



Redefining the Tools of Engagement

*Integrated Business Planning:
From Tipping Point to Turning Point*



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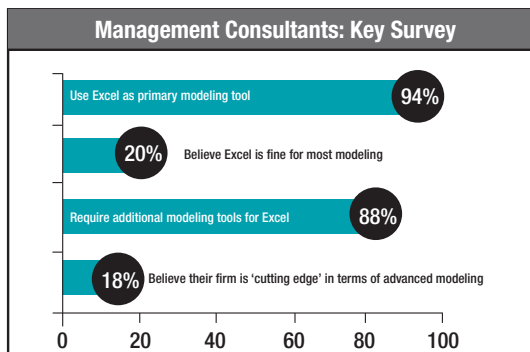
In the consultant's world the name of the game is engagement. Or to be more specific, client engagement. It's a simple formula, one that is typical of any service related organization. Provide a solution – Get business. Provide more solutions – get more business. And once engaged it's up to the consultant to penetrate the client organization by providing a wider and deeper range of services. If the consultant stays on his or her 'A Game,' competition is held at bay and the client-partner relationship grows.

But new demands, as well as new tools, are altering specific engagements and the client-partner relationship. Client engagements have lessened. Not only have engagements decreased in longevity, the client's expectations have increased.

In addition to the-more-for-less demands, clients want solutions faster. In other words, consultants now operate in a more-for-less-now mode. This means consultants must redefine their tools of engagement or risk the potential of losing their foothold to other consulting firms or to internal resources.

The stakes are high

What happens when the client-partner honeymoon is over? What happens when a firm or consultant falls behind because it failed to adopt new tools and methodologies? Or when a firm gets surprised by the non-traditional channel that emerged sooner rather than later. What happens when the long-standing engagement gets preempted by the



new boutique 'spin-off' that offers greater value? Existing clients provide stability and, depending on their levels of satisfaction, often serve as brand ambassadors for the respective firm. But make no mistake. When the stakes are high, and clients feel they can get 'better-faster-cheaper' elsewhere, they will. Like the saying goes, "If you want loyalty, buy a dog."

The game has changed

The consultant market is being forced to redefine itself due to commoditized, low-end services. Commoditization, which typically requires firms to compete on price as opposed to differentiation, is occurring at unprecedented rates. This shift in competitive positioning is requiring companies to redefine their service mix as well as their tools of engagement.

New competitors are emerging in the professional services space. These new-comers see a path-to-market paved with superior service and greater agility, and of course, reduced costs. These emerging firms, primarily from

Asia and offshoots from established consulting shops, are proving their ability to differentiate themselves by rapidly securing market share. And some tier-one consulting firms are losing relationships and knowledge to these nimble boutiques and specialized solution providers.

Key issues requiring new tools of engagement

- Globalization
- New technologies
- Faster decision cycles (strategic and operational)
- Client-based 'Intelligence Systems' for data accumulation, monitoring and analyzing
- Clients require modeling solutions and planning technologies fit within their existing BI framework

Many firms have attempted to address these evolving dynamics through enhanced hiring practices. But hiring smarter people is not the end game. All consulting firms recruit from the same candidate pool, whether that pool resides in China, India, stateside or elsewhere. What is significant about managing human capital is employee development and retention. Retention of expertise is yet another challenge that must be addressed. With annual turnover in the 20% range, firms must incorporate best practices and new tools that provide for the efficient transference of knowledge, insights and relationships.

New tools of engagement

Every consultant faces a plethora of challenges, but challenge is their forte. It's their reason for being – To assist his or her client in navigating the challenges, obstacles and barriers that restrict growth and dilute financial performance. But the manner in which consultants deliver their strategic services and insights is changing. Better yet... evolving.

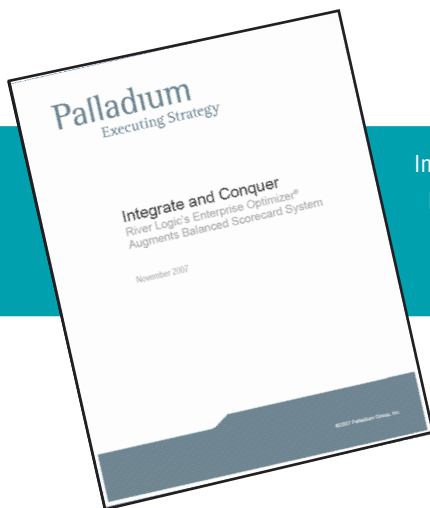
Integrated Business Planning

While the industry is ripe with challenge, the lowest hanging fruit for consultants is business modeling. Not the linear, spreadsheet-based modeling that is commonplace today; rather intelligent, integrated, enterprise-wide business modeling.

