

RK Paleru: Good morning, good afternoon, good evening ladies and gentlemen. Tuning into this presentation on profitability and growth with financial analytics as part of the Virtual Finance Forum 2009 series of presentations from the IBM Cognos FPM Business. Thank you for taking the time today to join this presentation and I am sure the investment of the next 30 minutes or so will be of great relevance and use during these turbulent economic times. My name is RK Paleru, I am the director of marketing financial analytics for IBM Cognos. When the going gets tough, the tough get going. This statement by Joseph P. Kennedy reflects in a way the turbulent economic times that we are in and the sentiment that is required to overcome the same. Couple of examples here. amazon.com had the best fourth quarter of 2008 ever in its history of existence and the backdrop was the largest drop in consumer spend in decades. Gap, the owner of Banana Republic and Old Navy brands had an *analyst upgrade[Phonetic]* in Q4 of 2008 in a downright dismal retail environment due to their proactive moves to cut costs and manage their inventory undertaken in early fall. Why go far? IBM as a company which has undertaken a transformation exercise over the last couple of years has seen record revenue, record profits, and record cash in fourth quarter of 2008. So, what is common with all these companies, Amazon, Gap, IBM? It is about their ability to leverage information, build intelligence upon some information derived deep inside upon that intelligence to finally undertake the strategic and tactical actions that are required to effect change and this is what the world calls as analytical competitors. In a recent paper titled Competing on Analytics published in the Harvard Business Review author Tom Davenport talks about the ubiquity of these analytical competitors around the world in a variety of industries ranging from travel and entertainment, financial services online and even professional sports. These companies have applied analytical capabilities in a variety of innovative ways ranging from revenue management to pricing optimization to customer profitability, product profitability, customer loyalty, consolidated risk management, workforce analytics, and even predictive analytics and what is important to note is some of these leading analytical competitors around the world are in fact IBM Cognos customers who have leveraged their inherent business intelligence capabilities towards analytical advantage. So, how does all this really matter to this audience? Well, thought leaders, research firms, have already started predicting the coming power shift to the CFO driven by these turbulent economic times. Today, enterprises are increasingly challenging their CFOs to *act along[Phonetic]* two dimensions, one, in the short term to drive cash flows and manage costs, but also in doing so through this transformational journey to improve profits and manage risk in the long term. It is about the CFO's need to step in and provide not just the short term lifeline for the enterprise, but also work towards the long term wellness program as part of this transformational journey. A study from Hackett Group recently predicted one of the top priorities for the CFOs in 2009 is to become a more effective business partner. A recent note by Sam Palmisano Chairman and CEO of IBM talks about the changing economic environment would lead to emergence of new leaders who would change the game and changing the game would require process transformation that would be infused with intelligence in decision making and not just the speed and efficiency of the management systems already in place. So, how is this session going to help you today? #1, it is going to help you capture both the short and long term challenges facing the finance organization and how IBM Cognos Financial Performance Management business seeks to address the same; #2, it is going to

