



PROFITABILITY ANALYTICS
CENTER OF EXCELLENCE

eBook

**Your Roadmap to
Action: Implementing
the Profitability
Analytics Framework
for Enhanced Internal
Decision Support**

Sponsored by



 www.profitability-analytics.org

PREFACE

In today's rapidly evolving business landscape, your ability to make timely, informed decisions is the key to survival and prosperity. To accomplish this, you must harness the power of an effective internal decision support system based on an approach such as the Profitability Analytics Framework (PA Framework). The PA Framework is not just another method; it's a practical guide and set of requirements designed to drive favorable outcomes from various methods and techniques.

To be effective, implementation of the PA Framework requires that appropriate organizational conditions exist regarding its leadership, financial skill sets, and IT infrastructure. An effective change management process must be put in place to ensure that an organization can effectively design, implement, utilize, and sustain deployment of the PA Framework.

"Success requires more than concepts and methods; it demands a framework for action and the right tools to make it happen. This eBook, provided by PACE, offers a well-detailed guide to pave a successful path for your organization."

André Sanseverino, VP of Operations, MyABCM



KEY COMPONENTS

Let's look at the PA Framework 's key components and how you can implement them to bolster internal decision support within your organization.

I. Effective Strategic Planning Process

A dynamic strategic planning process forms the bedrock of effective decision support. The PA Framework emphasizes the importance of you aligning your financial and operational strategies. Act now by creating a structured, collaborative approach to strategic planning. Engage stakeholders from diverse departments to establish clear, measurable, and mission-aligned objectives that drive your organization forward.

II. Charting Your Course: Your Operational Model

To make informed decisions, you must gain a comprehensive understanding of your internal resources and processes. Act by developing your operational model that maps resource allocation and process flow. This model becomes your visual guide, pinpointing opportunities for optimization, resource allocation, and cost reduction, guiding you toward data-backed decisions.

"When measuring and understanding your customers' efforts, expect surprises: many customers that you think aren't demanding are, in fact, very demanding, and the opposite is true. Therefore, it is crucial to somehow quantify this behavior."

Rodolpho Ramirez, Global Head of Marketing, MyABCM



KEY COMPONENTS (CONT.)

III. Cause and Effect: Financial Models in Action

The PA Framework requires causal financial models that link financial metrics to operational activities. Put these models into action, revealing how your operations directly influence your bottom line. Identify which actions drive revenue, incur costs, or impact customer behavior, empowering you to make proactive, data-driven choices that boost profitability.

IV. Know Your Customers

Understanding your customers is non-negotiable. The PA Framework requires that you gather important customer data such as demographics, buying patterns, and behavior. Act by collecting and analyzing this information. Armed with these insights, you can customize your strategies to attract and retain high-value customers and optimize your marketing and sales efforts.

V. Strategic Investments: Capital and Beyond

Investment planning is a cornerstone of your success. While traditional capital investments are familiar, the PA Framework challenges you to consider intangible, non-capital investments in capabilities. Act decisively by embracing a holistic investment planning approach that equips you to adapt and thrive amidst industry shifts.

KEY COMPONENTS (CONT.)

VI. Data for All: Empowering Every Employee

Effective internal decision support shouldn't be the exclusive domain of finance and top-level management. The PA Framework encourages you to spread information and insights across all levels of your organization. Empower your employees by democratizing data, enabling them to make informed decisions within their roles. Real-time access to pertinent information ensures timely, strategic alignment at all levels.

The PA Framework offers you a proactive approach to internal decision support. By implementing its components—dynamic strategic planning, operational modeling, causal financial models, customer insights, comprehensive investment planning, and widespread data utilization—you not only enhance decision-making but also bolster your organization's resilience and agility in an ever-changing business landscape. The PA Framework is your action plan for thriving in the competitive world of business, allowing you to respond quickly to challenges and seize opportunities. It's time to put these principles into practice and drive your organization toward success.

"In our nearly 30-year history as a company focused on cost and profitability, I have never encountered a situation where a project succeeds without a well-crafted communication plan - it is absolutely essential! It's worth noting that this project is not solely for the Finance department, but rather a company-wide initiative with immense potential benefits."

André Sanseverino, VP of Operations, MyABCM

IMPLEMENTATION

A typical implementation of the PA Framework consists of three phases, as shown in the following figure, and described below.

