



Using Corporate Performance Management to Create Shareholder Value: Leveraging Cost and Performance Knowledge

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The purpose of business is to make money. Success is measured in terms of shareholder value, which is highly influenced by discounted future cash flow. If so, shouldn't financial and non financial analytics work together in a seamless fashion?





Key Objective
Increase shareholder value



Increasing Shareholder Value

Making informed decisions with a
focus on future performance

Global Business Change

World Market Capitalization of Listed Companies

Year	Current US\$ Trillions
1988	9.7
1995	17.8
2000	32.2
2005	43.2
2010	54.4
2012	53.2
2018	68.7

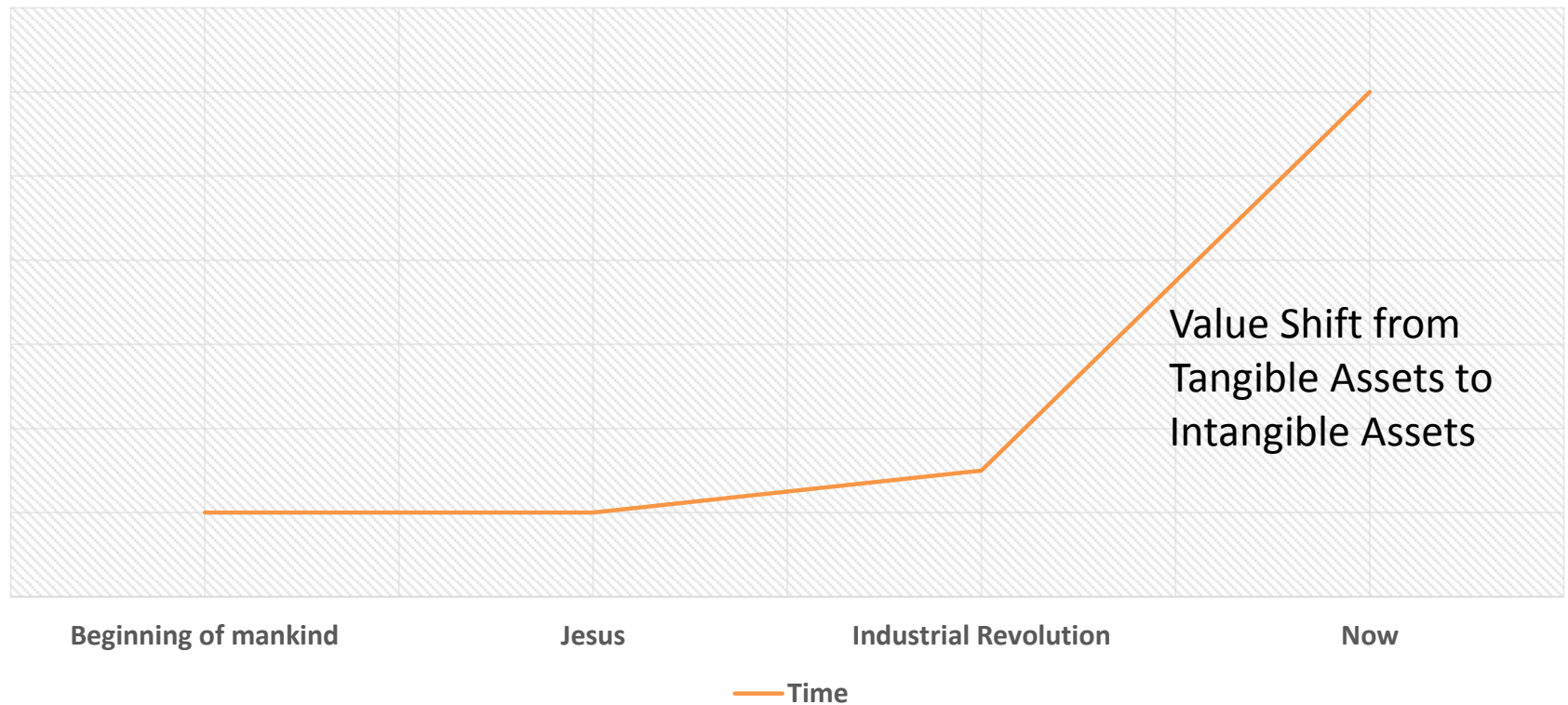
Note: Global Manufacturing = 17% of Business Activities
India Manufacturing = 23%

Source: The World Bank

Making informed decisions...

Feels impossible due to the accelerated pace of change

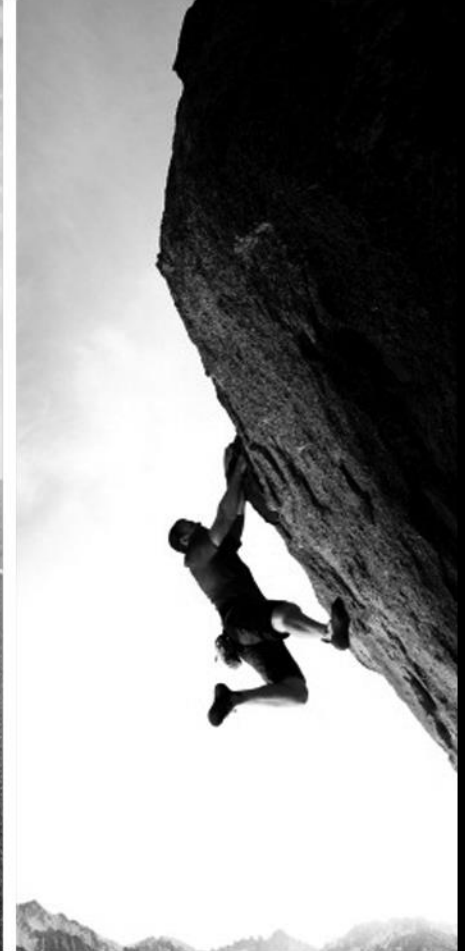
Business risk increase with rate of change



Change = increased risk



Change = increased opportunities





**Increased volatility leads to
increased power of good
information**

Is complete, accurate, and timely information defined in terms of behaviors that maximize shareholder value... in the long run?



Alfred Rappaport

Saving Capitalism From Short-Termism

Principle:

Make strategic decisions that maximize expected value, even at the expense of lowering near-term earnings.

Question: What does that mean when...



Increased
competition



Unforeseen
market demand/
conditions



Fluctuation in
currencies and
investments



Answer Should be Found in:
Your corporate strategy



**Corporate strategy built on
13 critical questions
to Prioritize Resource Allocation**

Critical Questions...

Q1:

What values are going to guide our Business?

Q2:

How far down the road are we going to look?

Q3:

What assumptions about the external environment underpin our strategy?

Q4:

What existing and new products/ services will we offer (or not offer)?



Q5:

What criteria will we use to evaluate new product opportunities?



Q6:

What existing and new customer groups will we serve (and not serve)?



Cost Information Critical

Critical Questions...

Q7:

What criteria will we use to evaluate a new market opportunity?



Q8:

What factors (price and/or quality aspects) are meaningful to our customers?



Q9:

Which factors will represent our competitive advantage?



Q10:

In which of our current product-market areas will we place the greatest emphasis?



Q11:

In what new product or market areas will we place the greatest emphasis?



Q12:

What financial and non-financial measures will we use to assess the viability of the strategy?



Cost Information Critical

Critical Questions...

Q13:

How does our implementation plan ensure that goals, designs, performance measures and management of departments, processes, and positions/people support the strategy?



**Difficult to harness 'one
version of the truth' that
optimizes shareholder
value**



How can all of the relevant information be gathered, analyzed and delivered in a way that will inform the exact decision to be made?

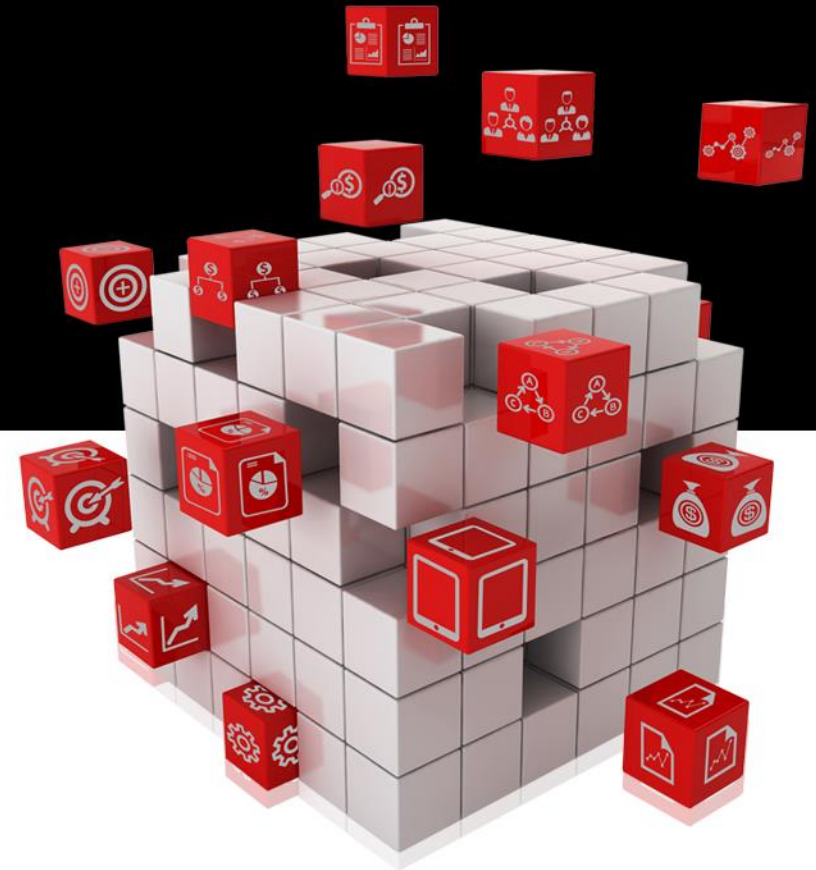


Good news...
for companies and shareholders

**Management Accountants
Harness Knowledge, Data,
Analytics, Planning and
Technology to Provide
Management the Ability to:**

