

September, 2009

Fighting the Tide: IBM / Cognos BI Users Reduce Overhead, Increase Operating Profit

In the July 2009 study, *BI or Bust? Best Practices for Using Business Intelligence during a Recession*, Aberdeen Group examined how companies of all sizes are using Business Intelligence (BI) tools to adapt to the market pressures of the worst recession since the Great Depression. Aberdeen discovered that despite adverse market conditions, some companies are using BI to not just support, but actually to grow their business through the lean years.

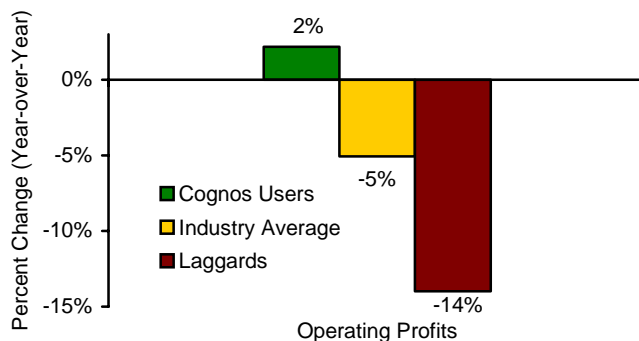
This report focuses on the 65 IBM / Cognos BI users who participated in the BI or Bust study, and compares them to other survey respondents. Aberdeen rates survey respondents according to their performance on a series of metrics, and benchmarks organizations into three groups: the Best-in-Class (top 20% of survey respondents), Industry Average (middle 50%) and Laggards (lower 30%).

Pricing Pressure: A Receding Tide Lowers All Boats

While in the business world a rising tide may raise all boats, a receding tide certainly lowers all boats. The recession has caused pricing pressures across the market as suppliers and customers alike tighten their belts.

Despite these challenges, IBM / Cognos BI users have realized a 2% year-over-year growth in operating profits, while the Industry Average saw operating profits fall by 5%, and the operating profits of Laggards fell 14% (Figure 1). Among larger BI vendors included in this survey, only IBM / Cognos BI users experienced significant growth of operating profits on average since the beginning of the recession.

Figure 1: Cognos Users Grow Operating Profits



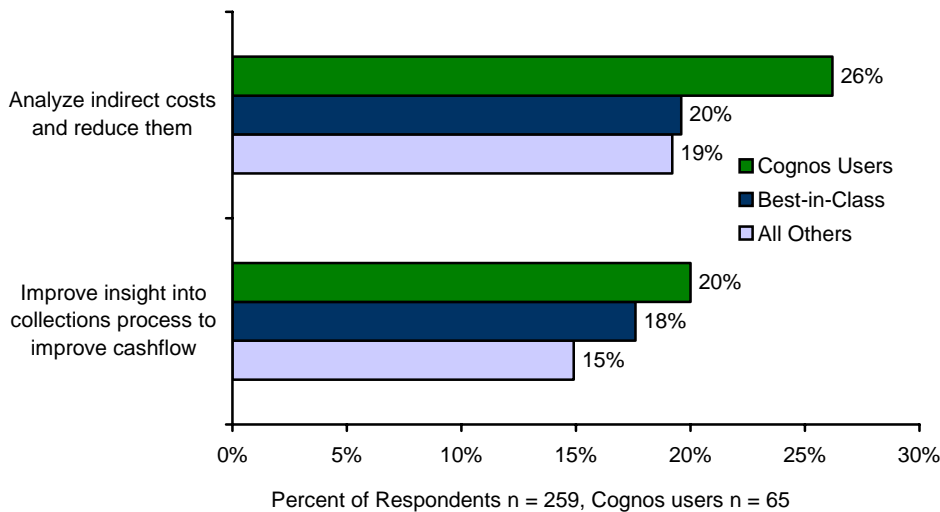
Source: Aberdeen Group, September 2009

Research Brief

Aberdeen's Research Briefs provide a detailed exploration of a key finding from a primary research study, including key performance indicators, Best-in-Class insight, and vendor insight.

Cognos users achieved this growth in operating profits by streamlining their operations. In response to pricing pressure from customers, Cognos users took strategic action to identify and reduce indirect costs, and to improve insight into the collections process, thereby improving cash flow. They are significantly more likely to take these tactics than even the Best-in-Class (Figure 2). Industry Average and Laggard respondents are represented in the following graph as "All Others."

Figure 2: Cognos Users Reduce Overhead



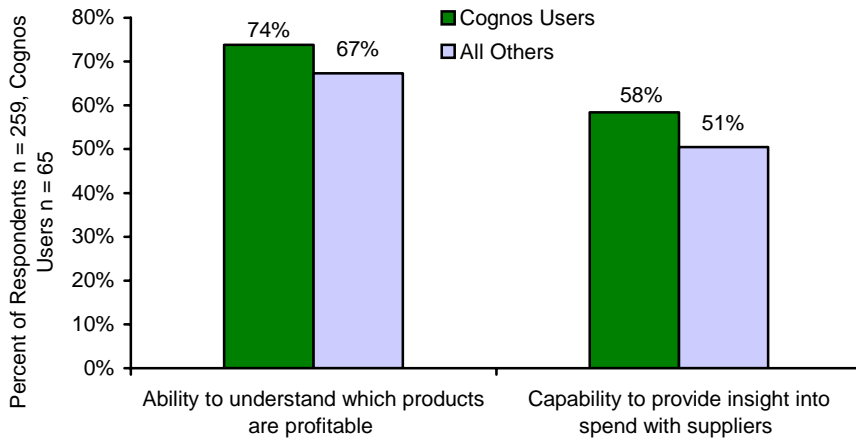
Source: Aberdeen Group, September 2009

The analysis and ensuing reduction of indirect costs obviously leads to a reduction in overhead. Additionally, insight into collections also reduces overhead, because a company that improves its cash flow needs to borrow less money, and is rewarded by decreased interest payments.

