Value Based Management for the New Economy

Jürgen H. Daum
SAP AG

Topics

1. The New Economics after the e-Business Revolution
2. Value Based Management in an New Economy - the role of the CFO
3. The need for an integrated analytic environment
4. Making it happen
The New Economy Is Radically Altering Value Chains

Reconfiguration of industry value chains

End User → Retailer → Distributor → Manufacturer → Suppliers

Examples:

Enormous efficiency gains through e-markets

End User → Retailer → Distributor → Manufacturer → Suppliers → Electronic Market Place

Examples:

What Does the New Economy Mean for Companies?

E-Business Characteristics

- Ubiquity of information never seen before
- Basic change in the nature of the interface with the customer
- Collaboration beats self dependency
- Desintermediation of companies and industries
- The source of value has shifted from tangible to intangible assets
- Change happening at a pace never experienced

Examples:

- Radical shift in value chain / price pressure
- Customer focus vs. product focus
- Tremendous increase in productivity
- Concentration on core competencies
- Unleashing hidden value
- High level of uncertainty
Evolution of Corporate Structures to E-business Structures

The E-Business did not come from nowhere: it is built on previous developments

- '80s: Vertical(Functional) Structures
- '90s: Global Matrix Structures
- '00s: Global E-Business Network Structures

Management Focus
- Margins / Cost Management
- VBM / Portfolio Management
- VBM II / Value Network Management

Evolution of Corporate Value

The Source of value has shifted from tangible to intangible assets!

Percentage of market value of US corporations related to....

Market Value

1982 1992¹ 1998²

62% 38% 15%

62% 85%

intangible assets
tangible assets

1: Brooking Institute
2: Brauch Lev analysis of S&P500 companies
What is the main value driver in the New Economy?
The Main Value Drivers in the New Economy
Are Future Growth Options

Total market value consists of assets in place plus the market’s perception of growth opportunities.

Cisco, Nokia, Lucent, Ericsson, Siemens, Nortel, Alcatel

Market Expects
High Growth

Market Expects
Low Growth

Value of Assets in Place
Market Expectation of Value from Future Options

Source: PricewaterhouseCoopers

How to Value a Business in the New Economy?

Total Market Value

Value of options for future new business

Value of existing business

Measureable through discounted free cash flow valuation (DCF) of expected cash flows from existing business
How to Value a Business in the New Economy?

- Identify Intellectual Capital
  - Business Model 1 DCF = $
  - Business Model 2 DCF = $
  - Business Model 3 DCF = $
  
- Total value of future options = $
- Value of existing business = $
- Total Value = $

How to Manage Value in the New Economy?

- options for future new business
- existing business
- Which tools?
  - Allocation of resources: once a year
  - Monitoring of financial results
  - Budgeting
  - Financial Reporting

P&L Balance Sheet
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The Role of Finance and of the CFO

Mission of the Finance Function

- Guard the Assets
  - Establish change in infrastructure, operations and control to meet requirements of E-Business
- Guard the Economics
  - Establish new management processes and analytic tools to enable value creation from intangibles
Principles of Value Base Management in the New Economy

- **Understand** what your intellectual capital is and what drives its value
- **Measure** value created or value destroyed in intellectual capital
- **Institutionalize a management system**, that helps to manage systematically value creation from intellectual capital
- **Institutionalize a management system**, that helps to continuously find future business options and helps to track and adapt them to changing technology or market conditions
- Continuously **report to investors** and other stakeholders

Understand What Your Intellectual Capital Is and What Drives Its Value

**Example:**

<table>
<thead>
<tr>
<th>Value Driver</th>
<th>Brand / Customer Capital</th>
<th>Partner / Network Capital</th>
<th>Organizational Capital</th>
<th>Human Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Competence</td>
<td>service quality, customer #</td>
<td>quality</td>
<td>quality of CRM processes</td>
<td>skilled sales &amp; marketing staff</td>
</tr>
<tr>
<td>Measures</td>
<td>new customers</td>
<td># of partners w. skill level 1</td>
<td>customer satisfaction</td>
<td>time facing customer</td>
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</table>
CRM Analytics

Data Collection → Knowledge-Discovery → Customer Value-Management → Optimize Relationships → All Customer Touchpoints

Central Customer Knowledge Base → Analytical methods → Campaign Optimization → Sales support → Customer Retention Mgmt

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<td>partner development</td>
<td>constant innovation</td>
<td>customer focused</td>
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| new customers | # of partners w. skill level 1 | customer satisfaction | time facing customer |
Need for a Management System, That Helps to Manage Systematically Value Creation From Intellectual Capital

Understand the relationship between different intellectual capital components and how it can impact overall financial value.

- Partner / Network Capital (Distribution Partner)
- Human Capital (Skilled sales & marketing staff)
- Organizational Capital (CRM Processes)
- Service Quality
- Customer #
- Customer / Brand Capital
- Financial Capital (Revenue, Cash Flow)

= Value Drivers

Need for a Strategic Enterprise Management System

Strategy defines the unique approach of an organization to create value.

