IBM WHITE GLOVE EVENTS

Moderator: Tim O'Brien
May 4 2010
10:00 a.m. CT

Operator: I would like to welcome everyone to the IBM Cognos Performance Blueprints in Action Webcast: Allocations Performance Blueprint.

To all participating, all lines will be muted and event will be recorded.

If you require technical support, please enter star then the number 0 on your telephone, and you will be directed to a technical support operator.

If you would like to submit a question to our speakers, please use the question-and-answer feature located in the blue area at the left of your screen. To do this, you will need to exit full screen view by pressing the Escape key on your keyboard. Next, type your question into the ask-a-question area at the bottom of your interface. Please note that Web questions are private and only the speakers will see your question.

This presentation includes the demonstration which is application sharing. Please make sure all other non-intercall applications are closed. Clear your cache and history on your browser, and if at anytime you see a blank screen, exit out of full screen view by pressing the Escape key and click on the Refresh button at the top of your screen.

If you are having difficulty seeing the entire application on your screen, click on the Rescale button located at the top of your screen next to the Refresh button.

You can always send a chat message to the event coordinator for additional assistance.

All participants are in full screen view for an optimal view of today's presentation. However, to exit full screen view, simply hit the Escape key. To return to full screen view, press F11 on your keyboard.

Ladies and gentlemen, please standby for our recording to initialize.

Operator: Thank you for attending today's Performance Blueprints in Action: Allocations Performance Blueprint.

At this point, I would like to now turn the event over to Mr. Tim O'Brien.

Sir, you may go ahead.

Tim O'Brien: Thank you very much and welcome everyone to the IBM Cognos Performance Blueprints in Action Webcast featuring the Expense Allocations Performance Blueprint.

This event is brought to you by the IBM Cognos Innovation Center. And I believe all of you participating in this Webcast are Innovation Center members. So I certainly don't need to tell you about the Innovation Center, who we are and what we do for our global customer community. But what I would like to update you all on is some of the things that we're doing in the Innovation Center relevant to today.

One of the things we're doing are a set of live workshops around forecasting best practices including the rolling forecast, and we get into detail about customer success stories, as well as a lot of different customer challenges that we've seen in our communications with our customers to help you sort of forecast what's ahead as you go about deploying this type of solution so that you can overcome some of those challenges.

And then when it comes implementing them, we get into six different buckets of best practices in different ways to exploit these best practices to the best of your organization's needs along the way.

Another live workshop that we deliver is around strategy execution best practices. And I think they kind of go hand and glove with forecasting best practices.

And then, it's all about aligning your organization, operational execution to top line enterprise strategy that applies and forecasting and that certainly applies in aligning execution to strategy and ensuring us that strategy changes over time.

The organization can shift its priorities and its associated key performance indicators to make sure you're doing the right things to contribute to organizational success.

And some of the best practices we get into detail within this strategy execution best practice workshop or some of these best practices you see up there.

We also, as I mentioned, get into customer success stories – what are some of the challenges we've seen across other organizations and how they overcame those challenges.

It's a very interactive workshop. We typically get about 30 to 35 companies in the room, and it's just much about us passing on these best practices to the group as it is the sharing amongst all of the customers and where they're at in adapting the kind of solution that – or best practice that happens to be the focus for that particular event.

One of the things I want to go over to for everyone is that, you know, we hear discussion around business analytics, and what does that mean?

When I say business analytics, and I'm just jumping ahead a few slides. Let me just get there. Apologies to everyone.

When I say business analytics, you know, we here this a lot these days and it really encompasses these four different buckets. And that's business intelligence, advanced analytics, financial performance management, and strategy management, as well as analytic applications.

And each one of these areas encompasses business analytics providing the kind of business insight that organizations need to make actionable decisions.

And I can put it to you in another way, and that is business analytics answers three questions. And the first question is – what's happening?

That's what a decision-maker wants to understand, and this is typically through measuring and monitoring the business, and this could be through scorecards and dashboards, through reports, and through real-time monitoring. Typically, you're looking at key performance indicators.

And once you've answered the question of what's happening, then you want to be able to drill through in context and understand why.

And that's through ad hoc querying, that's through trend and statistical analysis, that's through content analytics giving you deeper analysis of trends and patterns.

And lastly, a decision-maker wants to answer that final question of what should we be doing and what's likely to happen. And that's through what-if analysis, predictive modeling, planning and budgeting to give foresight to plan, and allocate resources. And all of these encompass essentially business analytics.

And IBM has a number of resources that are available to you all today that you can access to help you plan your journey.

