



# IBM Cognos Forum

Ignite knowledge, ideas, connections

## **Profitability Blueprint**

**- Unlocking the Power of Profitability Modelling  
for your Organization**

**David Hatt - Manager, Performance Management Solutions**

**James Wakefield – Lead FPM Solution Specialist**

**August 13, 2009 12:00 PM**

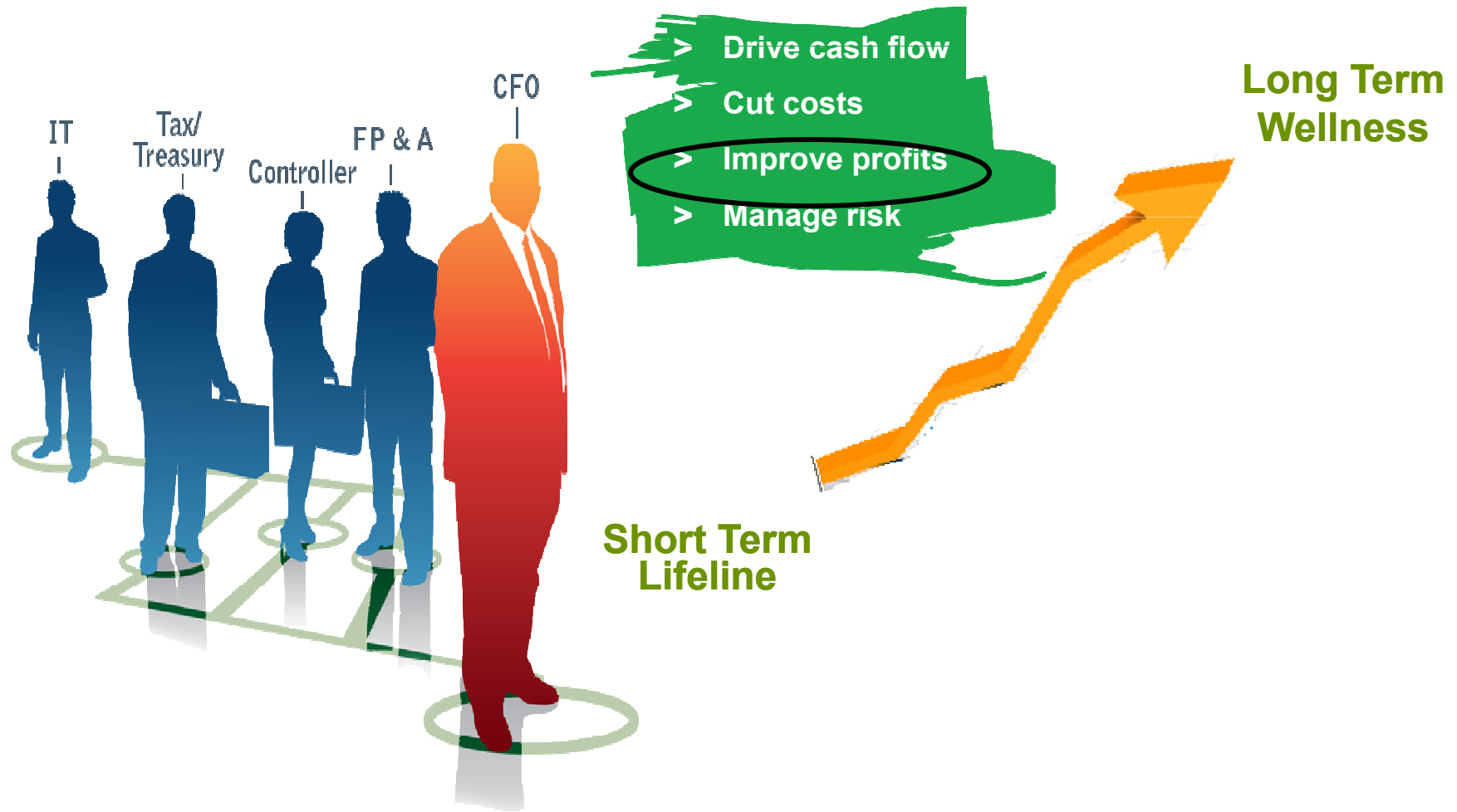
**Information Management**

**Cognos.**  
software

## Agenda

- > **Profitability Modelling: Overview & Benefits**
- > Solution Requirements
- > Blueprint Background
- > Profitability Blueprint Demonstration
- > Q&A

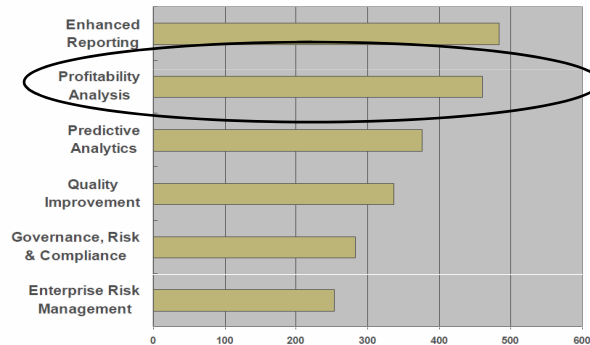
# Turbulent times and CFO as the Performance Executive



Profitability Modelling is **important** during turbulent times

## BPM Pulse Survey

2009



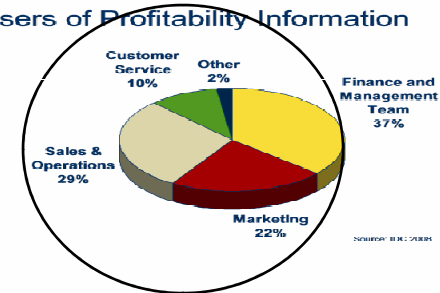
Total Number of Respondents



Profitability Modelling increasingly relevant **outside finance**

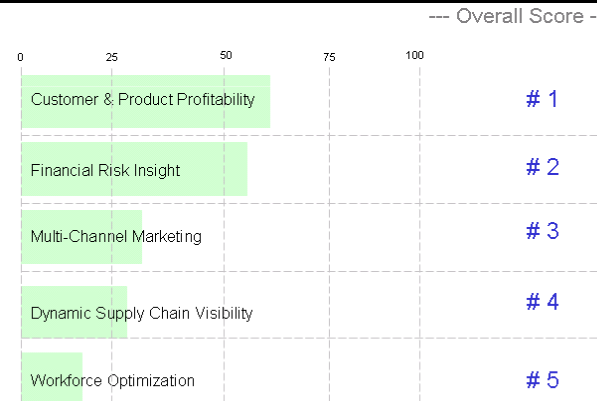
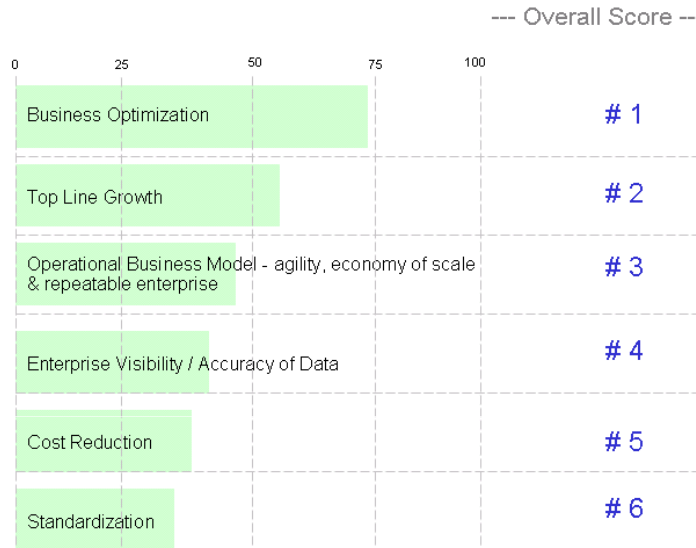


