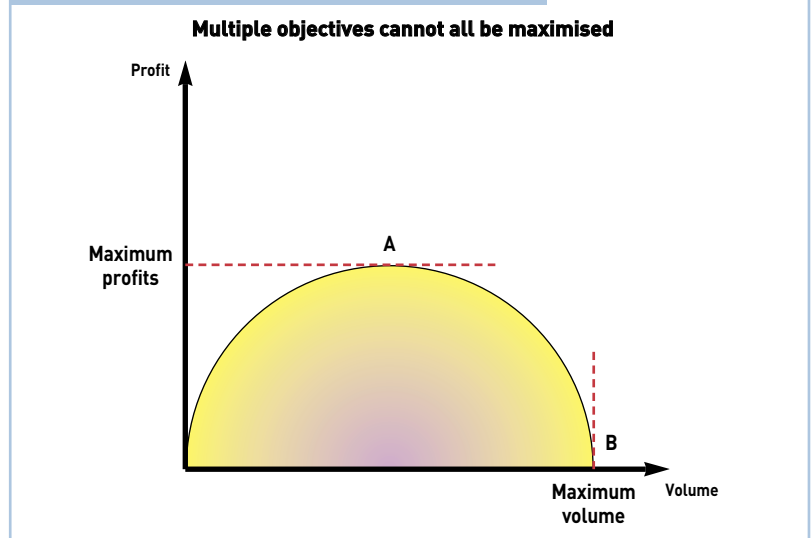
Against this confused background, consultants have a duty to think about the requirements for CPM systems before they start implementation.

Answers are required to several questions before the technology is even considered:

- Is the organisation clear on its single overriding purpose?
- What is its strategic direction and core value proposition?
- What are the logical consequences of this?
- What choices therefore need to be made?
- What are the interdependencies between strategic objectives?

For commercial businesses, the overriding purpose must be long-run value maximisation – whether measured by economic profit, economic value added or some discounted free cashflow measure.

FIGURE 1



Asking managers to maximise more than one objective is logically impossible – there have to be trade-offs. For example, it is not possible to simultaneously maximise profits and volumes. As volumes increase, profits will increase, but at some point additional volumes can only come at the expense of current year profits – eg, increased expenditure on advertising or more deep-cut price promotions (see Figure 1).

Without the overriding purpose of long-run value maximisation, managers cannot know where the trade-off between maximum profits A and maximum volume B is. The resulting behaviour is likely to be that which is expected to get them the biggest bonus or fastest promotion.

When managers are asked to maximise all the KPIs in a scorecard, confusion will reign.

Interdependencies are critical. Since it is impossible to maximise more than one objective, attempting to maximise any objective other than long-run value must result in sub-optimal performance on value.

The aim is overall business optimisation – not maximising

performance against one measure, or in one function or in one country.

Many ‘scorecards’ are not related to strategic direction. The scorecard or strategic dashboard is a communication tool to focus people’s attention on the right areas, so not designing it around the business’ strategic direction will contribute to the data chaos already in place.

Clear direction means thinking through the consequences and choices.

If strategic direction is all about building brands, is it right that most investment is behind operational effectiveness projects? Perhaps the strategy would be better executed by an increase in advertising.

Choosing to invest in advertising should have logical consequences for the design of the dashboard. Objectives and measures on brand performance, advertising cut-through and so on make sense, but putting equal emphasis on line utilisation-type objectives and measures will not clarify the strategic direction for employees. One size does not fit all.

Kaplan and Norton invented the concept of the balanced scorecard because they thought existing financial

reporting measures gave limited understanding of results.

They sought to improve the balance between financial and non-financial measures of performance. They also talked about a balance between leading and lagging measures.

Both intentions are sound, but there is a widespread misunderstanding that 'balanced' means an equal balance between perspectives, objectives and measures. StrataBridge would argue that unbalanced is best if it reflects the company's strategic direction, consequences and choices.