MAKE INFORMED DECISION

**Multi-dimensional
data can be
collected,
reviewed,
analyzed,
interpreted, and
harnessed**



Corporate Performance Management (CPM)

Bringing together



- Budgeting
- Forecasting
- Reporting
- Disclosure Mgmt.
- Consolidations
- Cash Planning
- Cost Planning and Management

- Directions, Goals, Targets
- Objective Risk Assessment
- Driver based simulation
- What-if and ad hoc analysis
- Customer and product profitability (driver based)
- Communication: BI and one version of the truth

- Sales planning
- Workforce planning
- Project planning
- Marketing/promo planning
- Long term planning
- Supply/Demand planning
- CapEx planning
- **Process Measurement and Management**
- **Cost Management**

Times are Changing

INDUSTRIAL AGE

(Budgets)

Steady, continuous change

- Managers could plan 1-3 years ahead
- Shareholders were content with incremental improvement
- Financial assets such as inventories were the key drivers of shareholder value
- Product and strategy life cycles were long.
- Cost increases could be passed on to customers
- Suppliers were in charge of the markets and customers were reasonably loyal
- 'Gaming the numbers' and 'managing earnings' were accepted practices

INFORMATION AGE

(Business Planning)

Unpredictable, discontinuous change

- Managers need to respond rapidly to change
- Shareholders now demand 'next-in-class' performance
- Intellectual assets such as loyal customers are the key drivers of shareholder value
- Product and strategy life cycles are short
- Costs need to be constantly reduced to respond to the competitive pressures
- Customers are in charge of the market and are increasingly fickle
- 'Gaming the numbers' and 'managing earnings' are unacceptable practices

