



TBM COUNCIL

THE CLOROX COMPANY

TBM AWARDS CASE STUDY

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Technology Business Management (TBM)

is a methodology,
community and category
of software for data-
driven management of the
business of IT.

Clorox

TBM Summary

Clorox uses TBM methodologies and their TBM system to integrate and automate their previously fragmented IT planning processes. By almost doubling the accuracy and increasing the detail of its IT spending forecasts they saved 7% on a major outsourcing contract, free up 80 man-hours each quarter, and quickly identify unspent funds so they could be redirected to innovation projects.

Program Owner	IT Finance
Related Initiatives	Outsourcing
TBM Solutions	- Budgeting & Forecasting / IT Planning - Cost Transparency
Focus of Analysis	- Plan vs. Actuals Variance - Cost Centers - Projects
Insight	Found \$3M error in project budget that helped meet top-down budget cut
Outcomes	- Improved forecast accuracy from 50% range to 97% for the past 8 quarters - Funded more innovation projects by identifying unspent funds sooner and creating a single, pooled contingency account to benefit all cost centers 7% savings on new outsourcing contract using line-item budget detail - Avoided 6% IT budget cut with facts to defend spend, showing what projects would actually get cut if target lowered 80 man-hours removed from forecast each quarter by eliminating spreadsheets - Reduced number of IT cost centers in the financial accounting system

Corporate Overview

Leading multinational manufacturer and marketer of consumer and professional products with heavily outsourced IT. Brands include Clorox, Formula 409, Pine-Sol, Poett, Liquid-Plumr, Glad, Hidden Valley, K.C. Masterpiece, Kingsford, Brita, Fresh Step, and Burt's Bees.

Industry	Consumer Products (CPG) OR Fast Moving Consumer Goods (FMCG), whichever TBM is using.
Headquarters	Oakland, CA
Revenue	\$5.7B
Employees	7,700

How Clorox Automated IT Planning to Drive Predictability and Budget Agility

Budget Black Box

In 2011, the IT organization at Clorox had been struggling to accurately plan its finances. It was not uncommon for IT to miss capital forecasts by as much as 50 percent. Hitting 80 percent was considered an achievement. As management scouted within IT for someone who could apply IT finance discipline, an unlikely volunteer emerged.

Carol Wright, a Berkeley-educated chemical engineer and 25-year veteran of Clorox, had been running one of its manufacturing plants when she was recruited into IT in 2001 to help on an SAP implementation as a subject matter expert several years earlier. Now she was being asked if she could help with IT's financials. So Wright asked Corporate Finance, who was managing all of IT's financials at the time, to show her the financials.

From Finance, she received a handful of spreadsheets showing large lump sums for items like "Professional Services" and "Software Maintenance" without detail on what items made up each category, e.g. which professional services were delivered from which vendors. Within IT, Wright found that budget owners maintained their own cost center or project plans in spreadsheets with varying degrees of financial granularity and descriptive detail.

"As a plant business unit manager I knew the cost driver for every penny in every case we produced," Wright explained. "I couldn't believe IT didn't have something similar."

The budget process itself was also unpredictable. "The process was driven by corporate finance," remembers Wright. "You would get an e-mail with a spreadsheet asking you to update it by tomorrow. There was really no notice, no process flow. So there was no way to plan your time or be prepared."

"No one really knew what was in the budget. It was a black box," explained Kate Grasman, who as director of IT Enablement owns IT finance, vendor governance and procurement. Like Wright, Grasman did not have a specialized background in Finance but knew its importance from her expertise in program, project and product management.

In late 2013 Grasman saw that a lack of transparency cultivated behaviors that made sense at the individual level but impeded financial predictability and innovation overall. People would pad their project budgets by 20 percent in contingency funds to make sure they wouldn't be penalized for going over budget. The net effect was that IT would find out at the last minute they were coming in way under forecast for the quarter. At the time, IT's budget was a use-it-or-lose-it approach, the result was either last-minute spending sprees or money lost.

"If you consistently under-spend, your target gets lowered," added Grasman.