help you learn both the world view and the IBM Cognos way on analytics and how financial analytics is evolving not just to solve the problems within the financial organization, but the analytical problems across the enterprise adjacencies; #3, it is going to help you understand the value that is being delivered through financial analytics from IBM Cognos to the financial organization not just during these turbulent economic times, but also in your pursuits to transform the enterprise. My name is RK Paleru. I am the director of marketing for financial analytics for IBM Cognos. A little bit of background about myself. I have a little over 15 years of experience, most recently coming in from the IBM information management strategy and planning team. Having seen five strategic planning cycles within IBM Information Management Division working closely with the general manager and the CFO of the business, this experience has given me a deep understanding of the needs that exists within the financial organization both at a strategic and a tactical level and has helped me blend a very strong understanding of the software and services, particularly from an information management perspective, that is required to solve those needs in context. Prior to my IBM experience, I have had a variety of roles including advisory roles to CFOs and board level through my experience in credit trust, structured finance and investment banking and I have also had entrepreneurship and business consulting background in the past. Today's talk has three sections. The first section focuses on the CFO challenges, not just during these turbulent economic times, but also it is pursued for the transformational journey of the enterprise and how IBM Cognos FPM business seeks to address the same. The second section delves into financial analytics not just from a world view perspective, but also from an IBM Cognos approach to differentiating and addressing it to those specific needs that we discuss in section #1, and finally we will touch upon the IBM Cognos value proposition through the performance management partnership and the ability to bring the breadth of IBM capabilities to address the CFOs need in the transformational journey. So, what are really the CFO challenges during turbulent economic times? Here are two studies, one from the IBM Institute of Business Value on succeeding in the new economic environment and the other from the Hackett Group on what's on the CFO's mind with respect to strategic issues for 2009. Depending on however you look at it, one of the immediate needs seems to be the unprecedented constraints on access to credit and capital due to the unwinding of the over leveraged positions of banks and financial institutions around the world and within enterprises. This means managing short term financial matters in terms of preserving cash through payables, receivables, inventory management. Falling demand and prices as sensitive customers scale back, which is also an enterprise cutback, which means the company needs to review and validate and reset the company strategy including freezing discretionary spending. Also, disruption in supply chains, customer arrangements, partner arrangements means that there is a need to reprioritize investments and also delay our scale back budget and capital investments. So, as we continue through this hierarchy depending on whatever study you look at these seem to be the common problems and the challenges facing the CFO. So, what are really the prescribed CFO actions? In the IBM Institute of Business Value study, they touch upon three specific aspects; #1, is about focusing on value, both in the near and the longer term, #2, exploiting the opportunities that the turbulent economic times offer and #3, is to act with speed to exploit and build upon those opportunities through the transformational journey. Couple of questions that arise on these three dimensions, how does the CFO do more

with less even within his own financial organization and also think about how capital is redeployed. This addresses how he manages costs and also maximizes capital deployment or returns on capital deployed. Around exploiting opportunities, fits very well into the performance management perspective as to how do CFOs leverage financial and nonfinancial data to generate timely and relevant insights so that opportunities that are exposed are exploited without any lag. Finally, the ability to have the right level of flexible information management frameworks and financial management modeling has become increasingly important to navigate through these turbulent economic times and provides the CFO with the necessary control during the transformational journey and this is about really the integrating of the finance function, not just within itself, but also across the enterprise. Now, let's take a look at the performance management framework from within the IBM Cognos company to be put to work during these turbulent economic times. We understand performance management framework seeks to address three specific questions. How are we doing, why, and what should we be doing, and this manifests itself through some of those tactical solutions listed here around measuring and monitoring, planning the *[Inaudible]* and analysis to effect both tactical and strategic change. So, when we look at the ability of the performance management framework to address these CFO challenges around managing cash, cutting costs, driving cash flow, mitigating risk, we really talk about how the performance management framework seeks to address this through the new intelligence that is complete, insightful, and actionable. Driving these smart decisions for better business outcome is when the performance management framework really proves itself in these relevant turbulent economic times. So, we have now in the first section tried to understand what are the CFO challenges, the prescribed actions, and how IBM Cognos FPM seeks to address it through the financial performance management framework. We now get into the financial analytics discussion and what is the IBM Cognos approach to addressing this pertinent market need during turbulent economic times. We will initially touch upon what are financial analytics, what is the world view on it, and what is the IBM Cognos way. We will then touch upon a sample financial analytics problem within an enterprise around customer profitability within an enterprise adjacency to the financial organization and from there try to understand how the problem can be addressed across the enterprise and finally round it off with a couple of customer successes that IBM Cognos has had in the recent past. So, let's start by understanding what are really analytics. In this two dimensional graph, we look at leveraging information has two dimensions to it; one on the x axis, it is about leveraging information and building intelligence upon that information which has essentially led to a reporting agenda. It is about how enterprises seek to introspect and understand information in context so that they build the knowledge about how they are performing, but there is a lesser and rarely understood aspect of leveraging information and that is about how can we build a high level or degree of insight that effectively builds the competitive advantage of the enterprise in its marketplace, be it in labor markets, be it in product markets, and all other types of markets. It's about how do companies leverage competitive information. So, as we scale this curve a little to the right and a little to the top, we go from a standard reporting paradigm through query build down *[Inaudible]* predictive reporting, statistical modeling and finally ending up in forecasting and optimization; optimization is the nirvana where analytics enables the automatic functioning of the enterprise based on the degree of insight that the enterprise has with its