This double-pronged strategy for overhead reduction is especially effective when financial markets are under stress. Heavily leveraged companies have experienced notable difficulties since the fall of 2008, and improvements in cash flow not only reduce interest payments, but also insulate businesses against fiscal fallout.

Cognos users have also implemented organizational capabilities which allow them to separate profitable and unprofitable products. This allows managers to reduce costs further by optimizing spending on the product portfolio (Figure 3).

Figure 3: Cognos Users Identify Superfluous Overhead



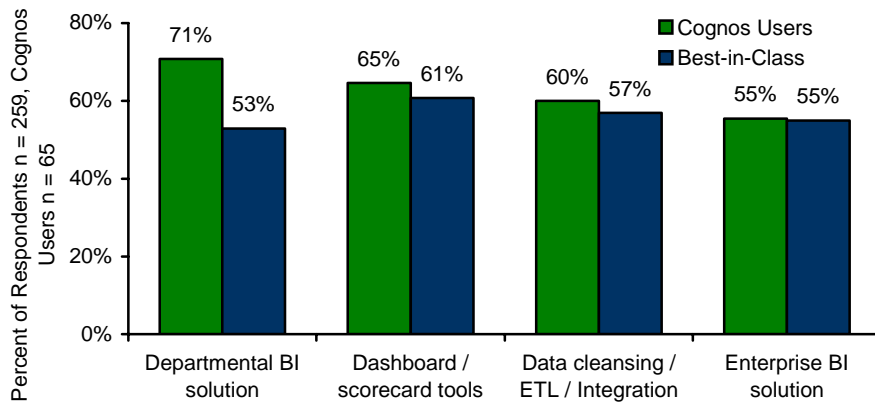
Source: Aberdeen Group, September 2009

Cognos users also have insight into spend with suppliers. The report [Spend Analysis: Transforming Data into Value](#) by Aberdeen Research Analyst Chris Dwyer, due to publish at the end of September 2009, indicates that companies with less off-contract spending have less savings leakage, a condition in which savings from sourcing aren't fully realized due to poor contract management. Best-in-Class companies are 46% more likely than Laggards to conduct regular reviews of contract compliance, and 44% more likely to classify and cleanse their spend data. Cognos users' Spend Analysis-related capabilities thus translate into real gains for the business.

What Cognos Brings to the Table

In pursuit of decreased overhead, Cognos users have sought out a suite of BI technologies that provide insight into all levels of the business.

Figure 4: Cognos Users Approach Pervasive BI Implementation



Source: Aberdeen Group, September 2009

Departmental BI implementations are often adopted as point-solutions; companies that need more insight into sales performance may purchase a BI system for one department and implement further BI solutions for other departments as needed. Cognos customers, who use targeted BI to reduce overhead as discussed above, have a high level of Departmental BI adoption, which speaks to their willingness to invest in technology solutions to improve efficiency.

Despite the temptation to keep immediate costs down by purchasing Departmental BI solutions as needed, companies should remember the Indian story of three blind men and their first encounter with an elephant: one feels the trunk and exclaims that an elephant must be a kind of snake, while another touches the leg and announces it a form of tree, and a third, touching the hair at the tip of the elephant's tail, says with confidence that an elephant is a bush. Think of the three blind men as different departments in a business. Each has correct intelligence about his own experience, but without a way to integrate these experiences, each lacks a deeper understanding of the situation they all confront.

This is the key advantage of an Enterprise BI implementation. Enterprise BI comes with a dedicated data warehouse, a central repository of information that removes the challenge of integrating data from conflicting departmental solutions. Furthermore, data cleansing tools, purchased separately or as part of an Enterprise BI solution, serve as guards and organizers of incoming information, to ensure that the data warehouse is well-stocked, and also easily navigable. Thus, management can use Enterprise BI to analyze business performance across a range of departments and glean important strategic insights, thus "seeing the whole elephant."

Key Insights

As your business confronts the current economic climate, keep the following tips in mind:

- A rainstorm is a great time to find leaks in your roof. Periods of hardship are an opportunity to re-assess priorities established during different economic climates, for example by analyzing product profitability and reducing overhead. Cognos customers were 37% more likely than Industry Average and Laggard respondents as a group to analyze indirect costs and reduce them, which contributed to their growth in operating profit as Industry average and Laggard respondents saw their operating profits fall an average of 8%.
- Business Intelligence tools, properly deployed, can help a company identify costs contributing to overhead. As business priorities change, these costs, whether product-related, debt-related, or spend-related, can be cut to improve profits. Cognos customers were 10% more likely than All Others to understand which of their products were profitable, and 13% more likely than All Others to have insight into spend with suppliers.

- Understand that BI is not "fire and forget" - constant innovation will reward the effort put into its installation, its upkeep, the education of employees in its use, and its innovation as business dynamics change over time. Aberdeen's July 2009 report, [BI for the SMB 2009: How to Slash Cost and Empower the Business User](#) found that Best-in-Class companies are half again as likely as the Industry Average to establish BI training programs and to regularly review the use of their BI tools.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
BI or Bust: Best Practices for using Business Intelligence during a Recession; July 2009 Pervasive BI: Six Steps to Enterprise-wide Business Intelligence; June 2009 Executive Dashboards: The Key to Unlocking Double Digit Growth; May 2009	Operational Business Intelligence; April 2009 Business Intelligence for SMB's; November 2008 Operational KPI's and Performance Management; August 2008
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