There are the C-level studies, now that's the CFO study and that's the CIO study, available to you, and you can literally can go to ibm.com/cio or ibm.com/cfo and you can get access to those studies. And there are great insights. There are over 2,000 CIOs and CFOs that were surveyed within each one of these studies.

And so you get a lot of great information about what the priorities are for organizations over the next year, three years, five years, as well as what are the challenges and changes in the business that they're seeing that's causing

them to think differently about the way they measure and monitor, and manage their business.

And I think a lot of that is reflected in the fact that the landscape has changed, you know, we're more smarter these days, the world's flatter, we're more interconnected, we're more instrumented.

The speed of business, the velocity of businesses increased so much that in order to stay ahead of the competition you really need to be leveraging information and cutting-edge ways like never before.

And just to sort of highlight that need, you think about the 19th and better part of the 20th century valuations of companies, we really were an industrial based, sort of raw-material-converted-into-a-finished-product economy which was very easy to measure and monitor the value of that company.

The value of these companies in the 19th and better part of the 20th century is really around those raw materials and finished products. And it was pretty easy to measure that value just by looking at this Brookings Institute study.

You can say even in 1982 for S&P 1000, or excuse me, S&P 500 companies, 62 percent of the market value of these companies was based on that tangible value I told you about – those raw materials and finished products.

And then over the course of the next 20 or 25 years, you can see the tangible side shrinking substantially to 2006 only being 10 percent to the market value, meaning 90 percent of it is the intangibles.

And those intangibles I got just about all of them listed there, and essentially what those intangibles are about, are all about the human capital in organizations and reflecting the decisions that individuals are making in this new decentralized, high-speed, high-velocity environment.

And so, it's important to make sure you're getting the right information to the right people at the right time that it's on target, it's easy to consume, and it's reliable. And if that's the case, better decisions are going to result.

And unfortunately, if you're not delivering that kind of information to people, it's either not going to be trusted, it's not going to be easily consumed, it's unreliable, worst decisions are going to result. They're going to be gut-based, intuition-based decisions. And that's going to certainly affect performance.

And, you know, we all know that Jim Collin's example of getting the right people on the bus, the wrong people off the bus, well I think we'll all agree that the environment's changed and, you know, what goes with that, though, is that whether it's a bus or anything else, you've got to make sure that you got the right team in place so that they can make effective decisions to drive, monitor, and understand the business, because we're not really driving a bus anymore.

In fact, because it is decentralized decision-making across an organization, across functions at every level of the organization, we're really like a jet squad, and we got to make sure we're aligned, we're moving at a high speed. We're not in the same jet but we've got to align ourselves. And we're no longer driving along a fixed highway; we're actually trying to hand on an aircraft carrier.

So really, business has changed in such a way that we need to change our behaviors as well, and where we start from is with trusted information.

With that, we can get actionable insights out of the information that's delivered to those decision-makers to make informed decisions, and as I mentioned, to optimize business performance.

And with all of these capabilities, your organization is certainly going to perform better. And IBM can be a great partner of yours in this process to help optimize decision-making, maximize business and IT productivity, and accelerate your success.

And we certainly can give you access to all of those resources I talked about earlier to help you plan your journey. We'll provide that in our follow-up communications to you all. But I, at least, wanted to give you visibility into some of these things that are going on at the Innovation Center.

So without further due, I thank you all for your time. I'm going to now pass the microphone over to my colleague in the Innovation Center, Jeff Richards, who's going to show you the expense Allocations blueprint.

Thanks everyone. Jeff, you have the floor.

Jeff Richards: Hey.

So this is the Allocations performance blueprint. It's the latest in the series of blueprints.

We're using TM1 9.5. It's designed to accelerate implementation and performance management capabilities.

In this demonstration, you'll see how this blueprint can help you gain visibility into your organization's cost driver's effectiveness with financial transparency.

The solution is lined by the clear descending of the allocations methodology and addresses these issues and manage that provides a clear picture to both the cost center management and the business lines they support, specific to how resources are being consumed and charged out related to the growth or decline in the business.

The performance blueprints predefined data models processes and policies developed to help you improve planning and forecasting, and reporting and analytics.

A blueprint is designed to jumpstart your implementation dramatically reduced in the time required to deploy a new performance management process.

The allocations blueprint in an integrated solution that provides driver-based allocations, modeling flexibility, and scalability for multiple businesses.

With this blueprint, cost centers' line of business managers received cost transparency information analysis that helps them reduce cost, demonstrate the value they add to this and determine performance.

So benefit to the blueprints allocating cost. Information can be more detailed than actionable. Business units can influence cost allocations, cost is segregated to provide needed visibility. And if business – sorry – the ability of business units to plan for and predict allocations is enhanced.