1980

1990

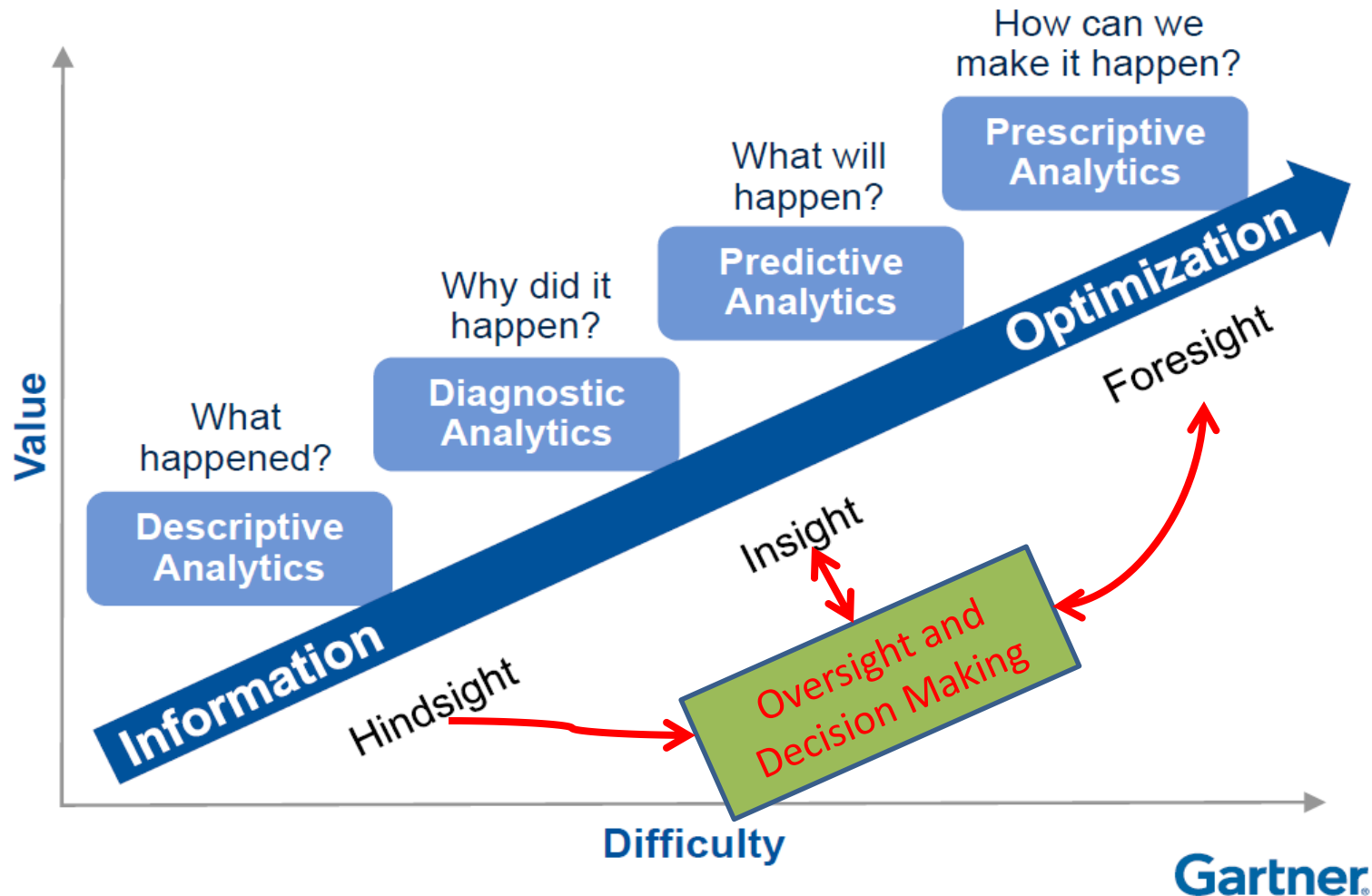
2000

2010

2020

2030

Improving Insight and Business Value

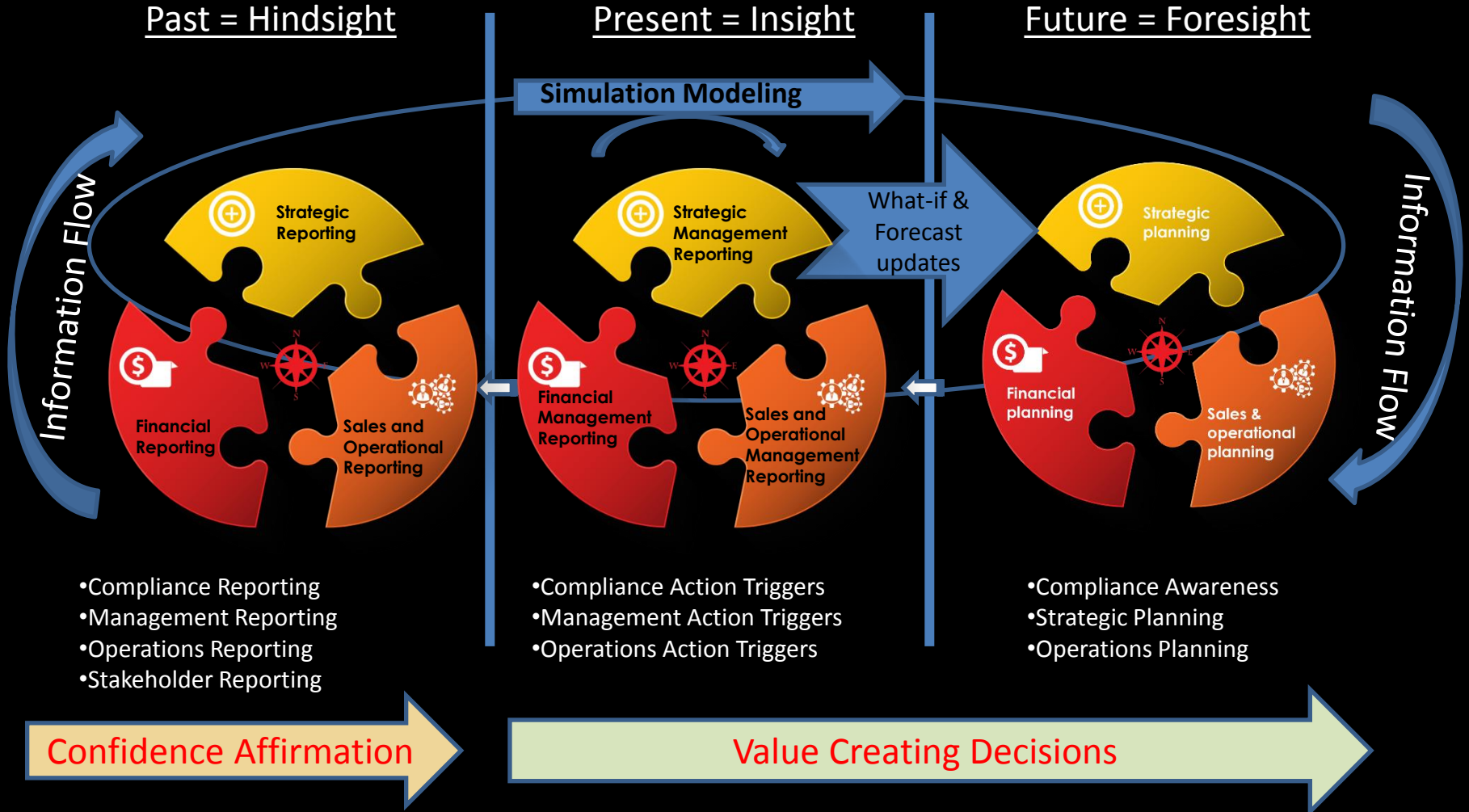


Integrated Planning + Reporting: Informed Decisions = Increased Value

Past = Hindsight

Present = Insight

Future = Foresight



CPM: A tool to orchestrate the data

CHECK

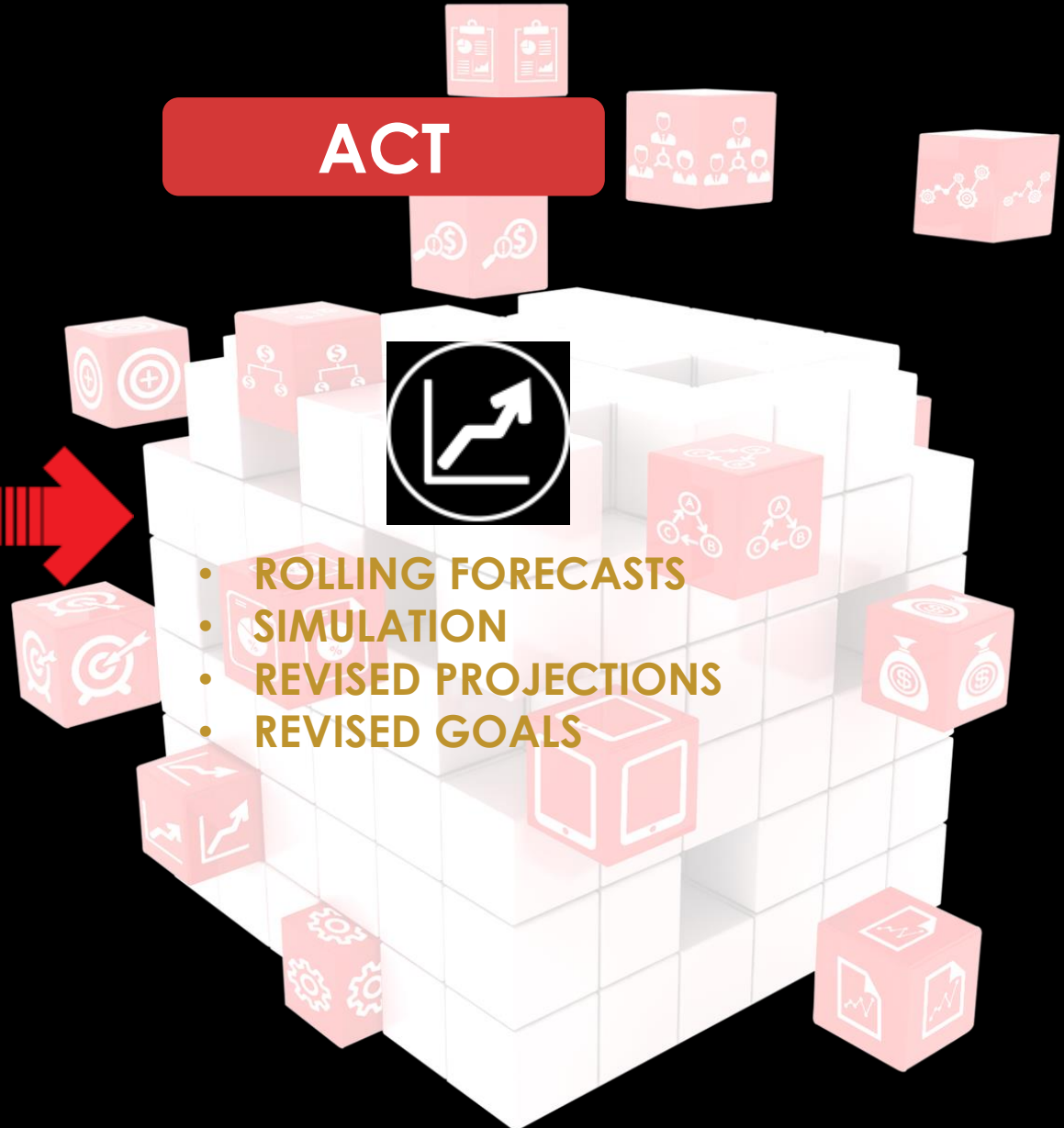
ACT



PERFORMANCE
ANALYSIS/
MANAGEMENT
REVIEWS



- ROLLING FORECASTS
- SIMULATION
- REVISED PROJECTIONS
- REVISED GOALS



CPM Dashboard





Now, you are the orchestra leader

Objective Centric **Risk**



**“NEVER BELIEVE THAT A FEW CARING PEOPLE
CAN'T CHANGE THE WORLD. FOR, INDEED,
THAT'S ALL WHO EVER HAVE.”**

MARGARET MEAD

© Lifehack Quotes

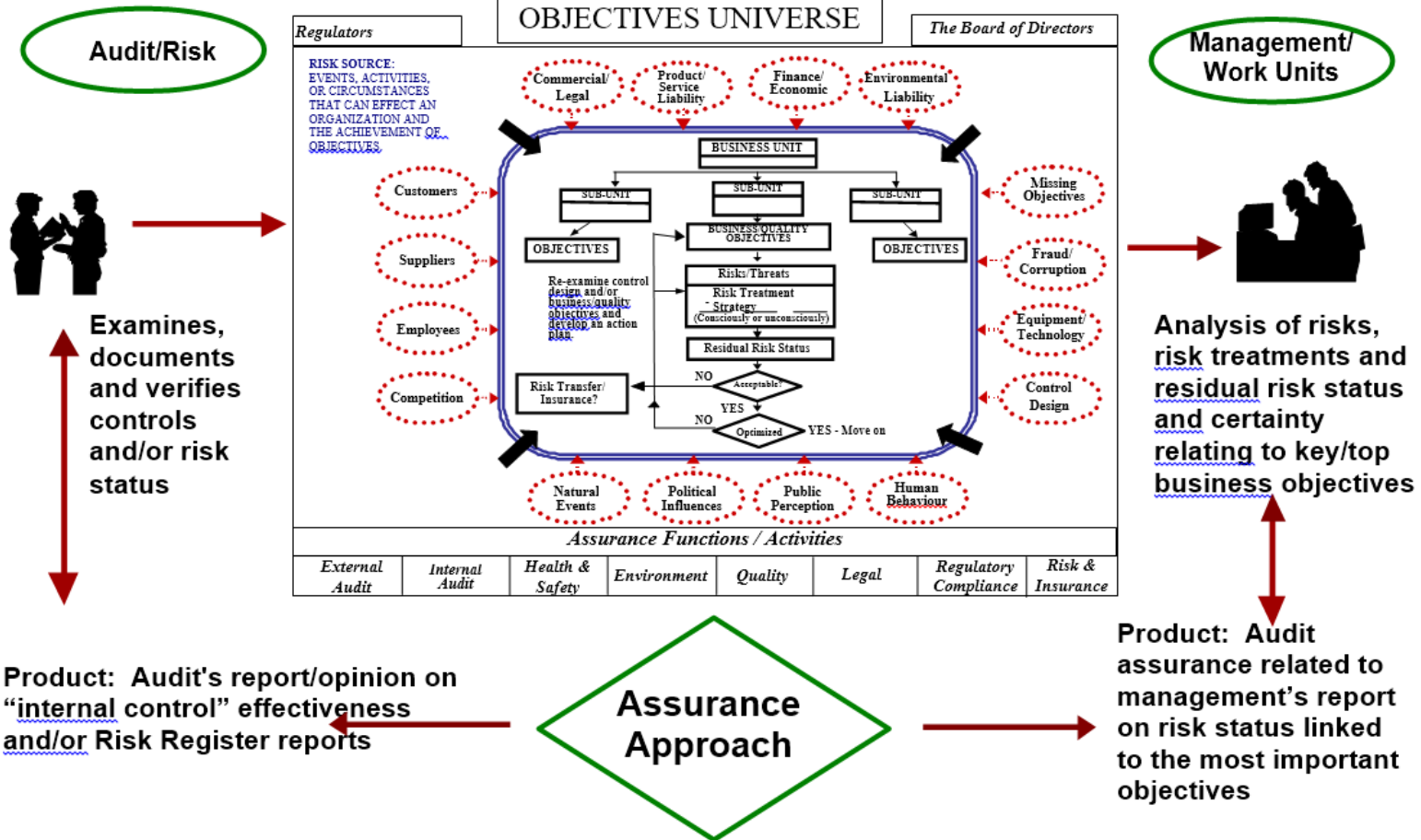
Critical Management Accountant Capabilities

1. Strategy Financial Forecasting / Cash Flow Analysis, 5-25 yrs re Horizon
2. Business Plan Financials/ Discounted Future Cash Flow Analysis , 3-5 yrs
3. Rolling Forecasts (Qrtly, Multi Year)/Budgets
4. Target Setting/KPI (Aligned Organization, Process, Job)
5. Risk Management (Objective Centric, not Registry)
6. Activity Based Costing
7. Target Costing
8. Process Costing/Budgets
9. Aligned Role/Responsibility
10. Service/Product Profitability
11. Customer Profitability
12. Strategic Investment Life Cycle Costing
13. Simulation Modelling / What If Analysis
14. Decision Support Analytics, ERP, Automated Reporting (Fin'l and Mgmt)

Objective Centric Risk & Certainty Management (OCRCM)

Traditional Methods

Objective Centric Self-Assessment



What is Objective Centric Risk & Certainty Management?

Step 1

Populate 'Objectives Register ' with top value creation and value preservation objectives.

Step 3

Confirm decisions made in Step 1&2 on Objectives Register, Risk Assessment Rigor and Independent Assurance Levels with the Board.

Step 5

Consolidated report including 'Composite Residual Risk Ratings' prepared for senior management and the Board.

