

Profitability Analysis at Your Fingertips

Surviving uncertain economic times and thriving beyond



Highlights

- Provide users in all areas of the company with the insight they need to deploy limited resources in pursuit of the most profitable opportunities.
 - Rapidly model and quantify factors affecting profitability.
 - Explore, manage and share profitability scenarios and data, without the constant need for IT support.
-

Overview

Economic uncertainty and an increased focus on profitability are driving companies to look inward as they more frequently ask themselves three fundamental questions on performance:

- How are we doing?
- Are we on track?
- Can we perform better?

This corporate soul searching has stepped up the pressure on finance organizations to take a variety of actions to help their companies navigate the current economic turbulence. Not only do businesses need short-term lifelines to respond to a mercurial global economy and fluctuating availability of capital, but they also need to drive cash flow, contain and reduce costs, manage risks and improve profits. And yet, when surveyed, most CFOs say that a significant amount of performance potential (revenue growth, profitability, and shareholder value) is lost due to sub par performance management practices. In fact, some CFOs say that as much as 70% of potential is lost.¹

In addition, CFOs are being asked to transform critical business processes, responding creatively to constantly changing conditions, sometimes even re-mapping the entire course of the business.



While finance organizations navigate through these challenges, the quantity of information has mushroomed, and all business functions now regard this universe of data as a strategic, competitive asset. Finance organizations must capitalize on this information, using it to build intelligence and acquire the insight to respond more effectively to changing business conditions.

“Sophisticated analytics can help Finance uncover correlations among seemingly unrelated pieces of information and find patterns nearly impossible to detect manually.”

—The New Value Integrator: Insights from the Global CFO Study²

One of the most critical challenges CFOs face is that of monitoring key metrics on profitability while using the information gleaned from intelligence discovery processes to the organization’s strategic advantage. IBM offers solutions to help CFOs and finance organizations meet this challenge.

Profitability: The new imperative and a new approach

Profitability analysis is a cross-enterprise discipline that seeks to unlock profit potential wherever it may be found. Once primarily a management and accounting-driven reporting exercise, it is now being used to help all parts of a company gain the insight necessary to deploy their limited resources in pursuit of the most profitable opportunities. Departments and divisions such as sales, marketing, operations and engineering can use profitability analysis to answer simple, profit-focused questions in the context of their day-to-day strategic and tactical business decisions. Examples of these questions include:

- Who are my most profitable customers?
- What are my most profitable products or service lines?
- Which are my most profitable sales channels?



Figure 1: Profitability analysis now extends beyond management and accounting to help all divisions, departments and functions answer critical questions.

With this evolution of profitability analysis, profitability itself has moved to the front lines of the business where employees are making daily “micro-optimization” business decisions. This transformational shift is compelling not only finance but all business functions to move beyond the complexity of costing to focus on an approach that helps their entire business. Today, an analyst or team of analysts, often cross-functional, starts with a specific business decision that needs to be made and moves back through a number of activities and disciplines to obtain the source information needed to illuminate the full range of factors affecting the ultimate profitability of a given course of action.



Figure 2: From business decision to information, analysts need to look at profitability modeling and optimization through the eyes of the entire company.

In addition to pursuing cross-functional input into profitability, forward-thinking organizations are applying new business practices, tools and automation to this kind of analysis so that they can effectively:

- Assess the right profitability metrics that can optimize business performance.
- Move from merely a costing-oriented, historical profitability reporting exercise to a forward-looking profitability modeling paradigm.

- Tie profitability analysis to other enterprise performance management processes such as planning, financial consolidation, controls reporting, strategy management, scorecarding and more.
- Analyze different dimensions of profitability (for example, customer, channel, product, region, line-of-business, employee, and supply chain).
- Apply advanced analytics based on a broader array of data.
- Increase the frequency and speed of profitability analysis for both short-term and long-term benefit.

Profitability Analysis

Profitability analysis powered by IBM® Cognos® Enterprise provides the necessary capabilities to address the full spectrum of enterprise profitability considerations, delivering the key metrics needed to understand not only the typical historical view, but causality and the scenarios to determine the best next actions to be taken. A powerful and flexible solution that includes reporting, analysis, modeling, planning and collaboration, Cognos Enterprise scales to support the profitability analysis and decision making of large numbers of users—and can be readily blended into planning and forecasting processes at the enterprise level.