## Users of Profitability Information



© 2009 IDC

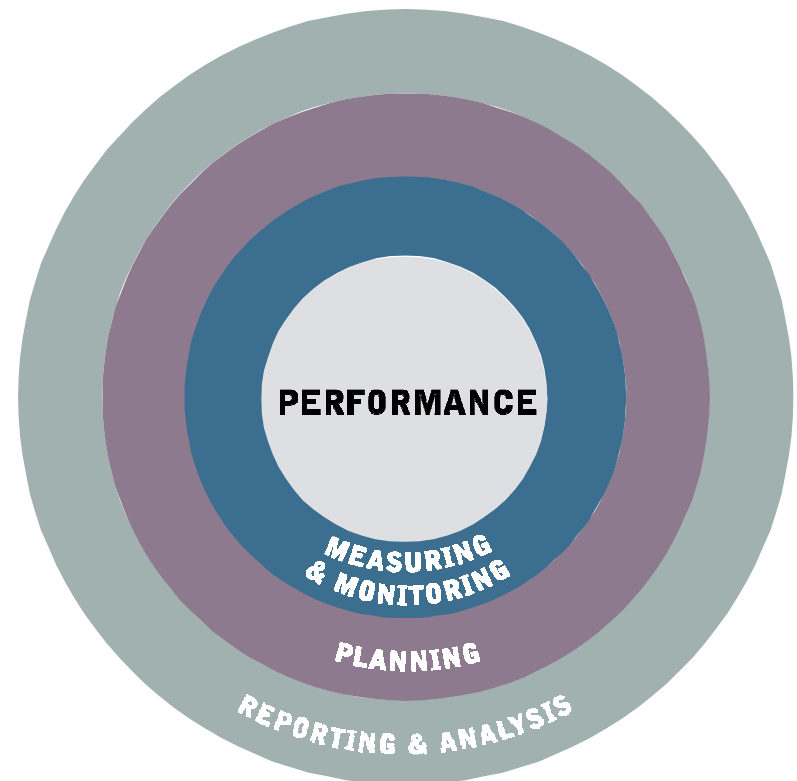
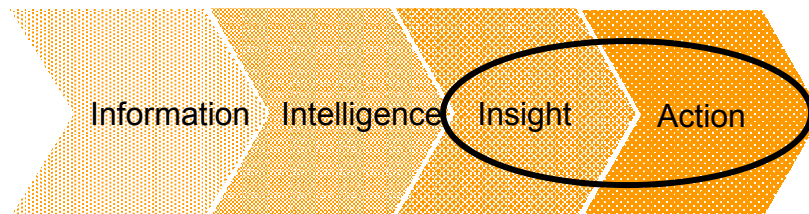
Source: IDC, Measuring Profitability: IDC Views and Customer Special Guest-Verizon Business, Doc # TB20080508, May 2008



**Profitability #1 driver for business optimization which is #1 driver reshaping the use of information**  
*Cognos Strategic Advisory Board 2009*

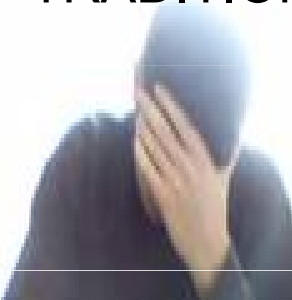
## What is Profitability Modelling?

- A subset of performance management
- Profitability is the key granular measure
- Answers questions such as -
  - Who are my profitable customers?
  - What are my profitable products?
  - Which are my profitable sales channels?
- Insight plus action



## Challenging the Traditional view of Profitability

### TRADITIONAL FINANCE VIEW



Salary & Wages	900,000
Travel	400,000
Manufacturing	400,000
Maintenance	300,000
<b>Gross Costs</b>	<b>2,000,000</b>

### ACTIVITY BASED VIEW

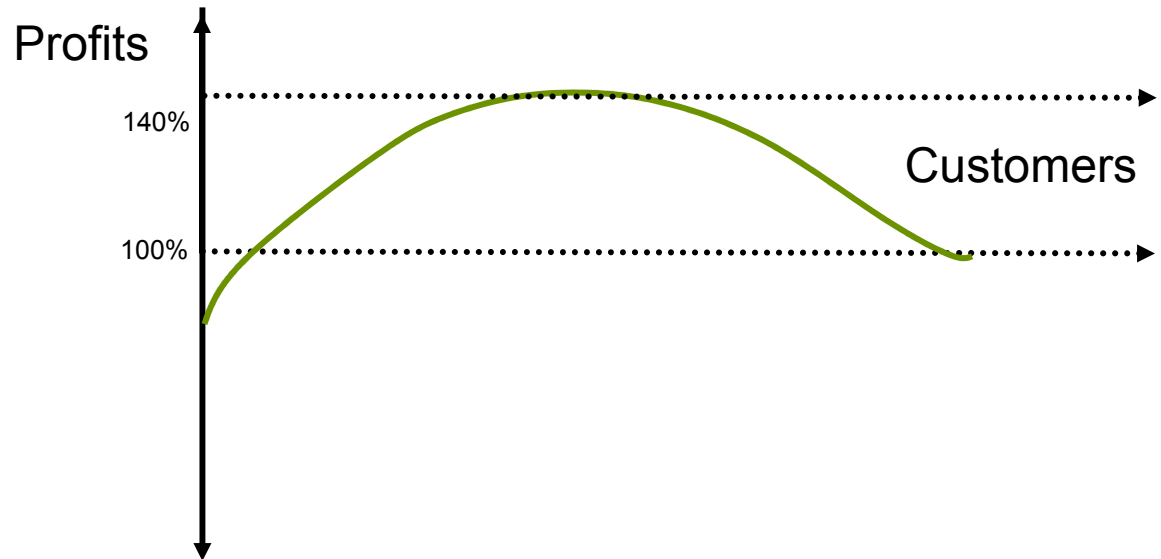
Sales Admin	500,000
Procurement Admin	400,000
Supply delays	300,000
Manufacturing	300,000
Product Launch	300,000
Wastage	200,000
<b>Gross Costs</b>	<b>2,000,000</b>

## Customer Profitability – a sample Profitability Modelling 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?



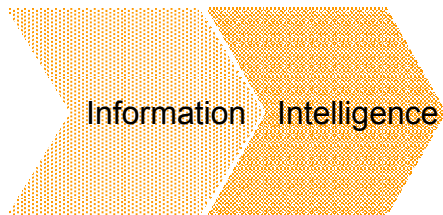
Dimensional  
shift from  
traditional  
product to  
customer  
accounting