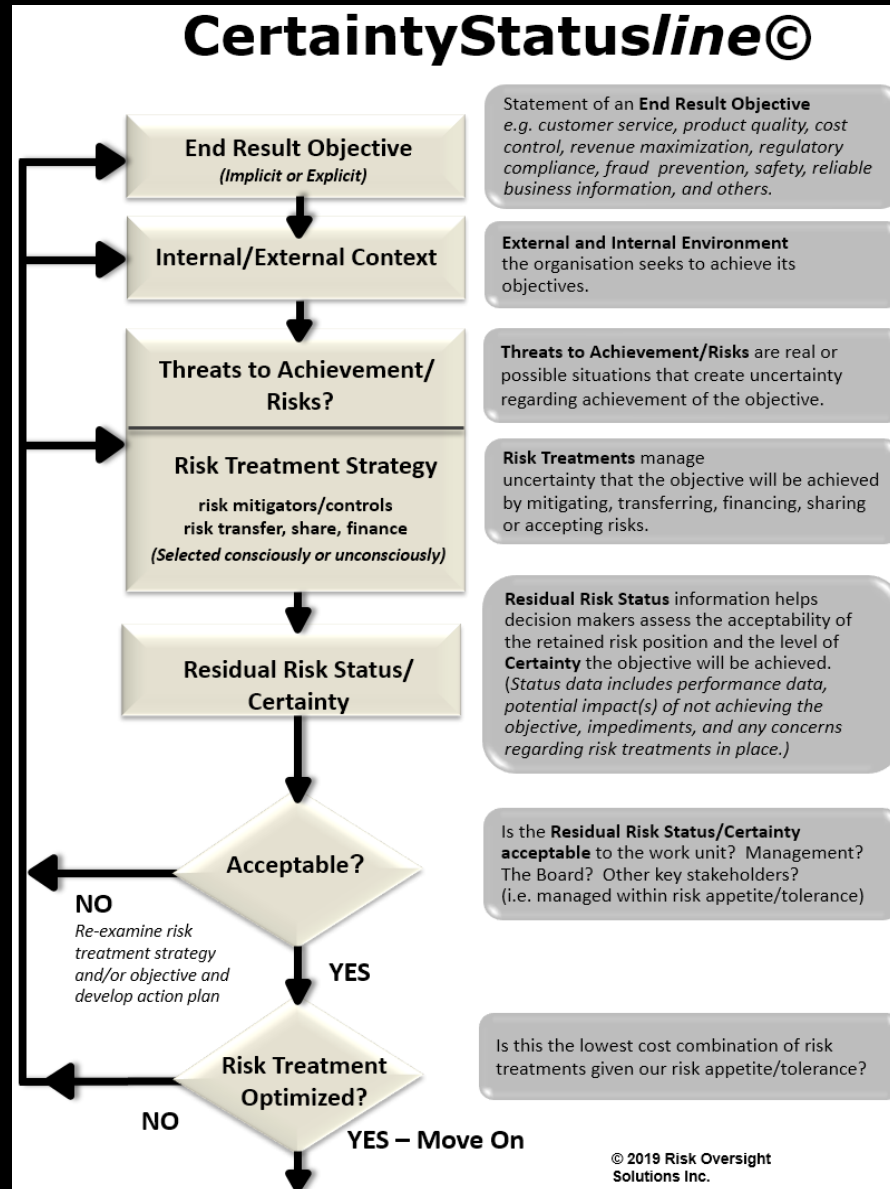
Step 2

Assign objective 'Owner/Sponsors' and identify 'Risk Assessment Rigor' ('RAR') and 'Independent Assurance Level' ('IAL') targets.

Step 4

Owner/Sponsors complete RiskStatuslines™ and Internal Audit/other assurance groups complete independent assurance work.

What is Objective Centric Risk & Certainty Management?



Planning for Profit & Value Using Target Costing

The target costing process is a system of profit planning and cost management that is price led, customer focused, design centered and cross functional. Target costing initiates cost management at the earliest stages of product development and applies it throughout the product life cycle by actively involving the entire value chain.” CAM-I Target Costing Group

Why do Target Costing?

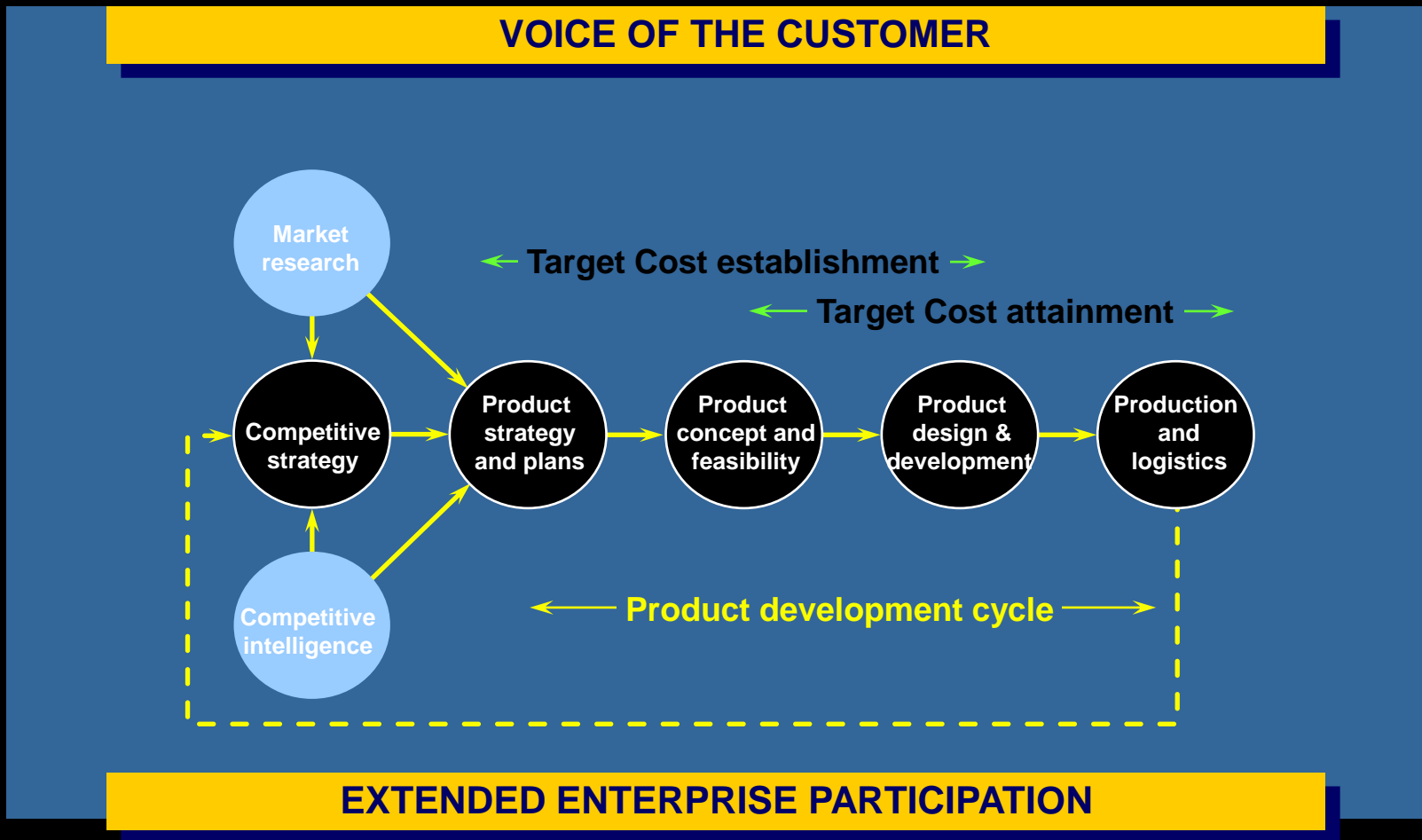
Improve profit, market or cost position

Produce the right product at the right time for the right price.

This means reducing costs without sacrificing quality.

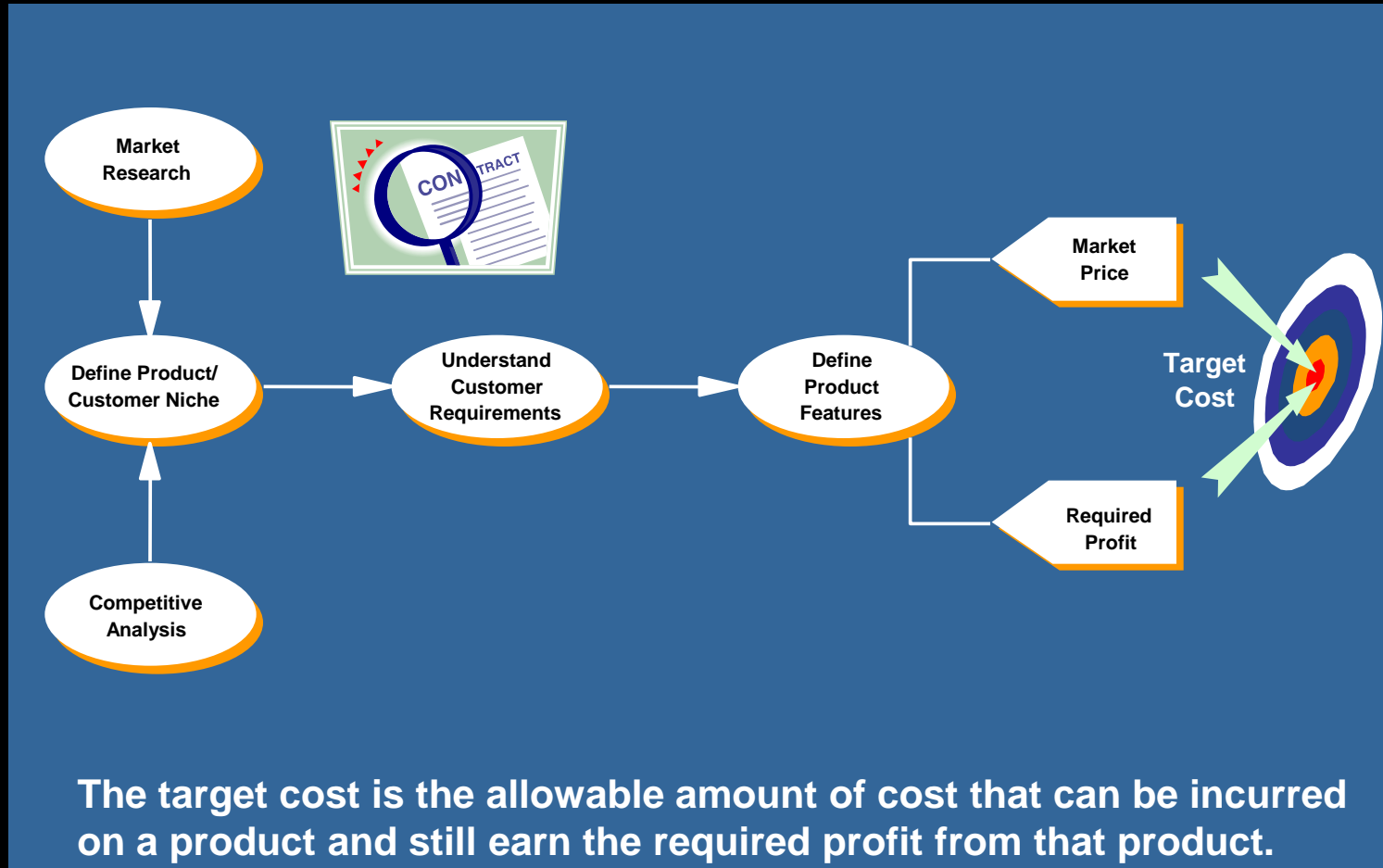


Target Costing Process Overview



From the book, "Target Costing, The Next Frontier in Strategic Cost Management," a CAM-I Publication

Target Costing Target Established



From the book, "Target Costing, The Next Frontier in Strategic Cost Management," a CAM-I Publication

Brainstorming Cost Reduction Ideas in Value Engineering

Ways to generate options for Product/ Process Simplifications and Redesign

ADAPT

What else is like it?

