Smarter Profitability Management with IBM Cognos Financial Analytics

Nick Anderson

IBM Business Analytics

IBM

IBM Finance Forum 2011

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amazon.com.

⬆ Performance ➜ **Q4 2008 was best quarter ever**

⬇ Backdrop ➜ Largest drop in consumer spend in decades

IBM.

We **transformed the IBM company and you can see it in our financial performance**...If we hadn't there is no way '08 would have been record (revenue), record (profits), record (cash)!
- **Sam J Palmisano, Chairman and CEO, IBM**

When the going gets Tough......
What do these companies have in common?
.....the tough get Going!

amazon.com. **GAP** **IBM.** Kennedy (1888-1969)

| Information | Intelligence | Insight | Action |

...costs and manage their
...better than its competitors
...ronment.
(Analyst firm upgrading the stock in Q4)

GAP

….what the world calls as "Analytical Competitors"

IBM

Span of Analytics…
..…includes Profitability Analysis

Online

NETFLIX **amazon.com**

Buy Now. Fares will rise. Wait. Fares will drop.

- Cinematch
- Throttling (customer profitability)
- Also purchased (customer profitability)
- Farecast Predictive Analytics

Professional Sports

- HR Analytics

Harvard Business Review
www.hbrreprints.org

Some companies have built their very businesses on their ability to collect, analyze, and act on data. Every company can learn from what these firms do.

Competing on Analytics

by Thomas H. Davenport

Travel & Entertainment

Harrah's **Marriott**

- Customer Loyalty
- Revenue Management / pricing optimization (product profitability)

Financial Services

Capital One **Bank of America**

- Customer Profitability
- Consolidated Risk Management

Do we think, or Do we know?
– Gary Loveman, CEO, Harrah's Entertainment

IBM

The Greater Reponsibility on the CFO

IT

Tax/Treasury

Controller

FP & A

CFO
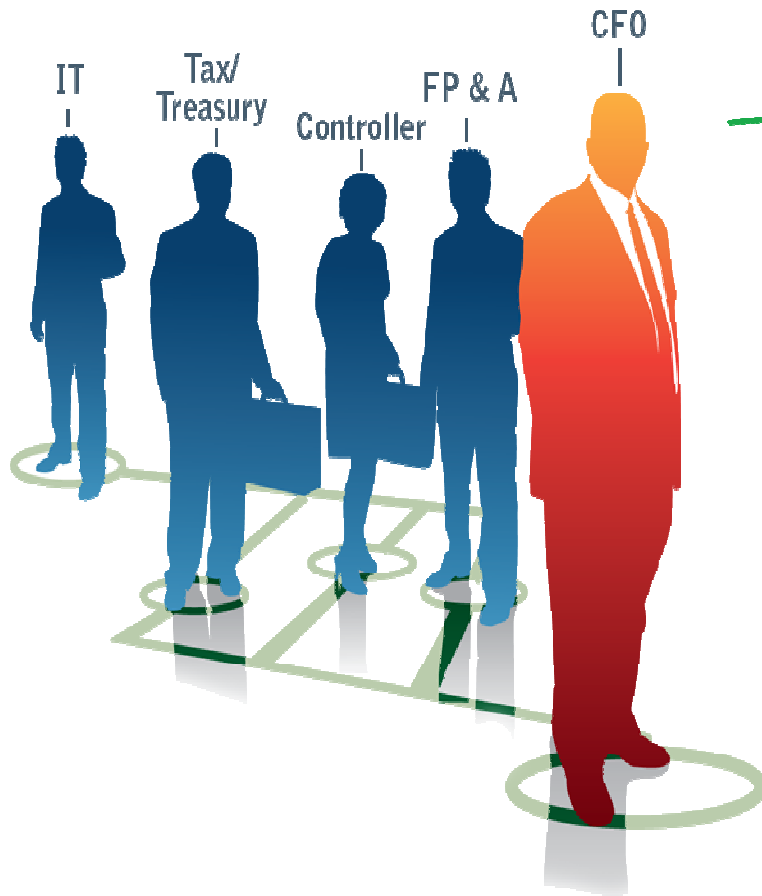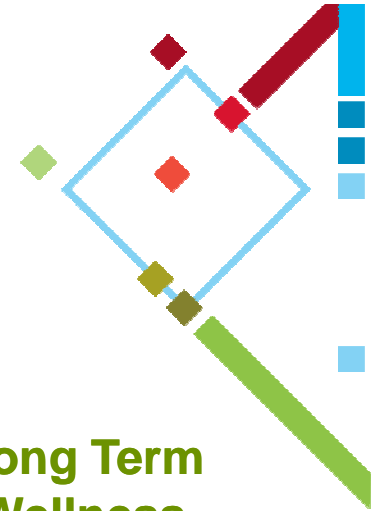
- Drive cash flow
- Cut costs
- Improve profits
- Manage risk

Long Term Wellness

Short Term Lifeline

What is Financial Analytics?

