Executive Summary

As a financial manager, your primary concern is enabling your organization to deliver superior financial results while managing risk, ensuring compliance and most effectively utilizing capital and assets. These aspects of business performance are directly impacted by the effectiveness and efficiency of the key operational processes within your company. Optimizing those processes involves a continuous cycle of:

- Monitoring key performance metrics;
- Looking for variances from a desired state, goal or best practice;
- Understanding why the variance has occurred; and
- Taking appropriate action to correct the situation.

Operational Performance Optimization (OPO) is part of the broader Business Intelligence (BI) space. It is the combination of a continuous improvement philosophy and methodology, and supporting metric visualization and analysis technology, that together help organizations optimize their business processes and performance. Implementing an Operational Performance Optimization solution starts with determining the key business processes (or value streams) that should be monitored and optimized, identifying the associated performance metrics and how they should be calculated, determining who should have access to the relevant information and then deploying a performance management platform to provide those people with intuitive, interactive visualization, analysis and collaboration capabilities.

While there are a number of different ways to implement an Operational Performance Optimization solution, using a Software as a Service (SaaS) solution that has been specifically designed to support OPO is low-cost and low-risk due to the subscription model, deploys rapidly, delivers value quickly due to the encapsulated knowledge, conserves capital as there are no upfront hardware and software purchases, and scales linearly as the number of users grow.

The remainder of this paper describes Operational Performance Optimization in more detail, examines the core requirements of a supporting platform, outlines an approach to identifying the core business process that might require optimization, and describes the process for implementing an Operational Performance Optimization Solution.
1. Introduction

Financial results are periodically reported and can be analyzed, however in order to improve those results, a wider perspective regarding the use of performance metrics, visualization and interactive analytics is required. Operational performance directly impacts business outcomes and financial results. A holistic approach to overall business and operational performance can improve efficiencies, reduce costs, grow revenue and improve profitability.

This paper examines the relationship between operational performance and financial management and outlines an approach to optimizing operational performance to improve financial results.

2. Definitions

Operational Performance Management (OPM), also referred to as Business Performance Management (BPM), Corporate Performance Management (CPM) and Enterprise Performance Management (EPM), consists of a set of management and analytic processes, supported by technology, that enable businesses to define strategic goals and then measure and manage performance against those goals.

Operational Performance Optimization (OPO) is the combination of a set of processes, an improvement methodology and supporting visualization and analysis technology that together help organizations optimize their business performance. It is a framework for organizing, automating and analyzing business methodologies, metrics, processes and systems that drive business performance.

Value Stream Management utilizes lean process methodology to link the metrics and reporting required by managers with the people and tools needed to achieve desired results. With consistent data in the context of a value stream, organizations can deliver optimized performance and efficiency, predictable customer value and accurate cost and profitability management.

Operational Intelligence provides near-real-time (or right-time) metric information on business processes, activities and outcomes to support operational decision making and operational performance optimization.

Key Performance Indicators (KPI metrics) provide the most relevant financial and non-financial measurements used to help an organization define and measure progress toward organizational goals. These tend to be outcome oriented and to be most useful, there should be a small number of KPIs (less than 10) associated with any one aspect of business performance.

Key Performance Drivers (KPD metrics) are the leading indicators that affect the achieved KPI results. While KPIs are measures of outcomes, KPDs relate to activities and operations and are the drivers that affect the KPI outcomes.
3. Why Operational Performance Optimization?

Financial management typically focuses on a number of aspects of business performance including:

- Financial result analysis to identify areas for improvement;
- Risk management and ensuring compliance with regulatory requirements;
- Productivity improvement through increased process efficiency across all operational areas;
- Cost containment, particularly in areas such as inventories, shipping, utilities etc.;
- Sales productivity and marketing effectiveness to increase revenues.

In order to achieve successful outcomes, all of the above require, and are impacted, by the execution of operational processes. Operational Performance Optimization examines those operational processes and uses measures related to the effectiveness and efficiency of the operations, typically within the context of a continuous improvement methodology to provide a baseline of operational performance, identify issues and illustrate areas where improvements can be made.

4. An Introduction to Optimizing Operational Performance

The diagram below shows an approach to Operational Performance Management:

As shown, there are two primary cycles – the larger one being a periodic cycle of setting a strategy, and then developing a plan and associated budget. This typically happens on an annual basis although there might be quarterly reviews. The second smaller cycle is the continuous improvement cycle that is the basis of Operational Performance Optimization.
If we expand the Operational Performance Optimization cycle, we get the following:

The linkages between the strategy/planning cycle and the optimization cycle can be seen above as the targets or goals should come directly from these activities. Similarly the operational activities provide the actual results being measured against these targets.

The optimization cycle consists of a continuous process of monitoring the appropriate metrics, looking for a variance from the targets or norms, understanding why there is a variance by characterizing and analyzing the situation, and then determining the most effective course of action to correct the issue.

