White Paper
March 2009

IBM

Planning in the financial services industry

Technology and best practices for profitability management

Information Management

Cognos software

Contents

Abstract

When financial services organizations have the benefit of timely, reliable, and flexible plans, decision-makers can quickly analyze and forecast the impact of changes as they occur, strengthening the link between strategic objectives and operational plans. This white paper describes the enterprise planning process and suggests some helpful tools—including the *IBM Cognos® Corporate Banking Customer Segment Performance Blueprint*—that can lead to improved budgeting, planning and forecasting.

Overview

Every day financial institutions face the considerable challenges of regulatory compliance, decreasing customer loyalty, shrinking profit margins, and ever more intense competition. Interest rate movements drive fluctuations in revenue, requiring financial organizations to manage costs more closely in order to maintain profit margins – as demonstrated dramatically in 2007 with the sub-prime credit crunch. Meanwhile, increased regulation emphasizes the need to service customers fairly and appropriately, which increases the cost of customer.

As the capital markets become more active, identifying profitable customers, products, and channels has become essential for driving profitable revenue. As a result, profitability reporting and management has become vitally important to financial services organizations. Success or failure in this area depends on effective enterprise planning.

This guide will help you take the first steps toward improved enterprise budgeting, planning, and forecasting. It outlines a systematic approach that combines best practices and leading-edge technology with planning activities in your organization. By taking this approach, your organization can significantly improve its financial and operational performance.

Business problems

Planning challenges

In financial services organizations, corporate decision-makers typically voice similar concerns with regard to planning, budgeting, and forecasting:

- Processes are tedious and time-consuming.
- Changes are difficult to implement.
- Data integrity is questionable.
- Explanation of variances is difficult.

For managers outside finance, planning can be perceived as little more than a periodic invasion of their time with minimal benefit. Managers can feel besieged by demands for information and improved projections, while still being expected to deliver results.

Origins of planning challenges

Despite substantial investments in enterprise applications like ERP systems, most financial services organizations still rely on manual planning processes using spreadsheets – an approach that's inexpensive in software terms, but costly in the long term because spreadsheets are cumbersome, error-prone, and ineffective in managing large amounts of data. Among the challenges of spreadsheets:

- Business rules (formulas) are mixed with data and prone to corruption.
- Files must be sent back and forth, creating version control issues.
- Presenting or analyzing data from different perspectives is unwieldy.
- The logic behind the spreadsheet is difficult to follow or duplicate.
- Data aggregation is difficult, complex, and time-consuming.
- Complex calculations are not supported, and multidimensional reporting and analysis are impossible.

Business drivers

Supporting best practices

Financial services organizations struggle with profitability management – not because of a lack of information, but rather an inability to identify, present, and act upon the right information at the right time. Planning software should support best practices to enhance timeliness, information reliability, and participation by key people across the enterprise.

Align strategic and operating plans

The ongoing alignment of strategic and operating plans is vital. Finance must clearly communicate corporate strategic plans to those who run the day-to-day business. Finance can help translate strategic goals into financial targets and then into specific departmental or branch-level plans and related revenue and expense drivers, such as headcount and equipment. By translating strategic goals into operational plans, and by tracking and measuring performance against plan, financial institutions are better able to meet or exceed objectives and achieve these benefits:

- Efficient and consistent planning across business segments, products, and brands, with contributor plans from all products or brands rolling up into a single, consolidated plan – and no more spreadsheet version control issues.
- Consolidated reporting across all customer segments, products, and channels, uncovering new insights about profitability in each of these areas and an understanding of the most profitable customers.
- An ability to evaluate changing market conditions and consider multiple scenarios on a rolling, immediate basis.
- Early recognition of potential problems through improved visibility into the business plan, forecast, and performance of new products.

Start at the top – and at the bottom

An important ingredient in successful budgeting and forecasting is the ability to align top-down financial targets with bottom-up plans. Some companies establish top-down targets and then turn the annual budgeting process over to finance, along with a mandate to meet those numbers. Other companies require detailed bottom-up planning, and then plug the total company numbers in at the top, so that the plan meets strategic targets. Neither of these approaches reflects a commitment to planning excellence.

Instead, financial services organizations should provide initial guidance from senior management's top-down perspective on strategic goals, objectives, and expectations. Then, department and branch managers can build a plan from the bottom-up, indicating how they intend to meet established goals. The process requires frequent iterations for these approaches to meet and be reconciled.