information to effect competitive change. As companies progress through this change, there is one particular point where they hit upon modeling and when we look at these modeling, it can be looked at in two different dimensions. Typically, the algorithmic centric statistical modeling is very well understood where deep types of predictive analytic capabilities are applied, but there is also an equal and lesser spoken about modeling which is the business modeling around the human centric aspect of business modeling, which we call as the derived data modeling. This is an area in the continuum of between human centric and algorithmic centric; the human centric area is very focused around how enterprises decide and based on how they view business models, apply rules, languages, predict scenarios, and effect change. Now, this is a very important area of IBM Cognos because we have deep capabilities to address this space, not just across the other spectrum, but also within the derived data model. So, analytics is really about gaining broad intelligence and deep insight from available information to engineer business optimization. So, is the world really moving towards more analytics? A study conducted by Accenture between 2002 and 2006, both of those data points reflected here in those five buckets, which essentially reflect the level of embracement of analytics across the maturity, the maturities being minimal or no analytical capabilities to your far left to analytics being a part of a key element of the strategy of those enterprises. What Accenture has really seen is the embracement of analytics across the board irrespective of the levels of maturity of organizations. Well, does that really mean there is better effect and performance enhancements because of this? Well, yes. More analytics definitely means better performance; 15% of top performers versus 3% of low performers indicated that their analytical capabilities are a key element of their strategy and have actually led to better or increased performance. So, let's start understanding financial analytics from an enterprise perspective to delve into a sample financial analytics problem and our customer profitability. Typically, enterprises are faced with the challenges and the corresponding needs with respect to identifying profitable customers so that they can understand who they retain and who they fire or even effect changes so that the pricing mechanisms or other kinds of program elements are modified to retain them so that they become profitable. It is also about how these segmented customers based on profitability can be addressed with specific marketing mixed elements to influence change. This can be explained through a simple graph that you see here. It is about plotting profits derived from each of the customers and to undertake this, there is a basic need to have the information to be able to this. So, this requires fundamentally a shift in dimensional thinking from products to customers. Enterprises have typically understood how revenues are recognized by products and costs are allocated across products, but to be able to do this across customer profitability, we need to understand the same dimensional shift in information from the product to the customer angle. Once the available information is there, the enterprises are really able to plot that information and recognizing revenue by customers and allocating costs, be it an activity based costing system or a full load costing system allotted to customers so that true customer profitability is understood and one of the things that most of the analysts have written about is the need to understand how profitability behaves with respect to customers. We have what is called as the classic 80-140 rule; 80% of customers give about a 140% of the profits and the balance customers really drag down on this profitability. Now, there are various scenarios in this and we have seen from analysts reports that some of this

could be very, very stretched in terms of 80% of customers giving 600% of the profits and the balance customers actually dragging the profitability down. So, it is about understanding profitability and how to either flatten the curve a little to the top on the right or undertaking the actions to effect change on those customer behaviors. The next thing you do is really derive the insight upon that customers by actually segmenting those customers as to who is profitable, who is not, and who is loss making so that the right action could be taken, maybe it is about excessive attention or passive attention for those profitable customers and excessive retrenchment of the not so profitable customers that can really lead to a strategic or a tactical change within the enterprise resulting in overall profitability. Customer profitability has been embraced by IBM Cognos customers including TM1 customers. A case in point, Pelephone, a telecom service provider in Israel had a performance pain point around retaining profitable customers, predicting customer loss events with its growing subscriber usage. IBM Cognos solution had the impact to continuously monitor and analyze the subscriber base and proactively tailor services catering to the individual needs of those customers, which really ended up in reducing *[Inaudible]* and growing its subscriber base and usage. So, is financial analytics really a cross enterprise discipline? Well, yes. When we look at the performance management framework particularly focusing around reporting and analytics and more particular in analytics we have as IBM Cognos traditionally focused in the area of finance, around financial reporting, revenue analysis, profitability analysis, what if type of scenario analysis, but what we are seeing is increasingly the need for addressing analytical type problems across the enterprise and there is a commonality of these problems within the enterprise. It is about how customer profitability within the customer service department or product profitability within a product development department or workforce analytics or compensation analytics on a human resources department can be addressed by looking at it through a financial lens and extending from what IBM Cognos has traditionally focused with the FPM value add in the finance department can be extended across the enterprise and some of the walls that have been created around inconsistency through use of different spreadsheets or the access to disparate systems for data has been addressed by IBM Cognos through its comprehensive capabilities not just within itself, but also the broader IBM family. So, is analytics really the last yard of the information mile? Well, yes. The IBM information management business has built a robust set of capabilities and portfolio around information management or information on demand ranging from data management and content management capabilities all the way through information integration and warehousing management to finally business intelligence and performance management to lead to a business optimization agenda. These end to end set of capabilities address the business optimization need for better business outcome and what you see here is optimization solutions around customer and profitability being plotted out, which is very similar to what we saw in the IBM Cognos FPM, the *logical departure thought**[Phonetic]*. So, it is about how not just IBM Cognos, but the broader IBM family can come together and the amount of investment that has been done close to 10 million dollars in the recent past, in the last three years, to address the optimization need. One of the quotes that Edward Demming has come up with is "In God we trust, rest all bring data to table" is very relevant in the analytics pursuit of competitors. So, what are some of our customer successes in financial analytics? Listed here are a set of customers who are not just