## Customer Profitability – a sample Profitability Modelling problem



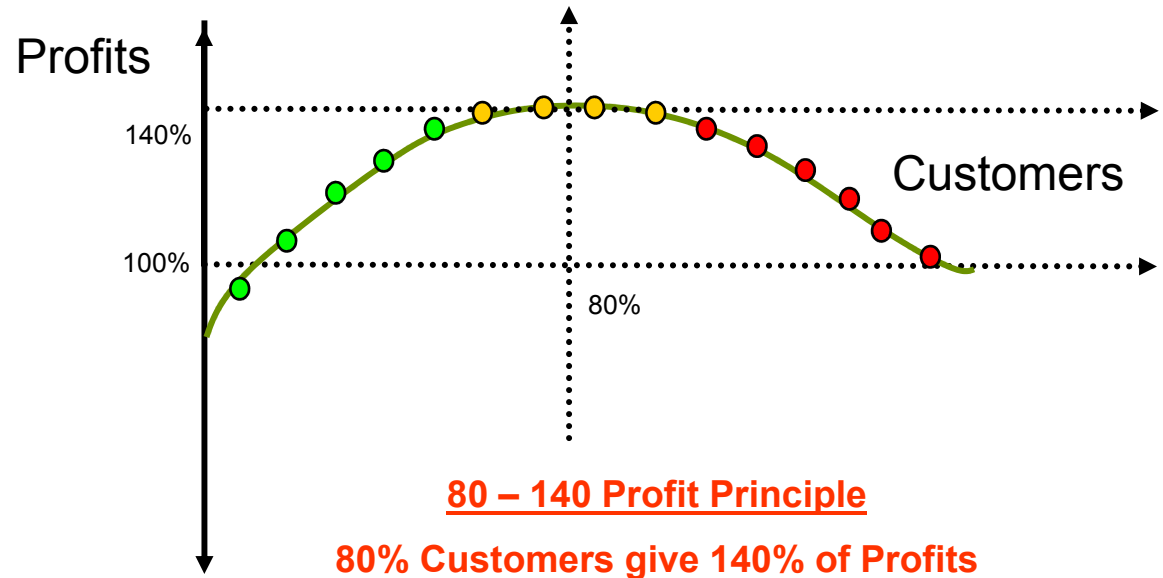
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Dimensional shift from traditional product to customer accounting

Revenue recognition and cost allocation (including ABC paradigm)



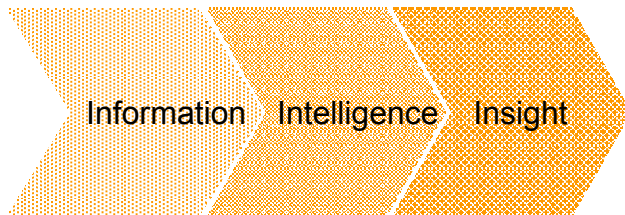


## Customer Profitability – a sample Profitability Modelling problem



### Challenges & Needs

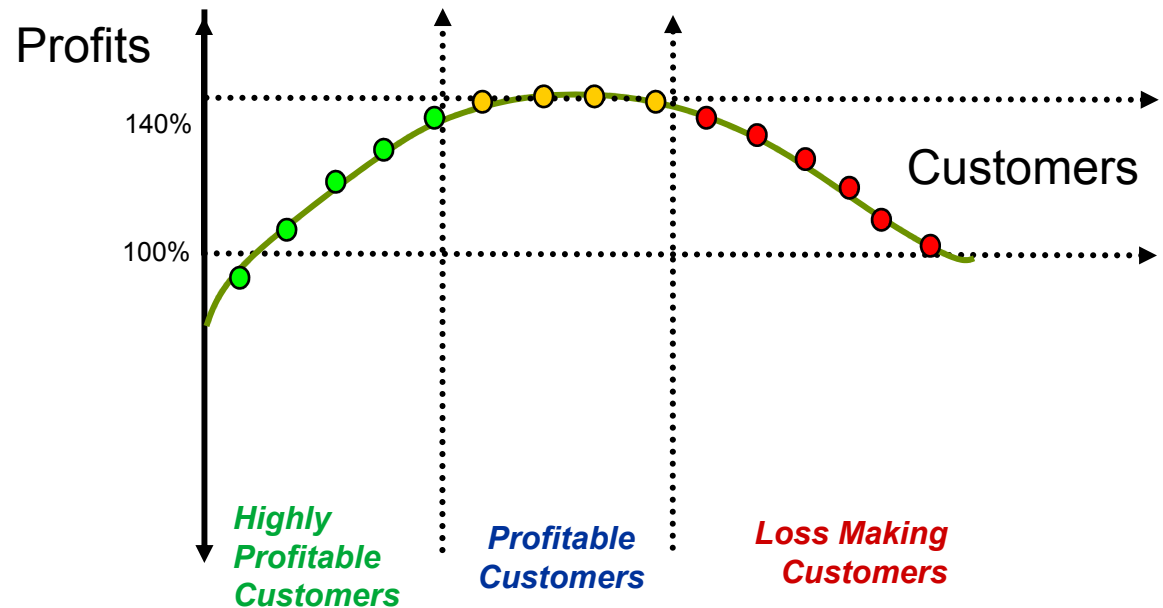
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Dimensional shift from traditional product to customer accounting

Revenue recognition and cost allocation (including ABC paradigm)