The result is a plan that is supported by:

- Managers in branch offices, because they help create it and will be rewarded for meeting it.
- Senior management, because operational goals are aligned with strategic goals.
- Finance, because they add value to a productive, collaborative effort, rather than demanding participation in a mere exercise.

Drive collaboration between functions

Not only should strategic and operating plans be aligned, but plans between regions and functional areas should also be coordinated. Best practices include direct involvement by business managers along with a collaborative approach to budgeting and forecasting.

In addition to understanding strategic goals, managers also need to know what other functions are involved in planning. For example, in a bank that is planning a new product rollout, marketing needs to increase advertising, and customer service representatives need to be trained. But the plan should also consider new headcount, computer systems, and so on.

Such collaborative planning can be accomplished through an iterative process that lets managers forecast and share alternative scenarios. Finance also plays a key role in facilitating the coordination of plans across the company, which helps ensure that operational tactics are aligned with financial targets throughout the organization.

Adapt to changing business conditions

Financial services organizations need to adjust plans, metrics, and resource allocations in response to market and internal variability. For example, changes in interest rates may reduce loan volumes, which in turn may lead to excess headcount from hiring during peak times; visibility into metrics such as revenue per employee allows financial institutions to make prudent staffing decisions.

In response to these variable conditions, dynamic re-forecasting is required:

- Frequent Re-forecasting. Forecasting may be needed monthly or even bi-weekly especially in fast-moving, quickly growing business segments with multiple market pressures. Continual re-forecasting helps managers answer critical questions such as, "What did we expect?" "How are we doing against our plan?" and even more importantly, "How should we adapt our plans going forward?"
- Rolling Forecasts. Organizations running rolling forecasts are always looking to the immediate or near-term future. For them, business does not end on December 31st and restart on January 1st. The forecast timeframe should extend out two to eight quarters, depending on business volatility.

- Planning should be an ongoing process with frequent opportunities for managers to view the company's latest internal and external performance data. They should be able to alter plans based on new information coming from sources such as other managers, monthly actuals, and top-down target revisions. Finance should be able to quickly consolidate plan data from all areas of the company, and to disseminate new information in real time. This process will facilitate more informed decision-making in such areas as market trends, pricing changes, capital allocations, or organizational changes.

Model business drivers

A first-rate budget or forecast is based on a model with formulas that are tied to fundamental business drivers. Simply importing and manipulating past actuals does not reflect current conditions and underlying operational causes and financial effects. Building driver-based models into plans ensures appropriate consistency across functions and promotes planning coordination between functions.

For example, future revenue forecasts can be tied to the marketing spend needed to generate a given number of customers. Finance can provide managers with a useful model that includes information about past actuals and current headcount, as well as formulas driven by assumptions. This does not violate the best practice that requires department managers to be responsible for creating their own budgets. Instead, it saves them time by providing a solid, fact-based baseline – a starting point that contains important information about their organizations' relationships to other functions. Managers can then make adjustments to this baseline based on the latest business conditions. This approach also ensures collaboration across functions.

Manage content that is material

A focus on material content in budgeting frees managers from unnecessary detail, enabling them to produce better plans. While supporting detail can provide an audit trail and insight into managers' thinking, more detail does not necessarily make a better plan. Managing material content requires attention to whatever has real and significant impact on expenses, revenues, capital, or cash flow. Content management helps a financial services organization:

- Avoid false precision. A complex model might not have any more precision than a simpler model. More detail and intricate calculations can lure managers into the trap of thinking their plan is therefore more accurate.
- Monitor volatile – not stable – accounts. Efforts are best spent on fluid expenses such as headcount.
- Aggregate accounts. The budget does not need to reflect the same level of detail as in the general ledger. Even if the GL has 15 different travel accounts, managers can often plan in one.

Timeliness and reliability

Many companies have an inefficient and inflexible planning process, at the center of which is the annual budget. Time-consuming distribution and consolidation processes practically guarantee that plan data is out-of- date and irrelevant before it is even published – and plans based on stale data and assumptions are of no value. World-class financial services organizations shorten their planning cycles by implementing the best practices described here. They also leverage technology so that they can manage budget consolidation and aggregations in real time.

Technology can especially help improve timeliness and reliability in the area of plan consolidations. Real-time plan consolidation eliminates the need to process results manually, and enables a smoother, more consistent, more accurate planning process. Variance reports delivered within two to four days from the period close allow managers to immediately evaluate their performance against plan, and then effectively adjust their businesses.