Financial Planning Transparency

"As a consumer products company with a dividend stock, we are expected to hit our numbers," explained Grasman. Today, Grasman owns IT's global finances and procurement. "I was asked by the leadership team to make budget and forecast transparency my number one priority." Looking for IT financial transparency solutions led Grasman to discover Technology Business Management (TBM), a methodology, community and category of software for data-driven management of the business of IT.

In 2012, Grasman and Wright began a transformation of the budget process. First, they made changes in cost centers to better align groups and people to responsibilities. Then, they created a quarterly Budget Day where cost center and project owners (budget owners) would come together to review

their forecasts, actuals and plans for the next three years, overlaid with discussion on larger business drivers and projects.

This collaborative approach expedited the sharing of information and increased the quality of decision making. “We found that there were all these unspoken assumptions,” remembers Wright. “You’d hear ‘Wait, we’re doing that, too!’ or ‘I thought you guys were doing that?’ and ‘no, we’re doing this other thing.’”

Sometimes people had to be encouraged to provide their best estimates, but this was a tough transition for some who wanted to provide the most accurate estimate possible.

“In the beginning people would say, ‘wait, I’ll know more next week,’ but of course they’d say the same thing the next week. It’s a point in time. We document why we made that decision. The budget is the budget, and it’s due on corporate’s calendar. So let’s make our best assumption and go forward; and I think that’s freed people a lot.”

Underpinning the planning transformation was the adoption of a cloud-based IT planning system designed specifically for automating and analyzing IT budgets and forecasts. The system provides each budget owner the tools to create, update and share their quarterly forecasts and annual budgets.

Budget owners enter line item detail and explanations for their planned expenses into their own views as budget owners.

“It wasn’t a hard switch for them because they were already doing a lot of the same work on spreadsheets,” Wright explained. “Each individual budget or forecast is aggregated as part of a single view across the whole budget, where managers and budget owners can ask and answer clarifying questions, and they can make changes that are documented for everyone to see.

Today, budget line items are descriptive, recording details such as vendor name, contract and whether an expense is variable or fixed. They are also highly granular, showing what the lump sums of cost center and accounts are composed of, with specific charges expected from specific vendors for each project or cost center.

Wright offers an example: “Our outsourcer charges are documented as a number of what we call resource units, such as medium servers, larger servers, network routers, network switches and so on.”

Accuracy Drives Predictability

Clorox CIO Manjit Singh had served as CIO at Las Vegas Sands, Chiquita Brands and Gillette’s Asia-Pacific region, so he was all too familiar with financial transparency challenges in IT. Clorox’s TBM planning system had been in place for three years when he arrived earlier in 2015, and he was pleasantly surprised.

“I was actually very impressed that we had a focus on fiscal discipline for the IT organization,” Singh remembers. “We had a very structured process as to how we put together and maintained our budgets. That was something that I was not expecting when I came in.”

To quickly build more accurate forecasts, budget owners see actual expenses for their cost center or project every month as they roll into the TBM system from the general ledger. Budget owners then match up actuals to the specific line items in their forecasts, along with explanations of why actuals are different than what was planned.

“Seeing variance explanations at the line item level of detail helps us better understand how each budget owner is doing,” explained Wright. “Are they going to make their target? Do they need to adjust their forecast? We get monthly visibility that really helps us even between forecasts.”

“Because we have the rigor and discipline on a quarterly and monthly basis, we’re able to see pretty quickly whether we’re going to be hitting our forecast or not,” added Grasman. “We’re able to enable the organization to make choices and fine-tune adjustments instead of last minute spending sprees or project disruptions.”

Making data visible in a structured way also helps Clorox IT catch and correct human error.

Grasman explains, “In March 2014 we were given a top-down budget cut from corporate. Because we had the line item detail, we could compare our costs to a spreadsheet from a financial analyst. We could see that they had missed an item in one of our projects, and were able to recapture \$3 million into our budget.”

Seeing line-item details also helps check assumptions that can create inaccuracies.

“We had a large project that initially promised to deliver some savings in a future quarter,” Grasman added. “Looking at individual cost drivers we could see it was not going to generate the expected savings, so TBM saved us from what would have been a negative surprise down the road.”

Overall, greater transparency and accuracy helped deliver the IT financial predictability Clorox leadership had asked for.

