Sales Performance Management

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In this demonstration, you will see how the *Product Profitability Analytics Performance Blueprint* can help address the core product profitability analysis needs of your organization.

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IBM Cognos performance blueprints help companies align corporate objectives with operating plans so they can operate more profitably and efficiently. A *Blueprint* pre-populates your plan with common operational drivers and business structures, dramatically reducing the time required to deploy a new performance management application.

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Financial analytics is a discipline that helps you take multiple and granular views of your company's financial data and use it to gain insight and take action. Although you can use financial analytics to assess a number of important financial performance factors such as liquidity, risk and profitability, it is especially useful in the context of profitability.

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Traditionally, profitability management has been a finance function. However, turbulent economic times have pushed the need for both proactive profitability management and the use of profitability management to the front lines. Essentially, financial performance management moves from the finance organization to the lines of business.

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The *Product Profitability Analytics Blueprint* was developed jointly by the IBM Cognos Innovation Center for Performance Management and Breakaway Technologies Inc. (an IBM Business Partner). It answers a critical need in the process of assessing profitability with metrics that cross multiple, complex business dimensions to provide actionable insight in determining product profitability.

The *Blueprint* uses the power of IBM Cognos TM1 (an in-memory OLAP engine) for analytical computations and presents the analytical insights in an intuitive user interface environment built on the IBM Cognos BI platform.

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The *Blueprint* helps you view inventory turns, holding periods and trends from the highest company level down to the individual SKU and the analytical capability automatically reveals "outliers" in changing trends of product level profitability related to such inventory holding patterns.

It can relate product level profitability with operational resource utilization. It can also reveal product profitability in the context of sales channels.

Among the other features of the *Blueprint* is an open interface to costing engines that integrate all kinds of revenue and costing information (including Activity Based Costing) to measure and report accurately on profitability. A 'sandbox' environment enables you to undertake simulations of intended business actions while maintaining the integrity of the main data set.

[demo slide]
Let's now walk through a quick demonstration of key features and business value that is derived from the Product Profitability Analytics Blueprint.

Entronics Co. Inc. is a hypothetical manufacturer and retailer of consumer electronic products that sells through 4 different channels: Company Owned Retail Stores, External Retailers, Membership Warehouses and online.

In this demonstration, you will see how the CFO and his profitability analysis team members are able to start from what is seemingly a profitability problem at the company level and seamlessly drill down to the root causes, gaining profitability insight and using that insight to take action.

[demo]
In this dashboard the CFO is able to get a snapshot view of the company's overall performance.

The CFO can view profitability metrics from the overall company level down to SKU level and anywhere in between. Further, such visualization can be seen in the context of multiple dimensions of profitability such as time periods, sales channels and more.

In this dashboard the CFO sees a snapshot of performance for last month, the current month and next month. While the revenue is forecasted to increase in September 09, the operating margins are expected to come down and continue into October 09. The CFO is also able to see that there has been a spike in the inventory dollars during the same months and a corresponding drop in inventory turnover.

The CFO notices that the main cause for the drop in profitability is due to two major line items of expense: warehousing costs and inventory carrying costs. At this stage the CFO wants his team to investigate further.

The Director of Financial Planning &Analysis selects the 'Sales and Profit' tab.

This page is very intuitive and can be built on the fly by picking and choosing from the various prompts available.

To the left he sees the incremental “delta” graph which highlights changes in operating profit from month to month for the various product families. Flat Panel TVs and Receivers seem to disproportionately contribute to the drop in profitability.

He looks to the right and finds that these are the same product families that have a budget shortfall.

Looking at the top 5 and bottom 5 products contributing to this change in profitability confirms that flat Panel TVs and Receivers disproportionately contribute to the drop in profitability.

Equipped with this insight, the Director of FP&A wants to undertake a product profitability inventory analysis before coming to some final conclusions.

Selecting “Inventory” he sees the inventory levels for all products with Receivers accounting for 52% of all inventory.

Also the “Inventory Dollars and Inventory Turnover trend” chart points to an anomaly during September.

The Director of FP&A then reruns the same report for just the Receivers product family.

He now sees the comparison of how Inventory Dollars are performing with respect to the Budgets across all Receivers. He sees that across all product SKUs within Receivers there is excessive inventory build up and a corresponding decline in Inventory turns.

He calls the operations department and is able to confirm that the abnormal increase in inventories is due to a bulk shipment from the supplier in order to take advantage of extra discounts.

He also notes that Receivers are among the poorest performers with respect to inventory dollars for the total company. The Director of FP&A decides to reduce the assortment of Receivers that the company carries from 10 to 5 SKU’s. In order to affect this he contacts his operations department to return to vendor the receivers SKUs that will no longer be carried.

It’s also apparent that there is a problem with the Flat Panel TV inventory. He wants to understand further if there is any impact on store profitability due to high Flat Panel TV inventory since they have a high space utilization within retail stores. To validate this, he selects the Direct Product Profitability or DPP analysis page.

DPP is widely used in the retail industry to optimize profitability based on merchandizing mix and is defined as the profitability generated by a product relative to the shelf space it occupies.

Flat Panel TVs are occupying a high percentage of the available cubic space and contributing the lowest in terms of operating margin. The size of the bubble that measures the DPP is also small. There clearly is a problem with flat panel TV's at the store level with 65 Inch Class TVs ranking lowest.

The Director of FP&A decides to reduce the store space allocation for the 65 inch Flat Panel TV, removing almost 40% of the shelf allocated to the 65 inch model and allocating that space to other product lines.

The blueprint model has built-in processes to simulate these two scenarios within a sandbox. To save time we have created a sandbox pre-populated with the proposed changes.

In this IBM Cognos TM1 Screen we see the prepared data in respect of the reforecast where the receivers have been returned to vendor - the effect of which is seen in the reduced inventory for Receivers

When we load the inventory analysis with the reforecast results for Receivers, we see that the inventory dollars and inventory turnover trend chart has improved due the return to vendor of some of the Receivers. Receivers have dropped from 52% to 39% of the overall inventory level with a substantial improvement in inventory dollars and corresponding turnover.

The DPP analysis page shows effect of reallocating store space away from the 65 inch Flat Panel TV to other product lines.DPP has improved substantially relative to the actual and forecast.

Finally, we need to see the effect of the actions on profitability and to do that we load the profit and loss page and compare the reforecast to the actual and forecast.

Inventory carrying costs and warehousing costs have come down due to the Receivers return shipment and retail store profitability improved due to better shelf space utilization, resulting in improved operating margins for the company and a NET addition of 0.04 cents to the EPS for the month of October 09.

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The *Product Profitability Analysis Blueprint* has numerous benefits. It can help you move from a cost-oriented reporting exercise to a forward-looking profitability model. You can also use it to analyze product profitability for all lines of business and departmental functions and tie it back to strategic, financial and operational plans. It fosters collaboration between your finance organization, management and lines of business for better decision-making. And, finally, it enables you to understand, manage and mitigate risk in the context of profitability while effectively allocating scarce resources to maximize profits.

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For a full list of IBM Cognos Performance Blueprints available for other functional areas in your organization please visit the IBM Cognos Innovation Center at www.ibm.com/cognos/innovation-center.

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Thank you for your interest in this *Blueprint*.