What could we copy?

What is out there that we can adapt?

COMBINE

Can we combine steps?

Combine purposes?

Combine functions?

MAGNIFY

What can we add?

Can we do it more frequently?

Should we enlarge the scope?

MINIMIZE

What can we reduce?

What can we omit?

What can we streamline?

REARRANGE

Can we interchange steps?

Can we do these in a different sequence?

Can we change timing?

Can we rearrange in a different pattern?

Can we schedule steps differently?

REVERSE

What's the opposite?

Can we turn it around?

Upside down, backward?

Can we reverse roles/functions/steps?

MODIFY

What new twist can we add?

SUBSTITUTE

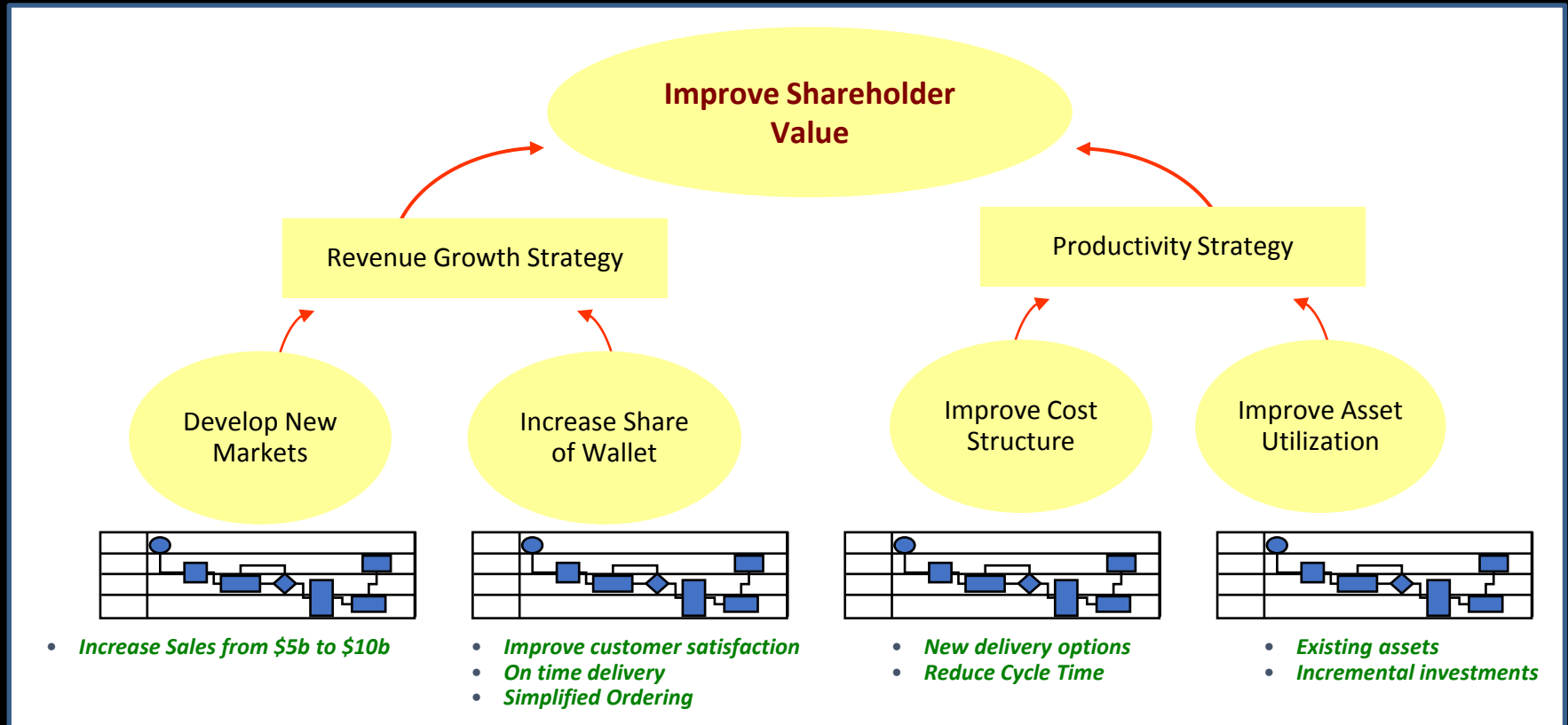
What can we use instead?

What else can do this?

Another approach?

Operations Processes Deliver Performance

Process measures connect people to strategy. Managing what you do and what you can control is the key.

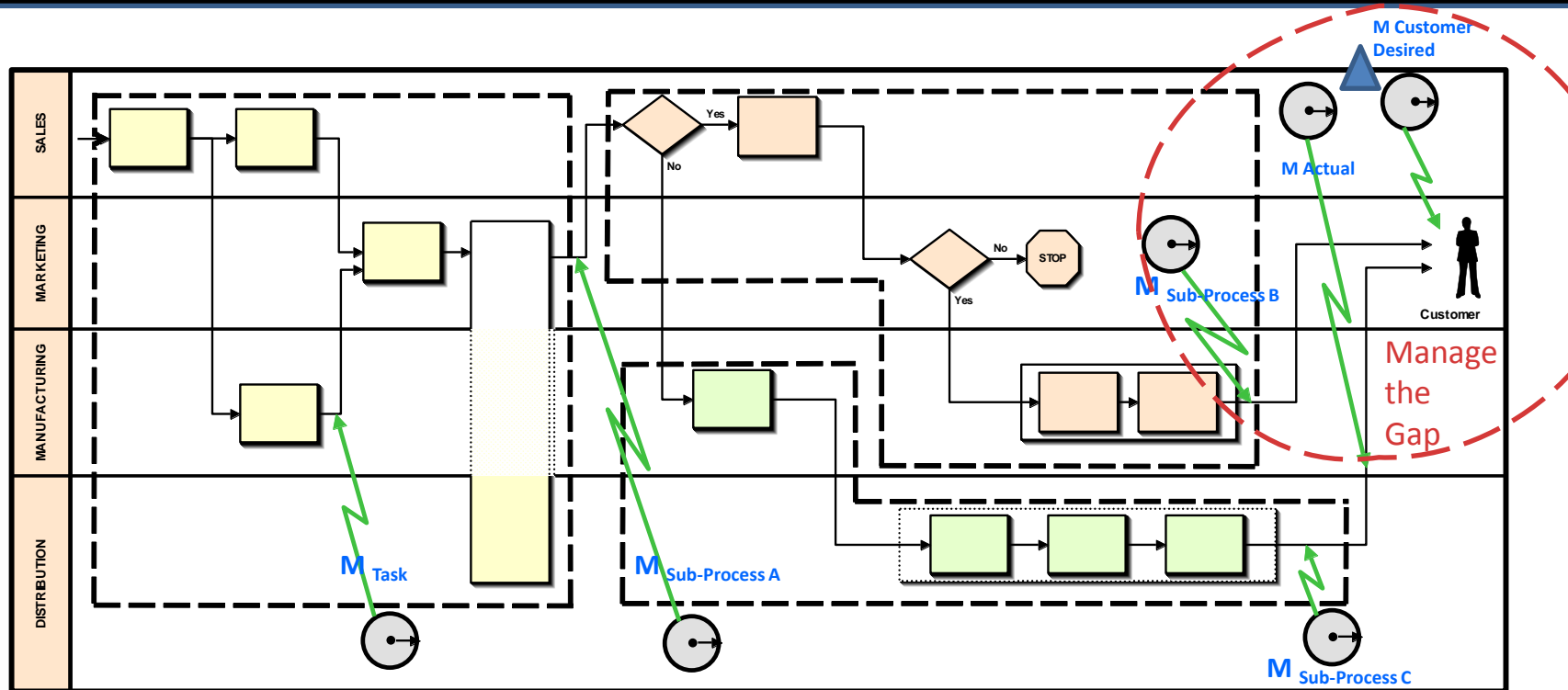


Discussion: What is the relevance of Process Management to SV?

End-to-end process measures

MEASURES:

- Cost
- Time
- Quantity
- Quality
- Risk

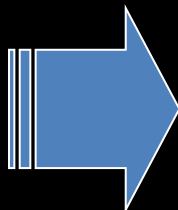


Restate Accounting Costs to Activity Costs!

If you are going to manage your business, it is critical to know what you spend, how you spend it and on whom/what you spend it on.