OK. There are slide shots.

So, in this demonstration – I actually got a – sorry – I thought a little bit.

The blueprint looks at two or three common allocation techniques.

Simple allocations. This is where cost centers allocate cost to line of business units based on drivers but do not allocate costs to each other.

The eliminations technique or sometimes known as the waterfall approach where cost centers allocate costs in rounds.

So, a first round cost center can allocate costs to the second round cost center and also allocates the business units. And after they've allocated their cost, they participate no longer in a cost allocation process.

The second round cost center can allocate to third round cost centers and to businesses but cannot receive costs from the future rounds.

So this is the waterfall approach where eventually all the costs for these cost centers get to the line of businesses.

The third technique is the convergence technique.

This is currently under development, and this is where cost centers allocate to each other and to business units.

So at each round, cost centers can receive costs from other cost centers but the pool of cost getting allocated to business units is getting less and less.

OK. I need to go to –this is going to bring up the application here. Wait a second.

Tim O'Brien: OK. It's up Jeff?

Jeff Richards: Yes. I've got another window on.

So what I've done so that we don't get caught up in maybe trying to figure out what's going on, I've used a very simplified data set so that we can see exactly what's going on.

That being said, I've done some research with the field in TM1 scalability enables extremely complex and large data sets of cost allocations to get done in very reasonable times.

I actually have a model where the allocations process takes about 50 minutes. So very, very complex series of cost centers and profit centers with multiple drivers. So it is very scalable.

So, the first thing we're going to look at is what the cost centers look like.

So I've defined this. You can see some of the tabs here is SA and WT. SA is the simple allocations technique and the WT is waterfall technique.

So I've combined it into just one application here, one view of the Cognos TM1 service so you can see the differences.

So both use the same drivers. So these will publicly be held centrally and imported into this, but see that IT is allocating based no the number of PCs, marketing, finance, legal and sales, HR, and admin allocating on headcount, facilities are allocating on square feet.

I'm sorry. I just need to restart that. I should have given my time on settings.

Tim O'Brien: And Jeff, what are you toggling in between for everyone as you go from this spot. It looks like you're trying to open up a new contributor model, Is that correct or you were logging into a different cost center. What's going on when you…

Jeff Richards: I'm sorry.

Tim O'Brien: …from one screen to another?

Jeff Richards: So what I've done so that we can see this quite easily is I've used the new contributor 9.5 front-end on top of these TM1 cubes so that we can see it easily. It maybe that you would use the contributor front-end if you were going to allow use this to define some of these stuff.

Typically, I find that cost allocations are defined by some finance or the committee agreeing what it is and users don't actually get to change how they are receiving costs or allocating that costs.

So here are the drivers for the profit centers that are receiving these costs, so the number of PCs, the headcount, sales in square feet.

And here are the allocations coming out from each cost center to each profit center. There's only one step here because they're allocating based on the drivers.

We can see the totals here and the allocations out. We've also gone months for the dimension and versions. Clearly, you could do this by adding companies. You could even do it by adding account pools or accounts.

And here's the summary. So you can see that through this process, the cost centers have allocated their cost out and there's no cost after allocation.

Looking at the waterfall approach. So now we're bringing in drivers for the cost centers as well. So the cost centers can allocate to cost centers in the future rounds.

And typically, this type of process you predetermine which cost centers are in which round or in which tier, so which ones are in the first round, which ones are in the second round.

I've simplified this so we can see that these cost centers are allocating it out to sales and then to each other and eventually all the cost can allocate it out as you can see by this 20,000 – 20,522,000.

And if I look at the summary, you can see that in Round 1, IT is allocated at all its cost out. Facilities, HR, admin, marketing, finance, legal have received costs.

In Round 2, facilities are now allocating their cost out, now allocating to HR, admin, marketing, finance, legal, and also to the profit centers.

And so – OK. I'm not going to take a look at the view from the profit centers. And I'm going to need to start my Web session again.

For some reason, this has been taking a little while today to get it going.

I'm just going to login. I'll go and take a look at the profit centers. If you remember that magic number was 20,520,000.

So again, driver selection as to how the cost centers are allocating their costs.

So again, simple drivers for the profit centers and here's the profit centers allocations in.

So this is profit centers' receiving from IT marketing, et cetera – those allocations. So they can see directly where their allocations came from.

And in a summary, they see what the base cost were, their allocations in, and their cost after allocations.

Again, I'm using the WT drivers for the waterfall approach, and here, the allocations that are coming into the profit centers. I'm using that waterfall approach. They can see where they're coming from.