At an operational level, this type of planning will be less costly and will produce more accurate results than the processes followed by most companies today. At a strategic level, a company's ability to create timely and reliable financial plans will allow it to provide more credible guidance to stakeholders, and to make faster, better-informed business decisions.

The solution

Technology that supports best practices

Leading financial services organizations have recognized that spreadsheet-based planning impedes budgeting and forecasting best practices. Instead, they have moved to purpose-built applications with lean infrastructure requirements, which enable them to accurately plan and re-plan quickly, using the same or fewer resources than before.

Streamlining the planning process demands technology that can support a faster, more flexible, and adaptive approach. By using an on-demand, dedicated planning, budgeting, and forecasting application that is delivered over the Web, organizations can readily implement best practices.

Leading companies formulate top-level requirements for evaluating and selecting world-class planning, budgeting, and forecasting software. Solutions must be:

- Integrated. Strategic, operational, and financial planning reside in one system. Managers do not need to maintain shadow or duplicate planning systems.
- Collaborative. Web-based, distributed planning enables broad participation. The ability to use a secure Web connection allows everyone to access budget information wherever there is Internet connectivity.
- Adaptive. Simplified version control and the ability to frequently reforecast allow companies to respond to business changes with "what if" scenarios as often as necessary.

- Timely. Information is always current, because departmental users contribute directly to a central planning database. Since consolidations and rollups are done automatically, deadlines are more easily met.
- Efficient. Finance managers and department managers spend less time managing data and more time managing the business.
- Relevant. Customized views for managers increase adoption and ownership. Formula capabilities enable modeling of all relevant business drivers.
- Accurate. Plans contain fewer errors, since broken links, improper rollups, and missing components have been eliminated.
- Owned by finance. Finance must be responsible for planning process development, deployment, reporting, and analysis. This calls into focus product flexibility and ease-of-use, both in modeling and day-to-day activities.

Best-practice templates

The use of pre-built, best-practice templates or planning models can help organizations reduce implementation risk and accelerate time to business value. They are being developed by software vendors for a wide range of functional areas and industries.

With templates, companies can establish dynamic connections that keep strategic objectives, operational plans, people, and initiatives in sync as business conditions change. Executives can quickly see the impact of changes in operational plans on corporate financials. Regional and branch managers can quickly adjust resource allocations to support corporate objectives. And corporate guidelines and policies are more consistently communicated and applied throughout the business.

Selecting the right planning software

Evaluating a vendor's product features and support is a complex task. It requires assessment of software functionality, its value to the planning process, and its ability to support planning best practices. There are also intangibles like vendor support, user community, and commitment to customer success once the sale is complete.

The key is not just to evaluate product features, but also how features are implemented and by whom. It is important to test a planning solution that will be relied upon by a large number of stakeholders and play a critical role in organizational performance. Therefore it is highly recommended that a workshop approach be used to evaluate not only solution features, but also the way a plan is constructed, distributed, and reported on. A business process should be defined (such as capital, headcount, or expense) as context for the evaluation of product features and intangibles such as ease of development, roles, references, and customer support.

The IBM Cognos Corporate Banking Customer Segment Performance Blueprint

Ask most financial services executives about their key strategies for growth, and the same answers tend to pop up: increase wallet share, improve customer satisfaction and loyalty, serve small and medium enterprises more cost-effectively, and know the customer's needs so that the institution can offer the right product at the right time. All of these answers are predicated upon having customer segment or individual customer data available, using the data to understand the behaviors and profitability of customers or groups of customers, and then creating strategies and plans that maximize the institution's success.

The tools to perform these tasks have existed for years, but in most cases, data resides in disparate systems, customer profitability solutions exist in relative isolation from the financial planning process, customer relationship management (CRM) solutions have been cost-prohibitive and rarely lived up to their promise, and initiative planning and tracking has been an afterthought.

Consequently, many institutions have failed to meet their growth and profitability targets. A coordinated, efficient approach to driving customer profitability can be a reality. The first step is to consolidate customer data, storing all relevant transactional, product, demographic, goal, and profile information in an accessible place. Next is applying appropriate reporting and analysis tools to the task of understanding as much as possible about customer segments and individual customers. Once those segments and customers are understood more completely, the bank can use technology integrated with analysis and reporting capabilities to plan initiatives and set very specific targets that improve segment profitability. Finally, the bank can monitor the success of its plans and initiatives and feed information gained back into the process, creating a closed-loop cycle for continual performance improvement.