The keywords are integrated and enterprise-wide. Business, regardless of industry, operates as a whole. Like a well-orchestrated symphony, the successful business operates as a collective. A cohesive unit. A team. So if businesses operate as integrated entities, shouldn't the planning process incorporate a similar, unified view?

Drs. Robert S. Kaplan and David P. Norton, creators of the Balanced Scorecard approach to management, stated, "Financially-based management systems fail to link change programs and resource allocation to long-term strategic priorities."¹

"The problem is that most organizations have separate procedures and organizational units for strategic planning and for resource allocation and budgeting."¹



In a recent paper by the Palladium Group, the need for enterprise-wide modeling was addressed by stating, "Today's business environment is too volatile and complex for historical, driver-based budgeting. This means that financials, sales and resources should all be outputs from the same holistic model and should be generated simultaneously."²

Note: *Integrate and Conquer* is available for free downloading at www.riverlogic.com

¹ Drs. Kaplan, Robert S., David P. Norton, "Using the Balanced Scorecard as a Strategic Management System." Harvard Business Review July-Aug 2007: 150-161

² "Integrate and Conquer: River Logic's Enterprise Optimizer Augments Balanced Scorecard System." The Palladium Group. 2007

The Tipping Point

In the best-selling book, *The Tipping Point*, author Malcolm Gladwell defines the tipping point as that one dramatic moment in an epidemic when everything can change all at once.

The tipping point, a product of geometric progression, is currently taking place in terms of integrated business planning.

During times of rapid change disconnects routinely emerge between what is believed versus what's actually taking place. For example, in a recent independent survey of consultants, the results revealed somewhat conflicting beliefs and attitudes, particularly in the areas of advanced modeling and analytics.

8 out of 10 consultants surveyed believe their current approach to modeling is suboptimal.

About the Consultant Survey

Fly Research surveyed more than 100 consultants using personal interviews and online questionnaires. The survey sample represented respondents from multiple disciplines including general business strategy and transformation, finance, manufacturing, supply chain, high-tech, telecom, energy and healthcare.

Key segmentation of participating consultants

- 70% have more than 6 years experience
- 50% work in firms with more than 100 employees
- 30% work in firms with more than 1000 employees

Fly Research works with many of the world's most recognized companies and maintains an international, multi-industry, panel base comprised of more than 250,000 participants.

For example, 94% of the respondents use electronic spreadsheets as their primary modeling instrument.

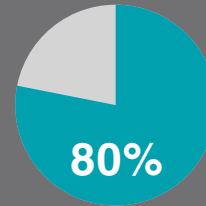
However, less than 20% felt Excel was sufficient for their complex and dynamic models. In other words, 8 out of 10 consultants believe their current approach to modeling and performance optimization to be suboptimal.

A related disconnect surfaced between modeling capabilities and earnings potential. While 81% of the sample said their firms would generate more revenue using enterprise-wide modeling, only 18% believe their firm to be on the cutting edge of modeling technology.

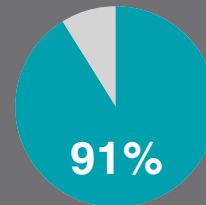
As illustrated on the right, the disconnects between spreadsheet modeling and actual client deliverables were even greater when segmented by engagement type or project.

Excel is not adequate for creating complex and dynamic business models

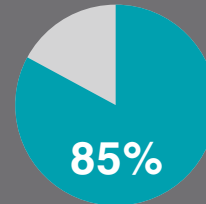
Total Study



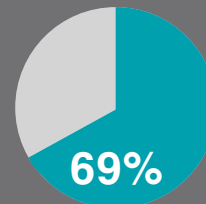
Supply Chain Optimization



Business Transformation



Mergers & Acquisitions



Respondents also cited other areas in which spreadsheet-based modeling was suboptimal.

These projects included operations performance improvement, segmentation modeling and optimization, auditing, financial planning, transfer pricing and reporting, compliance (including Sox and SAS 70) and software implementation.

