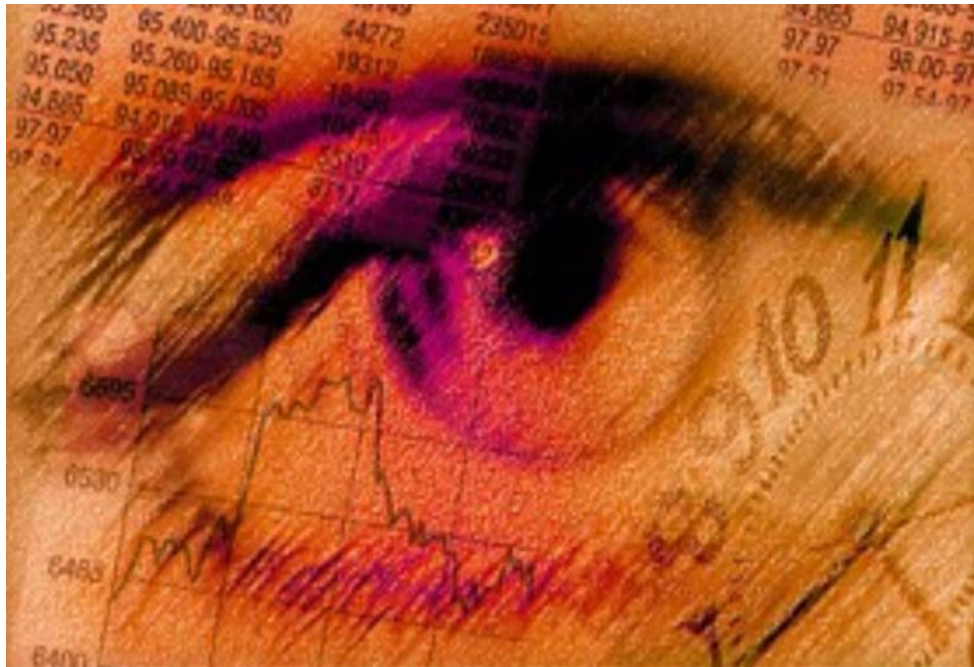


Metap Praxis White Paper

Building a Business Analysis Unit



Introduction

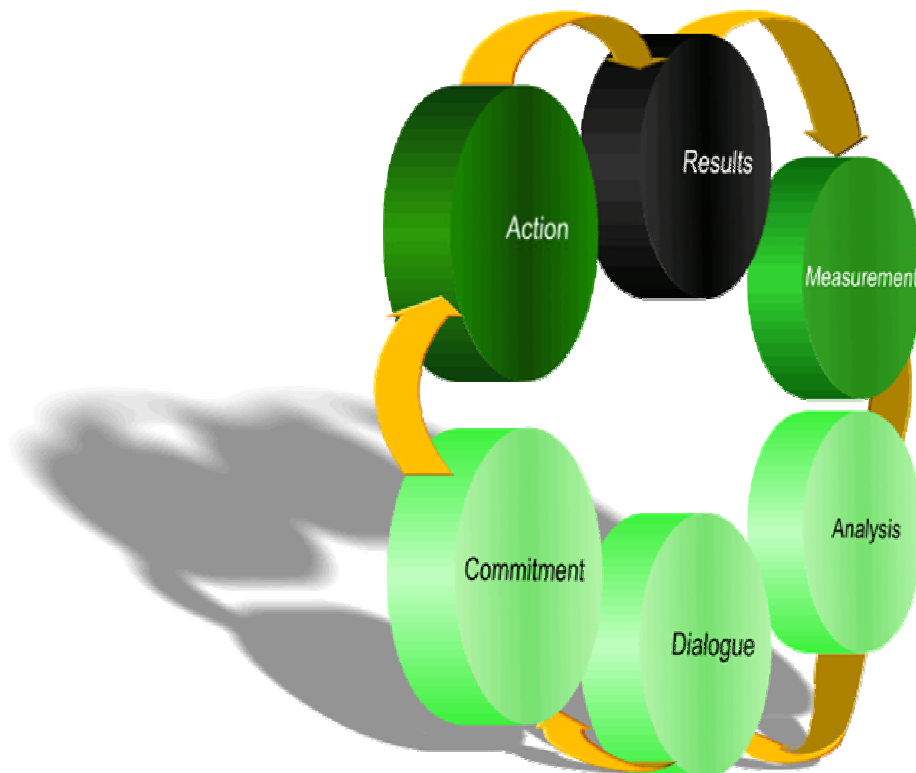
This briefing note provides advice on the following themes:

- What are Business Analysis Units for?
- Why do companies create them?
- How are they best established?
- What kind of work do they do?
- Where do the benefits occur?
- How can Metapraxix assist?

What are Business Analysis Units for?

A Business Analysis Unit (BAU) is a convenient term for a group of people who are focussed on finding out **what the data means** rather than simply **what the data is**. Their job is to work with senior executives, line managers and staff specialists at several different company levels, helping them to look beneath the regular reports, schedules and tables to zero in to the future implications of current performance.

In terms of the Metapraxix Business Control Cycle[®] model, the job is not about the process of **measuring** the data, but it is instead about **analysing** information and creating a more effective line management **dialogue** about critical business issues. The goal is to improve and accelerate effective decision-making, leading to a more rapid **commitment** to management **action** that improves bottom-line **results**.



Why do companies create them?

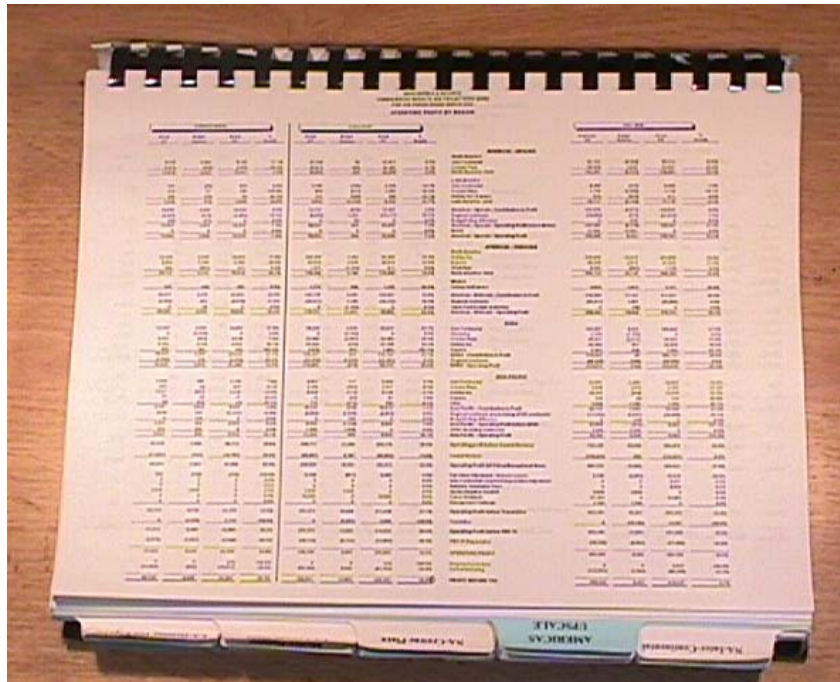
“We have a Board report that is very numbers-oriented, and when you look at it, it isn’t very appealing. It is my sense that people on our Board are not paying a lot of attention to it.”

“I want my newspaper to open on a horoscope, not an obituary.”

“We have plenty of people in finance who add the numbers up, but I want them to start telling us what the numbers mean to the business.”

“The trouble is, most of our people are more interested in designing the drainpipes than worrying about the water.”

“Our Balanced Scorecard project means that we need people who can look at the business drivers and can relate non-financial causes to financial outcomes.”



“Most of our line managers think that cash flow management is something they should delegate to their accountants. We need people to be analysing these issues and presenting them in terms that everyone can understand.”

“When you read the monthly narrative, it's what the Americans call 'elevator commentary'. You know the sort of thing: Profit went Down because Sales went Down and Costs went Up. We don't want people to tell us in words the things that are already in the schedules. We want to get at the root causes.”

“We confuse documents of record with documents of action.”