- Overall economic trend
- Value
- Competitor actions
- Technology trends

Strategy

- Value Driver
- Value Driver
- Value Driver
- Value Driver

Mission critical activities / initiatives

Intellectual Capital

- Human Capital
- Organizational Capital
- Partner / Network Capital
- Customer Capital
Strategy has to be adapted to changing market conditions continuously in order to maintain the organization's value creation potential and to evaluate future business options:

Why Strategic Enterprise Management?

Communication with Investors and Stakeholders
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Integrated and Effective Management Processes

- Strategic Communication
  - External Value Communication
  - Strategic and Business Options Evaluation
  - STRATEGIC PLANNING LOOP
  - Scenario Modeling
  - Value Calculation
  - Strategic Learning and Feedback

- Strategy and Business Options Evaluation
  - Target Setting & Action Planning
  - Simulation
  - Performance Reporting

- Operational Analytics
  - Adjust Initiatives and Operations
  - Analyze value drivers and IC components

- Integrated Analytics
  -预料 and Business Options Evaluation
  - Simulation
  - Performance Reporting

- Business Execution
  - Research & Development
  - Inbound Logistics
  - Manufacturing
  - Outbound Logistics
  - Marketing & Sales
SAP’s Solution Vision: Integrated Analytic Applications

- Educate stakeholders on value creation potential
- Create strategic focus, manage future options, manage business performance
- Optimize operations and value drivers

Operational Analytics
- Supply Chain Analytics
- Customer Relationship Analytics

Operational Analytics
- HCM Analytics
- Financial Analytics
- PLM Analytics

Strategy & Business Performance Management
- Strategic Stakeholder Comm.

Enterprise Analytics

The first integrated analytical application on the market:
SAP SEM
Strategy has to be adapted to changing market conditions continuously in order to maintain the organizations value creation potential and to evaluate future business options:

- Model-based world on multi-dimensional OLAP Data structures
- Cross-component integration of Data
- Cross-component integration of functions
SAP Strategic Enterprise Management

Investors / stakeholders

Formulation
Planning / Simulation

Communication
Feedback
Implementation

Strategy & Enterprise Planning

Analysis of the Market Environment

Definition of Goals, Measurements and Measures

Performance Monitoring

Taking Action

Communication with Stakeholders / Stakeholder Relationship Management

External Sources

Internal Sources

Business Information Warehouse

Seamless SEM Process Through the Integration of Data and Functions with mySAP SEM

Investors, Analysts and Other Stakeholders

Investors, Analysts and Other Stakeholders

Strategic Enterprise Management Process
SEM Role Based Workplace Portals

Other SEM Roles:
- CEO
- Assistant to the CEO
- CFO
- Management Cockpit Officer
- Corporate Controller
- Corporate Business Analyst
- Head of Strategy
- Investor Relations Manager
- Investor Relations Analyst
- Corporate Communications Manager
- Corporate Communications Analyst

CFO Portal

Performance
Strategy
Treas.
Office
Alerts
Knowledge
Risk

Planning
Consolidation
mySAP SEM enables organizations to move to the next level in value creation: identify, simulate, manage and realize strategic growth opportunities by:

- Allowing management to control an enterprise internally using value-based management principles.
- Helping to translate corporate strategy into operational target setting.
- Providing an end-to-end solution on the market to support integrated enterprise management processes, enabling continuous management dialogs and organizational strategic learning.
- Improving the communication process with stakeholder groups significantly and thereby helping to realize stakeholder value.

Benefits of mySAP SEM II ("Operational" Value Proposition)

- Speeds up the legal and management consolidation process significantly by automation.
- Enables continuous and efficient simulation, planning and forecasting processes across the entire organization.
- Provides a powerful infrastructure for KPI-based performance management and benchmarking.
- Helps to find, structure and edit relevant external (unstructured) competitive, market or other information on an ongoing basis and to automatically distribute it to the appropriate information consumers.
- Accelerates implementation through ready-to-use generic and industry-specific content for SEM excellence.
Gartner Group Inc. “SAP SEM – Analytical Applications With A Strategic Focus” (30 June 2000)

“Feedback from early users has been positive - SEM is viewed as a significant step forward”

“We expect SEM to be successful […] at least 30 percent of R/3 users will license SEM by the end of 2004 (0.7 probability)”

“SEM has a compelling vision”

The AMR Research Alert on European E-Business (29 August 2000)

“The most complete [analytical application] by far is SAP with its Strategic Enterprise Management (SEM)”

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The New Economics after the e-Business Revolution

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Making it happen: The CFO view

- Initiate an e-Business VBM initiative at senior executive level
- Define value strategy
- Develop management and analytics concept (identify IC components, define measures, define processes)
- Communicate strategy and management system concept
- Implement new management system / processes
- Support new processes step-by-step through technology
- Implement concept for operative analytics into overall management system and support it through technology step-by-step

Critical Success Factors: The CIO View

- Strong business (CFO) sponsorship
- Business driven goals, and impact
- Develop an Enterprise Strategy / Architecture
- Integrate separately executed projects (Performance Management, CRM analytics) under this architecture
- Incremental delivery in small, high-impact, end-to-end solutions
- Define and implement a change management process
- Highly skilled and motivated Project Team