

# Business Performance Management — Delivering On-Demand Business

## Introduction — The Business Imperative for On Demand

Across every industry, the business environment is becoming more complex, fast-paced and unpredictable. To survive and succeed, businesses and their structures must be flexible to accommodate change. Business agility is not just a buzz word, it's a requirement. To succeed, an on-demand business must become proactive to anticipate problems before they have a negative impact, as well as optimize resources and opportunities. The leaders in their industries will be those on-demand businesses which best manage business performance.

Sam Palmisano, IBM's CEO, described an on-demand business as an enterprise whose business processes are integrated end-to-end across the company and with key partners, suppliers and customers. On-demand businesses can respond with flexibility and speed to customer demands, market opportunities or external threats. This requires getting the right information at the right time to the right person, with appropriate context and background, to enable better business decisions in real time. Delivering this information requires an integrated enterprise infrastructure that leverages existing IT resources and enables new capabilities and functionality to be added quickly. The infrastructure must also enable rapid change in both business and technology. This on-demand infrastructure must be available 24/7.

A successful on-demand business optimizes all its resources, including people, processes, assets and technology. Those who succeed in on-demand transformation will have a significant competitive advantage. Those who don't enter the race are sure to be left far behind.

## The Role of Business Performance Management in On-Demand Business

Business performance management solutions enable organizations to respond to customers' needs, competitors' actions and regulatory changes by creating a business that is aligned, accountable and action-oriented.

An aligned business has visibility and coordinated action across the organization and is flexible and responsive. The strategic intent cascades down from the executive level to the frontline workers ensuring all areas of the business work toward the same strategy.

For example, consider an auto dealership that differentiates itself on quality. Although delivering high-quality service and repairs is the strategic goal, the parts department manager opts to stock medium-quality parts to reduce costs. On the surface, it appears that the parts department manager is making a sound business decision by reducing costs, but instead he could jeopardize

the quality differentiator the dealership is working to achieve. All levels of the organization must be aligned to execute the strategy.

Goals and analytics of corporate management systems need to be integrated with the process management systems and the operational management systems so the various users can take action aligned with organizational objectives. When strategic decisions can be made, communicated and implemented quickly throughout the organization, all levels of the organization are working towards the same goal, enabling it to more effectively operate on-demand.

With strategic alignment comes the need for accountability. Companies need to limit deviation from corporate guidelines and procedures throughout the organization, both to meet ever-increasing regulatory guidelines and to demonstrate results against business goals and strategic intent. Providing pervasive real-time visibility into all business processes and events across the organization as well as event tracking and control enables companies to verify compliance on demand while managing risk associated with real-time decision making.

Being on-demand enables a business to take a proactive approach to decision-making. In large organizations, analysis paralysis is often a safer road to job longevity. But an on-demand business requires taking fast action based on insights. One reason many managers are reluctant to take quick, decisive action is because they are unsure how to correlate all the facts they have. Often lack of information is not the problem — how to use the information is. With relevant, contextual information, business leaders can take action resulting in winning strategies.

## Business Performance Management Provides Competitive Advantage

Business performance management integrates and aligns the executive, business and operational levels of a business, enabling real-time visibility, auditability and accountability across all levels of the organization. Action can be taken to proactively explore opportunities or adjust to a changing environment. With role-based visibility into the current state and execution of the business environment and real-time analytics, organizations can effectively monitor and respond to business events in real time.

By building an aligned, accountable and action-oriented business, business performance management solutions provide all levels of the organization with the information and tools necessary to make the right decisions and take the right actions. ■■■■■

# Why Business Performance Management?

Today, businesses are operating in markets that are more competitive than ever. Responsiveness to changes in these markets has become critical to success. The ability to respond rapidly to competitive moves, to ever-changing customer needs and expectations and to new regulations are key factors in achieving revenue growth. In order to be responsive and align their organizational capabilities, businesses need to coordinate their actions and use all relevant information in context. Business performance management solutions deliver the capabilities, enabling alignment from strategy to operations, allowing access to all information within the business context, analyzing the information and enabling action to be taken based on insights gained.

Below are two scenarios of how business performance management solutions solve business problems. Both scenarios require alignment of business strategies throughout the company and both focus on delivering value through action and accountability.

## Insurance: Cost Reduction Through Integrated Claims Management

Insurance companies are faced with meeting two seemingly conflicting performance objectives: lowering the cost of claims from both a 'loss cost' and a delivery (Loss Adjustment Expense) perspective and still maintaining or improving their levels of customer satisfaction. A high percentage of premium income goes to claims, thus companies must lower these percentages to improve profitability. At the same time, they need to address customer complaints about the speed of processing claims, accuracy and responsiveness. Many companies face significant challenges in trying to balance these two performance objectives. Currently, many do not have visibility into the effectiveness of their claims process — they don't know how their best clients are being treated, can't compare nor accurately predict the ratio of claims paid to net premium, and don't know what is causing delays in their claims processes. In short, they can't pinpoint which elements of their processes to fix.