- A subset of Financial Performance Management

- "Profitability" is the key measure

- "Insight" based "Action"
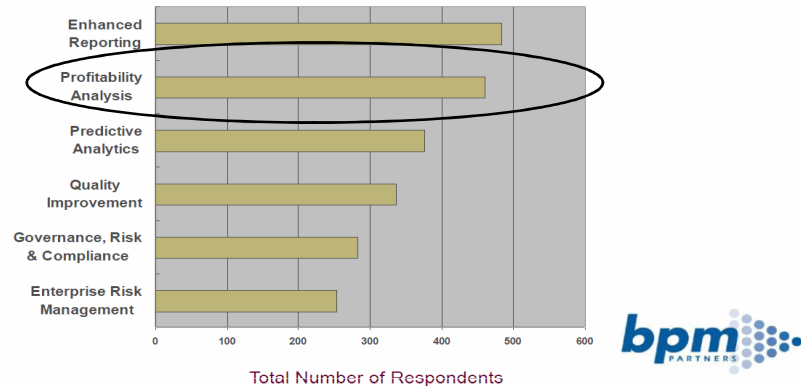
- Highly relevant during turbulent economic times

Information Intelligence Insight Action

PERFORMANCE

MEASURING & MONITORING

PLANNING

REPORTING & ANALYSIS
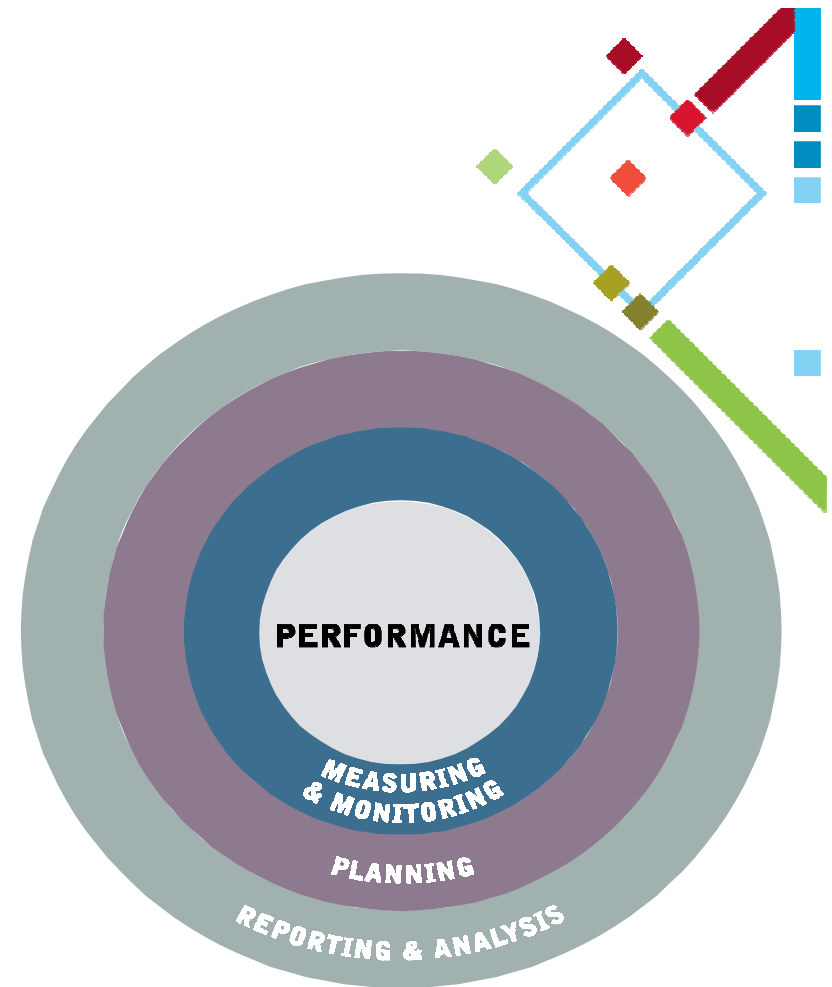
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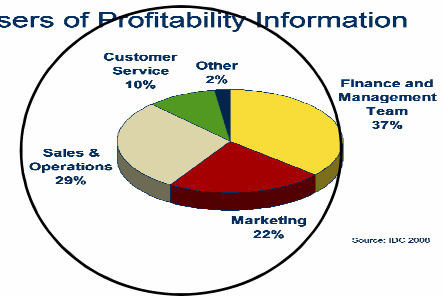Profitability Analysis is **important** during turbulent times

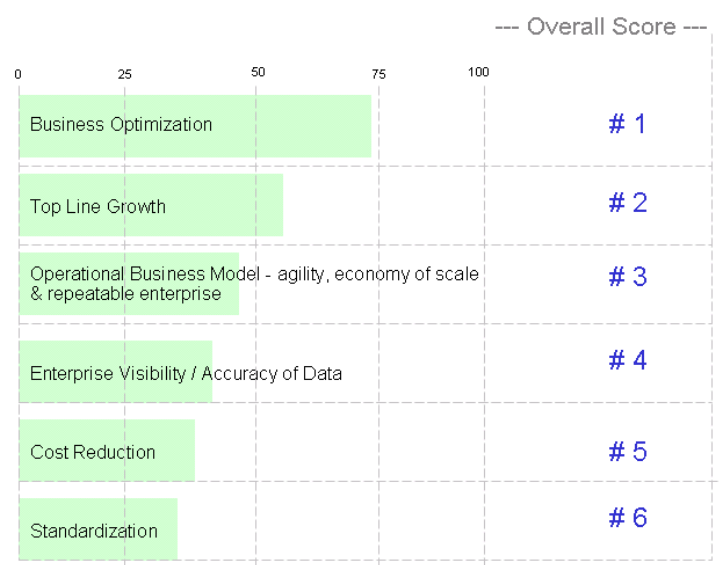Profitability Analysis increasingly relevant **outside finance**