3 Gladwell, Malcolm. *The Tipping Point*. Little, Brown and Company, 2000.

Turning Point

The independent survey delivered significant insights and attitudinal disconnects; however, questions pertaining to the expectations of their constituents produced remarkably consistent results. This gives credence to the fact that business planning and advanced modeling is migrating from Tipping Point to Turning Point. For example:

- 9 out of 10 respondents agree their clients need better insights than in previous years
- 7 out of 10 respondents agree their clients want, and expect, faster modeling
- 6 out of 10 respondents identified the need to provide clients with delivery tools as part of their recommendations package

So like any good recovery or prevention program, the first step is seeing or acknowledging the problem. And according to the survey data, the professional services industry has indeed recognized a core issue, problem, or disconnect.

Critical issues

Business has changed dramatically; specifically in the areas of speed and complexity.

Everyone agrees that client demand continues to increase while the acceptable timeframe to satisfy these demands continues to decrease. Competition is also changing and the consulting behemoths are just as susceptible to these challenges as the boutique firms; maybe even more so.

Call to action

This is not necessarily gloom and doom for consultants. In fact, it's just the opposite – A chance to grow. To transform. To evolve. To set the stage for the decade ahead by embracing new tools that quickly deliver actionable and quantifiable solutions on behalf of the end client.

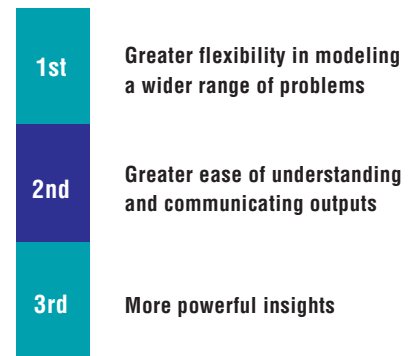
This in turn, results in effective differentiation within the marketplace.

According to survey results the consulting community already knows what to do – They know what is needed in order to improve their existing modeling and analytical capabilities.

As expected, the needs are consistent with the previously mentioned disconnects. This validates the industry's understanding [opinion] of its current position.

Participating consultants clearly and consistently identified the three most important needs for transforming their current approach to modeling (see figure below).

Modeling Improvements (By Rank of Priority)



Results based on independent survey.

Excel is a registered trademark of the Microsoft Corporation.

The one-two punch

The consultant community fully understands the challenges it faces. In reality, these challenges mirror the ebbs and flows of any free enterprise system – A system built on value and competitive positioning. But knowing “what to do” and “how to do it” are independent events. Intellectually, business leaders and consultants understand the value of enterprise-wide practices and applications. They know planning and optimization can no longer be myopic exercises that fail to communicate the enterprise-wide financial and operational impacts of potential actions or plans. Additionally, consultants must perpetuate value to drive client penetration through deeper, more meaningful, insights. Ultimately, delivering knock-out insights will improve client retention while increasing the number of engagements, and of course, high-value, billable days.

Enterprise-wide modeling

River Logic's Enterprise Optimizer®, an integrated planning and advanced modeling platform, has become the consultant's greatest ally. Enterprise Optimizer (EO) enables consultants to provide superior solutions in less time. Combining the power of EO and the client's collective, end-to-end processes and interdependent relationships, with the consultant's unique market perspectives and knowledge, facilitate greater insight and understanding. This translates directly into enhanced execution, which in turn improves impact.

Insight-solve-insight

Even the simplest problems require some level of insight in order to be solved effectively and efficiently. Armed with the proper understanding of a company's situation and key profit drivers, consultants can begin solving problems. However, most problems are viewed as single-point events, meaning one problem, maybe two, get resolved and the engagement ends.

Consultants utilizing Enterprise Optimizer as their primary modeling platform have experienced what River Logic calls its Insight-Solve-Insight (ISI) cycle. The ISI cycle (pronounced 'I See') drives account penetration. ISI delivers progressive solutions, meaning insight leads to understanding, which leads to more insights and more understanding, and so on.

Enterprise Optimizer, with its holistic capabilities, it is the only solution that bridges operations, constraints and financials at the strategic, tactical and operational levels.

Consultants using this preferred tool of engagement blend their client's data and their own personal domain expertise with Enterprise Optimizer's proprietary knowledge and translator engine to generate advanced, dynamic mathematical representations.

Enterprise Optimizer helps consultants deliver ongoing, higher-valued solutions that keep the client engaged.