Accountants View

Account	\$
SALARIES	600,000
BENEFITS	60,000
TRAVEL	40,000
TRAINING	10,000
OVERTIME	8,000
OFFICE.SUPPLIES	7,000
Support Systems	241,066
Systems services	196,121
Long Distance	119,000
PC Lease	51,890
Rent	54,314
Telephone service	28,168
Process Benefits	11,080
Recruiting	10,342
Health&Safety	7,365
Payroll processing	6,355
\$ 1,450,700	



Process Owners View

Activity	Activity Cost	Driver	Driver Units	Cost / Unit
Enter Cust.Order	558,077	Orders	4,200	\$133
Enter credit notes	347,954	Credits	2,400	\$145
Answer Cust. Query	199,895	Queries	18,000	\$11
Schedule Deliveries	163,365	Shipments	4,600	\$36
Process Special Ord.	113,960	Special Orders	220	\$518
Invoice Shipments	49,258	Shipments	4,600	\$11
Update Price List	18,191	Price Changes	320	\$57
	1,450,700			

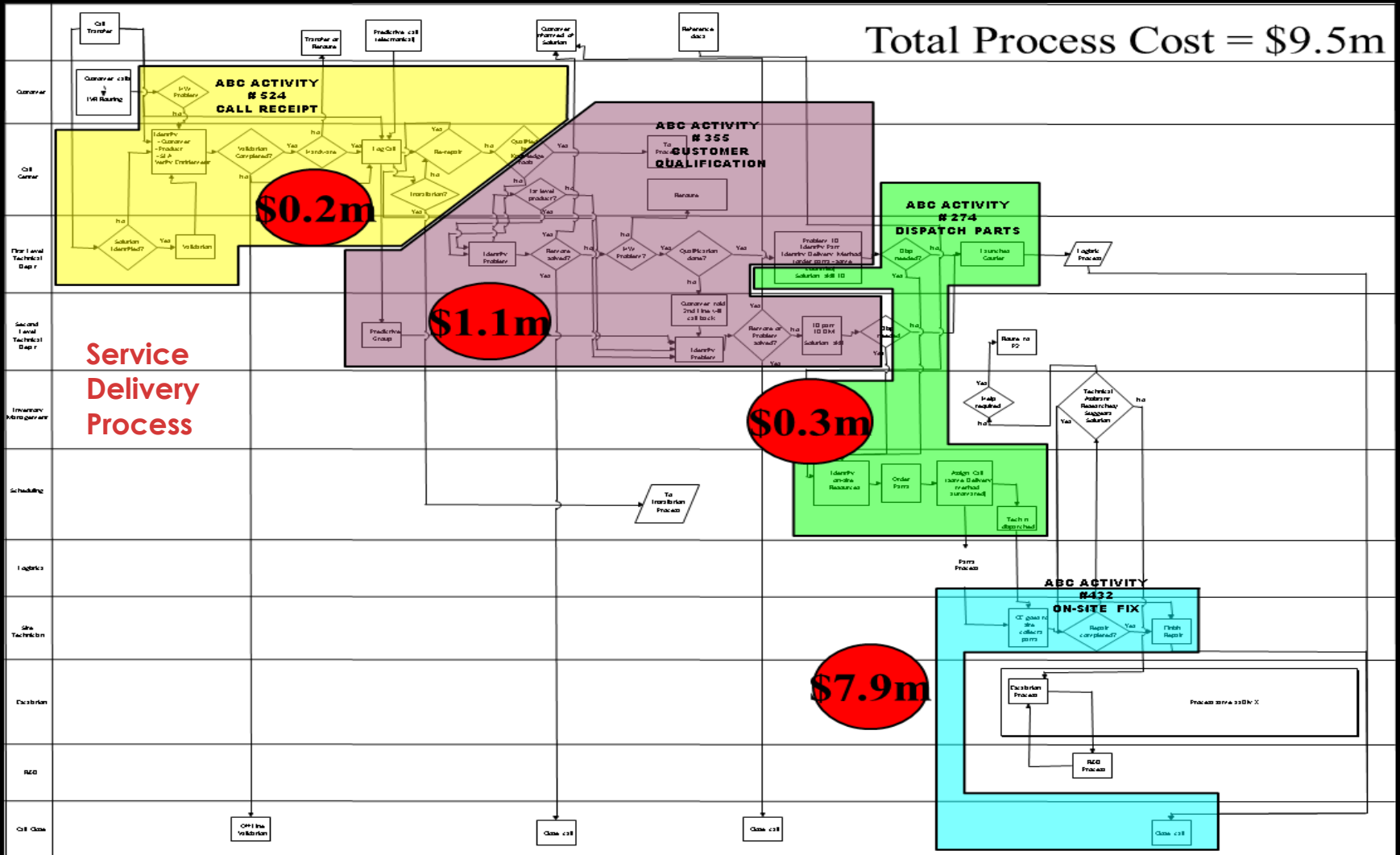
Unit of Process Cost Comparison

<u>Activity</u>	Pharmacy				
	Iowa	Los Angeles	New York	Tempe	Michigan
Receive orders	0.09	0.15	0.16	0.06	0.06
Order set-up	0.83	0.59	1.22	0.84	0.71
Checking RXs	0.68	0.60	0.59	0.24	0.76
File hard copy RXs & scan	0.07	0.10	0.16	0.12	0.25
Process inventory	0.07	0.04	0.07	0.03	0.21
Bag & ship orders	12.06	7.72	8.45	6.90	7.47

Customer Serving Process Cost Detail

Customer	Type of Service-Platform	Service Level	Dept	Activity	Activity Cost	Driver	VOLUME	Unit Rate	Cost
Cust 1234	Contract Type 1	Next Day	Field System	001-CSO Admin	578,021	Service Orders	11	80.04727	881
Cust 1234	Contract Type 1	Next Day	Logistics	001-CSO Admin	74,757	Service Orders/Parts	15	2.93324	44
				001-CSO Admin Total					925
Cust 1234	Contract Type 1	Next Day	Field System	004-Repair Hardware	3,383,822	Repair Hours	42.7	196.55216	8,393
Cust 1234	Contract Type 1	Next Day	Account Support	004-Repair Hardware	545,640	Repair Hours	2.5	177.57097	444
				004-Repair Hardware Total					8,837
Cust 1234	Contract Type 1	Next Day	Account Support	008-Call Qualificati	118,617	Calls Qualified	1	156.69406	157
				008-Call Qualificati Total					157
Cust 1234	Contract Type 1	Next Day	Field System	009-Account Manageme	398,531	Hours Account Mngt	25	153	3,827
Cust 1234	Contract Type 1	Next Day	Call Center	009-Account Manageme	1,024	Hours Account Mngt	1	105	105
Cust 1234	Contract Type 1	Next Day	Regional Mgr	009-Account Manageme	128,676	Hours Account Mngt	6	206	1,236
				009-Account Manageme Total					5,168
Cust 1234	Contract Type 1	Next Day	On-line Monitoring	014-Customer Care	18,702	# Sales Calls	1	79	79
Cust 1234	Contract Type 1	Next Day	Call Center	014-Customer Care	52,820	# Sales Calls	2	111	222
Cust 1234	Contract Type 1	Next Day	Account Support	014-Customer Care	127,059	# Sales Calls	4	109	535
Cust 1234	Contract Type 1	Next Day	Contract Admin Teams	014-Customer Care	549,275	# Sales Calls	22	105	2,311
Cust 1234	Contract Type 1	Next Day	Business Mgr	014-Customer Care	144,170	# Sales Calls	3	202	607
Cust 1234	Contract Type 1	Next Day	Sales Manager	014-Customer Care	40,651	# Sales Calls	1	171	171
Cust 1234	Contract Type 1	Next Day	Sales Team A	014-Customer Care	25,951	# Sales Calls	1	109	109
Cust 1234	Contract Type 1	Next Day	Sales Team B	014-Customer Care	38,713	# Sales Calls	1	163	163
Cust 1234	Contract Type 1	Next Day	Sales Team c	014-Customer Care	2,307	# Sales Calls	1	10	10
				014-Customer Care Total					4,206
Cust 1234	Contract Type 1	Next Day	Sales Manager	227-Sales Acct Mngt	22,347	HW/SW/TM Rev Weight	173373	0.00054	93
Cust 1234	Contract Type 1	Next Day	Channel Sales	227-Sales Acct Mngt	478,230	HW/SW/TM Rev Weight	173373	0.01154	2,000
Cust 1234	Contract Type 1	Next Day	CBM Accounts	227-Sales Acct Mngt	292,696	HW/SW/TM Rev Weight	173373	0.00706	1,224
				227-Sales Acct Mngt Total					3,318
Cust 1234	Contract Type 1	Next Day	PSD Workforce A	231-Repair hdwre/sub	4,343,499	CSO Sub Dep 38	3	379.08003	1,137
				231-Repair hdwre/sub Total					1,137
Cust 1234	Contract Type 1	Next Day	Direct Material HW	999-Direct Materials	11,235,070	Parts Cost HW	15397.5	1.02706	15,814
				999-Direct Materials Total					15,814
				Grand Total					69,965