Many companies utilize a scorecard approach to disseminate and manage goal achievement and use Key Performance Indicators (KPI metrics) as measures of business outcomes and progress towards achieving strategic goals. However because these are outcomes, they represent past performance and highlight areas for attention, but are not really actionable and hence are not appropriate for improving future results.

In addition to monitoring and reporting KPIs, it is important to also monitor and analyze Key Performance Drivers (KPD metrics), which are measures of operational activities and status within business process and value streams. These KPDs provide the leading indicators and actionable drivers that impact the business outcomes.

This leads to a question of where to start? Which KPI and KPD metrics are most important and who needs to be able to view and analyze them? The most common approach is to start by defining the most important business processes that have the largest impact on business results.
One method that is gaining traction is “Value Stream Mapping” which essentially is the visual representation of the processes (both work units and information required) to meet a customer demand. This provides visibility into the sequence of processes that add value to a common customer, product or service request. If a process does not add value, it is examined to determine if it can be eliminated as part of an optimization exercise.

There are key measures of the status and completion of activities in each process step that can be used to derive the relevant KPDs. The KPIs will be associated with the outcomes of the last process step in the overall value stream or the segment of interest. Specific examples of value streams and segments are provided in Section 5.

Once the processes or value streams and the associated metrics have been identified, the next step is to determine who has responsibility for the various process steps and therefore what metrics they should be able to view and analyze based on their scope of authority. Each user should be authorized to access relevant dashboards, metrics and dimension members associated with metrics (for example which locations, products, suppliers etc. they are able to see).

Of course not everyone will be viewing the operational performance dashboard all the time. So it is important that designated people are notified of alerts based on specified performance rules. Those recipients can then manage by exception and quickly focus in on the area requiring their attention.

When analyzing operational performance, information should be presented in context to aid understanding, and embedded guidance ensures decision makers approach problem resolution in a consistent manner. As people are analyzing issues, the ability to collaborate and share knowledge also helps improve decision making and speeds issue resolution.

As issues are identified and analyzed it is very helpful to be able to characterize problems – for example by looking at trends over time to determine whether the issue occurred abruptly or there was a gradual decline in performance, viewing forecast projections to see what might happen if no action is taken, examining control charts to see how the metric is varying from the mean, and using Pareto charts to determine what is contributing most to the issue. Once the issue is characterized the next step is determining what action to take to correct the issue. “What-if” scenario analysis can help this process by showing the impact of one or multiple changes so the decision maker can determine the most effective course of action.

Because performance optimization is a continuous process, the cycle of monitor, alert, gain knowledge and act continuously repeats.
5. Areas of Operational Performance

There are many areas within a typical company that can be candidates for operational performance optimization. One framework that is used to determine the key business process areas or value streams is to look at the overall cycle that starts and ends with the customer and then breaking that down into major segments. For example, in manufacturing companies this cycle will start with the initial contact with a prospective customer, it proceeds through the sales process resulting in a customer order, the order is fulfilled out of inventory or through a product manufacturing cycle, it is shipped to the customer, the customer is invoiced, and some time later the customer pays.

This overall customer cycle can then be broken into segments such as:

- Initial contact to customer order;
- Customer order to fulfillment;
- Customer invoice to cash;
- Procurement of raw materials and components;
- Raw materials to finished goods in inventory;
- Product concept to market introduction.

The overall cycle and segments will differ by industry – for example service industries, healthcare etc. will have different segments based on the nature of their offerings and their interaction with their clients and customers. In each case, starting with customer or client and examining how value is delivered through the combination of people, skills, knowledge, goods and services can be used to determine the key processes involved.

6. Linking Operational Performance and Financial Results

Operational Performance Optimization directly contributes to business financial results. For example, by better managing demand and supply and implementing lean processes within a manufacturing facility, inventory holdings, re-work and scrap are all reduced which frees up capital. Risk management encompasses OS&H issues and by monitoring safety incidents, near misses, injury types etc. Preventive measures can be implemented to reduce incidents, which improves morale and productivity, and reduces workers’ compensation claims.

Sales productivity is directly impacted by the number of leads generated, conversion rates, average deal size, and win/loss ratios and by monitoring these and comparing to targets and best practices, areas for additional focus and improvement initiatives can be quickly identified. This becomes more important where multi-tiered distribution channels are utilized as part of the go-to-market, as the cost of sales through the various channels and their effectiveness can vary considerably.

Cash collection can be impacted by operational activities that might otherwise not be immediately visible to the collection team. If the goods were not delivered on-time, in-full, and with the appropriate quality, it is unlikely the customer will pay on time. If customer satisfaction is low due to poor customer service and support, again the customer might delay payment or might not renew a subscription type service. Linking operational performance metrics to financial outcomes provides the leading indicators as to what outcomes might be achieved and the levers to positively impact outcomes.
As a final example, breaking Cost of Goods Sold into its components of people, processing and material costs and then looking at these by product line, supplier and manufacturing facility could identify areas where improvements could be made—such as consolidating suppliers and gaining economies of scale. In doing so, COGS can be lowered and hence Gross Margin improved.

