IBM®

Banking and Financial Services:
Cost Transparency Performance Blueprint Powered by TM1

Information Management

Cognos® software

Achieving a clearer picture of technology cost drivers

The IT and back-office operations costs for supporting the delivery of critical banking business functionality continue to rise at more than 15 percent per year. This has resulted in intense pressure for banks to reduce spending while increasing value, and ultimately, the bottom line. Compounding the problem is the sense that there is nothing that can be done to manage these expenses.

What managers need is to be able to articulate technology cost drivers and provide visibility of their operations so they can work with banking business managers as partners to plan, predict and forecast consumption of assets and related costs. They are looking for a solution that provides:

- The financial transparency to enable them to focus on operating efficiencies that lead to higher performance and opportunities for savings, expressing costs in business terms

- The means to demonstrate the value their department adds to the company's business

- Metrics with multiple views of departmental performance

By making costs transparent, a bank can fundamentally change the way business units consume resources, drive down total enterprise costs, and focus on spending that delivers real business value.

Traditional approaches to providing a solution have met with limited success because of complexity, the time they take to implement and the resources they require to achieve results. So, banks default to a simplified cost allocation method.

The problem with the cost allocation method is that, because most efforts are driven by finance as a cost allocation exercise rather than by the line of business as an operational improvement effort, the costing data is too high level. Such data cannot sufficiently explain the consumption of resources by the bank, the fluctuations in costs charged, nor can it support business cases. It also limits ongoing cost management and promotes short-lived cost savings that can't be sustained.

Most importantly, traditional cost allocation methods create a high degree of volatility that is mainly driven by the timing of expenses being recorded to the general ledger and seasonality. This volatility creates variances that cannot be explained, making it difficult for banks to predict charges.

To achieve the visibility into cost drivers and effectiveness that is created by financial transparency, value demonstration and metrics, banks need a more rigorous analytical approach. The *IBM Cognos® Banking and Financial Services: Cost Transparency Performance Blueprint Powered by TM1* provides that approach.

Introducing the Cost Transparency Blueprint

IBM Cognos Performance Blueprints are pre-defined data, process and policy models that help organizations accelerate their software deployments and drive faster return on investment. The *Cost Transparency Blueprint Powered by TM1* helps banks:

- Gain continuous visibility of the drivers of cost and consumption of technology resources

- Strengthen the partnership between technology and the business

- Enable decisions that support growth, maximize return on investment and sustain rapid cost savings

The foundation of the *Blueprint* is cost transparency, a next-generation solution that brings together costing and chargeback; driver-based planning and forecasting; service catalog; and advanced analytics to provide a new view of services, cost of delivery and service levels. Once in place, cost transparency allows for a new conversation to occur between IT/operations management and lines of business managers.

Cost transparency provides a business with three things: a catalog of products that specifies features, prices and service levels; bills showing the assets consumed by these products and the cost of their consumption; and management reports that roll up total costs by product type and business unit.

The catalogs, bills and reports generated by cost transparency can be used to demonstrate how user demand drives consumption and costs in their units. Armed with this information, managers can start forecasting their future needs more accurately, track and manage usage, and make more thoughtful choices. They might opt to save money by using less of a specific resource or by switching to lower-cost alternatives. A manager might, for example, decide to cut back on e-mail storage by limiting the size of mailboxes or discontinue the use of an application tied to high-cost storage or underutilized servers.

The *Cost Transparency Blueprint Powered by TM1* is an integrated solution based on a best-in-class planning process and technology with the following attributes:

- Driver-based costing

- Modeling flexibility

- High participation

With this *Blueprint*, line of business managers receive critical cost transparency information and analysis that helps them reduce costs, demonstrate the value their unit adds to business and determine performance.

The key activities it supports include reporting, analytics and data. For reporting, it delivers monthly and quarterly reports packages based on need. It also performs ad hoc reporting to support analytics, re-forecasting and the budget process and updates report packages. For analytics, it develops and delivers standard Activity Based Management (ABM) analytics and supports ad hoc rate and volume analysis, the budgeting and planning process and the reforecast process and analysis. It also updates the service pricing catalog. The data activities the Blueprint supports include managing and updating data models and ETL components, data quality checking and data error reporting.