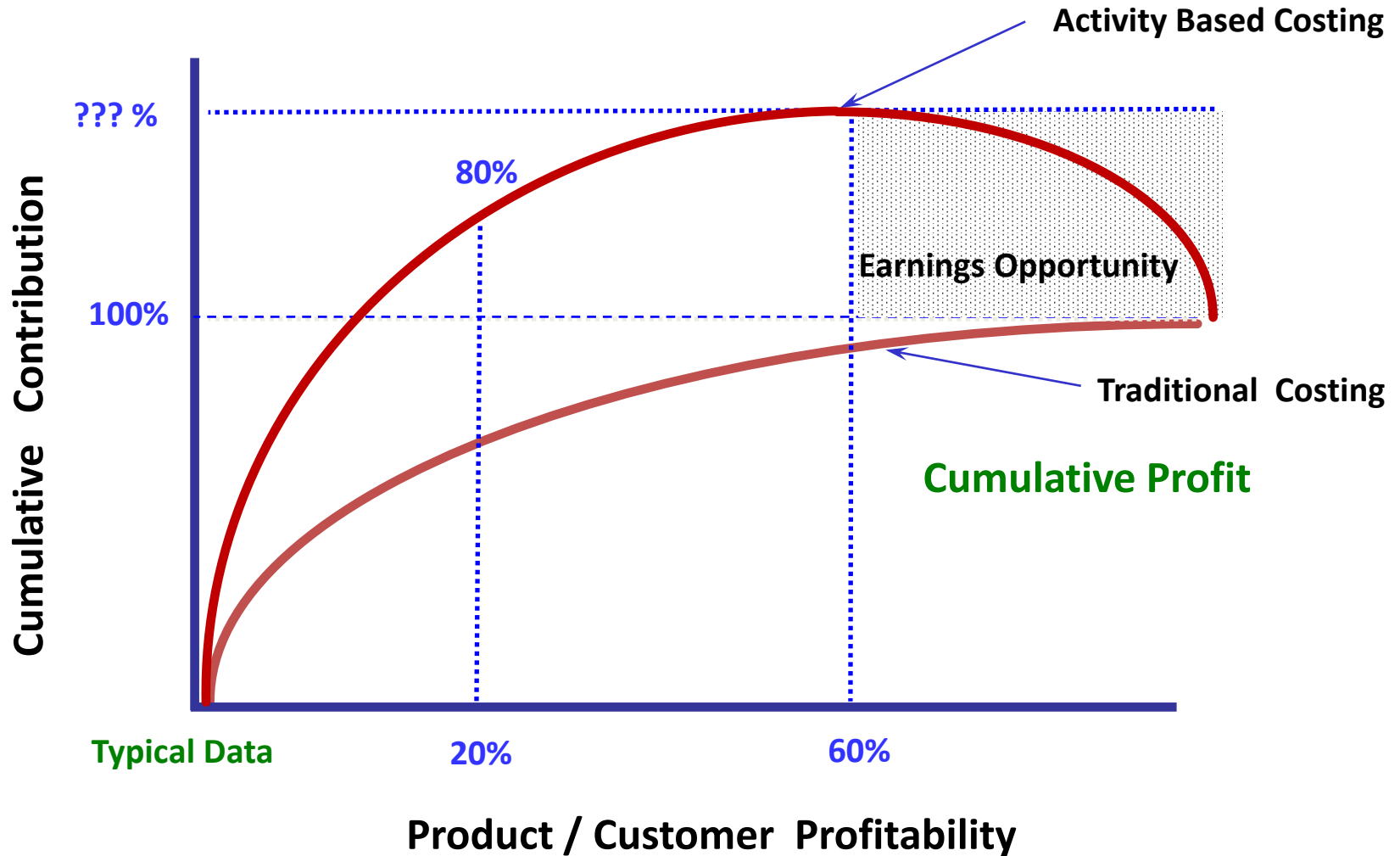
Process Cost/Budget



Activity Based Customer Contribution

Cust Name	Type of Service	Service Level	Revenue	Total Activity Cost	Contribution
Customer 1234					
	<i>Contract</i>	<i>Type 1</i>			
		High Availability	184	3,902	(3,718)
		Software Licensing	64,990	4,924	60,066
		Next Day Response	123	8	115
		Unlimited Service	1,372	59	1,313
		Phone In Service Only	28,015	2,510	25,505
		Same Day Response	9,556	1,515	8,041
		Sum	104,241	12,918	91,323
	<i>Contract</i>	<i>Type 2</i>			
		Phone In Service Only	537,498	150,972	386,526
		6 Hour Response	-	26	(26)
		Same Day Response	2,231,932	240,107	1,991,826
		Personal S.S.	25,562	21,173	4,390
		Other	3,126	168,011	(164,885)
		Next Day Response	175,909	69,965	105,944
		Software Licensing	887,901	118,778	769,123
		High Availability	103,018	59,715	43,302
		Sum	3,964,947	828,747	3,136,200
	<i>Contract</i>	<i>Type 3</i>			
		Same Day Response	2,202	354	1,849
		Next Day Response	1,144	11	1,133
		Other	51		
		Phone In Service Only	25,076	4,177	20,899
		Sum	28,473	4,542	23,880
			4,097,660	846,207	3,251,403

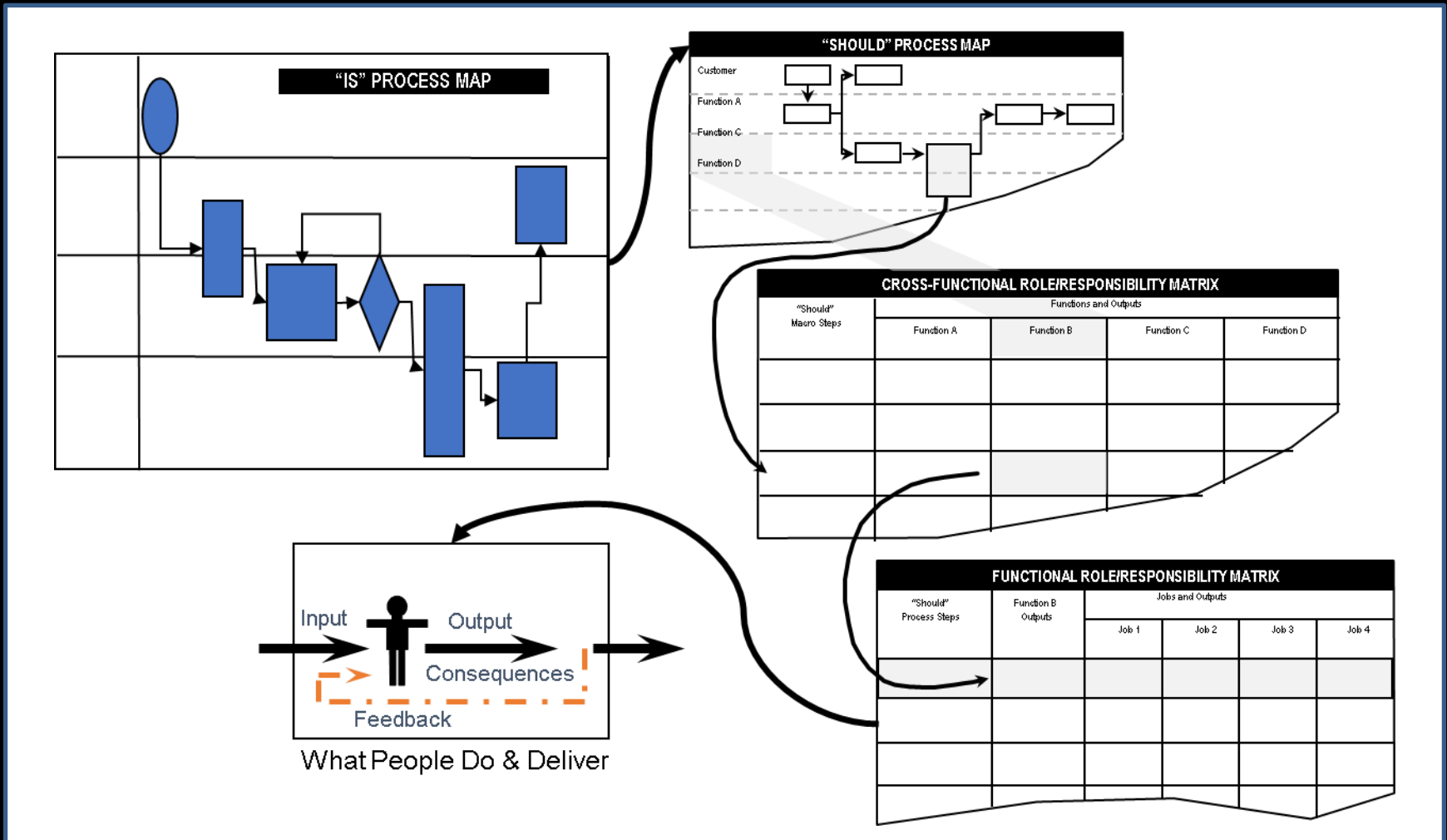
ActivityBased Profitability vs. Traditional



