Financial Analytics/Profitability Analysis Demo

TRANSCRIPT

[INTRODUCTION]
Every company is interested in improving profitability. In this short demonstration we'll see how financial analytics can be used to analyze and improve profitability throughout an organization, using IBM Cognos software.

[SLIDE 2]
Before we begin, let's briefly describe financial analytics and what it can do for you. Financial analytics is a subset of performance management, which focuses on three big questions -- how we are doing, what we should be doing, and why – through measuring and monitoring, planning, reporting and analysis.

What sets financial analytics apart is that it uses profitability as a common gauge to measure, monitor and plan.

This profitability analysis results in keen business insights into problem areas *plus* targeted plans for corrective action that can immediately improve the effectiveness of an enterprise.

[SLIDE 3]
More than just a financial measurement tool, financial analytics is a cross-enterprise discipline. It can be used in every department to uncover latent areas that are ripe for "insight" and "action."

Traditionally, profitability management has been a finance function that includes financial reporting, revenue analysis, and "what-if" scenarios.

Financial analytics moves profitability analysis from the finance department to all the lines of business for use in daily decision-making.

Profitability can then be measured in business context and acted upon, say by focusing on … customer profitability in the customer service department … product profitability in the marketing department … capacity analytics in operations and … sales channel mix in sales – to name just a few areas.

We'll now see a short software demonstration that focuses on one of these profitability areas – product profitability – using IBM Cognos software.

[SLIDE 4]
In this demo we'll follow Mary Thorpe, profitability analyst at Fresh Foods Company, a food retailer with multiple stores. Mary's mandate is to proactively manage profitability

throughout the retail chain. She begins her day by looking at monthly profitability numbers.

[DEMO PORTION]
Mary tracks the profitability of eight different Product Lines in the retail chain. She starts by looking at Fresh Food's current monthly forecast. It shows the most recent Gross Margin figures by Product Line across all stores.

All product lines seem to be doing well. The Revenue figures are strong and the Gross Margins are positive, exceeding 60 percent for each of the product lines.

As an experienced profitability analyst, Mary knows the importance of fully evaluating and understanding what may be going on beneath the surface of these numbers.

She opens the Gross Margin breakdown chart, which shows product line profitability as a stacked bar graph. She expects to see all product lines contributing positively at the Gross Margin level and the graph supports this – with blue stacks across the chart.

However, she wants to drill a little deeper to look at profitability after all other costs have been allocated. She has the ability to get this information from brand contribution tables and charts.

Mary first gets to the Brand Contribution table and sees that not all products are profitable. In fact, two items have negative brand contributions – Prepared Frozen Meals and Prepared Organic. For example, the negative brand contribution for Prepared Organic is $274,110.

She now wants to understand the root causes of the negative brand contribution for Prepared Organic.

She looks at this same information in graphical form, where she is easily able to see that Prepared Organic and Prepared Frozen Meats actually drag profitability down – as seen in the red bars.

Since Brand Contribution includes the effect of allocated costs such as trade promotions and marketing campaigns, she looks more closely at marketing costs. She also wants to focus on the Prepared Organic line to see what is contributing to its losses, product by product.

She drills down to see that nearly all products in Prepared Organic have negative brand contributions.

Now, when Mary returns to the Gross Margin analysis, she can clearly see the reason for these losses – the marketing investment of $1, 350,000.

Based on this "insight," she can take specific "action" to make this product line profitable. First, she'll reduce the marketing costs for Prepared Organic.

She selects marketing costs and reduces this figure by almost half to $700,000.

Mary immediately sees the effect of her action as evidenced on the Brand Contribution chart, where the Prepared Organic bar has changed from red to blue.

Now, drilling lower to the product level, she also sees that nearly all of the individual Prepared Organic products are profitable after the reduction in allocated marketing costs.

But reducing marketing costs is only half the story. Without the same level of marketing support, Mary expects a lower volume of sales. She knows from analysis of previous campaigns to expect a 20,000 unit decrease in sales. So, she reduces the sales quantity for Prepared Organic by that amount.

Note that she uses a Relative Proportional Spread, since she wants this reduction to apply in proportion to all products in the Prepared Organic product line, and across all stores.

When Mary refreshes the Gross Margin chart, she sees the effect of this reduction in the sales forecast.

While Prepared Organic has moved one position down on the product profitability chart – and is now second to last – Mary is confident that this product line is profitable at the brand contribution level as well, because of the action she took.

She validates this by returning to the Brand Contribution chart using this revised data. She sees that the Prepared Organic line is blue.

With these quick and straightforward analyses, Mary easily identified losses and took corrective action to immediately return the Prepared Organic line to profitability.

[SUMMARY]

To summarize, financial analytics offers key benefits to an enterprise.

It's increasingly important to elevate profitability analysis throughout an organization and use it in the context of daily business decisions. Especially in these turbulent economic times.

There has never been a better time for companies to employ financial analytics to gain insights and take action to improve profitability. Financial analytics solutions from IBM Cognos can help. Find out more at www.ibm.com/cognos.

Thank you.