Domain	Foundational/ Diagnostic*	Build / Prescriptive**	Implement***
Leadership	<ul style="list-style-type: none"> - Identify initiative champion - Identify change management fundamentals - Raise awareness/ understanding of need for an Internal decision support perspective 	<ul style="list-style-type: none"> - Develop necessary project leaders' skills - Formulate performance incentives consistent with an internal decision support perspective 	<ul style="list-style-type: none"> - Enhance cross-functional collaboration - Indoctrinate and educate stakeholder
Benefits	<ul style="list-style-type: none"> - Identify key "pain points" - Develop business case for better performance management system 	<ul style="list-style-type: none"> - Develop detailed business case - Identify new KPIs and improvement potential - Improve communications across functions 	<ul style="list-style-type: none"> - Measure benefits achieved - Generate greater business insight about improvement possibilities - Improve (more efficient, less contentious) cross-functional decision-making

* What assets do you have? What do you need to work on?

** Enhance capabilities based on initial assessment

*** Deployment of capabilities

IMPLEMENTATION (CONT.)

Domain	Foundational/ Diagnostic*	Build / Prescriptive**	Implement***
Organization	<ul style="list-style-type: none"> - Assess and create new vision role of finance in the organization - Define finance's role as value creator and coordinator 	<ul style="list-style-type: none"> - Develop finance's road map for evolving to serving as business partners - Design new uses for improved financial information across the organization 	<ul style="list-style-type: none"> - Assess perception of finance's role; identify & implement improvement opportunities - Assess improvements in use of financial and nonfinancial information across organization
IT Infrastructure	<ul style="list-style-type: none"> - Assess capability of costing, revenue, planning/budgeting, and operational systems - Assess data availability and quality (operational, customer, product, etc.) - Assess integration potential across systems 	<ul style="list-style-type: none"> -Formulate information and data design requirements for PA Framework implementation -Formulate design requirements for operational and financial models - Investigate, evaluate, and select necessary software 	<ul style="list-style-type: none"> - Link data sources to increase system sustainability and efficiency - Automate data transfers (APIs) - Implement modeling software
Skills	<ul style="list-style-type: none"> - Internal decision-making perspective of financial information - Assess and develop as needed soft skills related to business partnering – storytelling, facilitation, process improvement, listening to customer needs. 	<ul style="list-style-type: none"> -Implement finance focus on business partnering -Develop causal operational model -Develop causal managerial costing model -Identify frequent and key business decisions across the organization for modeling 	<ul style="list-style-type: none"> - Refine business partnering skills - Develop finance customer service oriented

IMPLEMENTATION (CONT.)

Domain	Foundational/ Diagnostic*	Build / Prescriptive**	Implement***
Managerial costing	<ul style="list-style-type: none"> - Develop an understanding of the difference between financial accounting and managerial costing - Develop an understanding of the causality principle 	- Socialization of principles of managerial costing and managerial costing concepts	<ul style="list-style-type: none"> - Deploy managerial costing model - Promote and support wide use of cost information across organization
Revenue management (RM)	<ul style="list-style-type: none"> - Identify existing RM practices - Socialize the four levers of RM 	- Identification of customer profitability management system requirements (see CPM system implementation chapter)	- Deploy CPM systems (see CPM system implementation chapter)
Investment management	- Assess and identify the organization's assets/resources (both tangible and intangible)	- Socialization of concepts on measuring and modeling economic value of assets and their decision-relevance	- Improve use of assets' economic value in decision making

"Management buy-in is the very first requirement for a good implementation!"

Rodolpho Ramirez, Global Head of Marketing, MyABCM

PHASE 1 – FOUNDATIONAL / DIAGNOSTIC

During this phase, background information is collected, preliminary project planning takes place (including identification of staff resources needed/available), staff are informed and educated on the project. Organizational leadership, and the project champion in particular, should be fully briefed and the Champion engaged to promote and explain the initiative with senior leadership and across the organization.

A diagnostic performance assessment should be conducted during this phase to identify the issues of greatest concern to management. The process begins with a preliminary questionnaire or interviews to multiple parties within the organization identifying needs, perceptions, and limitations of the organization's performance management system – revenue, costs, operations, investment/asset management (tangible and intangible), talent, environmental, etc. Input should also be obtained from multiple areas within the company including finance, executive, marketing, sales, operations, IT, etc.

An important outcome is identifying decisions that the organization periodically makes. These can be major decisions associated with strategic planning and goal setting, and more minor but frequent decisions made deeper in the organization that impact profitability. Additionally, relevant systems, access to information across the organization, reports, and other documentation should be reviewed.

During this phase, initial training is conducted regarding the goals of PA Framework implementation, its principles, and expected outcomes. Focusing on how decisions will be improved by new information and new ways of thinking is the real target. Potential changes to performance metrics and the new information needed to support those metrics should also be identified.