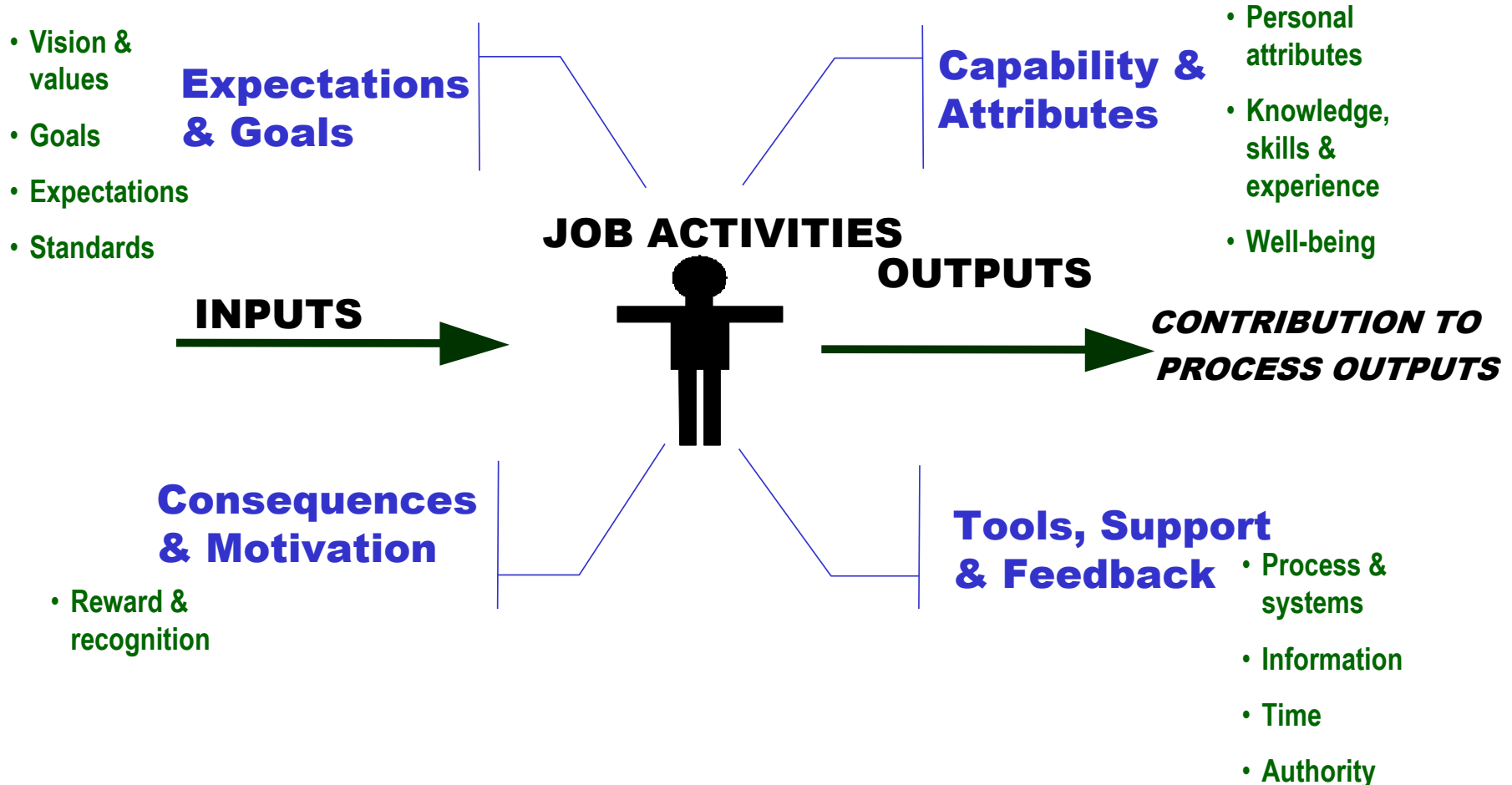
Municipality 'What if' Tax Analysis

	2011 Proposed Current Budget				To Meet 2.5% Target				To Meet 2.0% Target			
	Impact		Cumulative		Impact		Cumulative		Impact		Cumulative	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
2010 Tax Levy			\$ 113,986				\$ 113,986					\$ 113,986
Assessment Growth Revenue	\$ (1,869)	-1.64%	\$ 112,118	-1.64%	\$ (1,869)	-1.64%	\$ 112,118	-1.64%	\$ (1,869)	-1.64%	\$ 112,118	-1.64%
Increase from Operations	\$ (5)	0.00%	\$ 112,113	-1.64%	\$ (5)	0.00%	\$ 112,113	-1.64%	\$ (5)	0.00%	\$ 112,113	-1.64%
Human Resource Costs												
Annualization of 2010/Turnover/Overtime & contracts	\$ 1,463	1.28%	\$ 113,576	-0.36%	\$ 1,463	1.28%	\$ 113,576	-0.36%	\$ 1,463	1.28%	\$ 113,576	-0.36%
Fringe Benefits (incl. OMERS increase of \$627k)	\$ 805	0.71%	\$ 114,382	0.35%	\$ 805	0.71%	\$ 114,382	0.35%	\$ 805	0.71%	\$ 114,382	0.35%
Recommended Program Changes (new facilities & costs to maintain service levels)												
Group 1	\$ 834	0.73%	\$ 115,215	1.08%	\$ 834	0.73%	\$ 115,215	1.08%	\$ 834	0.73%	\$ 115,215	1.08%
Group 2	\$ 131	0.11%	\$ 115,346	1.19%	\$ 131	0.11%	\$ 115,346	1.19%	\$ 131	0.11%	\$ 115,346	1.19%
Capital Budget Impact on Operating												
Regional Tax Room (recommended increase to fund capital budget)	\$ 950	0.83%	\$ 116,296	2.03%	\$ 950	0.83%	\$ 116,296	2.03%	\$ 563	0.49%	\$ 115,909	1.69%
Dedicated Infrastructure Renewal Levy	\$ 570	0.50%	\$ 116,865	2.53%	\$ 570	0.50%	\$ 116,865	2.53%	\$ 570	0.50%	\$ 116,478	2.19%
Service Reductions												
Group 1	\$ -	0.00%	\$ 116,865	2.53%	\$ (210)	-0.18%	\$ 116,655	2.34%	\$ (210)	-0.18%	\$ 116,268	2.00%
2011 Tax Levy	\$ 2,879	2.53%	\$ 116,865	2.53%	\$ 2,669	2.34%	\$ 116,655	2.34%	\$ 2,282	2.00%	\$ 116,268	2.00%

The Link Between Process, Function & Job

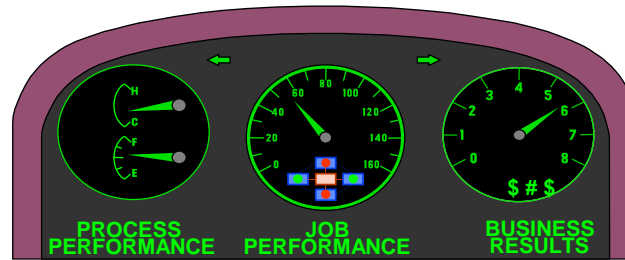


Conditions for Success



Decision-Making Based On Real-Time Information

BUSINESS STRATEGY



What am I accountable for delivering?

How are business results connected to my job?

PERFORMANCE SCORECARD

JOB: Vendor Coordinator		PROCESS: Vendor Management		FUNCTION: Order fulfillment	
OUTPUTS	MEASURES	OUTPUTS	MEASURES	OUTPUTS	MEASURES
<ul style="list-style-type: none"> 1-3 Month Demand Plan (raw material, labour, transportation services) 	<ul style="list-style-type: none"> Plans delivered OTIF (T R's) Resolution of plan constraints Interface effectiveness feedback 	<ul style="list-style-type: none"> Raw materials (expected receipts) Transportation services (expected receipts) 	<ul style="list-style-type: none"> Raw materials delivered OTIF (T R's) Rate of progress of raw material OTIF (T R's) Transportation services delivered OTIF (T R's) Rate of progress of transportation services OTIF (T R's) 	<ul style="list-style-type: none"> Customer Promise Fulfilled 	<ul style="list-style-type: none"> OTIF (T R's) Cost to serve Safety Environmental
<ul style="list-style-type: none"> PSO/BOM Change Implementation Plans 	<ul style="list-style-type: none"> Plans delivered OTIF (T R's) 	<ul style="list-style-type: none"> 1-3 Month Demand Plan (raw material, labour, transportation services) 	<ul style="list-style-type: none"> Plans delivered OTIF (T R's) 		
		<ul style="list-style-type: none"> Job Plans 	<ul style="list-style-type: none"> Plans delivered OTIF (T R's) 		
		<ul style="list-style-type: none"> Data 	<ul style="list-style-type: none"> Data delivered OTIF (T R's as determined by the Inventory Strategy Manager, ie. timing & format) 		
		<ul style="list-style-type: none"> 1-3 Month Demand Plan (raw material, labour, transportation services) 	<ul style="list-style-type: none"> Plans delivered OTIF (T R's) 		
			<ul style="list-style-type: none"> Data delivered OTIF (T R's as determined by the Inventory Strategy Manager ie. timing & format) 		

How am I doing?

How is my success measured?

How do my deliverables contribute to process outputs?

Achieving true shareholder value hinges on creating new, better, yet achievable real time Past and Potential Performance Information

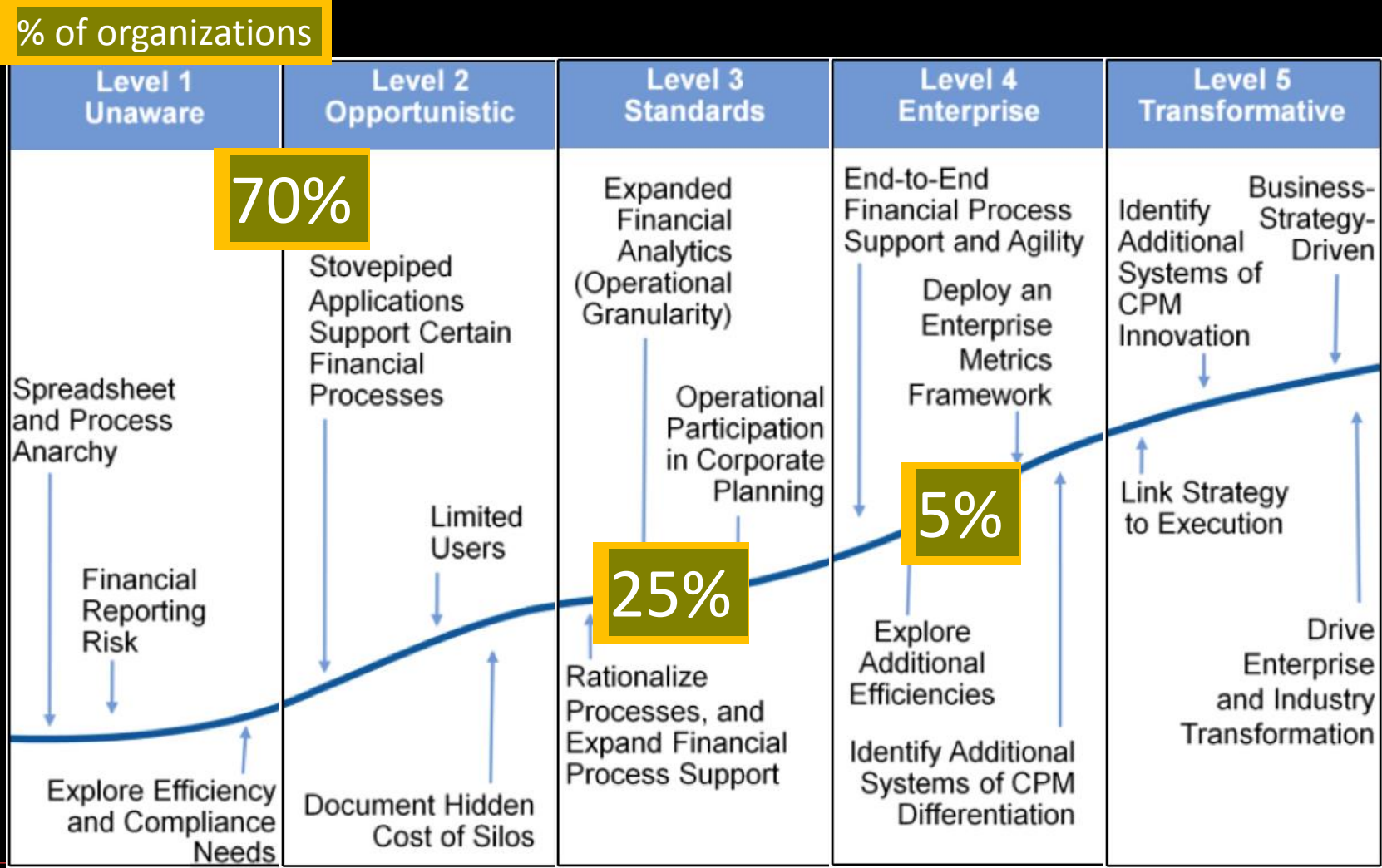


But that new reality calls upon us to harness information in ways that provide it with greater meaning... and, in ways that can be acted upon.



That in turn allows us to re-imagine business and the future.

CPM Maturity Model





Special Thanks to Davinder Bhatia CMA India & USA

Questions?

Thank you

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