“We are reasonable at routine monthly reporting, but very bad at ad-hoc review.”

“The trouble is that most people are either too lazy, too busy or too ignorant to actually look at the fundamentals and say: this is what's getting in the way of our ability to meet the business plan.”

“There is such a burden of work to assemble all the numbers to put in all the boxes - it is such a gargantuan effort that when they have completed it there is a huge collective sigh of relief.”

How are they best established?

Experience indicates that there are three golden rules to ensuring the success of a Business Analysis Unit (BAU):

- **Issues:** The BAU needs to focus on today's burning business issues, not on long-term process-based projects.
- **People:** It should be staffed from disciplines such as marketing, planning, finance and line management itself, since membership of a BAU does not need to be a full time activity.
- **Technology:** The BAU needs to be able to access reliable data rapidly and effectively and to analyse it constructively and imaginatively.

Some important questions arise around the constitution of the BAU, such as:

- Who decides on its priorities?
- To whom does it report?
- Are its projects with line managers confidential?
- Can it originate its own investigations?
- How do we staff the BAU?
- How do we train our BAU personnel?
- How long do our people stay in it?
- Should it include outside consultants as well as our own staff?
- How do we get it started?
- How do we judge its success?

It is important that the BAU is initiated with written terms of reference and a clearly documented mandate. Its relationship with the rest of the company will be crucial.

It is not necessary for all the members of the BAU to reside in the same physical department. Once the initiative is under way, effective team communication can be established via e-mail and conferencing.

However, the temptation to regard a BAU's operations as just a part of "something we are already doing" should be resisted. If the BAU is seen as "part of the Financial Controller's job" or "part of the IT department" then it is unlikely that it will be able to focus on its proper objectives, because the pressure of existing work will sidetrack the team from its tasks.

What kind of work do they do?

Here are some examples of company issues that are typical for a BAU:

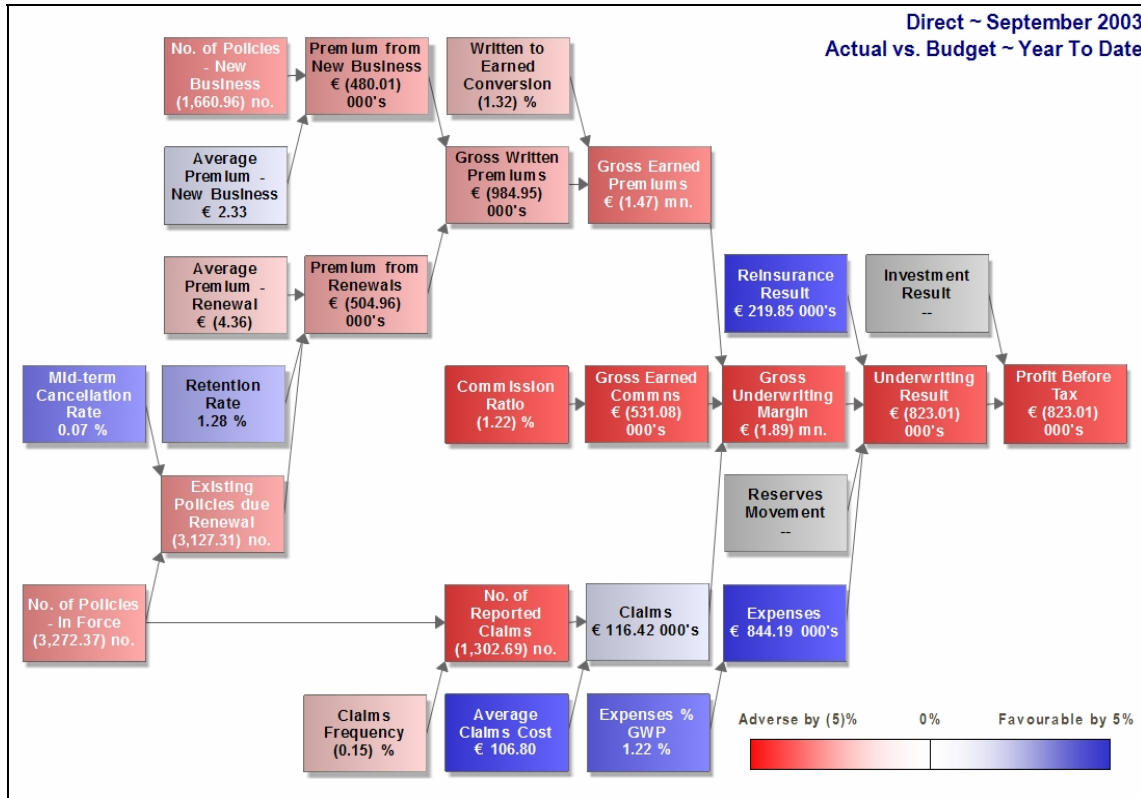
Exploring fundamental business trends, as opposed to management accounting snapshots, such as:

- *Are our Gross Profit percentage margins declining, static or increasing?*
- *How do they compare across subsidiaries?*
- *How do they compare with our competitors?*

Working with a subsidiary to improve the accuracy of its sales and profit forecasting process.



Working with the group CFO to improve the assessment of portfolio risk attached to subsidiaries' quarterly reforecasts.



Streamlining the annual budget preparation process by focussing on the fundamental business drivers (rather than the detailed financial schedules) such as:

- Total market volume and growth prospects
- Our market share and growth prospect
- Impact of customer satisfaction on volume sales
- Average selling price vs. competition
- Gross margin percentage
- Overheads per head
- Stock, debtor and creditor days

Focussing on cash generation and helping to develop a new performance-related compensation scheme that rewards high cash yielding subsidiaries.

Exploring the impact of employee motivation on product quality.

Although the word "Analysis" appears in the title of the BAU, the focus is not so much desk-based as "getting out to the businesses" and forming a joint task force team with subsidiary personnel.

Since communication is so important for a BAU, there tends to be rather less emphasis on detailed spreadsheets and financial tabulations and correspondingly greater emphasis on graphic analyses and presentations that convey the business messages crisply.

Where do the benefits occur?

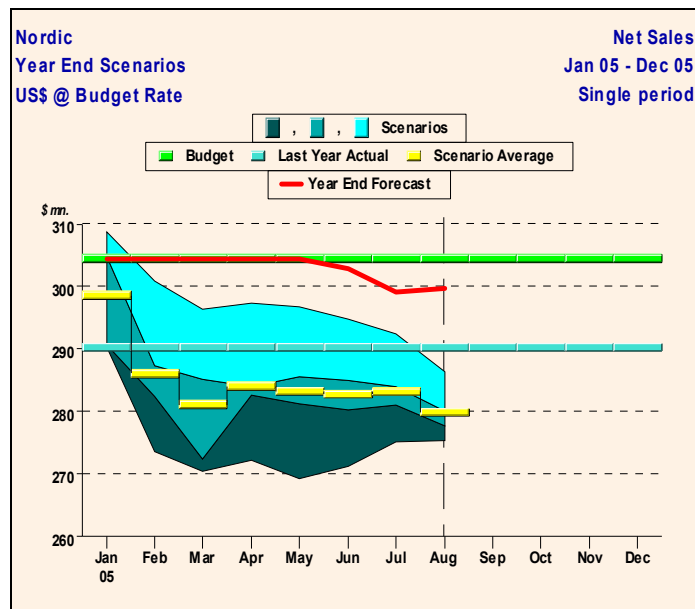
The Business Analysis Unit is not there to take managers' decisions for them: it is there to help them to take the right decisions more rapidly. The emphasis is therefore on:

- Fact-based decision-making vs. traditional consensus-building
- An orientation towards the future rather than the past
- An external market-based perspective rather than an inwards focus
- A willingness to entertain radical solutions
- A commitment to rapid investigation and improvement
- Pragmatism rather than perfection

"We can now see the big picture, without having to wade through mountains of numerical reports."

"This has helped us to learn more about the business. We have become better at general management because of the breadth of issues we can now look at".

"We used to look at monthly results in isolation, but these could be distorted by short-term factors. We can now clearly see the underlying trends."