How the Cost Transparency Blueprint Powered by TM1 works
The *Blueprint* includes these components:

- **Costing**–Pre-defined cost models, pre-defined drivers, business transaction costing model

- **Chargeback**– Chargeback models and invoicing

- **Data infrastructure**–Activity based costing (ABC) data model, data extraction and transformation

- **Reports**–User configurable reports that support ad hoc functionality, including dashboards and Web-based planning processes

The dashboards (Figure 1) deliver key cost insights about your business. Using robust cost data to manage service delivery and cost, your business units can collaborate to manage variable demand, identify how much services are costing them and much more.
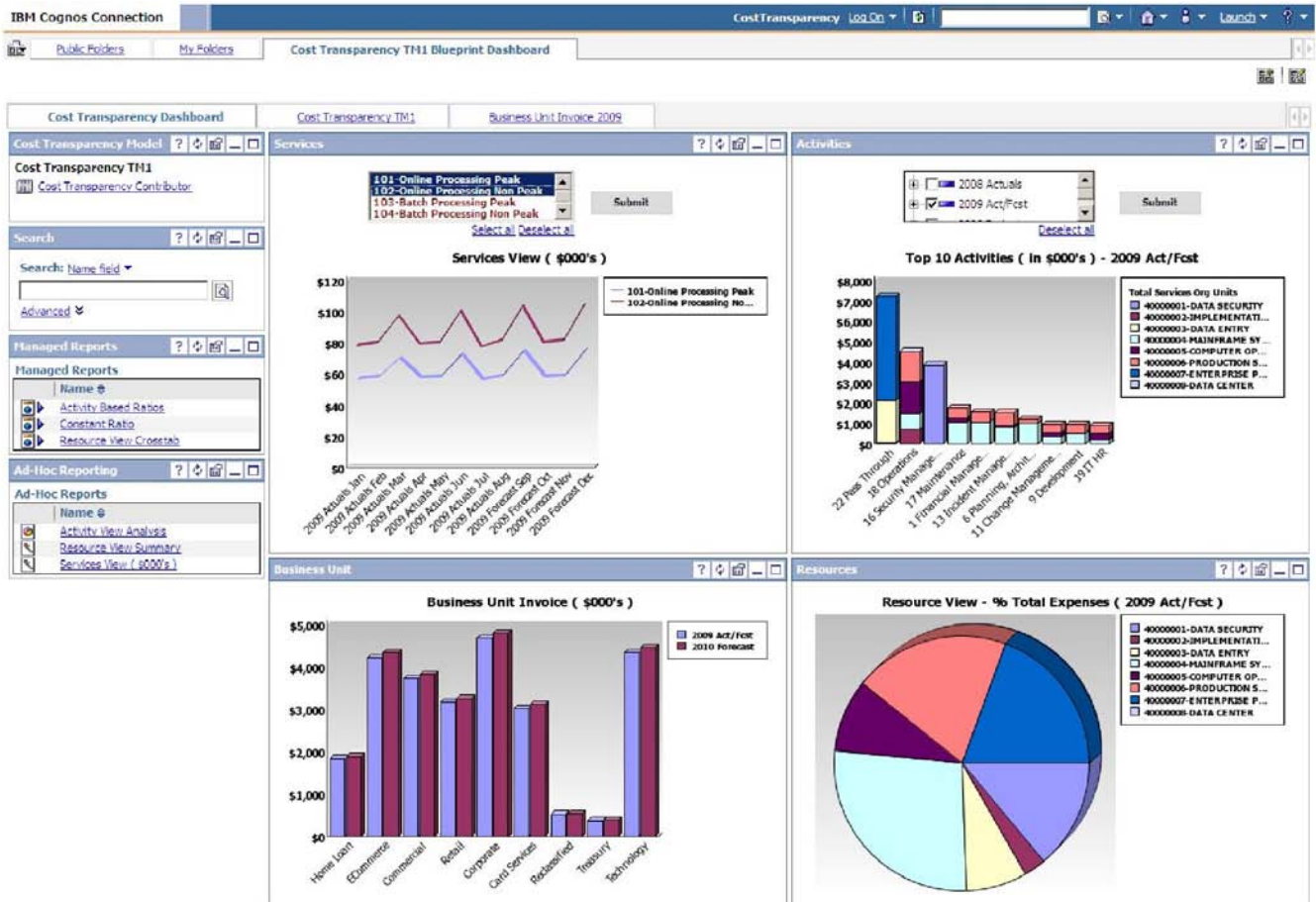

Figure 1. Cost Transparency dashboard

The *Blueprint* provides standard views (Figures 2 and 3) for accessing data that include drill-down and drill-up functionality. Implementation is streamlined and a rigorous security model addresses requirements for remote access and Web-based interaction, provides role-based access to the Bank's data.