7. Implementing an Operational Performance Optimization (OPO) Solution

The core requirements for Operational Performance Optimization are:

- The ability to extract performance metrics from business, financial and operational systems;
- A repository or data store to hold those metrics over time;
- The ability to use base metrics to calculate KPI and KPD metrics;
- An intuitive, interactive user interface that presents the metrics within a context that is easily understood by users;
- Alert notification that is based on simple or complex rules that apply to one or multiple metrics;
- Embedded expertise that can be extended by users as they gain knowledge while analyzing operational performance;
- Easy-to-use analytic capabilities to enable users to easily characterize issues; and
- Scenario analysis to help users determine the best actions to take.

There are multiple paths to implementing an operational performance optimization solution. You could choose to implement an on-premise traditional business intelligence solution; you could employ business analysts and use multiple spreadsheets and PowerPoint to distribute information; or you could use an innovative, specialized Software as a Service (SaaS-based) Operational Performance Optimization solution.

The table below outlines the characteristics of each of these solutions:

<table>
<thead>
<tr>
<th>SOLUTION</th>
<th>CHARACTERISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-house using spreadsheets</td>
<td>• Most people familiar with the spreadsheet interface and usage;</td>
</tr>
<tr>
<td></td>
<td>• Inconsistency in data sources, metric calculations, presentation;</td>
</tr>
<tr>
<td></td>
<td>• Difficulty scaling to multiple operational areas or users;</td>
</tr>
<tr>
<td></td>
<td>• Information distribution is not timely;</td>
</tr>
<tr>
<td></td>
<td>• Misunderstandings can occur over metrics and how they should be interpreted.</td>
</tr>
<tr>
<td>Traditional Business Intelligence</td>
<td>• Heavy-weight infrastructure</td>
</tr>
<tr>
<td></td>
<td>• Implementation is a major IT project requiring significant time,</td>
</tr>
<tr>
<td></td>
<td>money and resources</td>
</tr>
<tr>
<td></td>
<td>• Best suited to financial and sales data; not suited to time-series data</td>
</tr>
<tr>
<td></td>
<td>produced in many operational areas;</td>
</tr>
<tr>
<td></td>
<td>• Time lag before new data is available for visualization and analysis due to</td>
</tr>
<tr>
<td></td>
<td>the need for OLAP cube “crunches”;</td>
</tr>
<tr>
<td></td>
<td>• More suited to use by business analysts to slice/dice vast</td>
</tr>
<tr>
<td></td>
<td>amounts of data for strategic decision making.</td>
</tr>
<tr>
<td>OPO Specific SaaS Solution</td>
<td>• Low cost, low risk due to subscription model and no up-front capital</td>
</tr>
<tr>
<td></td>
<td>expenditure</td>
</tr>
<tr>
<td></td>
<td>• Very quick to deploy and deliver value</td>
</tr>
<tr>
<td></td>
<td>• Operates in right-time and metrics are immediately available for viewing and</td>
</tr>
<tr>
<td></td>
<td>analysis as underlying data changes</td>
</tr>
<tr>
<td></td>
<td>• Security provided through secure connections, data encryption, user</td>
</tr>
<tr>
<td></td>
<td>authentication and authorization</td>
</tr>
</tbody>
</table>
Software as a Service (SaaS) is a cost effective solution that requires no upfront capital, minimal IT resources, can be deployed to large numbers of users, scales linearly and provides a “single version of the truth” with consistency of data sources, metric calculations and hence user understanding. It can be deployed rapidly and a solution that specifically focuses on Operational Performance Optimization delivers the core requirements required by decision makers to help them understand performance, identify anomalies, collaborate with others, characterize issues and determine the most appropriate action to take.

Optimizing operational performance will improve the effectiveness and efficiency of the key processes within your organization. In so doing, revenues will be enhanced, costs reduced, and capital conserved leading to better business outcomes and financial results.

8. About myDIALS

myDIALS is pioneering a new industry standard in Operational Performance Optimization with intuitive visualization, analytics and real-time scenario analysis of Key Performance Indicators and Key Performance Drivers (KPI and KPD metrics) that span operations and business processes. Offering unparalleled usability for decision makers, the hosted software solution extracts metrics in right-time and calculates KPI metrics and associated KPD metrics across all business roles, processes and value streams.

In conjunction with its partner ecosystem, myDIALS delivers embedded vertical industry and value stream expertise, as well as improvement methodologies and guided diagnosis to help customers gain a deeper understanding of the factors that fuel their business. With myDIALS, companies can quickly resolve operational issues and capitalize on opportunities, while maximizing the value of their existing environment.

myDIALS is headquartered in Lafayette Colorado, with offices in Houston Texas, Oak Brook Illinois, Brisbane Australia and Perth Australia.

Visit www.mydials.com for more information.