Source: IDC, Measuring Profitability: IDC Views and Customer Special Guest- Verizon Business, Doc # TB20080508, May 2008
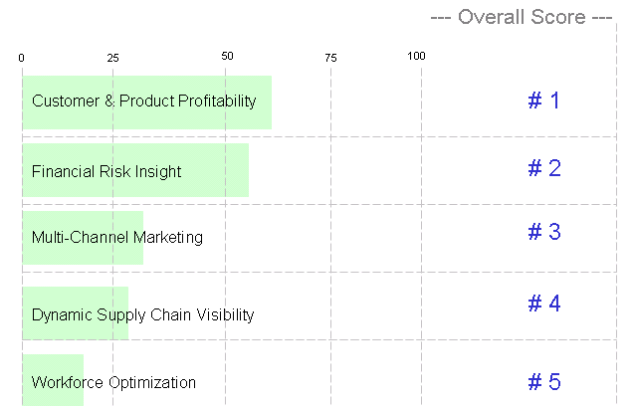
Simultaneously, profitability #1 driver for business optimization which is #1 driver reshaping the use of information
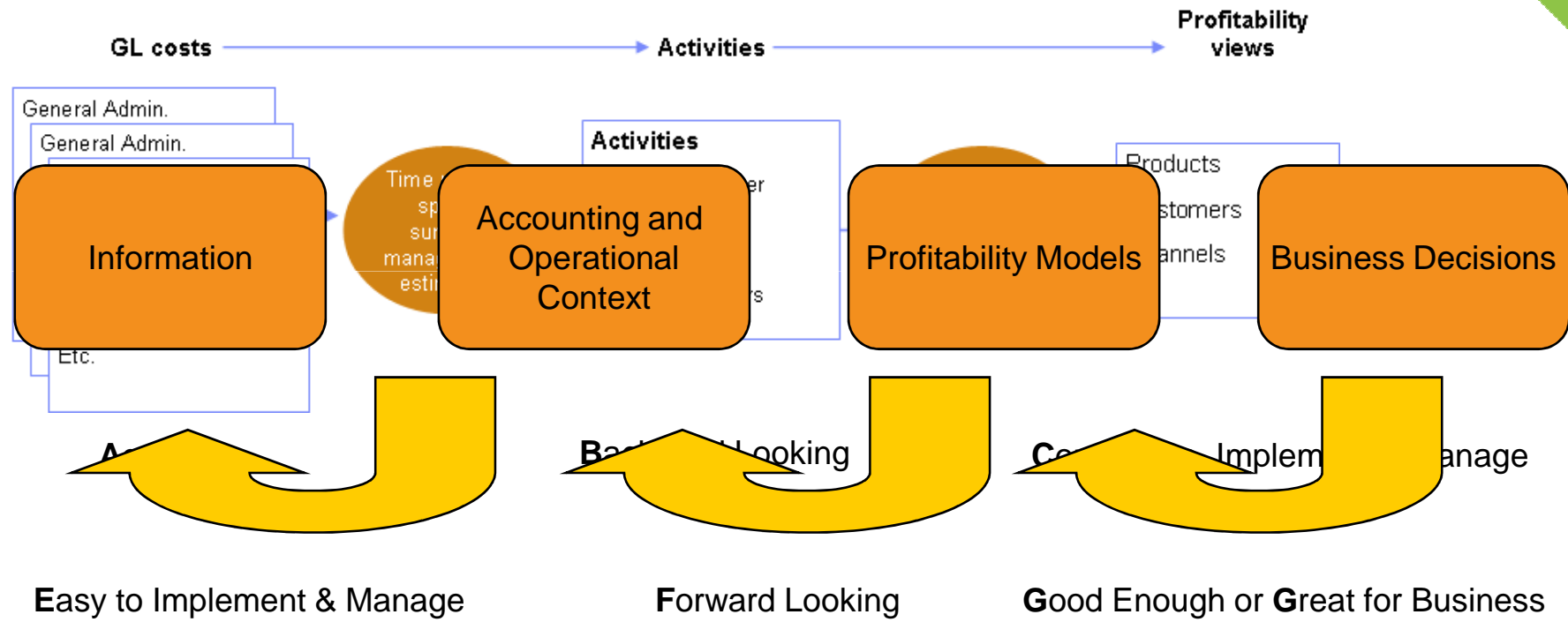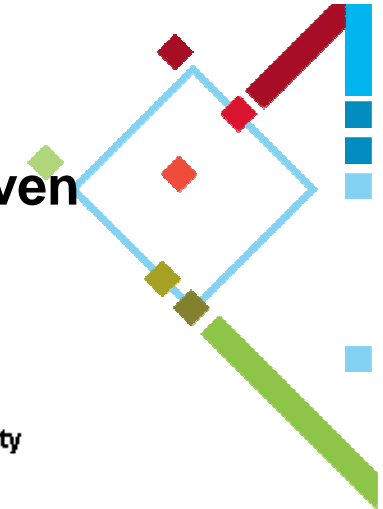
Cognos Strategic Advisory Board 2009

Profitability Analysis – Accounting Driven to Business Driven

GL costs ⟶ Activities ⟶ Profitability views

General Admin.
General Admin.
Etc.