Customer Segmentation

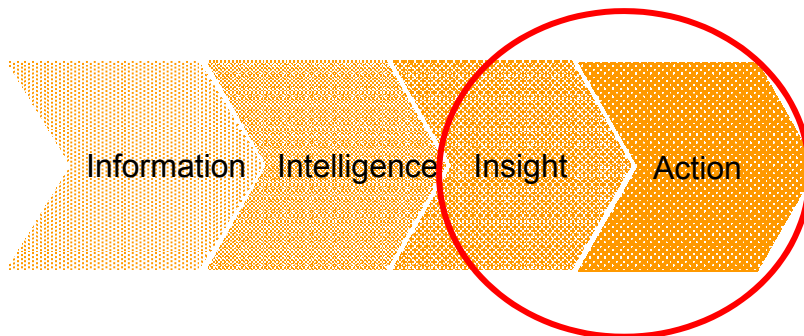


## Customer Profitability – a sample Profitability Modelling problem



### Challenges & Needs

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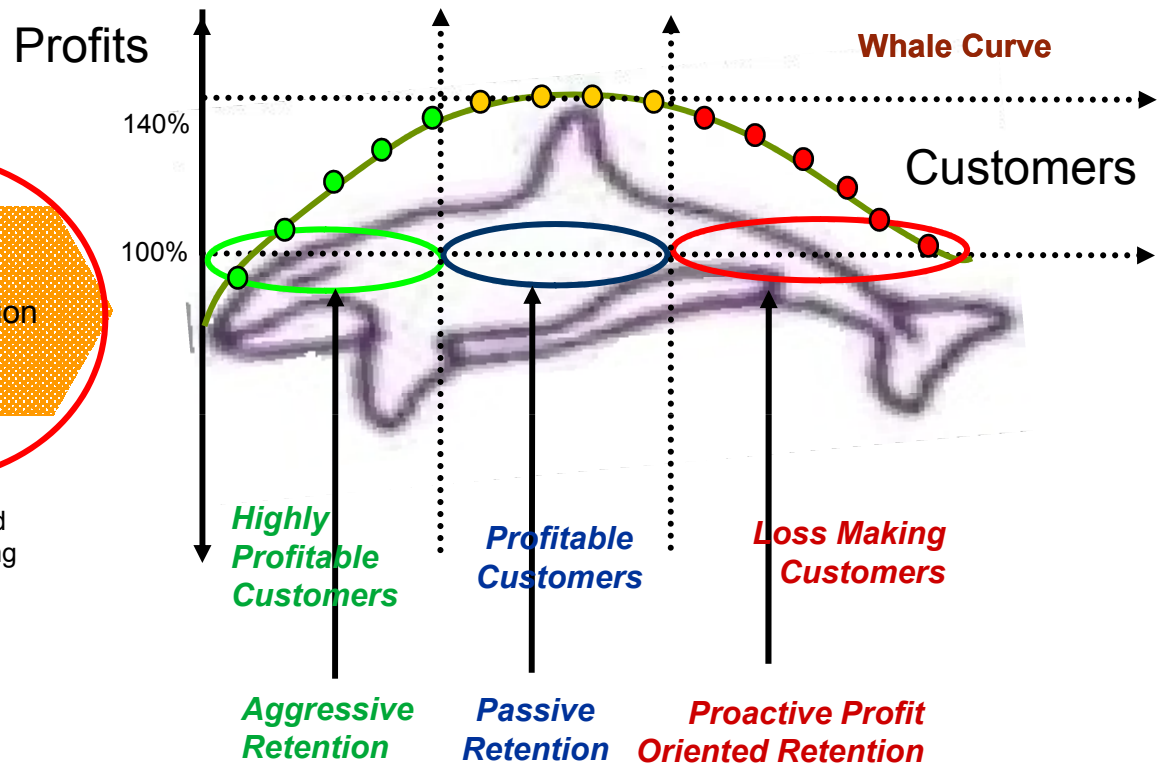


Dimensional shift from traditional product to customer accounting

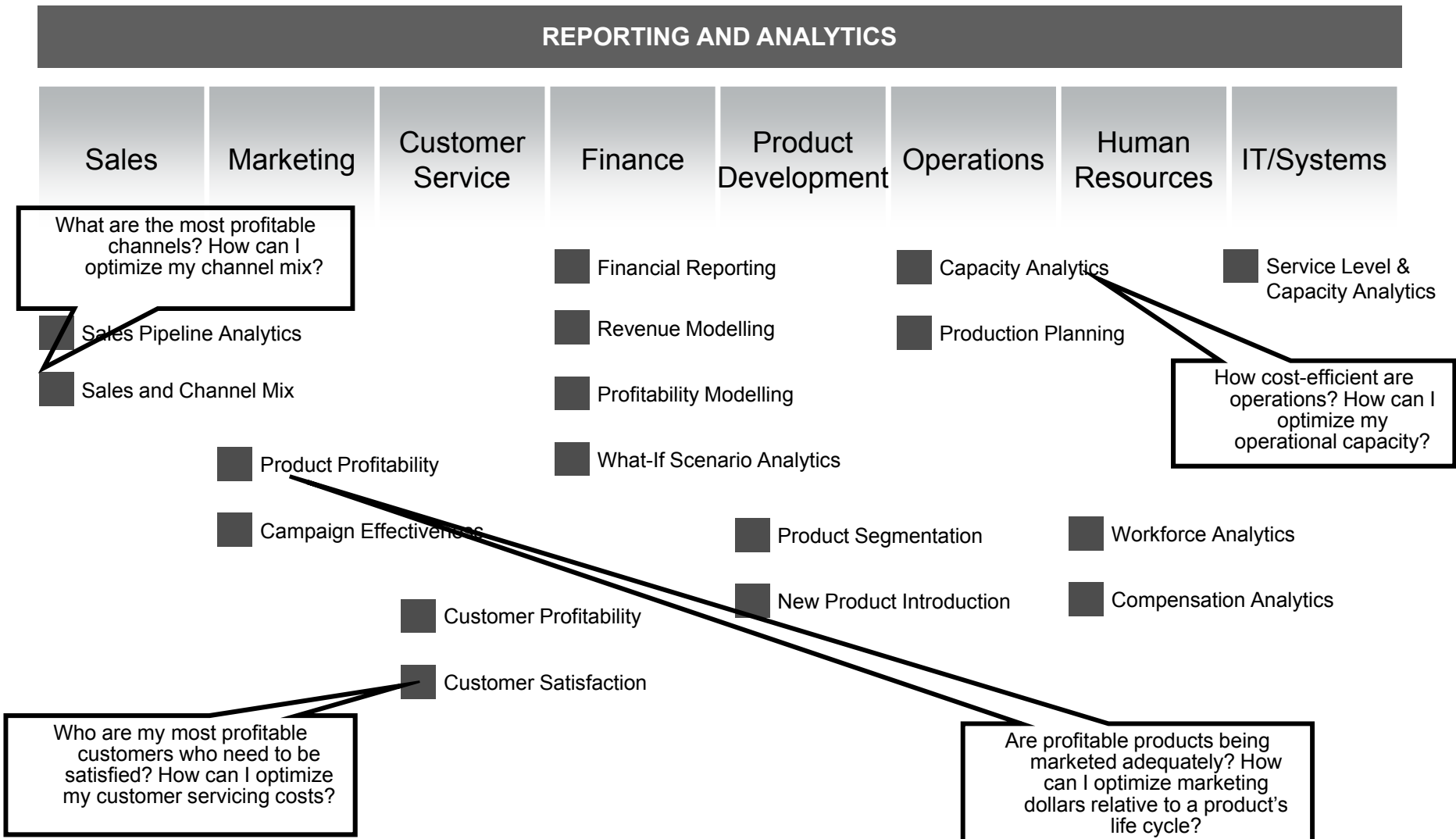
Revenue recognition and cost allocation (including ABC paradigm)

Customer Segmentation

Targeted Marketing Mix



## Profitability Modelling is really a cross-enterprise discipline...



## Agenda

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- > **Solution Requirements**
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## Profitability Modelling – Modelling for Everyone

### Trending *Slice and Dice*

- Personal exploration
- Compare & contrast
- Rotate and nest
- Work disconnected
- **Sales trend analysis**
- **Market analysis**



**BUSINESS MANAGER**



**Executive**

### Analytical Reporting *Drill*

- Top down view
- Drillable reports
- Sort top & bottom
- Review then query
- **Market shifts**
- **Product ranking**

### Scenario Modeling *What-if*

- Model scenarios
- Reorganize, reshape
- Compare scenarios
- Save versions
- **Financial Modelling**
- **Profitability Modelling**



**FINANCIAL &  
BUSINESS ANALYST**

### Predictive Modeling *What might be*

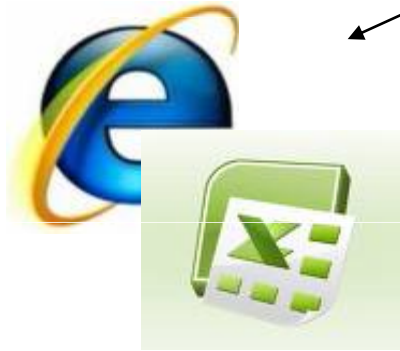
- Uncover patterns
- Apply algorithms
- Mine data and text
- Predict outcomes
- **Fraud prevention**
- **Churn analysis**