The combination of data, domain expertise and processing power enables the consultant to model both operations and financials simultaneously. This means for every 'solve' Enterprise Optimizer generates a series of operational and KPI ratios, as well as comprehensive financial reports, and intelligent sensitivities.

Enterprise Optimizer's 'super-modeling' capabilities deliver more insights enabling consultants to address a wider range of problems, while enhancing the end client's quality and speed of decision making. Additionally, these decisions account for the enterprise's interconnected operations and financial drivers, including:

- Risk
- Net Present Value
- Economic Profit
- ROI / ROIC

Fully engaged

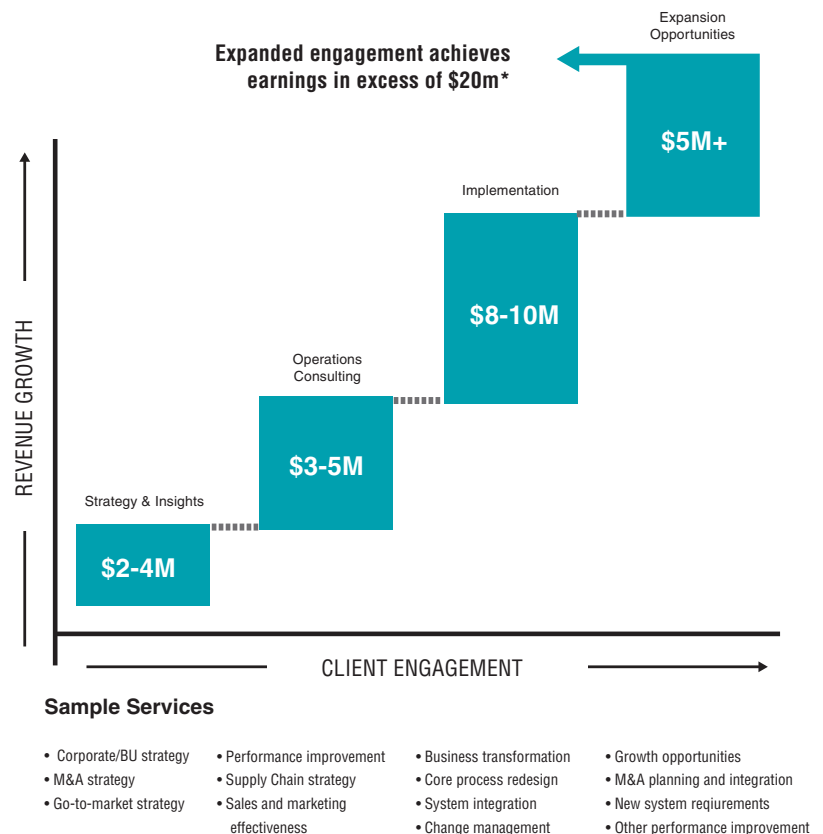
River Logic's Enterprise Optimizer delivers integrated and optimized scenarios enabling consultants to:

- Achieve greater flexibility in modeling a broader range of problems
- Easily communicate results and corresponding outputs
- Use more powerful insights to drill deeper into the client's organization

The graph below illustrates how Enterprise Optimizer helps consultants to increase revenues by providing a wider range of services and deeper, higher-valued, insights. And because Enterprise Optimizer can be deployed in steps, or modularly, consultants can use the EO system to solve immediate concerns, while simultaneously developing medium and long-term strategies.

This strengthens the client-consultant relationship, which ultimately leads to deeper account penetration.

Solving a wider range of problems drives client engagement and consulting revenues



* Based on \$5B enterprise and expanded three-year engagement

Consulting firms, regardless of size or discipline, will undoubtedly use their integrated business planning expertise to expand their client base and penetration levels. And companies using Enterprise Optimizer to deliver more, higher impact solutions in less time will increase their retention rates while commanding higher fees.

In the final analysis, Enterprise Optimizer successfully combines holistic, enterprise-wide, modeling with financial performance; then connects these outcomes directly to client strategy and operations, and increases impact. This empowers consultants to solve a broader range of problems, thereby redefining and strengthening their engagements.

Enterprise Optimizer

Redefining the tools of engagement by:

- Delivering the most flexible modeling solution
- Enabling consultants to address a wider range of problems
- Generating greater insights that link recommendations to operational and financial impacts
- Providing deeper account penetration and longer engagements



ENTERPRISE OPTIMIZER®

Gartner

– Tim Payne
Research Director



– Colin Snow
Research VP



– Greg Ascolese
Principal

Integrated Business Planning (IBP) will enable companies to model and align business strategies, ensuring significantly improved supply chain and business performance.