It is likely that the various components of the PA Framework will be implemented separately or at different times. An organization may, for example, have issues related to an inadequate costing system and may initially focus on improvements there. While acceptable as an implementation approach, an organization's goal should be to realize the greatest benefit from implementation of the PA Framework by implementing decision-making processes that holistically considering all the elements that contribute to its profitability.

"I like the idea of associating corporate data with a big bag of Lego bricks: the bricks are there - we simply need to assemble the objects in a method and a process that makes sense for this objective. The same applies to organizations - I have never found a company without data, the data is there, you just have to select which of them are appropriate and combine them in a cost and profit model that makes sense!"

André Sanseverino, VP of Operations, MyABCM

PHASE 2 – PRESCRIPTIVE

In this phase, the process of implementation of the PA Framework begins. A comprehensive review of your organization's resources (human, physical, and intangible), its performance management systems (including its costing, revenue, and investment/asset systems), its IT infrastructure, and its leadership capabilities is conducted. Also identified are your company's operating processes, service functions, market, product and customer support activities, staff and management activities, and outside services required for the operation of the business. Additional data is collected as needed, using structural data gathering, consisting of one-on-one interviews with key management personnel.

Based on this review, necessary human capabilities are developed or enhanced with appropriate training to prepare your organization for implementation of the Framework. This could include, for example, a 75 to 90-minute seminar on managerial cost modeling techniques and concepts. This session is designed for those individuals identified as "key players" in the organization's decision-making processes as well as any other employees that would benefit from an education in activity-based concepts.

The conceptual design of the PA Framework models will also be developed. This consists of construction of the outline of models (its "conceptual design") that will provide decision-makers within the organization the information needed for decision-making.

Mid-Project Conceptual Design Review: The recommendations developed in the prior step are presented to management at a session where errors in fact can be cleared up, alternative solutions discussed, potential implementation problems identified, practical considerations presented and adjustments to the outline developed.

The most important goal is to ensure clarity of the operational model of the organization. This can include everything from administration, support, marketing, sales, logistics, and direct value creating operations. Development of the cost accumulation and distribution model, revenue model, Investment model, and other related models that produce financial information must clearly reflect causal operating realities. These models will be developed using software selected by your company, perhaps based on a consultant's recommendation.

"We have efficiently applied Gary Cokins' Rapid Prototyping approach to companies in more than 50 countries; although many people might think that implementing a pilot project could take many months, this approach allows us to create a prototype in just 2 days - and then we make adjustments in iterative waves to increase the complexity of the model, allowing us to make mistakes earlier in the process rather than when things are difficult to fix."

Rodolpho Ramirez, Global Head of Marketing, MyABCM

PHASE 3 – IMPLEMENTATION

During phase 3, implementation of the PA Framework takes place within your organization. Steps include:

Model Data Design and Gathering: The models are populated with live data gathered by company personnel to test their effectiveness.

Management Review of Model Results: Upon completion of the model, its results are presented to management where questions can be answered regarding the model's design or results. Final changes to the model are made as needed.

Additional management education focused on making decisions and plans using the models and information is conducted as needed. Practical scenarios supported by committed and knowledgeable organizational personnel are useful in convincing senior management of organizational commitment.

Documentation: A documentation package should be prepared describing the models' structures.



KEY IDEAS

- When implementing the PA Framework, an effective change management process must be put in place to ensure that your organization can effectively design, implement, utilize, and sustain deployment of the Framework.
- Having an effective, cross-functional strategic planning process is essential.
- A typical implementation of the PA Framework consists of three phases: foundational/diagnostic, build/prescriptive, and implement.



OUR SPONSOR



14

Fast, reliable, easy to deploy



Discover the power of precise cost allocation and profitability management with **MyABCm**.

Our cutting-edge software solutions can help your business optimize resources, increase efficiency, and boost your bottom line.

Say goodbye to guesswork and hello to data-driven success!



Talk to an expert and book a demo right now!

PA Framework

Implement Quickly and
Confidently with
MyABCm

Watch a video



1 min. video about MyABCm

Consultant?

Learn more
about our

Partner Program



www.myabcm.com

Now that you know more about implementing the PA Framework for enhanced internal decision support, we invite you to explore the PACE Library for podcasts, webcasts, case studies, and articles.

Contact us: Info@Profitability-Analytics.org
Website: profitability-analytics.org

©2023, 2024 Profitability Analytics Center of Excellence. All Rights Reserved. Permission to quote, reproduce, and disseminate granted provided appropriate attribution is given.

profitability-analytics.org