Activities

Products
Customers
Channels

| Information | Accounting and Operational Context | Profitability Models | Business Decisions |

Accurate **B**ackward Looking **C**omprehensive Implement Manage

Easy to Implement & Manage   **F**orward Looking   **G**ood Enough or **G**reat for Business

Customer Profitability – a sample Financial Analytics problem

Challenges & Needs

- Who are my profitable customers?
- Who do I continue servicing (as is) and who do I work with to improve profitability?
- How can I segment my customers based on profitability?
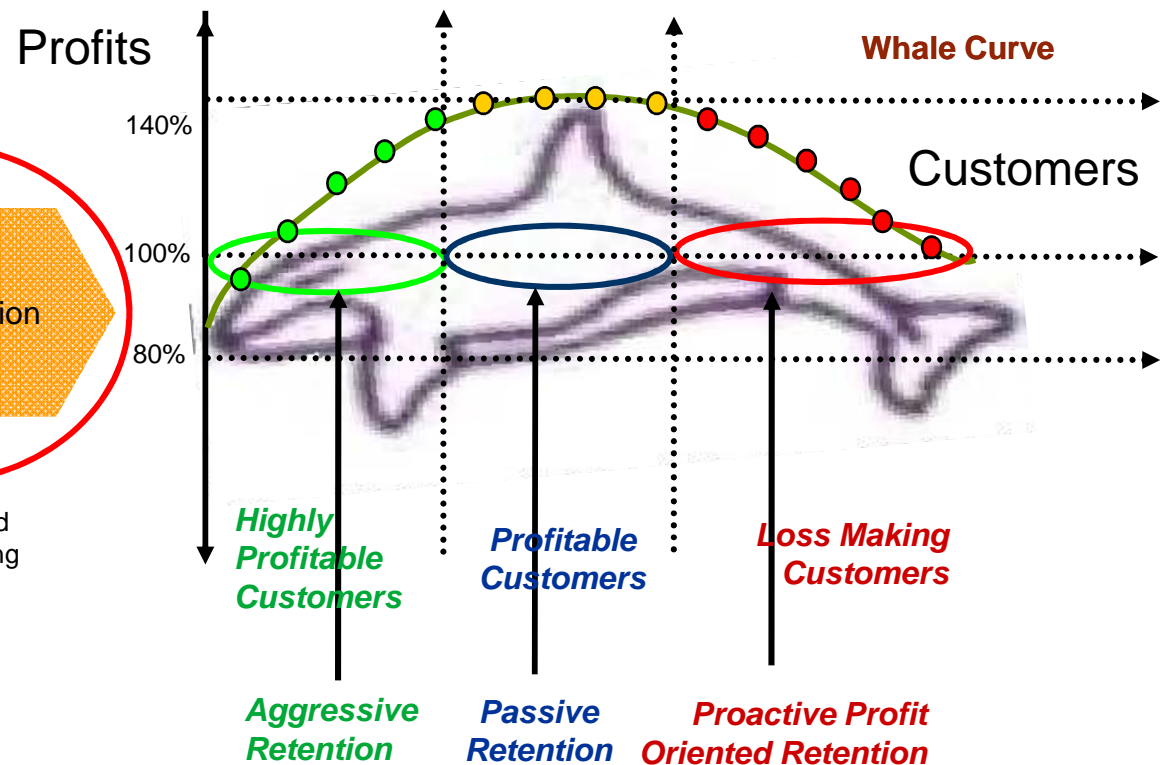- What actions can I take to influence change?

Information | Intelligence | Insight | Action
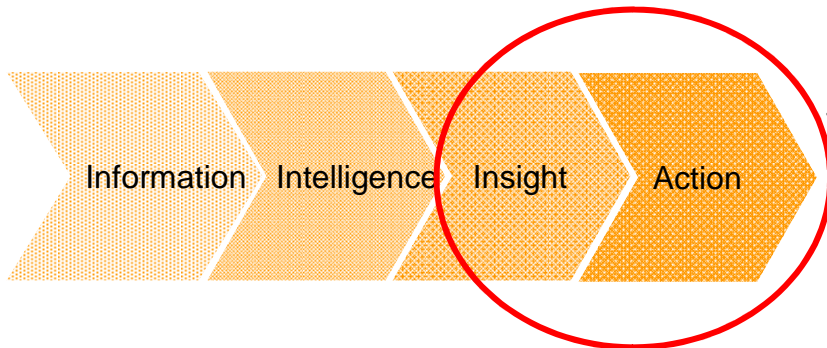
Dimensional shift from traditional product to customer accounting

Revenue recognition and cost allocation (including ABC paradigm)

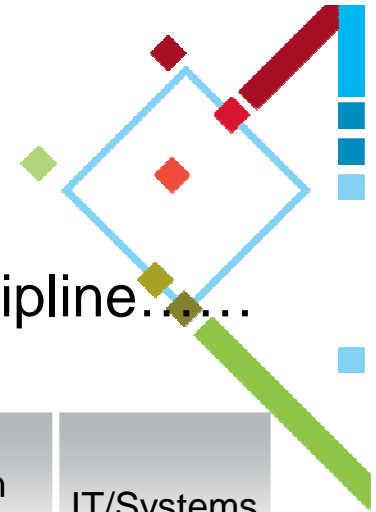Customer Segmentation

Targeted Marketing Mix

Profits

Whale Curve

140%

100%

80%

Customers

Highly Profitable Customers

Profitable Customers

Loss Making Customers

Aggressive Retention

Passive Retention

Proactive Profit Oriented Retention

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Financial Analytics is a latent need......

really a cross enterprise discipline......

