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## **ROI CASE STUDY IBM COGNOS HUNTSMAN CORPORATION**

### **THE BOTTOM LINE**

**By standardizing its financial close process on IBM Cognos TM1, Huntsman Corporation reduced audit fees, avoided headcount additions, improved productivity, and created an enterprisewide analytics platform.**

**ROI: 1,060%**

**Payback: 5 weeks**

**Average annual benefit: \$2,417,500**

### **THE COMPANY**

Huntsman Corporation is a global manufacturer of chemical products used in a variety of applications, including adhesives, aerospace, automotive, construction products, electronics, and chemicals. The company operates in five segments: polyurethanes, advanced materials, textile effects, performance products, and pigments. Huntsman is publicly held and has 12,000 employees.

### **THE CHALLENGE**

In late 2004, Huntsman's senior management team identified an opportunity to both prepare the company for compliance with Sarbanes Oxley and achieve cost reductions. As a result of completing four acquisitions in five years, the company had multiple ERP instances and relied on three different deployments for closing its monthly, quarterly, and annual statements. One was a fully-automated instance of IBM Cognos TM1. There were also two instances of a reporting system from another major vendor, one of which required manual input by administrators in order to transfer general ledger data into it. Because of the diversity of applications and the manual input required for one of them, the process of closing financial statements at any period end — including the annual audit — was lengthy, labor intensive, and required numerous checks and balances in order to ensure the accuracy of published statements.

### **THE STRATEGY**

In order to have a more unified and consistent system for closing financial statements, Huntsman decided to standardize on IBM Cognos TM1 after the following options were considered:

- Extending traditional ERP. The company's director of financial systems considered adopting financial close functionality available from its leading ERP vendor, but in performing research, determined that very few companies deployed it. He was also concerned that deploying and adopting the

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Analytics

application would be complex and possibly require custom code development and consultants.

- Extending the reporting system. Huntsman was concerned that the reporting and analytical tools available from its non-IBM Cognos reporting vendor were not flexible enough to provide the granularity of financial analysis that was required. Huntsman was also concerned about costs. Non-concurrent seats would have been required for 66 percent of the user base. Additionally, Huntsman expected that extension of these instances to an enterprisewide footprint would have required extensive customization and consultants.
- IBM. IBM Cognos TM1 was chosen based on usability and costs. Approximately one third of the company was using and familiar with IBM Cognos TM1, and found it extremely easy to use because of its Excel-based user interfaces. Administrators with analytics responsibilities also found the application easy to construct and customize new data cubes for specific end-user groups. Additionally, because of the availability of concurrent software seats — regardless of the location of the user — Huntsman anticipated purchasing only one seat for every eight users, which would significantly reduce software costs.

In late 2004, Huntsman decided to be fully standardized on IBM Cognos TM1 by the time it closed its books at the end of 2005. Standardizing was broken down into several components and completed by the director of financial systems during 2005 as the demands of the accounting cycle permitted. The project required:

- Business requirements determination. The existing accounting environment was evaluated to determine its current state, where its shortcomings resulted in manual workflows, and how each operating unit's accounting workflows should look in an all-IBM Cognos TM1 environment. Primary features of the new environment were to include pulling data in local currencies and translating balances in TM1, the automation of inter-company transactions, and more granular data about cash flows for analytical purposes.
- Application fine tuning. A new, more robust IBM Cognos TM1 instance was created, then fine tuned to fulfill the new business requirements.
- Chart-of-accounts construction. A company-wide chart of accounts was created in IBM Cognos TM1, and designed to accommodate both the new business requirements and the existing charts of accounts in the current TM1 and Hyprion deployments.
- Data management. Historically, Huntsman's operating units had separate governance and best practices for accounting and data management. In preparation for the transition, all existing enterprisewide accounting data was scrubbed and tested to ensure that it would accommodate the newly formed reporting requirements.
- End-user training. Huntsman's manager of financial systems spent one week creating a training manual which was used to train 100 end users over the Web and in teleconference calls.

**KEY BENEFIT AREAS**

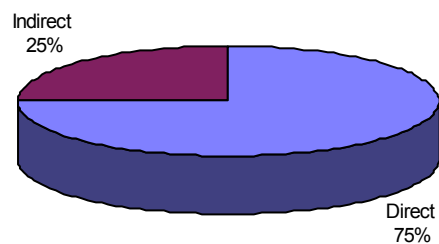
Key benefits from the solution include:

- Avoided headcount. If the company had not standardized on one application, it would have had to increase its accounting staff by 33 percent in order to

achieve both Sarbanes-Oxley compliance and the level of reporting visibility it now has in IBM Cognos TM1.