Financial and business teams can tap the power of IBM Cognos TM1, a key component of Cognos Enterprise, to perform intensive profitability analysis and to rapidly extend their analysis and findings to other business functions, without turning to IT for constant support. The result? They improve their understanding of profitability outcomes and thereby work towards optimizing resource inputs.

Summary: Profitability Analysis, Modeling and Optimization with IBM Cognos Enterprise

- Capability for business analysts in all functions, in addition to finance, to model and quantify factors affecting profitability — for greater participation and deeper commitment
- The scaling of profitability models across the enterprise, incorporating operational and financial aspects of the business, including the smallest of subsets as needs dictate
- A personal desktop analytic capability to explore visualize, model, and share profitability scenarios
- Advanced, complex analytics capabilities provided by integration with IBM SPSS predictive analytics for statistical support of analysis
- The ability to maintain data process standards in profitability modeling, analysis, and reporting

The IBM Advantage for Profitability Analysis, Modeling, and Optimization

IBM Cognos TM1 supports profitability analysis with advanced technology combined with:

- IBM Cognos Insight, which provides personalized analysis on the desktop, a zero-configuration client that can be used to explore, manage, and share profitability scenarios and data, without constant need for IT support.
- Guided modeling and application design and deployment for diverse and unique profitability problems and for blending the models seamlessly into planning, forecasting, and reporting.

- A choice of interfaces to access highly personalized and interactive information in dashboards and reports, through a Web browser or on the desktop.
- Patented, 64-bit, in-memory OLAP for enterprise scalability and real-time scenario modeling—with some of the fastest response times available.
- Performance Blueprints. Templates for improving profitability models, reducing time to value, at less cost, with less risk.

The sections that follow provide more technical detail about these capabilities.

Analyze

With Cognos Insight, the personal desktop component of Cognos Enterprise, business analysts and finance users alike can rapidly develop their own profitability models—for either corporate- or business-level views—and explore different perspectives of their models, performing powerful scenario analysis, trending, slicing and dicing, data discovery and predictive configurations. With the required speed for profitability analysis and without waiting for a batch process or an analyst to build a model, business users can model best-case, worst-case and most-likely outcomes based on their key business drivers. For example, within a few minutes, a customer service manager could analyze the profitability of various offers to a customer and in the process view the effect of offering a discount (with an eye on retention) instantaneously.

To build their analyses, users can access the data they need—managed or personal—importing it to the workspace on their desktop client and then merging it with other data. Cognos Insight includes a set of advanced rules and the flexibility to create custom rules that can be used to automatically perform comparisons or calculations.

Users can enhance their profitability analysis in a tailored dashboard, with charting and design themes and then collaborate with other work groups or departments by promoting their findings in the Cognos TM1 Contributor Portal or in IBM Cognos Business Insight. The same “discovered” information can also be shared with other business team members via the Web or through Microsoft Excel spreadsheets.



Figure 3: A business development manager can perform an analysis of partners’ profitability in minutes and share that discovery with her team, with tailored commentary, charts, and a request for input.

Advanced Analysis Capabilities

To handle the diverse needs of those involved in the profitability analysis process and the intense nature of the calculations involved, Cognos TM1 provides a high performance in-memory online analytical processing (OLAP) “engine.” With this engine, users can analyze all kinds of frequently changing profitability data, even for millions of items, such as stock keeping units (SKUs) in retail or customer transactions in the banking industry. The deep analytics capabilities of the Cognos TM1 engine also enable analysts to pursue a fact-based approach to validate assumptions about what drives profitability.

To simplify calculations in profitability analysis, Cognos TM1 supports changes in input values and dynamically recalculates on the fly. This on-demand responsiveness against large or complex data sets (not possible with spreadsheets) means that users have the ability to perform fast, iterative what-if queries on models, key to discerning business alternatives.

With the integration of data between Cognos TM1 and IBM SPSS predictive analytics, enterprises can use statistical analysis, data and text mining, predictive modeling and decision optimization to anticipate change and take action to improve their profitability analysis even further. For example, analysts can use econometric regression for predicting future profitability or linear programming models for optimizing resource input.

Embedding Profitability Analysis into Financial Planning

Beyond individual and group analytics capabilities, profitability models can be extended into other financial processes, broadening the use of the models and increasing the return on investment by sharing them among more business functions. Cognos TM1 Performance Modeler, with its flexible modeling environment, provides seasoned planners with a full array of analytics, model creation and refinement for the profitability model—as well as the steps to add the model to the corporate planning portfolio.