Sales	Marketing	Customer Service	Finance	Product Development	Operations	Human Resources	IT/Systems

What are the most profitable channels? How can I optimize my channel mix?

- Financial Reporting
- Capacity Analytics
- Service Level & Capacity Analytics
- Sales Pipeline Analytics
- Sales and Channel Mix
- Revenue Analysis
- Production Planning

How "cost efficient" are my operations? How can I optimize my operational capacity?

- Profitability Analysis
- What – if's / Scenario Analytics
- Product Profitability
- Campaign Effectiveness
- Product Segmentation
- Workforce Analytics
- Customer Profitability
- New Product Introduction
- Compensation Analytics

REPORTING AND ANALYTICS

- Customer Satisfaction

Who are my most profitable customers who need to be satisfied? How can I optimize my customer servicing costs?

Are all my profitable products being marketed adequately? How can I optimize my marketing spend dollars relative to their life cycle?

Financial Performance Management

IBM

Cellular South leverages IBM Biz Analytics PM&O Solutions to Thrive in a Competitive Market
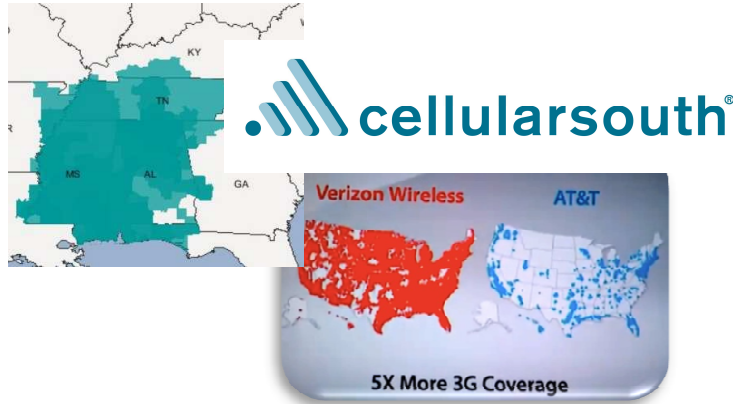
Who is Cellular South

Nation's largest privately held wireless company, is headquartered in Jackson, Mississippi and employs approximately 1,350 people living in the Southeastern United States.

Cellular South provides premier wireless devices and services to customers through 80+ retail locations, our B2B corporate sales team, our Telesales group, and on-line at cellularsouth.com.

Business Challenges

- Highly competitive industry
- Recession
- Smaller competitor
- How do we make better decisions?
  - Product structure
  - Pricing
  - Process

PM&O Solution

- How does profitability vary by market and why?

- How will a proposed promotion impact the Netbook product line margins?

Sun World leverages IBM Cognos TM1 to Analyze harvest costs and manage profitability
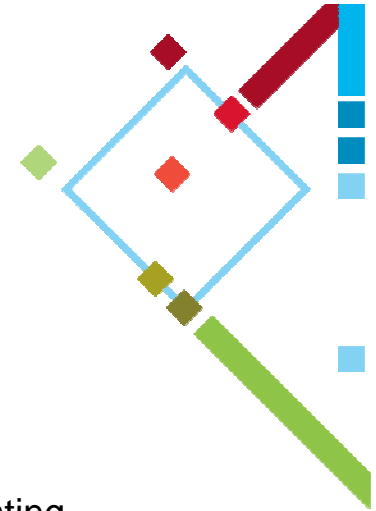
Who is Sun World?

Based in Bakersfield, California, Sun World International grows and markets fresh fruit and vegetables.

Business Challenges

Improve operating efficiency through detailed operations and cost analysis

PM&O Solution

Extend the use of the IBM Cognos TM1 system to the Operations side of the business when it teams with Applied Analytix – an IBM Business Partner
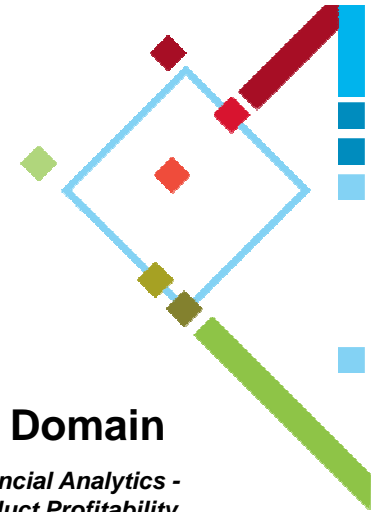
Benefits

Improved ability to analyze farm production costs; increased harvesting efficiency; major reduction in reporting time—from a full day for three people to minutes

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Product Profitability Blueprint