Cost Transparency | Not Started | Business Analyst - Microsoft Internet Explorer

Tabs: ResourceView | ActivityView | Activity Mainframe | ServicesView | Business Unit Invoice | GL ResourceDriver | Weighted HR Activity | Activity Based Ratio
Constant Ratio | Business Unit Allocation Matrix

Rows: OperationalExpenses [OperationalExpenses]
Columns: Versions-Time [Versions-Time]
Context: Business Analyst [Hierarchy] | Total Services Org Units [ServicesOrganizationalUnits]

Dropdown — Total Services Org Units:
- 40000001-DATA SECURITY
- 40000002-IMPLEMENTATION AND INTEG...
- 40000003-DATA ENTRY
- 40000004-MAINFRAME SYSTEM SERVICE
- 40000005-COMPUTER OPERATIONS
- 40000006-PRODUCTION SERVICES & S...
- 40000007-ENTERPRISE PLATFORM SER...
- 40000008-DATA CENTER

	2008 Actuals	2009 Act/Fcst	2009 Actuals Jan	2009 Actuals Feb	2009 Ac Mar			9 Actuals Jun	2009 Actuals Jul
Total Operational Expenses	25,276,448.26	26,540,270.67	1,990,520.30	2,043,600.84	2,468,2..			47,865.98	1,963,980.03
Communications & Desktop	57,504.06	60,379.26	4,528.44	4,649.20	5,6..				
Employee Base Compensation and Other	13,063,486.35	13,716,660.67	1,028,749.55	1,056,182.87	1,275,6..			16,799.42	1,015,032.89
Employee Taxes & Benefits	4,442,223.87	4,664,335.06	349,825.13	359,153.80	433,7..			47,776.17	345,160.79
Equipment Depreciation	1,436,386.02	1,508,205.32	113,115.40	116,131.81	140,2..			44,787.71	111,607.19
GDS	456,263.94	479,077.14	35,930.79	36,888.94	44,5..			45,991.41	35,451.71
Incentive Compensation & Awards	2,022,943.68	2,124,090.87	159,306.81	163,555.00	197,5..			03,912.72	157,182.72
Lease/Maint/Equip Expense	-60,884.82	-63,929.06	-4,794.68	-4,922.54	-5,945.40	-4,858.61	-4,922.54	-6,137.19	-4,730.75
Non-Employee Compensation	343,673.87	360,857.57	27,064.32	27,786.03	33,559.75	27,425.17	27,786.03	34,642.33	26,703.46
Occupancy Expense	3,021,436.51	3,172,508.34	237,938.13	244,283.14	295,043.28	241,110.63	244,283.14	304,560.80	234,765.62
Other Expense	231,583.19	243,162.35	18,237.18	18,723.50	22,614.10	18,480.34	18,723.50	23,343.59	17,994.01
Professional Fees	261,831.58	274,923.16	20,619.24	21,169.08	25,567.85	20,894.16	21,169.08	26,392.62	20,344.31

Top | Page up | Page down | Bottom | Page 1 of 1

Figure 2. Resources view

Tabs: ResourceView | ActivityView | Activity Mainframe | ServicesView | Business Unit Invoice | GL ResourceDriver | Weighted HR Activity | Activity Based Ratio | Constant Ratio
Business Unit Allocation Matrix

Rows: ServicesOrganizationalUnits [ServicesOrganizationalUnits] | Services [Services]
Columns: Versions-Time [Versions-Time]
Context: Business Analyst [Hierarchy] | Total Applications [TotalApplications]

