IBM Planning Analytics for Allocations & Profitability Modeling

IBM Analytics Business Solution

Faster time to outcomes.
Faster time to value.

Overview

The **IBM® Planning Analytics Solution for Allocations & Profitability Modeling** leverages an Allocations Engine based on proven, IBM-developed Allocation Algorithms, combined with modular Plug&Play Modeling Assets to

- allow the deployment of comprehensive financial allocation, costing, & profitability solutions
- within a matter of days to weeks
- without requiring IT (TM1) development skills
- at a lower TCO than traditional profitability modeling solutions

With a configurable and scalable allocation engine at its core, and leveraging the capabilities of TM1's in-memory multi-cube architecture, the solution allows combining the flexibility of a traditional financial allocation process engine with the (financial & procedural) transparency of an activity-based profitability modeling approach

Modern Profitability Modeling with IBM® Planning Analytics

Traditional Allocation solutions either implicitly derive allocation rates via the defined allocation procedure(s), or require the allocation % to be input directly into the allocation procedure line items. In the first case, where allocation % are implicitly derived, the allocation logic and cost breakdown is hidden in the metadata behind the allocation instruction. The allocation process and underlying business logic hence suffer from a lack of transparency and often become 'unwieldy'. In the second case, where allocation % are directly entered, the cost breakdown becomes more transparent, yet the possibly high number of required allocation instructions still cause a

lack of transparency. Due to the lack of transparency, traditional cost allocation process solutions are only viable for use by highly trained and experienced Financial Analysts, and often limited to use within the context of a financial close cycle. Traditional cost allocation processes are not well suited for ongoing, activity-based costing purposes & pricing exercises: While it is conceptually possible to achieve 'activity-based costing' through a traditional *cost allocation process*, the underlying costing approaches will stay hidden behind the allocation metadata: the allocation process essentially becomes an abstract interpretation of the costing methodology.

Activity-based costing methodologies on the other hand provide transparency into the costing methodologies, approaches and concepts applied (because rates are derived based on 'activities'). Via rate management & analysis capability, insight is provided into the costing approaches taken (which activities drive cost and how? How should a costing rate be derived, i.e. what are its data-drivers?) and their effects on profitability as measured by the business. Activity-based costing – which by nature requires transparency - is therefore typically achieved via a rate-based costing approach & model. Yet rate-based costing models cannot be easily applied to determine and analyze related causes and effects on a larger scale (such as a financial close cycle or to analyze outcomes or restructuring changes).

An actionable, activity-based costing approach hence should be based on cost rates and an underlying data model that manages the process from setting the rate logic to the rate calculation and analysis. Such a Rate-based costing model can then very effectively be leveraged by a cost allocations process for scenarios where cost is not

directly aligned with the cost drivers: in the presence of a rate-based costing methodology and a corresponding solution that provides transparency into the costing methodologies, the allocations process needs to be able to simply 'pick' up the rate(s) that are to be applied to an allocation cycle. Rather than interpreting the costing methodology, the allocation process directly applies the costing methodology. The outcome is a transparent and simpler allocations process, driven and supported by a transparent and comprehensive rate-based costing solution.

Traditional Allocation Methodologies:

- derive allocation rates via the defined allocation type, like 'by % of Sales'

- input the allocation % to be used directly into the allocation procedure configuration line items.

- Key Costing data will stay hidden behind the allocation metadata: the allocation process essentially becomes an abstract interpretation of the costing methodology.

Activity-based Profitability Modeling (Activity-based Drivers and Rates):

- derive allocation (costing) % and $ rates from a rates engine / calculation process and feed rates into the allocation model

- provide better insight into costing/pricing approaches taken (which activities drive cost and how? how should a corresponding costing rate be derived?) and their effects on profitability as measured by the business.

- Higher financial and procedural transparency => better suited in a Business Economics context (for

ongoing, activity-derived, operational as well as strategic profitability analysis).

- Rather than being an abstract interpretation of the costing methodology, the allocation process here directly *applies* the costing methodology. The outcome is *a transparent and simpler allocations process, supported by a transparent and comprehensive activity-based profitability modeling approach.*

Core Solution Features

- **Waterfall allocations**, with unlimited number of allocation cycles and instructions
- **Modeling & Configuration by End-users** (no TM1 development skills required)
- **Out-of-the box support for standard allocation & apportionment methods.**
- **Integrates with existing Planning Analytics models**
- **Rapidly Integrate external fact-, master, & metadata**
- **Cube/model-specific allocations**
- **Traceability**: Automatic Creation and Update of
  - Validation Modules (to analyze over/under)
  - Allocation Trace & Narrative Modules (allocation transactions by source, target and offset line items, allocation target transaction 'narrative')
  - Allocation Lineage Modules: analyze and filter allocations by allocation type, driver, sources, targets, offsets, etc.
- **Fast performance & high scalability**: leverage parallel allocation processing algorithms & multi-

threaded query engine for the speedy processing and analysis of millions to billions of records

- **Allocation Processing Statistics & Verbose Logging**
- **What-If Profitability Modeling**
- **Traditional and activity-based (driver-based) profitability modeling**

Solution Package Components

- Allocations & Profitability Modeling Engine, Modules, Objects,
- Allocations Web User Interface,
- Self-Paced training course for Allocation Modeling and Configuration
- 80 hours of IBM Expert Services for Knowledge Transfer, Implementation Assistance, Guidance, & Support

Support

- Standard SW support for the **IBM® Planning Analytics Solution for Allocations & Profitability Modeling** is covered by standard IBM Planning Analytics Support agreements.

IBM Analytics Lab Services Solution Package
Fact sheet

Solution Package Pricing

- Please contact your IBM representative for pricing details

Target audience

- Finance Departments & IT stakeholders

Prerequisites

- IBM Planning Analytics License Agreement (On-Premises or Cloud)

About IBM Analytics Lab Services

The IBM Analytics Lab Services organization provides services exclusively focused on the IBM Analytics portfolio. Our depth of experience and extensive proven practices help clients mitigate risks, raise the quality of their implementation and build valuable skills. We have provided guidance, advice, reviews, assessments and assistance to thousands of clients around the world enabling them to maximize the return on investment for both on-premises and cloud-based Analytics Solutions.

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