## Profitability Modelling - Needs

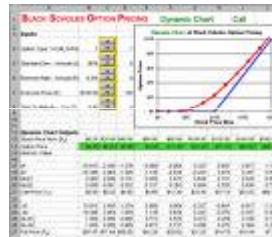


**FINANCIAL & BUSINESS ANALYST**

**Line of Business**



*Visualization & Interaction*



*Business Modeling & Rules Language*

Arithmetic vs. Excel Expressions

$3 + 1 =$	$= 3 + 1$
$4 - 3 =$	$= 4 - 3$
$2 \times 2 =$	$= 2 * 2$
$4 \div 2 =$	$= 4 / 2$
$4^2 =$	$= 4 ^ 2$



*Scenario Forecasting*



*Multidimensional Cubing*

*Scalability & Performance*



**IT Specialist**

**Functional IT**

*Information – Access, Quality, Timeliness*



## Automating the Profitability Modelling Process

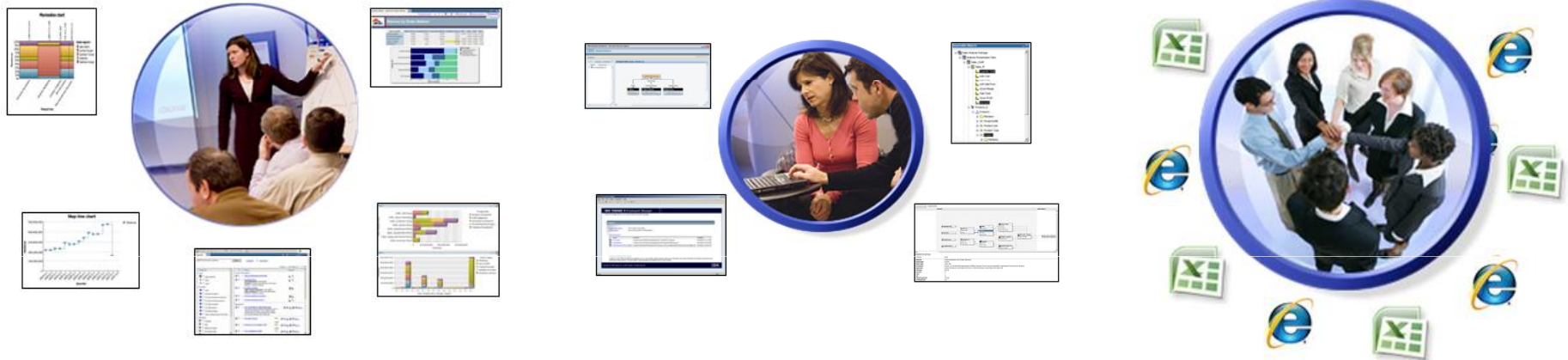


Embrace and Extend Your Existing Infrastructure

Analyze

Model

Collaborate



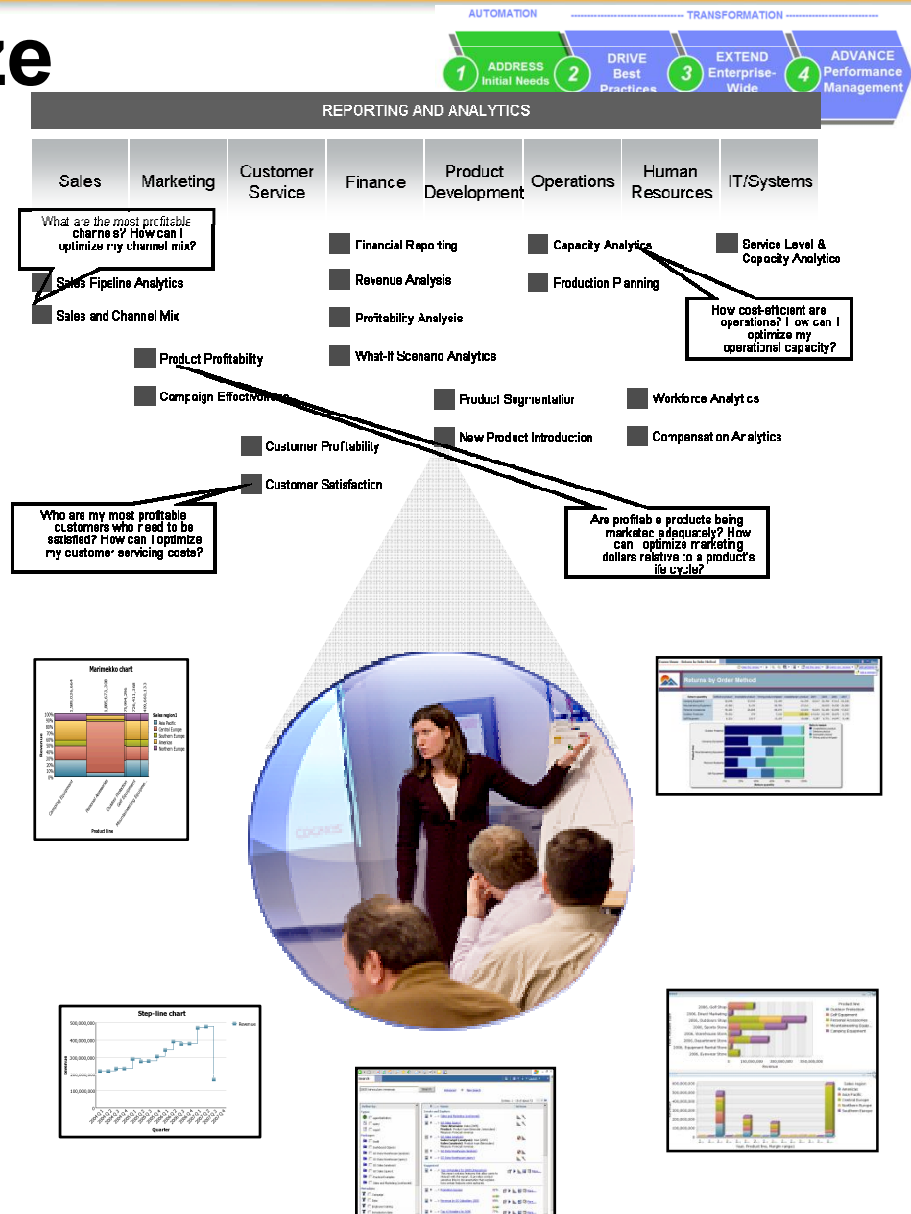
## Analyze

### Capabilities:

- > Explore Profitability Performance Gaps
- > Validate Profitability Drivers
- > Define “What If” Scenarios
  - Organizational, Product Family, Product/Channel Mix
- > Validate Profitability Assumptions

### Benefits:

- Ability to meet the dynamic needs of the organization.....
- Provide a fact based approach to profitability Modelling





## IBM Cognos TM1 Analysis

- A patented 64-bit read-write in-memory OLAP engine:
  - Optimized for large data volumes
  - Instantaneous updates from streamed data
  - Drill through to transaction systems for greater detailed Modelling
- Supports multi-dimensional Modelling
- Advanced Sorting and Ranking
- Public and Personal Views
- Familiar Excel & Web interfaces

The image displays several screenshots of the IBM Cognos TM1 interface. The top screenshot is the 'Corporate Dashboard' in a web browser, showing a summary of financial metrics for '2007 Actual' and 'Prior Period'. Below this is a 'Management Report of Latest Forecast' in an Excel-like view, featuring a table with columns for 'Latest Forecast', 'Target', 'Variance', and 'Explanation'. The table includes rows for '4999 Gross Revenue', '5999 Cost of Sales', '6999 Payroll', '8999 Office Expense', '8999 Travel', '8999 Occupancy', '8999 Marketing', '8999 Depreciation', 'Total Expense', and 'Net Profit'. A bar chart titled 'Revenue by Region' is also visible. The bottom screenshot shows a detailed 'TM1 Cube Viewer' with a data grid for 'Total Company' and 'Latest Forecast', including columns for 'Total Year' and 'Q1-Q4' data points. The grid shows values for various expense categories like '4999 Sales Revenue', '5999 Cost of Sales', '6999 Payroll', etc., and a 'Net Profit' row with a value of 15,367,000.