		2008 Actuals	2009 Act/Fcst	2009 Budget	2010 Forecast
	Total Services	25,276,448.26	26,540,270.67	27,804,093.09	27,298,564.12
	101-Online Processing Peak	2,262,077.94	2,375,181.83	2,488,285.73	2,443,044.17
	102-Online Processing Non Peak	3,167,894.76	3,326,289.49	3,484,684.23	3,421,326.34
	103-Batch Processing Peak	1,170,433.08	1,228,954.73	1,287,476.39	1,264,067.73
Total Services Org Units	104-Batch Processing Non Peak	4,273,203.92	4,486,864.12	4,700,524.31	4,615,060.23
	105-DASD	2,068,038.51	2,171,440.44	2,274,842.36	2,233,481.59
	106-Mainframe Tape Storage	1,968,816.36	2,067,257.17	2,165,697.99	2,126,321.67
	109-*To Be Assigned	(212,424.44)	(223,045.66)	(233,666.88)	(229,418.39)
	110-*One Time Event	1,976,578.00	2,075,406.90	2,174,235.80	2,134,704.24
	111-Mainframe Security	8,601,830.14	9,031,921.65	9,462,013.16	9,289,976.55
	Total Services	3,478,907.90	3,652,853.30	3,826,798.69	3,757,220.53
40000001-DATA SECURITY	109-*To Be Assigned	(212,424.44)	(223,045.66)	(233,666.88)	(229,418.39)
	111-Mainframe Security	3,691,332.34	3,875,898.96	4,060,465.57	3,986,638.93
	Total Services	699,697.00	734,681.85	769,666.70	755,672.76
	101-Online Processing Peak	94,489.27	99,213.73	103,938.19	102,048.41
	102-Online Processing Non Peak	132,391.74	139,011.33	145,630.92	142,983.08
40000002-IMPLEMENTATION AND INTEGRATION SVCS	103-Batch Processing Peak	47,378.09	49,747.00	52,115.90	51,168.34
	104-Batch Processing Non Peak	172,829.95	181,471.44	190,112.94	186,656.34
	105-DASD	110,104.02	115,609.22	121,114.42	118,912.34
	106-Mainframe Tape Storage	110,104.02	115,609.22	121,114.42	118,912.34
	111-Mainframe Security	32,399.91	34,019.91	35,639.90	34,991.91
	Total Services	1,976,578.00	2,075,406.90	2,174,235.80	2,134,704.24

Figure 3. Services view with timeframe

Powering the *Blueprint* are IBM Cognos TM1 and IBM Cognos 8 Business Intelligence. These tools facilitate business and budget planning and "what-if" analyses. When they use them to simulate changes in key drivers that result in changes in to expenses and utilization, power costs and labor, your organization can quickly see the effects.

The power of IBM Cognos 8

Integral to the *Cost Transparency Blueprint* is the enterprise planning architecture powered by IBM Cognos 8, which provides:

- Strong modeling capabilities and easy, efficient, flexible technology planning that is not limited to forced structure or tied to an account

- A superior planning environment with robust breakback, scenario analysis, Microsoft® Excel® and Web interface with full functionality

- Business user ownership of models and updates–without dependence on IT developers

- A distributed architecture that supports a large volume of remote users with consistent quality performance

Cost Transparency Blueprint benefits

The *Cost Transparency Blueprint* helps banks overcome traditional costing challenges, while reducing costs and improving decision-making. Its primary focus is providing performance analytics; finance/cost allocation is only a by-product.

Other benefits include:

- Cost information is more detailed, actionable and measures actual consumption of services, and differing levels of service provided.

- Business units can influence cost charges.

- Costs are segregated to provide needed visibility.

- The ability of business units to plan for and predict charges is enhanced.

- The decision time horizon is reduced because actions are fact-based.

- Business units and management have a single view of performance.

Conclusion

For bank departments, the costs of delivering critical banking business functionality continue to rise. There is intense pressure on departments to reduce spending while increasing value, and ultimately, the bottom line. Most banks use the cost allocation method when it is time to budget, which is problematic, because the data created is not detailed enough for evaluation. It is very difficult to get a sense of IT and Operations spending and performance.

The C*ost Transparency Blueprint* provides bank and line of business managers with the cost transparency information and analysis that helps them reduce costs, demonstrate their value to the business and determine performance. Using the Blueprint, they can gain visibility into the drivers of cost and consumption of resources, make decisions that support growth maximize return on investment and sustain rapid cost benefits.

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®

IBM Cognos
Innovation Center
for Performance Management

IML14230-CAEN-00