

# IT zone

## Feature

### Case study: How Baldor keeps control of business drivers. By John Stokdyk



As the European controller for US-based industrial motor manufacturer Baldor, James Craner (left) has financial responsibility not just for the UK, but also for other countries including Switzerland, Germany and India. Over the past 2-3 years, he has overseen a significant change in the company's financial planning and performance management systems. Baldor is a dynamic business serving sectors ranging from food processing to pharmaceuticals, mining and automotive. Industrial drives and motors are the main business line of the European division, but it also sells motion control technology that works with those motors.

Baldor's management culture is highly devolved. The US corporate office sets targets world-wide and gives regional managers plenty of autonomy about how they reach those goals.

While SAP's R/3 suite is used as the company's central account ledger system, the SAP planning, budgeting and analysis tools did not fit Craner's criteria for a collaborative planning environment.

"We were keen to create an open, collaborative process," says Craner. "The best people to ask are the sales people who are responsible for individual accounts. We wanted to grab information at source rather than having a group of managers gathering together and estimating sales and working out what the key drivers were going to be."

Getting sales people to input their forecasts every month, you can use that as a dynamic tool to management business, to set up 'what-if scenarios' and explore the impact of different management options, he adds.

"The reason annual budgets break down so quickly - on average they go off course within five months - is because the assumptions change. As you move throughout the year markets, inflation, exchange rates all change. The business needs to be responsive and if you've got a rolling forecast, you can put in the latest view."

#### The rolling forecast solution

After reviewing the options, Baldor UK enlisted Inca Software <[http://www.accountingweb.co.uk/presszone/inca\\_pz.html](http://www.accountingweb.co.uk/presszone/inca_pz.html)> to help implement a Cognos Planning system to support a Europe-wide rolling forecast system. The suite includes three elements: Cognos Analyst is the model building tool that underpins the whole structure, while Contributor is a web-based application that allows people from the different regional offices to submit their estimates to the central forecasting model. Both these tools include some reporting functions, but Baldor also gives its managers Cognos PowerPlay, a browser-based reporting client that lets them access historical data from the SAP system and carry out their analyses.

Although templates were provided, Craner built Baldor's European sales model from scratch with the Cognos Analyst toolkit. "I'm a great believer in the 80:20 rule," he says. "If each sales person focused on the top 10 customers in their region by total sales, that would represent 80% of the total sales they're responsible for. So the sales model focuses on the top 10 customers. All the other customers are rolled up either into "others", or a "new business" category.

The company's 19 sales people typically spend 35-40mins each month updating their sales forecasts. The data is taken from SAP and presented to them in Contributor, where they can adjust their sales and margin predictions for their top ten clients, and by product group.

"The plan is in there and they can put in little 'delta' changes. When we need to produce an annual plan for our corporate office in the States, what we do is take a 12-month snapshot from where we are," says Craner.

"Dictates from the top used to alienate people from budgeting. Because ours is a contributing process, people buy into the whole financial planning process."

At the end of each month, Craner spends half a day pulling the sales data and P&L expense summaries from SAP into the

rolling forecast. The SAP system outputs text file reports that he sucks into Cognos with a macro that sets off a half-hour conversion procedure. "As it pulls the numbers in, it has to carry out a number of calculations, for example to recalculate sales drivers and interest costs."

By the sixth day of the new month, the finance team will update the financial projection in the Analyst model for review with sales and other key managers. By day eight, all information is loaded into PowerPlay, and made available so that line managers can drill into the predictions.

The rolling forecast allows Baldor to compare the forecasts against two benchmarks - what was spent in the previous year and how much the managers said they needed to spend against the plan, Craner explains.

A couple of times a year, Craner will go in to adjust the underlying model in Cognos Analyst - half yearly to extend the timeline, and on other occasions when he needs to tinker with underlying drivers. "One of the benefits of the rolling approach is you can start to see where your forecasts aren't being realised in the actual results coming through. If the duty rate turns out to be wrong, I can go back in and adjust it," he says.

### **What kind of analyses it allows**

Craner is particularly proud of his sales model. It works very well because it was set up to focus on key customers as well as key product groups and profit margins. "Freight, duty, and any cost that can be directly linked to sales, and all the drivers are in there. It's a great analysis tool, because it enables UK sales managers to look at and understand what's happening in the business," he explains.

The ability to see what's happening to sales is a vital planning aid, because it provides a starting point for senior managers to discuss new options, for example if sales are on the rise to identify areas for more investment, or if the market is contracting, to decide where they can cut back without affecting the long term business.

The fourth quarter of 2005 provides a typical example of this process in action. "We were very reliant on a few key customers, and as their business tailed off, we realised it would have a significant impact - we needed to save £100,000. Five days with the rolling forecast helped us identify exactly how to save money." Almost as an aside, the forecast model was revised and updated by the time they finished the cost-cutting exercise.

Craner is also able to use the system for profitability analysis. "By comparing our Quarter 1 performance with the prior year, I can see a changing product mix having a negative effect on the overall sales margin, and I can identify which customers were driving this," he says. "It lets us see where adjustments need to be made, or to put more focus on certain product groups."

Baldor UK also sells products to US parent and as the dollar weakened against the pound in 2006, he used the rolling forecast to look at the effects on the subsidiary's performance. "That analysis went to the US with a request to revise the exchange rate, which will bring 3-4% back into the European pot."

For both sales and margin analysis, Craner has created a number of standard reports that managers can go into to measure their performance on sales and against spending. "With PowerPlay, they have a directory set up on the web with standard reports. They can't change those, but they can take a report and make changes, for example to change the time or to alter the focus, and save it into their own 'newsbox' where they can call it up and run it at any time."

Using PowerPlay, sales managers can look at their customers using data pulled in from SAP. "If they see that margins are going off line, they can keep drilling down into historical information from all the way down to the invoice level and dump it into Excel for further analysis," he says.

The level of PowerPlay use varies across the organisation, but the Swiss office manager has a large collection of reports which he uses to create analyses and investigations for his reporting pack to the US head office.

That's another benefit Craner has identified. "We used to have a pretty large paper accounting pack that went out to managers every month. We've trimmed that down to summary packs and all information managers need to run their areas is all online using a friendly web interface," he says.

### **Impact on the organisation**

Craner maintains that Cognos Planning has had more of a short- and medium-term impact than on the strategic level, for

example in controlling spending better and providing visibility on what it needs to keep in stock.

But for a company with a \$34m turnover in Europe in 2006, being able to reduce its stock levels by \$4.2 million since 2004 is not a bad medium-turn return.

Alongside the planning overhaul, Baldor implemented a lean manufacturing initiative to optimise its stock management. "Much better sales information lets us do some analysis to spot lines that aren't moving more quickly and to convert them to lines that are," explains Craner.

"That has also worked with an initiative to reduce our manufacturing lead times to optimise stock. The success we've had optimising business has allowed us to reduce borrowing from our parent by \$4.9m since 2004".

The business strategy has not changed greatly in that time, he says. But Baldor's recent acquisition of Rockwell Automation's power systems division, manufacturer of Reliance motors and Dodge transmission products, is likely to put the system to a new test.

"There will need to be some integration, so we will probably look at how to change the model this year," says Craner.