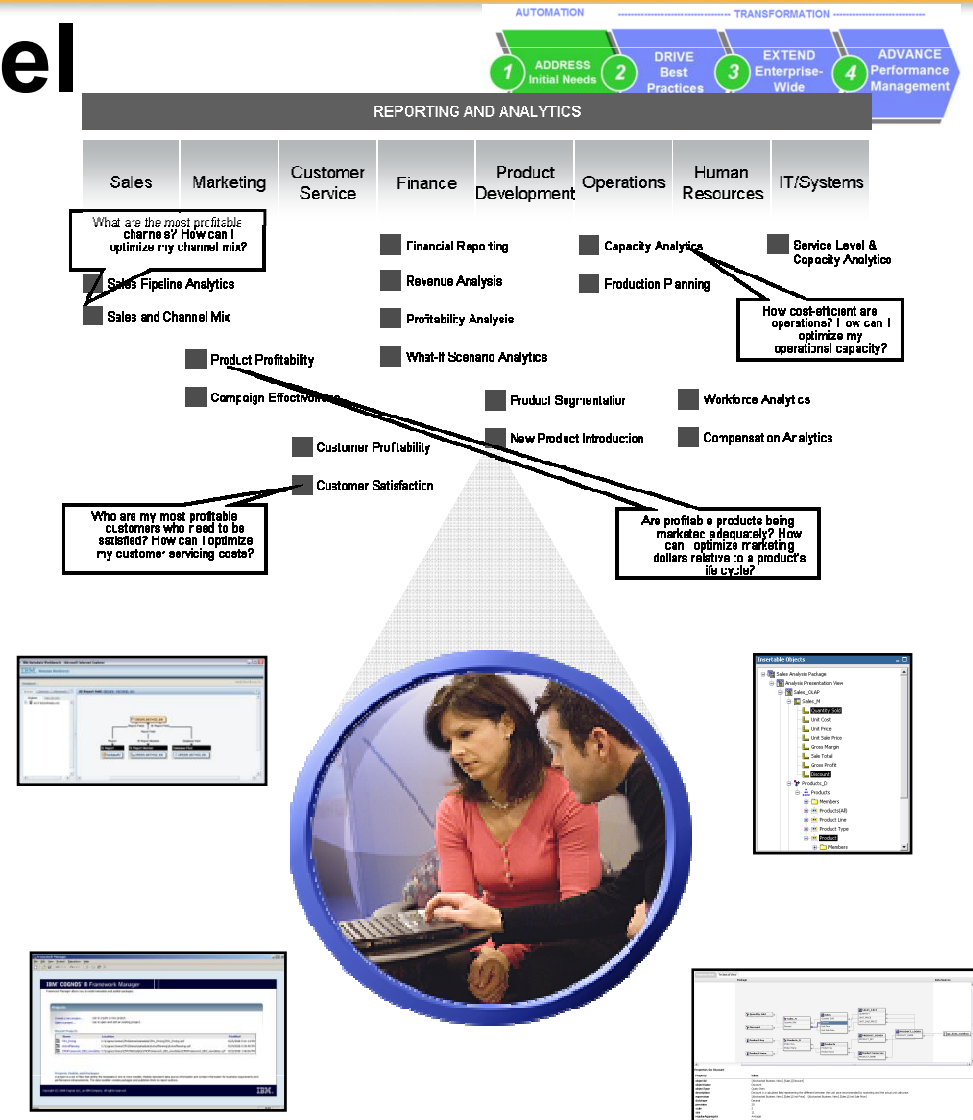
## Model

### Capabilities:

- > Centralized meta-data, data and business rule definitions
- > Certified connectors to SAP BW
- > Owned by Office of Finance
- > Support of Best Practices
  - Profitability Modeling
  - Costing Systems Integration
  - Insight based Actions

### Benefits:

- Ability to meet the dynamic needs of the organization
- Flexible to meet the broad requirements of financial & operational analytical solutions
- Adapts to your business process
- Single version of the truth for all analytical processes



## IBM Cognos TM1 Modeling

- Expression based modeling environment to define planning and Modelling assumptions
- Seamlessly integrate with Cognos 8 solutions for new/existing planning and Modelling applications
- Spans all data sets (external/internal data sources)
- Interactive simulation to create best and worst case scenarios
- Provides real time responsiveness for large and sophisticated models
- An extension of the Modelling process
- Owned by finance/business user

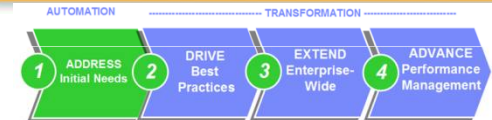
The screenshot displays the IBM Cognos TM1 modeling environment. The main window is titled 'Cube Viewer: activeplanning->Revenue->Default'. It shows a data table with columns for months (Feb to Dec) and a '+ Year' column. The rows include 'Units', 'Price', 'Revenue', 'COS %', 'Other COS', and 'Gross Margin %'. The 'Gross Margin %' row shows a value of 80.00% for all months and years.

Sales Amounts: Da	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	+ Year
Units	1,944	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,444
Price	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Revenue	29,160	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	276,660
COS %	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
COS	5,832	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	55,332
Other COS	0	0	0	0	0	0	0	0	0	0	0	0
Gross Margin	23,328	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	221,328
Gross Margin %	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%

Below the cube viewer, there are two other windows: 'Subset Editor: activeplanning->Organization->Default [Public]' and 'Rules Tracer: activeplanning->Revenue'. The Rules Tracer window shows a calculation rule:  $[Gross\ Margin\ \%] = C - [Gross\ Margin] \{ [Product\ Revenue] \}$ . The calculated value is 0.8000.