Industry

Retail – Merchandise Planning
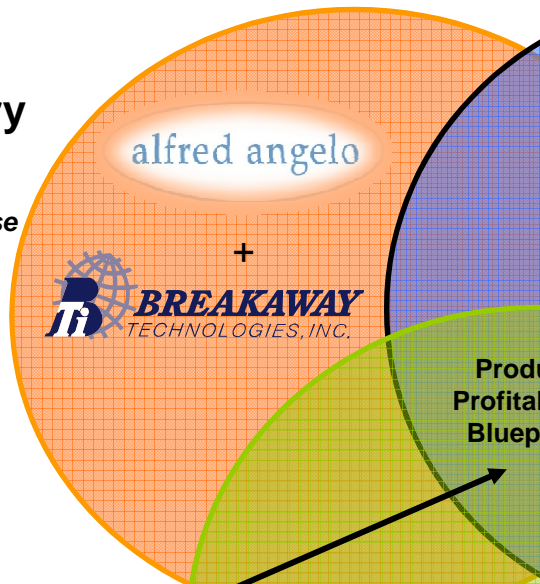
FPM Domain

Financial Analytics - Product Profitability
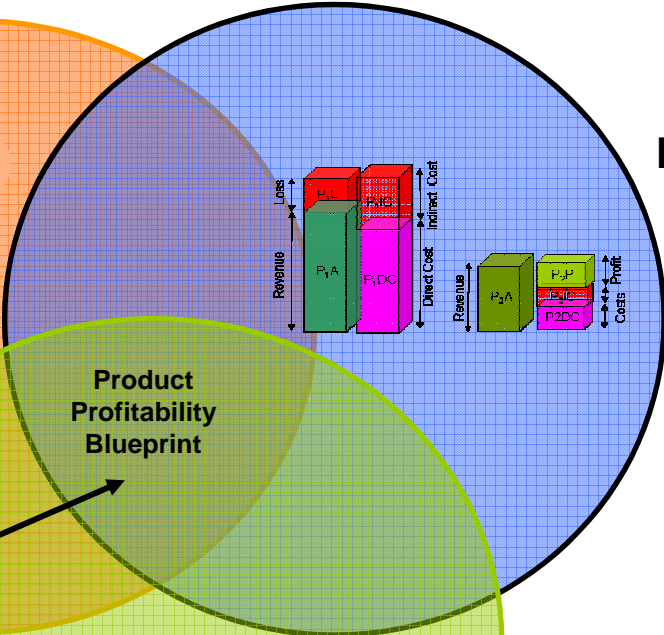
Product Profitability Blueprint

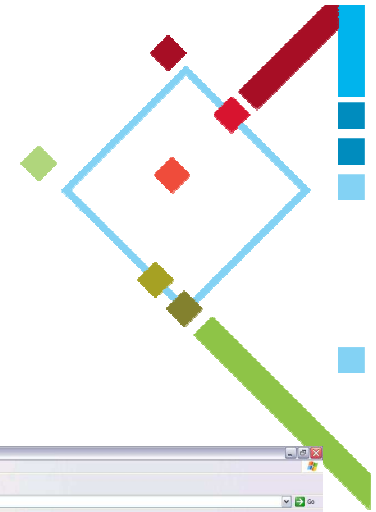- Point innovation at the exact intersection of customer problem
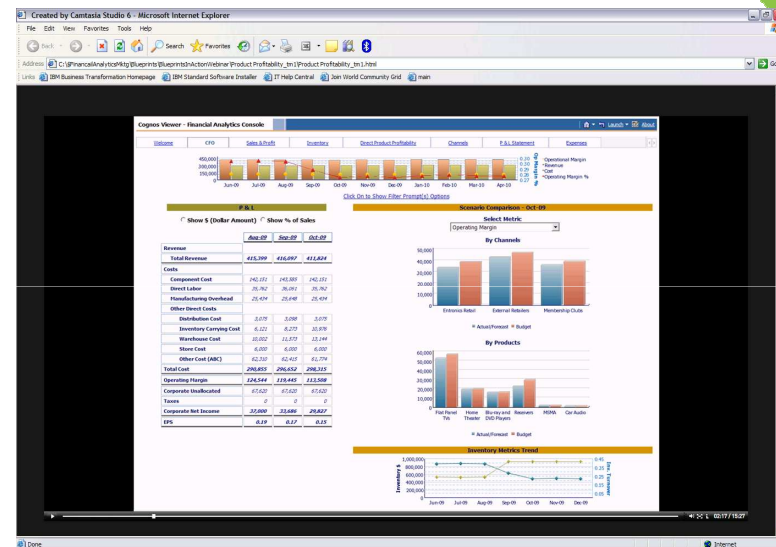
Products

Cognos 10 & TM1

Product Profitability Analytics Blueprint – Business Value

- **Deep hierarchies for profitability analysis & analysis at the exact level of granularity**
  - Company level to individual SKUs
- **Alternate dimensions to profitability analysis**
  - Product – Channel profitability
- **Business context to profitability**
  - Links profitability to operational drivers – Detailed revenue and cost structures
  - Open standards based integration into costing engines (including ABC)
- **Complex metrics for profitability analysis**
  - Direct Product Profitability (DPP) - Sample
  - Easily extendable into all industries
- **Forward looking**
  - Profitability Modeling & Optimization
- **Tie back into other FPM processes**
  - Commit the actions based on analytical insights to steer future business course
- **Analytical power of IBM Cognos TM1®**
  - Integrates transactional sources
  - "What if" analysis and scenarios
  - Highly scalable across millions of data points etc.
  - Supports heavy allocations (for instantaneous computations)
  - Single version of truth (data integrity) through the IBM IoD
- **Business Intelligence ubiquity of IBM Cognos BI®**
  - Contextual role based analytical insights
  - Standardized platform for analytical insight / action from profitability across the organization
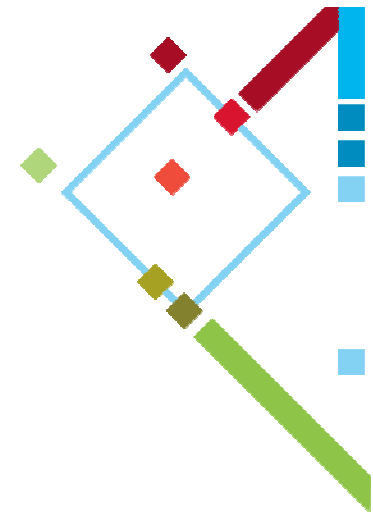