“Before TBM we were at 50 to 80 percent forecast accuracy,” remembers Grasman. “Using a TBM approach and the transparency from our IT planning system we’ve achieved 97 percent accuracy for the past 12 quarters in a row for both OpEx and CapEx forecasts.”

Accelerating Better Decisions to Fund More Innovation

Singh sees financial predictability as being important to his innovation agenda.

“An advantage to the early confidence TBM gives us is that if we are running under budget we have time to make some choices” he said. Many times it’s been a great opportunity for us to drive dollars into an innovation project. Sometimes it lets us experiment, so rather than going through a full project cycle of discovery, charter, etc., we use that pool of dollars to kick-start an idea and run with it. It’s incredibly valuable to make decisions that quickly, especially these days as technology is changing so rapidly.”

During a recent forecast meeting Wright presented data showing high confidence in a significant amount of underspending. She also presented options of additional projects that could be funded. Grasman gets particularly animated as she recalls the experience.

“Let me tell you how it went. Within seven minutes, our CIO had gone through the list of 16 projects. He said no to a few, some he assigned to team members to investigate, and many he said yes to right on the spot. Our Finance VP was in that meeting and said, ‘This is the best level of information I’ve ever seen from IT.’ It was amazing. That is the fundamental change TBM has helped us drive.”

If additional project funding can be considered playing budget “offense”, then TBM has also helped Clorox play budget defense with analysis to tell the value story behind the budget, backed by supporting details such as which IT services are at stake.

“IT is often one of the first targets when budgets need to be cut,” mentioned Singh. “Recently we were asked to cut maintenance contracts in a particular cost center. We came back and showed them that would require cutting service to our PBX system, ‘is that what you’re asking?’ Obviously we found a better solution.”

The linkage to business context also helps Clorox make fast decisions on what to cut when needed. Recently the business needed to find more funds to step up advertising investment. Within just three weeks, IT was able to use TBM’s analysis of variable expense items and their business context to pull

back on certain service levels and project scopes, giving back five percent of its budget to fund the business initiative.

In another example of decision agility, Singh had just been given direction by the board regarding cyber-security and needed to know what he had to work with.

“Answering a question like that would have taken a month of horse-trading before TBM,” he said. “With TBM, we had an answer for them that same day.”

Another example of a smarter decision: using TBM analytics on budgeted line items for outsourcing services helped Clorox negotiate a new outsourcing contract, saving seven percent of Clorox’s entire annual IT budget.

More Efficient Process and Funding

In addition to the accuracy, predictability and decision-making benefits of better IT planning information, the process itself has yielded significant improvements in efficiency.

“Our process and software have enabled us to accelerate our forecast and budget cycles while also reducing effort,” Singh offered. “We’ve been able to reduce effort by 80 man-hours each quarter because we’re not dealing with disparate spreadsheets. On top of that, when we went live with our Budget Day, we also drove out, easily, 400 hours in the course of a year with faster decision-making by the right people looking at the same, complete, detailed data.”

Where have the 400 hours gone? “People are spending more time working on their business plan, looking at where they really want to spend their dollars versus reacting to the next request that they get,” notes Wright. “The quality of the conversation about the budget has really improved.”

Grasman added, “The time we save using a TBM approach to IT planning means we are more proactive, figuring out where to better invest dollars and people to improve service or deliver a project.”

Using an IT-specific planning system also benefits Corporate Finance. Before we had our own IT planning system, IT budget owners would try to get more granularity by keeping lots of cost centers maintained in the general ledger.

“What we realized as we implemented line item transparency in our IT planning solution is that we no longer needed those cost centers. That’s really a big savings to finance since it costs money to maintain all those cost centers,” explains Wright.

In addition to making the process more efficient, the centralized IT planning software also helps allocate funds more economically.

There are several key factors in analyzing the budget to prevent shortfalls or overages. In fact, the TBM Office has implemented key process changes as well as an understanding of key behaviors that needed to be changed by budget owners to get to a better place. The team found that the budget owners were often accustomed to padding their budgets with 20 percent of contingency funds. What the Finance team asked the budget owners was to manage all budget contingency centrally. Apprehensive at first, budget owners learned that they could contribute to the central contingency when they were running low but also request more funds when they were running high, or saw new business opportunities. Just as a pooling approach helps insurance companies lower financial risk and supply chains keep safety stock low, it helps Clorox maintain fewer contingency funds over all, so more funds are spent delivering IT projects and services to the business.