## Collaborate

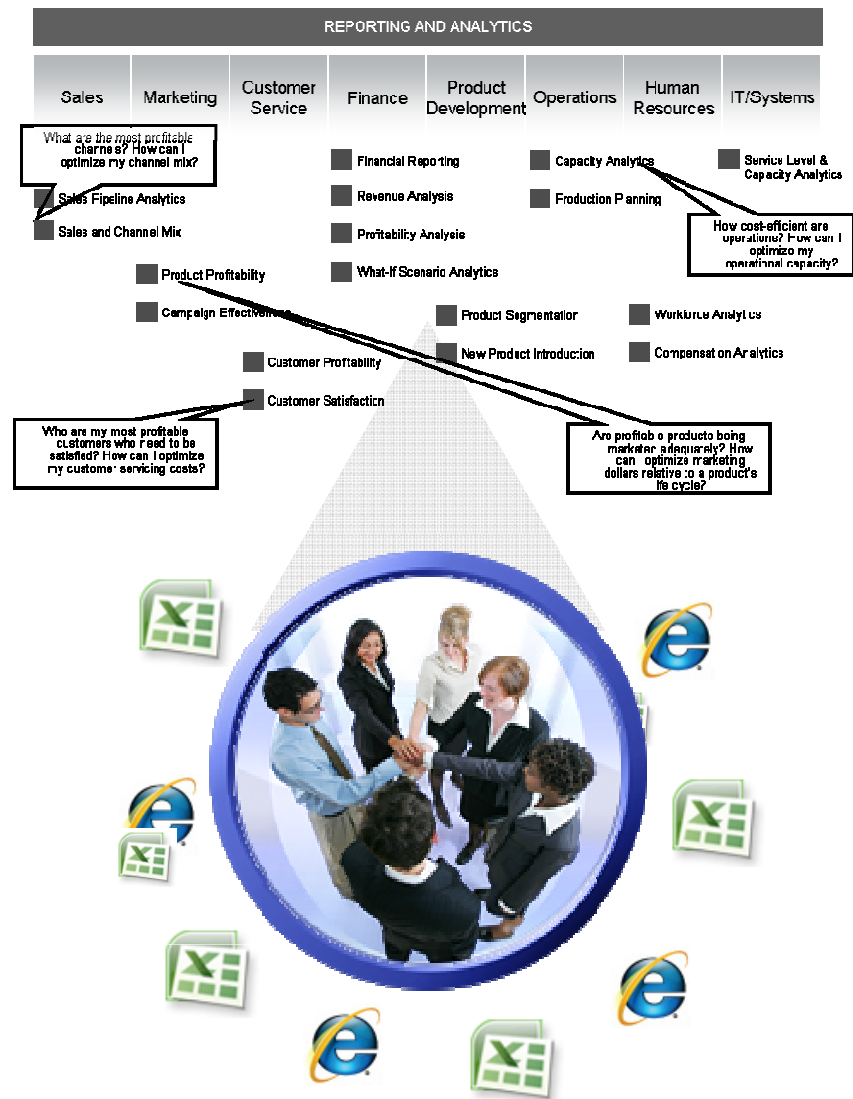


### Capabilities:

- > Familiar Web & Excel Deployment
- > Rich Workflow
- > Application linkage
  - **Start small and expand enterprise wide**
- > A component of Cognos 8 Performance Platform

### Benefits:

- Timeframe-appropriate Plans
- High Participation & Data Volumes
- A Wider / Deeper View
- Increased accuracy



## IBM Cognos TM1 Collaboration

Enterprise ready collaboration

- TM1 Server Explorer for power users to maintain dimensions, cubes, rules, and integration
- TM1 Excel to create rich planning and Modelling solutions
- TM1 Web to deploy TM1 based Excel applications across the organization with zero footprint
- IBM Cognos 8 Business Intelligence for enterprise level Modelling, scorecarding and financial & production reporting.
- Unicode supported to meet enterprise language requirements

The screenshots illustrate the following capabilities:

- Corporate Dashboard:** A high-level overview of financial performance with key metrics and trend indicators for Current, Prior, and LY periods.
- Management Report of Latest Forecast:** A detailed table for financial analysis, including columns for Latest, Target, Var \$, and Var %. It includes a 'Revenue by Region' bar chart below the table.
- TM1 Cube Viewer:** A detailed data grid for a specific cube, showing data across multiple dimensions and time periods.
- Excel Integration:** The bottom screenshot shows the same management report table being viewed within an Excel environment, demonstrating the 'TM1 Excel' capability.

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# DRIVE BEST PRACTICES

AUTOMATION

TRANSFORMATION



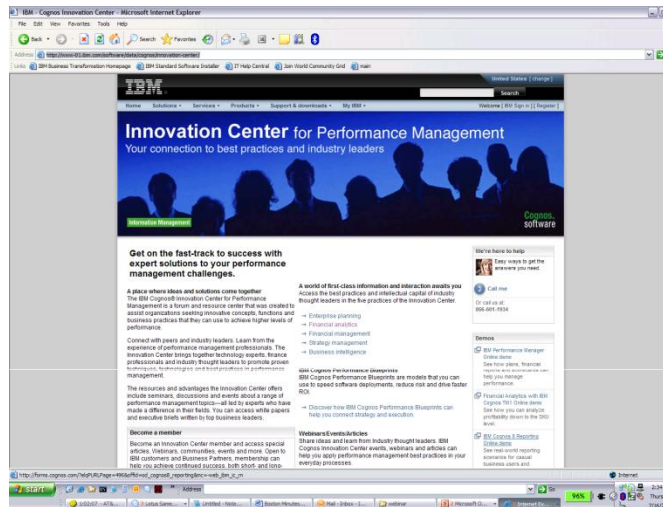
Embrace and Extend Your Existing Infrastructure