CFO Dashboard – Product Profitability Impact

Demonstration

Welcome	CFO	Sales & Profit	Inventory	Direct Product Profitability	Channels	P.&L Statement	Expenses

IBM.

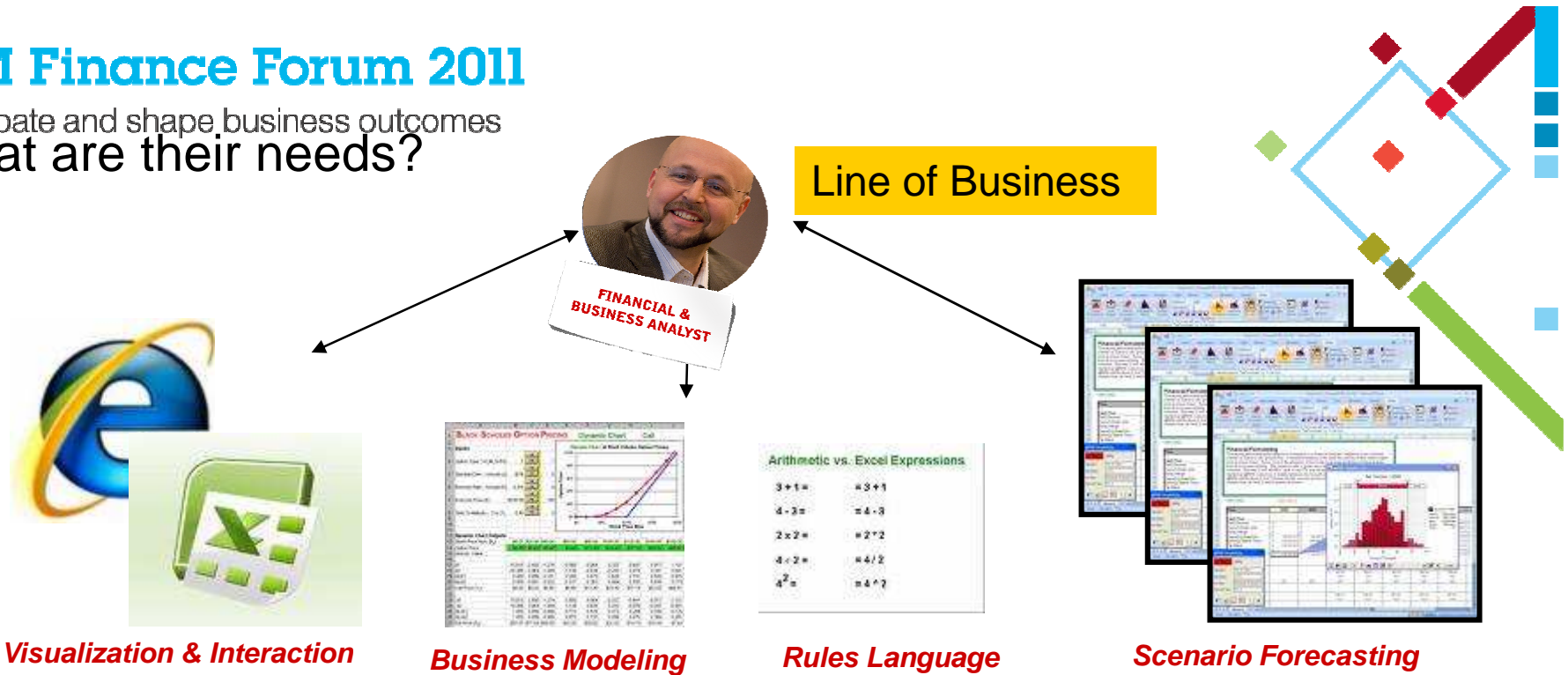**Financial Analytics - Product Profitability Blueprint**

1.0

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Java

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What are their needs?

Line of Business

FINANCIAL &
BUSINESS ANALYST

Visualization & Interaction   *Business Modeling*   *Rules Language*   *Scenario Forecasting*

Multidimensional Cubing   *Scalability & Performance*

IT
Specialist

*Information –
Access,
Quality,
Timeliness*

Functional IT

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TM1 has particular affinity for Financial Analytics

Feature	Benefit
Cognos TM1 Excel	Easily create reports and templates deployed via Excel or web
Cognos TM1 Web	Simply access Excel "generated" reports or input templates

Feature	Benefit
64-bit	Model and analyze large data volumes with fast response times
In-Memory	Easily create simulations interactively to test new business assumptions
Multi-Cube	Model any type of business process; natural way to build models
Rules Language	Create complex financial applications
Turbo Integrator	Easily load large amounts of data quickly (e.g., intraday) from any sources including ERP, DW, etc.