And this is the waterfall approach, so the allocations have been given in tiers or rounds.

And again, we can see the base costs, the addition of the allocated costs.

One thing also I'd like to show you before I talk about the two techniques on display is – and this is a little comparison.

You can see here that with the simple allocations technique versus the waterfall technique, there is, in this particular example, very little difference.

The simple allocations technique – my background is finance for a major financial institution – and we allocate its costs.

And I found that the waterfall technique or the convergence technique really started to get confusing in the sense that IT was allocated to finance who then allocating those costs on two profit centers based on the drivers that the finance rather drive that IT use and keeping this thing under control with a little bit strings.

So I advocated that simple allocations was just as good the way of allocating over heads if any other. But all that said, we are looking at developing, or we are in development of the convergence technique.

And one of the things I'm looking at TM1 in developing that is to provide better insight into what I would call the indirect-indirect.

So profit centers, they have their on costs, which I would determine as direct costs. The first allocations is the indirect costs.

And then this waterfall of this convergence allocations that are done in subsequent rounds, I would use the term "indirect-indirect costs," is to try and get a better handle on how much of those costs.

So if I'm a profit center and I receive costs in the first tier and subsequent tiers, I want to know how much of IT costs I have been allocated through the allocation of IT costs to other cost centers.

So that's where we are. I'm thinking I'm going with the convergence technique then we ((inaudible)) back into the waterfall technique.

So, Tim, that's the allocations blueprint.

Tim O'Brien: Jeff, I'd suggest that, if you don't mind, since we certainly got about 27 minutes here which is good that we've got a lot leftover time, I think there is a number of people that had difficulty getting on the Web portion of this

Webcast. They were on the audio. But it might make sense, if you don't mind, to give a quick, maybe five to seven minute overview, if you don't mind, obviously not getting into the detail you did earlier but sort of a broad brush stroke across the expense allocations blueprint, if you don't mind.

Jeff Richards: Sure.

So the expense allocations blueprint is looking at the three main – two of the three main ways of allocating overhead costs. We do have blueprints that look at activity-based costing already developed.

So the expense allocations blueprint looks at two of the three main techniques.

The first one being the simple allocations whereby cost centers or sources can only allocate two profit centers. Sources cannot allocate to themselves, and those allocations are based on drivers such as IT allocating based on the number of PCs, HR allocating on headcount, marketing allocating on sales, and so on.

Tim O'Brien: And Jeff, that's to find by the organization whatever those drivers will be and it's almost limitless whatever drivers they want to use. It's just selecting the appropriate one. Is that correct?

Jeff Richards: Absolutely. It's pretty limitless as to what those drivers can be, and how many cost centers you have and how many profit centers you have.

As I said earlier, that's some of the more complex allocations in the module I've seen taking 45 to an hour to run the allocations.

Also, the one that I've seen in practice, those allocations are going back in the data warehouse from reporting (loss) and reporting straight off on allocations blueprint.

The second technique is the eliminations technique or some people call it the waterfall technique where costs are allocated in rounds and cost centers can allocate two cost centers in the future rounds.

So Round 1 cost centers allocate to Round 2 cost centers and profit centers. Round 2 cost centers cannot allocated back to Round 1 cost centers nor can they at any cost center within one round allocate to another cost center within that round. So Round 2 cost centers allocate to Round 3 cost centers and two profit centers. Round 3 cost centers allocate around four and so on.

So eventually, all the costs can allocate it to the profit centers or the receivers.

As I've mentioned the – my feeling about that – well, I'm trying to solve it with the convergence blueprint – is that costs can get a little bit lost and that if IT has a Round 1 cost center, then a profit center is picking up IT costs. But they're also picking up any IT costs that are allocated to anything that's in Round 2 and Round 3.
So these two allocation of IT costs can be somewhat must if you can't get a handle on what's actually getting allocated from IT and this, as I described then, indirect-indirect costs.

Tim O'Brien: And Jeff, making modification, you know, every organization has its own new ones to allocations and this waterfall method, you know, Round 1 to Round 2 making sure no one gets reallocated to once its – they've already been allocated to, if you will, in adopting the unique needs of each organization, to update if there's five rounds and one organization versus seven and another to modify this blueprint to accommodate for these unique characteristics.

Is that a difficult process or is it very easy to start with this as a template and build from this versus from scratch? Would you suggest which method builds from scratch to use this as a reference or perhaps modify this?

Jeff Richards: My recommendation, because there are going to be new ones within each organization, is that you look at this to learn the technique of how these blueprints, these allocations are taking place. But because your cost centers, profit centers, drivers requiring the number of rounds are going to be different that you'll want to look at building your dimensions from scratch.