The *IBM Cognos Corporate Banking Customer Segment Performance Blueprint* enables commercial, corporate, and investment banks to create profit-and-loss statements at the customer segment level, or – for large corporate clients – at the customer level. The solution allows segment or customer managers to report on and analyze profitability down to the customer level, to create regional and product P&Ls within a segment or customer, and to plan sales and marketing initiatives to improve segment or customer results. The *Blueprint* enables customer segment managers (and large corporate account managers), marketing personnel, and other customer-facing bank employees to receive customer segment information, analyze information to determine targets, plan initiatives to drive increased profits in the chosen segment, and manage and update a customer-segment P&L.

IBM Cognos Performance *Blueprints* give finance managers more time for analysis and rolling forecasts. Instead of re-keying or copying data from one spreadsheet to the next, users can simply click from one integrated plan to the next to see allocations, actuals, variances, and other key performance data. What emerges is a dynamic business that adapts quickly to trends, new consumer demands, competitive challenges, and changing markets. For more information on IBM Cognos Performance *Blueprints*, visit the IBM Cognos Innovation Center for Performance Management.

The following matrix supports the evaluation process by relating best practices and features, as well as helping to prioritize features, and assessing how well they relate to vendor offerings.

Planning software selection matrix

Feature category	Importance/ Weight (1 "least important" to 5 "most important")	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
Align strategy & operational plans				
Module application development				
Application Linking (Planning- specific application modules can be developed one-at-a-time, then linked to model the entire company. Aligns operational planning with financial planning to improve decision-making.)				
Model business drivers				
Driver-based calculations				
Dimension separate from models				
Multi-cube development environment				
Driver-based calculations				
Finance-based functions				
Time intelligence functions				
Ease of development by finance				
Manage content				
Real-time workflow				
E-mail alerts				
Input validation				
Role based security				
Real-time calculations				
Web client				
Microsoft® Excel® client				
Offline capabilities				
Annotations support				

Supports timely & reliable planning				
Real-time plan consolidation				
Automated data loads between				
Transactional systems				
Certified connector to ERP				
Standard reporting				
Multi dimensions analysis				
Best practices templates (pre-built models)				
Allocation planning				
Capital expenditure planning				
Expense planning				
Initiative planning				
Risk analysis				
Integrated income statement, balance sheet, and cash flow				
Sales forecasting				
Strategic planning				
Workforce planning				
Company profile				
Quality of references				
Revenue				
Number of employees				
Number of customers				
Number of industry references				
Independent industry analyst ratings				
Implementation and support				
Implementation methodology				
Training options				
Support hours				
User communities				
Customer forums				
Online knowledge base				
Partner network support				
Quality of documentation				

IT infrastructure support				
Database support				
LDAP support				
Single sign-on				
Portal support				
Open API				
MDX support				
HTTPS support				
Total score				

For more information on IBM Cognos performance management offerings please visit www.cognos.com/banking.

Conclusion

The enterprise planning process – planning, budgeting, forecasting, and reporting – is a crucial component of profitability management. Yet, despite its importance to a company's financial well-being, planning is often back-burnered because it is seen as burdensome and time-consuming. Strategic planning and forecasting is typically an annual event, often based on prior year results rather than on business drivers, and is typically done in isolation by product line, business segment, branch, or region – without considering the overall business impact.

Therein lies an opportunity for the forward-thinking organization. Leading banks, lenders, insurers, and other financial services organizations are seizing the opportunity to improve profitability management by leveraging new technologies and employing best practices in planning, budgeting, and forecasting. They are rewarded with more accurate plans, timely forecasts, and effective decision-making. Overall, they save time, reduce errors, improve collaboration enterprise-wide, and foster a disciplined financial management culture that delivers true competitive advantage.

About the IBM Cognos Innovation Center for Performance Management

The IBM Cognos Innovation Center was established in North America and Europe to advance the understanding of proven planning and performance management techniques, technologies, and practices. The Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

Staffed globally by experts in planning, technology, and performance and strategy management, the Innovation Center partners with more than 600 IBM Cognos solutions customers, academics, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: www.ibm.com/cognos

Request a call

To request a call or to ask a question, go to www.ibm.com/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

Produced in Canada
March 2009

IML14033CAEN