The ability to model and simulate the claims process, from first notification of loss through closure, is a key element of a business performance management solution. Creating a model of the process enables business managers to have a better understanding of the process structure; simulating the process provides business managers with an understanding of the behavior of the process. Business managers can see,

for example, where bottlenecks occur and determine costs and processing times without ever deploying the process. Modeling technologies enable "what if" scenarios to be performed to compare and analyze structural choices as well as different resource allocations. This modeling and simulation enables consistency and predictability in the claims process for different channels and products.

Once deployed, the running processes can be monitored — providing real-time visibility into the performance of the claims process against strategic and operational objectives. Business and IT measures can be monitored in the context of these objectives. Drill downs can provide deeper understanding of cause and effect. Role-based workplaces display measures (e.g., process execution, key performance indicators and balance scorecards), alerts (e.g., performance violations, outages and resource shortages) and financial data for different user communities. With collaboration technologies, the various stakeholders share insights and determine appropriate actions to take, such as the redesign of a portion of the process or reallocation of a resource or skill, for example, assigning a specialist only for complex claims. Adding analytic capability provides another key dimension to business performance management solutions, for example, analyzing the claims processes to understand claims leakage — the potential lost economic opportunity within the claim payment and settlement process.

A critical element of both the cost reduction and customer service strategies is accurate identification and classification of customers. To build customer profiles, insurance companies need integrated information from the various sources relevant for each customer. These information sources can be the databases that hold policy information, claims activity and personal data as well as external information sources such as credit reports. Improving the value of the integrated information, business intelligence solutions enhance the customer profile by identifying trends, analyzing claims history, determining product preferences, identifying profitable customers and even applying a risk level to customers based on certain patterns of behavior. The combination of information integration and business intelligence provides a system that allows an insurer to create a very clear picture of their customers and potential customers.

Together, these components of a business performance management solution — process modeling, monitoring, collaboration, analytics, and information integration — allow insurers to align their two key

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## WHY BUSINESS PERFORMANCE MANAGEMENT CONTINUED FROM PAGE 5

strategic initiatives — cost reduction and customer service. This alignment enables all levels of the business to act on contextual information and drive value for the insurer.

### Retail: Increase Responsiveness of Store Operations

Retail store managers are under daily, and often hourly, pressure to optimize sales with minimal inventory. They need to understand what customers want, anticipate the effects of real-time market conditions on customer demand, and ensure that processes and infrastructure will support the demand. Business performance management solutions provide store managers with the capabilities they need to be flexible and responsive to an ever-changing market by managing inventory levels to provide customers with what they want when they want it.

Optimization of inventory requires information such as current sales activity and historical trends coupled with current market conditions (e.g., weather, promotions, advertising). Business performance management solutions integrate information from multiple data sources together with in-line analytic capabilities providing managers the insight necessary to take appropriate action to maximize sales. For example, looking at historical data for same day sales will assist in determining the sales forecast for that specific day. But, putting that day in context of current market conditions, (e.g., how weather affects the sale of soft drinks, ice cream or snow shovels), increases the accuracy of the forecasts. Now, with contextual, integrated information the manager is positioned to make a better decision on when stock needs to be replenished.

The ability to forecast demand with a high level of accuracy provides a significant benefit to the manager, which is enhanced by the ability to act quickly to ensure that distribution processes will support the demand. For example, a manager may wish to change the distribution schedule to ensure a stock outage is avoided. This requires a visible, flexible distribution process that can be modified in real time and the process status checked at any time. Facilitating this flexible and responsive environment are workplaces that provide the ability to see the various business processes that form the foundation of the store's operations. Thus, with a workplace — a role-based, multi-dashboard environment that enable users to collaborate and initiate and track actions — a manager can see if a current delivery date will result in a stock outage, look at the distribution schedule, and redirect a delivery from a store that does not have an urgent

delivery need, preventing the outage and avoiding additional distributor fees.

Another critical area of store operations is Web-based commerce. A store manager needs to pay close attention to the sales channels available through the Internet in order to effectively manage sales overall. This involves monitoring the Web commerce systems to ensure the highest level of availability and performance, since customers that experience excessive wait times when shopping on the Web tend to avoid shopping in that store in general. Monitoring the performance of the applications, servers and network associated with the commerce system provides a view on how well the Web-based customers are being served, which is critical to ensuring the Internet continues to act as a strong sales channel for the business. A business systems monitoring application allows managers to view status of all the hardware and software associated with the commerce system and provides alerts when any part of that system fails to meet minimum performance limits. This enables rapid response to any problems and maximizes the availability of the Web-based sales channels.