Support Best Practices

Cognos Innovation Center

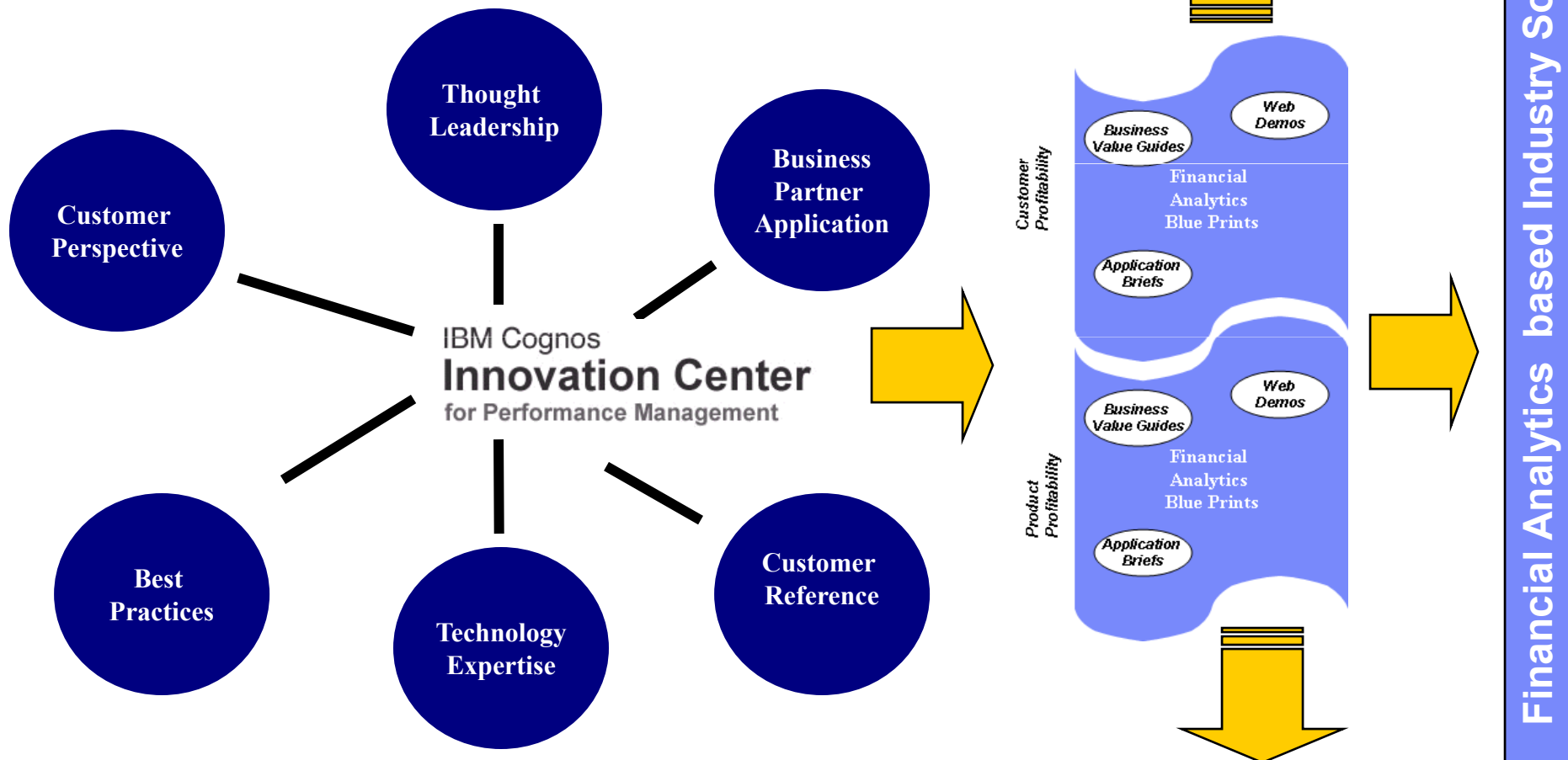
Performance Blueprints

- PROFITABILITY MODELING
- TIE BACK TO PLANNING
- GRANULAR VIEW OF PROFITABILITY
- INTEGRATE WITH COSTING ENGINES (INCLUDING ACTIVITY BASED COSTING)



## IBM Cognos offering evolution strategy.....

- Build upon thought leadership
- Drive collaboration to deliver customer value
- Extend solutions through point innovation



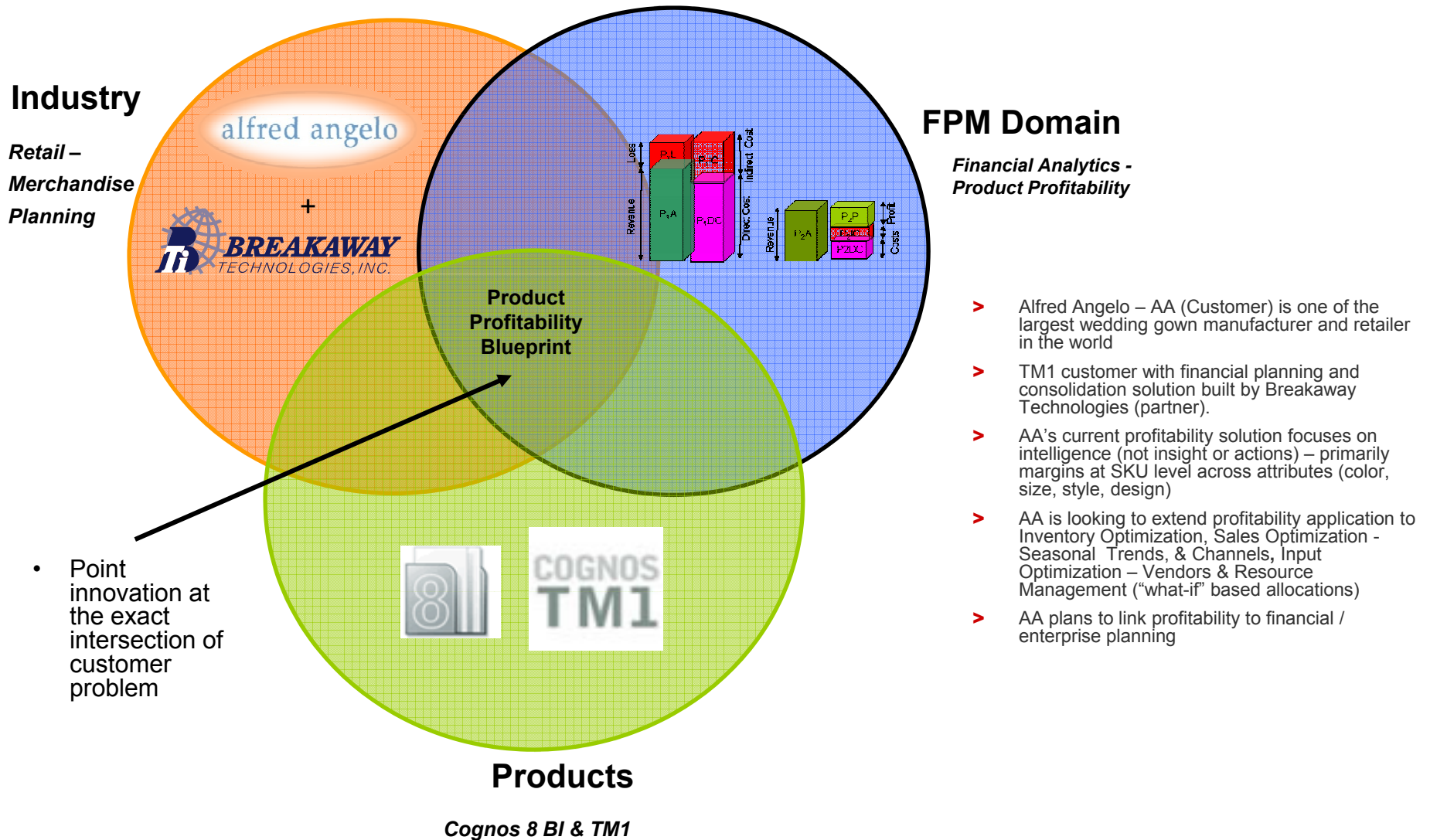




alfred angelo

*Celebrating 75 Years of Marriage*

## Example - Product Profitability Blueprint (under dev.)



## Innovation Center Website:

[www.ibm.com/cognos/innovation-center](http://www.ibm.com/cognos/innovation-center)

- Free for Customers to Join
- Download Models
- Download thought-leadership articles
- Collaborate online with thought leaders

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#### Demos

- [IBM Performance Manager Online demo](#)  
See how plans, financial reports and scorecards can help you manage performance.
- [Financial Analytics with IBM Cognos TM1 Online demo](#)  
See how you can analyze profitability down to the SKU level.
- [IBM Cognos 8 Reporting Online demo](#)  
See real-world reporting scenarios for casual business users and professional report authors.



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Four steps to business transformation  
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#### Customer resources

Communities, blogs, product updates, wikis and more  
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demo



## Profitability Modelling in summary....

- > Turbulent economic times means sharper focus on performance
- > Profitability Modelling is a subset of the broader “Performance Management” discipline – the focused granular measure being “profits” across multiple dimensions such as customers, products, channels etc.
- > Profitability Modelling is a “cross enterprise discipline”
- > Profitability Modelling leverages “information” and “intelligence” to drive “insight” and “action”
- > Profitability Modelling is one of the most important drivers for adoption of “information” within an enterprise



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Thank YOU

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- > **Complete evaluations for every session you attend** and qualify to win an additional \$500! An overall conference survey will be available at IBM Cognos Central on Friday morning, and will also be emailed to you.

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