Accelerating Cost Transparency with a Standard Taxonomy

Having improved planning predictability from 50-80 percent to 97 percent, Clorox turned its attention to another TBM solution for cost transparency, one that models the total cost of delivering services to the business.

"I provide products and services out to my customers, who happen to be my internal users, and there's a cost of doing business," explains Singh. "If I don't understand the cost of doing business and the pricing models behind our products or services, I don't know whether I'm delivering efficiently and competitively. So I asked my financial team to build a model that allowed us to get more granular visibility into the costs and resources that make up the services we provide."

Wright explained why their initial focus on IT planning gave them a jumpstart on cost transparency. "We already load actuals from our general ledger and outsourcer partners into our planning system each month to do variance analysis between forecasts and actuals," she said. "So now we're just running those same granular line item data from both our forecasts and actuals through the service cost model."

To accelerate visibility into their service costs, Clorox took advantage of the industry taxonomy endorsed by the TBM Council.

"We were very excited when we found out about the standard ATUM taxonomy and model," Wright said. "We felt like we should be like other IT organizations. And when we saw the standard categories in the ATUM taxonomy I said, 'Yes! That's what we do!' It really felt good to know we weren't on this journey alone."

Clorox was able to extend the taxonomy to meet a unique requirement.

"We fully implemented the ATUM model, then added an extension for a video sub-tower (category) because we spend a lot of money on video and telepresence, and we felt we needed to break that out separately," Wright added. "Extending the model with an additional category was very simple. We really just changed our mapping and did some small adjustments to the model and it was part of our reports within a week."

Within the realm of TBM, planning and cost transparency drive synergy that improves both disciplines. For example, understanding the total ongoing run cost of infrastructure services alongside project plans to use that infrastructure creates a forward view of operational demand to help with planning and delivery. Also, as Wright explains, "having planning and costing together gives us a business-relevant service perspective on both where we've been and where we're going."

Improving Service Management Data

In addition to creating synergy within the TBM discipline, Singh sees synergy between TBM and Clorox's service management initiative and cloud tool.

"Another great tie between TBM and some of our initiatives is our desire to build a better CMDB (configuration management database). That data isn't necessarily relevant if it's not tied back to how much it actually costs you to run the service. You want to pull together the people involved, the software involved, the hardware involved, where those assets are located, together with your financials. And that's where most CIOs are always challenged from a budget perspective. If your budget is reduced, how do you know where to reduce it? Not having that granular data makes it incredibly difficult for you to practice proper financial discipline. Unless you have that visibility, unless you know the levers that you can pull, you might be making the wrong decision, or you might think that you're going to be saving money and actually accidentally cause a service to end up costing more money than you had anticipated."

Grasman also sees synergy, including how TBM can help accelerate and improve their service management initiative by demonstrating where to improve data quality in areas such as the CMDB. “What’s really great about the TBM methodology is that you’re very quickly able to load service management data into the model where you can visually see the gaps and quantify in dollars which gaps are blocking your business transparency the most.”

Advice for Those Starting Their TBM Journeys

After three years on her TBM journey, Grasman has advice for those just beginning or considering TBM

Place business acumen above finance experience: “TBM gives you a methodology and framework to easily come in and make sense of financial data. It’s really business-oriented. I don’t have a degree in finance. I had to learn some of the terms on the job, but by the same token, if you think like a businessperson and you think how projects are managed, you can apply that to whatever needs to be done from a financial standpoint.”

Partner with your Service Management team: “If I could go back in time, the one thing I would want to improve is using TBM sooner to get better data into our CMDB, and have a greater collaboration between the groups of what their operational needs are and what our financial and management needs are.”

Get started now: “Use the tools and frameworks that are out there, and don’t delay. Because the minute you start using these tools, you will save yourself time and energy and get to better insight and analysis by just doing something, even if the data is not perfect.”