"If we're going off track we can now highlight the areas of risk very quickly, well in time for divisional management to take the necessary action."

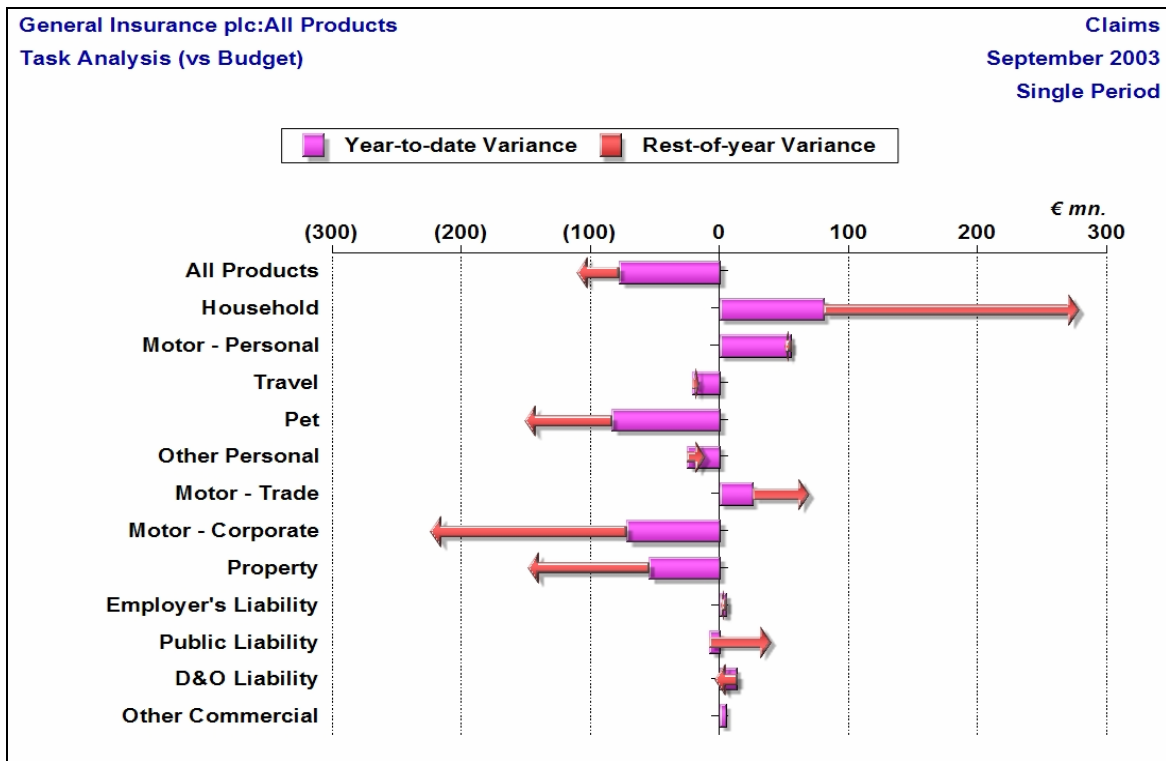
"We have been able to develop some very powerful ways of incisively summing up the progress of a country - or the lack of it - rather than going out empty-handed and having to rely solely on the local management perspective".

"These techniques enabled us to forecast where sales may be and to identify the actions that were needed to meet our targets. The visual evidence was pretty compelling.... perhaps we might have taken the right decision using only our financial schedules, but it would have taken much longer and left us with much less time to capitalise on the opportunity".

How can Metapraxix assist?

Since the launch of Metapraxix in 1984 we have amassed considerable experience in assisting the CEOs and CFOs of large companies to establish Business Analysis Units. Our primary contribution is in the following areas:

- Advising on the creation and constitution of the BAU
- Providing embedded consultants as a part of the BAU team
- Supporting the BAU with business diagnostic technology



Next Steps

An initial meeting to discuss the formation of a Business Analysis Unit can be arranged, usually on the basis of a strict non-disclosure agreement.

Once this preliminary review has identified the main opportunity, a discussion document can then be created setting out proposed terms of reference, staffing, timescales, costs and forecast benefits.



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