Hype Cycle for Business Intelligence and Performance Management, 2007

Current business performance management software cannot deal with performance trade-offs as most products focus on solving only one or two problems myopically...In contrast, EO delivers the kind of enterprise-wide integrated decision-making capabilities that have been talked about for years.

JUNE 2007 | Article ID: M07-34

ERP and SCM are like a car: they make your business work; BI [Business Intelligence] systems are the car's dashboards: they tell you how the car is doing; EO is the GPS: it helps you find you destination and get there most efficiently.

NOVEMBER 2007 | Personal Interview



ENTERPRISE OPTIMIZER®

Enterprise Optimizer Platform Overview

Enterprise Optimizer's 'super model' helps consultants to:

- Enhance decision making
- Improve organizational alignment
- Maximize IT investments

At a more granular level, EO provides unique insights through:

- Answers to "what-if" questions
- Simulation
- Optimization
- Intelligent sensitivity analysis
- Modeling infeasibilities
- Identifying unique performance driver relationships

EO's powerful translator engine, visual modeling and templates/rules enable users to quickly change the model without the need for labor-intensive formula management. EO's ease of use delivers faster modeling solutions, which accelerates the insight-solve-insight (ISI) cycle.

EO Solution Overview

Enterprise Optimizer is comprised of 6 key components. As summarized below, the EO solution platform begins with domain expertise provided by the consultant and/or client.

Users interact with EO via the system interface, which includes graphic model representation, dashboards, scenario management, queries and reporting.

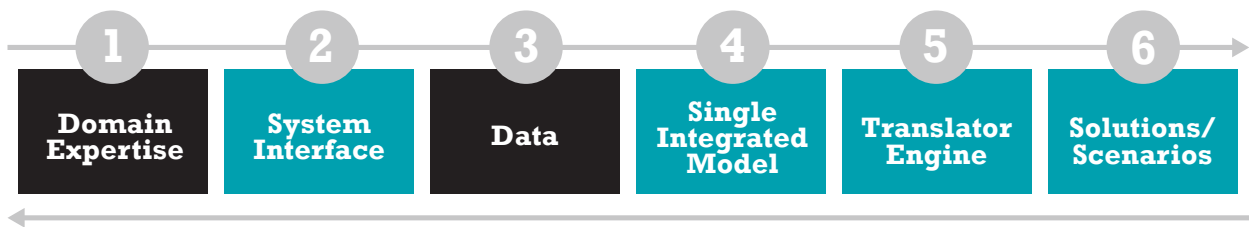
Data is input to, and output from, the system. Data may be processed automatically or manually.

Next, EO considers all relevant factors needed for integrated planning and optimization. EO simultaneously models financials, market dynamics, and operational variables in a single, unified representation.

The integrated model is then processed by the translator engine, which applies advanced mathematics and critical business rules against the model.

Using these advanced formulas, which were developed by scientist formerly with the Russian Academy of Sciences, EO generates a number of 'solves' including mixed integer optimization, scenario simulation and advanced algebraic solution matrices.

The results of the mathematical 'solves' are then returned through the system to automatically update the models, scenarios and related data.



Enterprise Optimizer Platform Detail

1 Domain expertise

Executives, managers and/or consultants provide the pertinent domain expertise to define the planning cycle and model structure, as well as the appropriate problem criteria or objectives.

2 System interface

The system interface, which is available locally as a PC application or accessible via web services, is how users interact with EO. System interface components include:

Graphic model interface

Users build EO models via intuitive 'drag and drop' icons and pre-defined tables. The system simplifies model assembly by using eight icons to represent processes, markets and financial activities.

Dashboards

Users can also interact with EO via easy-to-use Visual Basic and native EO dashboards.