- Reduced audit fees. Because all of the accounting and related data now reside in one deployment, tests and reporting for the annual audit can now be completed far more rapidly, which has reduced the length of the audit, and reduced the annual audit fee significantly.
- Improved accountant productivity. Creating enterprisewide accounting uniformity across the company has dramatically reduced the amount of time spent by accountants on manual workflows, reconciliations, and rework during the financial close process. As a result, productivity for this staff of 24 has increased by 50 percent.

#### BENEFITS

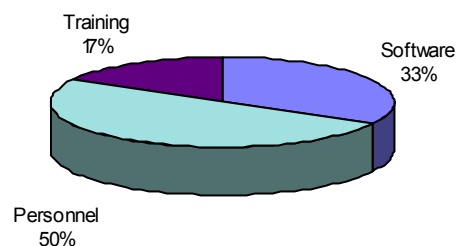


**TOTAL: \$7,252,500**

#### KEY COST AREAS

Key cost areas for the deployment included software, personnel, and training.

#### COSTS



**TOTAL: \$242,927**

Software costs consisted of IBM Cognos TM1 seats and annual license maintenance for 24 new users. Personnel costs consisted of time spent by Huntsman's manager of financial systems, accountants, and data specialists on configuration of the new instance of IBM Cognos TM1, data cleansing, and the creation of a new master chart of accounts. Training costs consisted of formal training for the director of analytics who created a training manual for use by 100 end users, who each then spent an average of one hour in self-directed training. The application and related

data were deployed on existing hardware, and no consulting costs were incurred as a result of the end-user friendliness of the application and institutional knowledge of it.

### **BEST PRACTICES**

One reason the standardization project was so successful is that it was heavily sponsored by Huntsman's controller, who wanted standardization in order to reduce costs and improve analytical capabilities, rather than just enable Sarbanes-Oxley compliance. For this reason, he backed the financial systems director's decision to select a non-ERP vendor in a new approach that would enable better use of ERP data. Backing of the controller was also helpful in ensuring full adoption, especially in Europe, where travel was required by the deployment team. Full adoption was critical, because having even a small portion of the company off of the IBM Cognos TM1 footprint would have significantly diluted the benefits to the financial close process, as well as the validity of analytics.

### **CALCULATING THE ROI**

Nucleus calculated the costs of software, personnel, and training over a 3-year period to quantify Huntsman's total investment in standardization on IBM Cognos TM1.

Direct benefits calculated included reductions to annual audit costs and the avoided headcount addition that would have been required if Huntsman were to become Sarbanes-Oxley compliant without having completed the standardization project. Indirect benefits calculated included the improved productivity of accountants, which was based on their average fully loaded annual cost, an estimate of time saved as a result of the standardization, and a correction factor to account for the fact that not all time saved will be converted into additional work.

# DETAILED FINANCIAL ANALYSIS

## HUNTSMAN CORPORATION

### SUMMARY

Project:	<b>IBM Cognos</b>
Annual return on investment (ROI)	<b>1060%</b>
Payback period (years)	<b>0.09</b>
Average annual benefit	<b>2,417,500</b>
Average annual total cost of ownership	<b>80,976</b>

<b>ANNUAL BENEFITS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Direct	0	1,810,000	1,810,000	1,810,000
Indirect	0	607,500	607,500	607,500
<b>Total Benefits Per Period</b>	0	2,417,500	2,417,500	2,417,500

<b>DEPRECIATED ASSETS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Software	50,000	0	0	0
Hardware	0	0	0	0
<b>Total Per Period</b>	50,000	0	0	0

<b>DEPRECIATION SCHEDULE</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Software	0	10,000	10,000	10,000
Hardware	0	0	0	0
<b>Total Per Period</b>	0	10,000	10,000	10,000

<b>EXPENSED COSTS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Software	0	10,000	10,000	10,000
Hardware	0	0	0	0
Consulting	0	0	0	0
Personnel	86,100	12,000	12,000	12,000
Training	40,827	0	0	0
Other	0	0	0	0
<b>Total Per Period</b>	126,927	22,000	22,000	22,000

<b>FINANCIAL ANALYSIS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Net cash flow before taxes	(176,927)	2,395,500	2,395,500	2,395,500
Net cash flow after taxes	(113,463)	1,202,750	1,202,750	1,202,750
<b>Annual ROI - direct and indirect benefits</b>				<b>1060%</b>
Annual ROI - direct benefits only				792%
Net present value (NPV)				2,632,686
<b>Payback (years)</b>				<b>0.09</b>
Average annual cost of ownership				80,976
3-year IRR				1059%

### FINANCIAL ASSUMPTIONS

All government taxes	50%
Discount rate	15%