A financial analyst can import a profitability model into the Cognos TM1 modeling environment, add a new dimension such as price or unit costs, perhaps modify a calculation or metric, and with guided steps, easily import data and metadata, such as accounting and operational information from multiple sources, mapping input to the model with simple gestures. She can then link the template to the corporate portfolio of plans or reports—again, following guided steps and without calling on special IT support. Users, processes and applications can thus share profitability models consistently, enabling collaboration between finance and business teams for optimal decision making.

Product Profitability Analytics Performance Blueprint

Over the last several years, finance organizations have invested substantially in sophisticated costing and management accounting processes. The net effect of these investments has typically been, at best, a backward look at product-level profitability. Business users from many departments in an organization such as sales and marketing, product development and even procurement struggle to use product profitability financial intelligence to gauge their performance and to undertake specific actions to enhance profits.

To help organizations meet the challenge of analyzing product-level profitability, experts and thought leaders from IBM have worked with industry innovators and business partners to develop Performance Blueprints, which can improve processes and reduce time to value, at less cost and with less risk. These blueprints—free to customers—are pre-defined data, process and policy models that are easily implemented and address a number of essential functional process areas as well as the unique needs of specific industries.

The Product Profitability Analytics Blueprint helps uncover product-level profitability within the context of operational business decisions, moving profitability management from the CFO's office to the front lines, where most decisions affecting profitability are really made. The CFO's office now becomes the facilitator of such decisions rather than being simply the gatekeeper with veto power.

Multiple industry-focused blueprints address profitability measures:

- Branch Performance for Banking
- Corporate Banking Customer Segment Performance
- Retail Banking Customer Segment Performance
- Insurance Product Profitability Performance
- Risk-adjusted Profitability Performance
- Retail Financial Workbench and Scorecard Performance
- Retail Assortment Management Performance

Conclusion

Profitability analysis is important to all companies. But in times of economic uncertainty, it becomes even more critical because organizations need a comprehensive and forward-looking view of profitability to ensure that they can remain financially viable, whatever the economic circumstances. For companies to be successful, they need automated systems that enable interactive profitability analysis that can be shared across a broad swath of users. They also need robust, advanced analytics, to provide detailed granular metrics for assessing profitability and measuring performance. IBM offers solutions that can meet those needs.

About IBM Business Analytics

IBM Business Analytics software delivers actionable insights decision-makers need to achieve better business performance. IBM offers a comprehensive, unified portfolio of business intelligence, predictive and advanced analytics, financial performance and strategy management, governance, risk and compliance and analytic applications.

With IBM software, companies can spot trends, patterns and anomalies, compare “what if” scenarios, predict potential threats and opportunities, identify and manage key business risks and plan, budget and forecast resources. With these deep analytic capabilities our customers around the world can better understand, anticipate and shape business outcomes.

For more information

For further information or to reach a representative please visit ibm.com/analytics.

Request a call

To request a call or to ask a question, go to ibm.com/business-analytics/contactus. An IBM representative will respond to your inquiry within two business days.



© Copyright IBM Corporation 2012

IBM Corporation
Software Group
Route 100
Somers, NY 10589

Produced in the United States of America
July 2012

IBM, the IBM logo, Cognos, and ibm.com are trademarks of International Business Machines Corp., registered in many jurisdictions worldwide. Other product and service names might be trademarks of IBM or other companies. A current list of IBM trademarks is available on the Web at “Copyright and trademark information” at ibm.com/legal/copytrade.shtml

Microsoft, Windows and Windows NT are trademarks of Microsoft Corporation in the United States, other countries, or both.

This document is current as of the initial date of publication and may be changed by IBM at any time. Not all offerings are available in every country in which IBM operates.

THE INFORMATION IN THIS DOCUMENT IS PROVIDED “AS IS” WITHOUT ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING WITHOUT ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND ANY WARRANTY OR CONDITION OF NON-INFRINGEMENT. IBM products are warranted according to the terms and conditions of the agreements under which they are provided.

The client is responsible for ensuring compliance with laws and regulations applicable to it. IBM does not provide legal advice or represent or warrant that its services or products will ensure that the client is in compliance with any law or regulation.

- 1 *Percentage of Full Potential Achieved as a Result of Existing Performance Management Mechanisms*, The CFO Executive Board, 2011
- 2 IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study*, March 2010



Please Recycle