

The perfect time for PM

With IT budgets constrained by the current economic climate, spending must focus on systems that improve cost-efficiency and decision-making. **John Simpson** of Simpson Associates tells **Jim Banks** how performance management is the right tool for these challenging times.

All companies want certainty about the benefits of IT investment and, as pressure on the global economy makes markets uncertain, the purse strings have been pulled tight. Yet it could be that the technology and methodology behind performance management (PM) could come to the fore by helping companies cope in tough times.

'Performance management is all about enabling better decisions in the boardroom, through the management hierarchy and at all operational levels of a business,' says John Simpson of performance management consultancy Simpson Associates. 'Boards may look at closing businesses, changing distribution or outsourcing. Line managers decide on promotions and discounts, rebates, staff reduction and expenses. Administration personnel decide which debts to chase, what inventory to hold, what stock to manufacture.'

All of these decisions - be they strategic or tactical - effect cost and efficiency, and shape businesses to maximise profitability in dynamic markets.

'PM addresses all tiers of decision-making. It brings strategy into the day-to-day business and fosters a conduit between the boardroom and the shop floor. To grow, companies need better information so they can respond to changing markets,' explains Simpson.

Founded in 1991, Simpson Associates is a platinum partner with IBM Cognos and has a reputation for innovation, experience and excellence in PM implementation. Having worked with clients in diverse industries and through every part of the economic cycle, Simpson knows how PM can help companies compete in a downturn, but understands they are cautious. The case for PM must be more convincing than ever, but Simpson feels it is right for companies to be demanding in their criteria for PM, not least to ensure they understand what it can deliver.

'Every investment in performance management should be justified by a sound business case and never more so than today. Our discussions start with the pains or opportunities within a business. Companies are particularly focused on how the economic climate impacts them. We talk about the consequences of those pains and what can be done about them, practically and cost effectively. Then we talk about the benefits, such as retaining revenues, lowering costs and reducing working capital to improve cashflow,' he says.

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Practical measures, tangible rewards

PM provides companies with better information for long-term strategic planning and for operational decision-making. It can, for instance, deliver better visibility of customer, product and contract profitability, including below the line costs such as logistics, distribution, transportation, discounts and returns.

Consequently, companies can improve customer retention through on-time delivery and targeted initiatives, and improve the accuracy of demand planning and sales forecasting.

'When times are tight companies must focus on every area that affects profitability.



Reducing costs is also a priority, and PM can help lower procurement costs and manage supply chain costs by tracking critical KPIs like purchase price variances,' Simpson explains.

'It can also clarify decisions over reducing headcount or managing remuneration, planning expense reduction programmes, reducing overhead costs and meeting the tighter controls of cost centre managers.'

Furthermore, PM enables companies to cut debtor days outstanding, focus revenue collection efforts and improve inventory management to reduce working capital through detailed analysis of outstanding debt and inventories.

'In the planning context all of this comes together in integrated P&L, balance sheet and cashflow plans. A business can now make a change to its revenue forecast and see this flow through to the impact on cash requirements and balance sheet ratios, which are vital if they are to stay within banking covenants,' says Simpson.

With clear goals and the vision, skills, execution experience and appropriate methodology of an external advisor, many companies could find PM is now a wiser investment than ever. ■

Further information

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