Tim O'Brien: OK. And maybe I think, you know, I'm getting feedback, as mentioned earlier, a few people joined late. Maybe it makes sense, if you don't mind, just to quickly toggle through the screens to give people a visual of what you've

been describing. I think a few people missed that. It might be worthwhile toggling through that and hearing you give an overview of each individual tab within the contributor model might be worthwhile.

Jeff Richards: Yes. I think I need to restart the – I think the best place to look at it from is what is happening in the cost centers.

We'll just start this out. Just give me a minute.

Tim O'Brien: And Jeff, you mentioned in that larger model, which obviously you don't want to necessarily show for our purposes today but you've got – it sounds like a number of how many cost centers, how many profit centers, how detailed is that to give people a sense of size and complexity.

Jeff Richards: It is extremely detailed. It's thousands of cost centers and profit centers. It doesn't split between companies that kind of pull – it's very, very complex.

And the reason that I'm not showing its here is that actually it would probably take at least half a day to a day just to demo it and explain what its doing. But essentially, the outcomes are the same. It's just the way that that's doing it.

Tim O'Brien: OK.

Jeff Richards: So here are the drivers that the cost centers are allocating there – that we've used to allocate their costs. And this is the simple technique. So we're just allocating to profit centers. And here's the number of PCs and so on.

Here's the cost centers' allocating out their costs because this is the simple allocations, there's only one iteration. We can see that they've allocated out 20,520,000.

And then the summary, here's the base cost of the cost centers, and here the allocations out.

With the waterfall approach, we now bring in drivers for cost centers as well as profit centers and third, predetermine – we predetermine which cost centers are going to appear in which round. I actually did them in consecutive rounds so that we can see what's going on.

But again, the cost centers allocate out – they cost two cost centers in each round – sorry – it's profit centers each round and then on two cost centers. And eventually, in subsequent rounds, the cost centers allocate two cost centers in the future rounds plus profit centers.

And you can see here that in Round 1, and this is just the waterfall approach. So IT has allocated its costs all its costs out and has allocated into the other departments as well as the profit centers picking up some of the IT costs in this first round, and that's to the profit center view.

Then it's two or Round 2 facility is allocating its costs to the profit centers and to these cost centers appearing in subsequent rounds.

And you could have cost centers, multiple cost centers appearing in each round for simplicity of demo-ing this. I just did it so that each cost center was a subsequent round.

Tim O'Brien: Sure.

OK. That's great.

And one of the things to make sure everyone on the Webcast is aware of this that we have something called the business value guide that's associated with this blueprint and the business value guide really gets into detail of what are the nuts and bolts of this allocations blueprint, dimension use and the different approaches that Jeff's been mentioning.

It really gives you the super specific on this blueprint that's available to you and an application brief is available as well which really walks you through screen by screen what's happening within this blueprints. So don't feel like you've got to have this whole mastered than fully understood coming out of this Webcast.

What were trying to accomplish in this Webcast is give you kind of a broad brush stroke of what it is the different methods we've used and a baseline of understanding of who we can be leveraged within your organization.

And then certainly if this looks like something that you'd like to adapt, we've got supporting documentation for you to reference, and we'll obviously have a recorded version of this Webcast for you to view after the fact there might be other people in your organization you want to pass this on to.

And, you know, certainly, if you want more information, please feel free to reach out to the Innovation Center, and we've got an e-mail address, very easy – cicpm@us.ibm.com. Again, cicpm@us.ibm.com. And that will be included in the follow-up communication coming out of this Webcast.

So we'll make sure you get access to the business value guide, the application brief, and provide you with our contact information certainly. But again, I wanted to give you a broad overview of this blueprint.

So Jeff, I don't know if there's any, you know, final words you want to pass on to everyone, I think, you know, the most important thing for everyone to remember is that this is a customizable blueprint. It's certainly at no cost to our customers.

We worked with a number of different organizations to ensure we build an allocations blueprint that's representative across all industries. This is a general practice for most, if not all, organizations. So it's really not an industry-specific related blueprint but certainly can be customized to blend the ideas that it can be built out for scale certainly when built with a TM1 technology.

So I think that's about this for this blueprint Webcast, and I thank you all and I want to provide you all with my sincere apologies for those that had trouble getting on to the Webcast. We certainly, we'll make sure in the future that it does not happen again.

So I thank you all for your patience. We really appreciate it.

I want to thank Jeff Richards for presenting today, and thank you everyone. Enjoy the rest of your day, and we look forward to seeing you at one of our future Webcasts.

Operator: This concludes today's presentation. You may now disconnect.

END