Scenario management

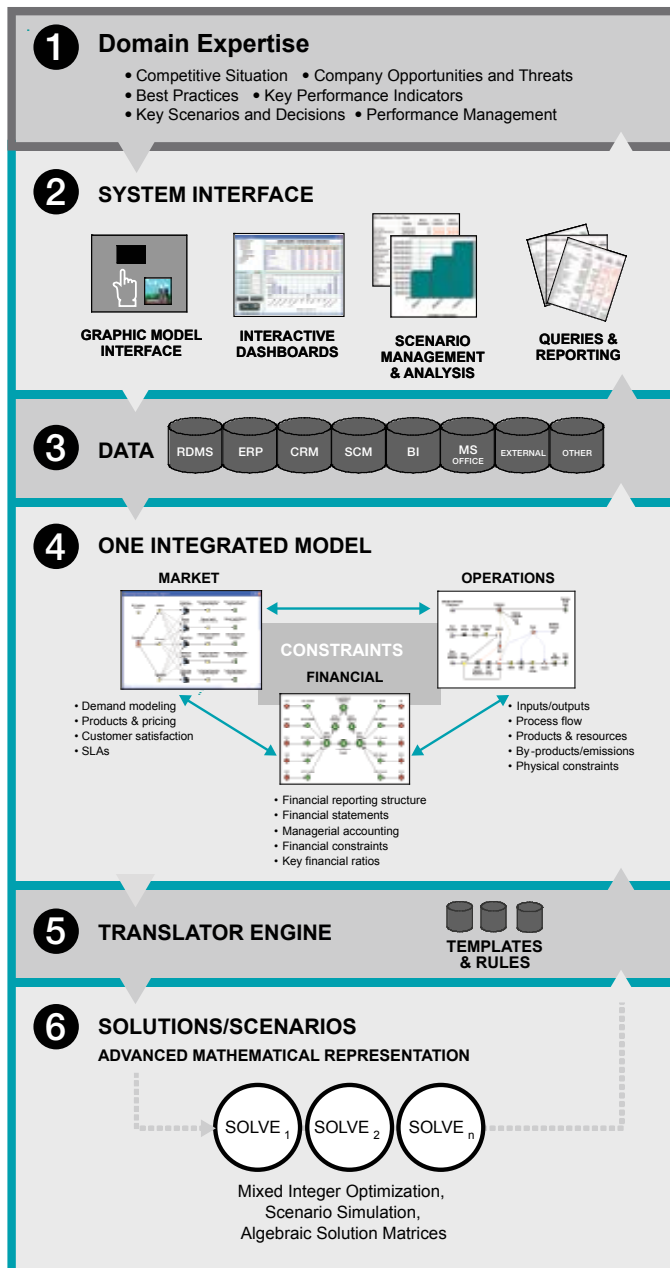
EO provides users with efficient management of hundreds of scenarios. Because EO is a turnkey system, users quickly create, store, compare, analyze, chart and report on each respective action.

Queries & reporting

Users and/or administrators can set rules for query and report distribution.

3 Data and enterprise integration

A powerful automated programming interface (API) allows seamless integration with workflow management systems. Data can be managed automatically, including input/output from database systems, ERP, CRM, SCM, and BI systems, as well as through Microsoft Office applications and other external sources. EO also incorporates extensive error checking and data management capabilities for even greater efficiencies.



Information can be managed in a client-server configuration through a data warehouse, or stored locally on a PC for individual use.

4 One integrated model

Enterprise Optimizer considers financials, market factors, operational variables and business constraints in one, simultaneous representation. Additionally, EO is an extremely flexible system and can accurately represent any business process.

Once users structure scenarios via the system interface, the integrated model pulls the appropriate data, and initiates the “solve” process before forwarding to the translator engine.

5 Translator engine

The computational aspects of EO begin with the translator engine. The translator recognizes the business problem and uses the corresponding business rules, templates and analyses to address the specific problem, issue or concern.

The translator engine eliminates the need for coding, debugging and managing formulas. This enables users to structure scenarios in minutes versus the usual days or weeks.

The translator engine also incorporates over 50 templates, which contain business rules, into the solution process. These rules, assembled over a 15+ year period, provide the appropriate criteria and guidance required for advanced modeling and integrated planning.

6 Solutions and scenarios

The translator engine produces a dynamic mathematical representation in the form of a matrix that can exceed 2 million rows by 2 million columns.

EO utilizes advanced mathematics to conduct a number of “solves” on the matrix, including mixed integer optimization, scenario simulation and advanced algebraic solution matrices.

Loop Back

The results of the advanced mathematical “solves” are then fed back into the translator engine, which again utilizes the templates and rules to update the integrated model. The interface and data layers are automatically updated with the new scenario results. The output results can be stored, analyzed and reported. They can also be input directly into a data warehouse or execution system.

To learn more about redefining your tools of engagement, please contact us at 866.378.4033 or via email at sales@riverlogic.com www.riverlogic.com



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