....because analytics is about **analyst interaction**

….and about robustness of **server based data paradigm!**

indosat

- *Existing TM1 customer in Indonesia*
- *Large Telecom company*
- *36 million subscribers*
- *275 million transactions processed per day from over 70,000 files*
- *hardware*
  - *140 GB RAM dedicated to TM1*
  - *28 processors*

IBM

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Why IBM Biz Analytics?
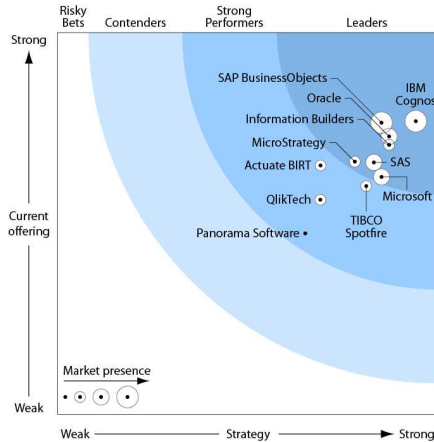
Industry Analyst Recognition - BI and FPM Leadership
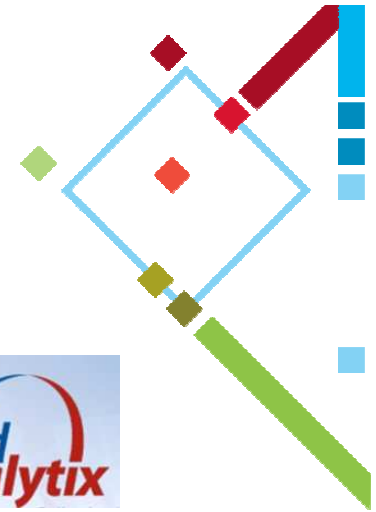
Partner Ecosystem Leadership
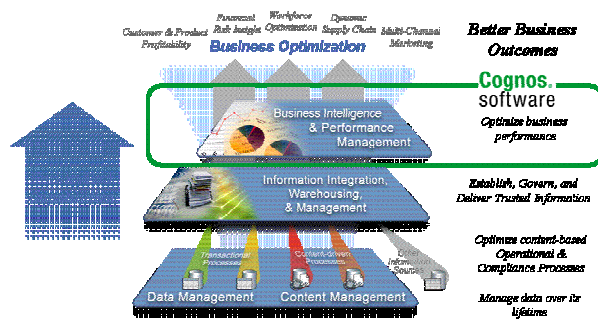
Information Management Leadership
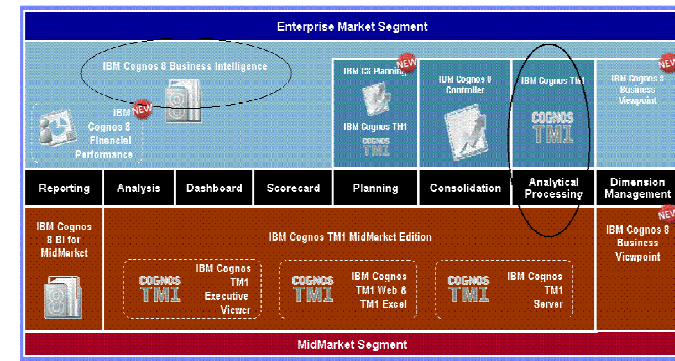
Product Leadership – TM1, C10BI
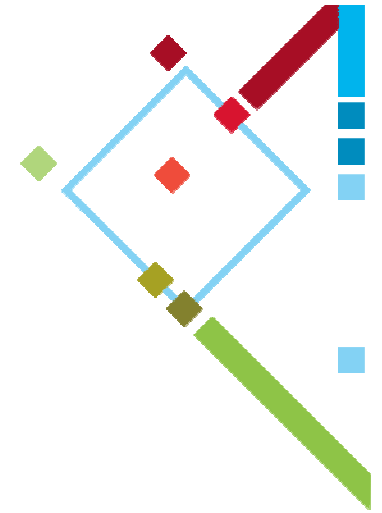
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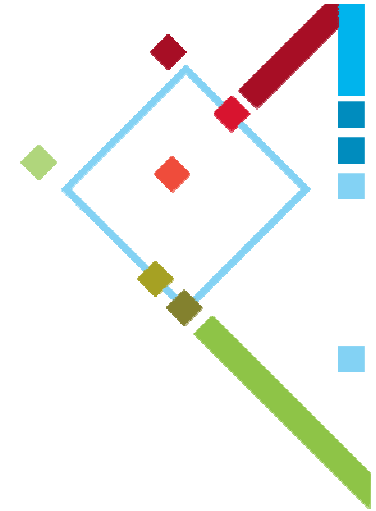
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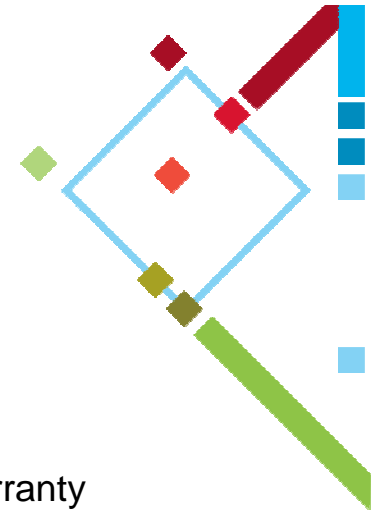
Thank you

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