Similarly, 'scorecard' is not the greatest name. It implies that you use a balanced scorecard to keep the score. Anyone who has tried keeping score with a balanced scorecard knows it is difficult.

Balanced scorecards should be about communicating strategy. And in their most sophisticated guises as strategy maps and cause-and-effect chains, they are great tools for this.

Don't use them for keeping the score. Straying down this path will lead to interminable arguments about whether to use 4-weekly, 13-weekly or 52-weekly smoothing in graphs; or whether to measure brand performance against the whole market or just some channels.

There is limited value-add in this debate, so get it roughly right, aligned to the strategic direction and start communicating.

We prefer the term 'strategic dashboard'. The best analogy is with a pilot's instrument panel. This has a range of indicators: compass, altimeter, horizon, speed, GPS, etc.

The pilot knows the strategic direction and uses the instruments to navigate towards their destination – not seeking balance between all the indicators (we're a bit low on the engine fire indicator!), or to maximise one or all of them or counting the score, but instead understanding the trade-offs between them and seeking the best route.

Combining unbalanced with the pilot's instrument panel leads us to a fighter jet like the F16. It is deliberately designed to be unbalanced, because that makes it fast to react to the pilot's commands: built-in agility, flexibility and responsiveness – just what is required in CPM systems.

One other key factor to think about



**Duncan Alexander:**  
keep it simple and deliver quickly

before CPM automation is board commitment, board commitment, board commitment! Not board sponsorship of a middle manager working party, but true commitment. That means debate on strategic direction, consequences, choices, objectives and measures.

Building a good strategic dashboard involves hard work and cannot be done without board commitment to the process.

They have to be deeply involved in the design of the cause-and-effect chain. This is about communication of strategy, and the board cannot delegate that duty.

The middle management group does have a role to play though. Once the board have agreed the strategic objectives and how they fit together to make a picture of the business' strategy in the cause-and-effect chain, there is still work to be done – and this can be delegated!

Each KPI in the strategic dashboard needs underpinning detail. What is its precise definition? How does it link to strategy? How precisely is it calculated? Who owns it? Who will complete the monthly commentary? What is the expected behaviour from choosing to measure this KPI? What will the graph look like? What colours are you going to use for actual, budget, last year? Where does the data come from – is it 'hard' transactional data from the ERP system or 'soft' non-ERP data?

Doing this work badly or, as frequently happens, not doing it until part way through the automation phase guarantees a painful systems project.

One final task before the 'systems' part of the process starts is deciding what tool to use. A Rolls-Royce tool such as SAP-SEM, a spreadsheet or something in between?

Again one size doesn't fit all. 'What

does the business need?' is the right question to ask.

So, you've got board commitment; you've made the decisions on strategic direction, consequences and choices; you've worked out what makes up the strategic dashboard; you've gone through the slog of capturing definitions, formulas and expected behaviours for each KPI. What is left?

Firstly, CPM projects are different from ERP projects. When you are implementing billing systems, for example, it's critical to have a structured process for moving between development, test and live environments.

The same level of approval is wrong for CPM. There is a world of difference between not being able to send out an invoice and not providing the right graph in a strategic dashboard!

Users will require flexibility and ease of adaptation to changes in strategic direction, not a six-week sign-off process every time the board want to update the dashboard. We would advise a maximum of two environments even for a product like SAP-SEM.

Secondly, freeze the scope. OK this is not exactly a new concept in systems project management, but CPM projects are particularly prone to continuing debates on objectives and KPIs. Everyone has got an opinion on what the graphs should be, how they should look and what colour the lines should be. If you are trying to tie a scorecard to remuneration, this guarantees deep interest in the design of the metrics!

Thirdly – and a logical consequence of point two – keep it simple and deliver quickly. Break it down into bite-sized deliverables with clear business benefit and deliver on time.

In summary, doing the thinking upfront maximises the chance of a successful CPM project. Diving straight into automation without thinking through strategic direction, consequences and choices almost guarantees time and cost overruns. Remember, no one size fits all – unbalanced may be best!

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