Throughout this scenario, the store manager has the tools necessary to optimize sales while controlling inventory costs. The business performance management solution components — analytics, information integration, workplaces, process modeling, monitoring, and systems management — provide the manager with an understanding of the current state of the market and the ability to take action to capitalize on it.

### IBM Business Performance Management

In order for a business performance management solution to be successful, the various components of the solution need to be able to work together without a hitch. Business performance management solutions may include process modeling, monitoring, information integration, analytics, business service management and workplaces. The number of components in a given solution depends on the business initiative and the approach to addressing it.

IBM Business Performance Management solutions help you align strategy, management and operations, establish accountability and focus on action so you can respond quickly and successfully to business challenges. IBM solutions are built on a common platform, facilitating the critical information sharing between systems necessary for incremental deployment. With IBM Business Performance Management, you can achieve targeted business results and be positioned for continuous innovation to improve performance over time by building an aligned, accountable and action-oriented business. ■■■■■

## A Holistic Approach to Business Performance Management

*Beth Gold-Bernstein, ebizQ's Vice President of Strategic Services, interviews IBM's Kevin McAuliffe.*

*Kevin McAuliffe, Director of Strategy and CTO for IBM Business Performance Management, explains more about IBM's Business Performance Management Solutions.*

**ebizQ:** Business performance management provides a wide range of capabilities. How are these capabilities delivered? Is business performance management a product?

**KM:** Business performance management is not a single product. Rather, it is an emerging market driven by the need for a holistic approach to managing performance. It will be realized through the confluence of several market initiatives and technologies. A comprehensive business performance management solution may consist of many components (products). These components, however, should be based on a common platform.

**ebizQ:** Do all the components of comprehensive business performance management solutions need to be implemented all at once or can it be incremental? Is it a strategic direction that must be done across the board, or can it be used in specific business units?

**KM:** All the components of a comprehensive solution need not be implemented at once; in fact, we expect incremental deployments to be common. A business needs to deploy the components that address their particular problems and needs. They can incrementally add components to provide them with additional business value. A key aspect of this incremental approach is ensuring the components are based on a common platform so you don't create islands of performance management.

Although business performance management is about aligning strategy, management and operations, deployment does not need to be top down. Frequently, a single line of business will initiate a business performance management solution, enabling that business unit to become aligned,

accountable and action-oriented. As needs drive other portions of the business to deploy business performance management solutions, the first business unit will be well positioned to align their performance and measurement to the other parts of the organization as required.

**ebizQ:** Who in the company is involved in implementing a business performance management solution?

**KM:** We see demand for business performance management solutions from both line of business (LOB) managers and from IT departments. LOB managers want to understand the performance of their portion of the business and how it aligns with the rest of the organization. The IT departments are asking about business performance management solutions because they are getting disparate requests from the LOB managers about performance information. IT departments are looking for platforms that support the various LOB requests and initiatives.

**ebizQ:** What technologies and services does IBM offer in the area of business performance management?

**KM:** Because the needs of businesses vary, IBM offers a wide range of technologies and services to help customers deploy business performance management solutions. The technologies, in aggregate, provide a platform for performance management. Specifically, we have modeling capabilities that allow customers to capture and simulate business processes using WebSphere Business Integration Modeler. These processes can be directly deployed on WebSphere Business Integration middleware. WebSphere Business Integration Monitor provides monitoring capability. Lotus Workplace provides the capability to present multiple, role-based dashboard views and to collaborate around those dashboards. Tivoli Business Systems Manager enables customers to

understand the business impact of system events and problems. DB2 Alphablox provides analytics capability. Additional value is provided by DB2 Information Integrator, which allows businesses to access data from multiple data sources, either structured or unstructured. DB2 Data Warehouse Edition enables businesses to build performance management warehouses for historical analysis of data.

IBM's Business Consulting Services (BCS) help businesses with many aspects of business performance management. They can help businesses understand their current capabilities and how they need to incrementally build upon them to become aligned, accountable and action-oriented. BCS helps businesses in areas such as process transformation, developing Balanced Scorecards, identifying key performance indicators that are critical to their success and enabling breakthroughs in performance optimization.

Lastly, IBM has an extensive partner network to enhance business performance solutions so they address business needs.

**ebizQ:** Where should a company start in implementing a business performance management solution?

**KM:** Businesses should implement business performance management solutions in areas where they require visibility into and better control over their performance so they can become more responsive to changes in their business environment. This might be for the purpose of cost reduction, compliance, improved customer service or managing growth initiatives. The key to successful growth is tracking initiatives carefully. If business metrics are not being met, the business can quickly adjust or even terminate the initiative. **ebizQ**