customers from an information management perspective or IBM perspective, but also customers who have relied on enterprise resource planning systems of other vendors and have chosen to come to financial analytics... for financial analytics needs because of our *best of league*[Phonetic] capabilities. The ability of IBM Cognos to address in a vendor neutral way, to address analytical problems with the ability to reach disparate systems has been the competitive edge to address the problems of these customers and obviously depending on IBM or IBM Cognos addresses the need to not reinvent the wheel, but maximize the existing investments. now, let's take a couple of minutes to touch upon the third section where we talk about the IBM Cognos value proposition. We will start by understanding what is IBM Cognos performance management partnership, what are the needs that are common based on the financial analytic problems that we have seen within the enterprise and how IBM Cognos offerings can address the same. We will touch upon the immediate future around financial analytic solutions and blueprints as a way to address customer needs in this space and finally, talk about the IBM Cognos commitment to the performance management agenda. We will begin by understanding the performance management partnership in a four step process broken down to addressing the initial needs through automation, but moving through a journey that talks to the transformational journey for the CFO to address this enterprise needs from a short term to a longer term and address is through some of the driver on best practices extending enterprise wide adoption and advancing the performance management agenda within the enterprise. So, why Cognos? #1, as we talked about it's best in class and owned by finance solutions rather than an embedded enterprise resource planning agenda from other vendors. #2, it connects financial and operational performance enterprise wide and enterprise deep and #3, it is an independent performance management system that spans all data transactional systems and existing enterprise investments. Let's start by understanding how to address the initial needs around automation. To do this, we need to understand the personas involved within an enterprise, starting from the financial or the business analyst whose concern is around how to model businesses, analyze, and extract information and build scenarios. To the business manager who works the need for slicing and trending and understanding data in different forms and finally the executive who wants the ability to get the crux of it through summaries and drill downs. So, depending on the need for the personas, IBM Cognos has got comprehensive capabilities to address each of these needs, not just through the IBM Cognos framework, but also through the acquisitions that have come in recently within the broader IBM family and TM1, which is coming through the Applix acquisition. Let's now look at how the transformational journey starts with driving of best practices. Challenges in addressing these analytical needs of customers across the enterprise is consistent across the problem domain. What do we mean by that? Depending on how you look at it, let's start with the line of business; let's say a financial planning and analysis analyst looks at first of all visualizing and interacting with a problem through familiar tools, be it Excel or Internet Explorer based on browser based applications; #2, there is a need to undertake business modeling within that environment of visualization and interaction and also apply the right kind of rules languages be it arithmetic modeling, arithmetic rules, logical operations, what not so that finally the scenarios could be forecast so that the decision making authorities can make the right decisions. Now, depending on how you look at the problem across the enterprise, all problems have the same set of needs or challenges. Similarly, when we

look at it from an information technology or an IT perspective, the IT specialist looks at the need for having multidimensional views of it through multidimensional cubing to address the need of the line of business. There is the need for scalability in performance that the IT specialist is concerned about and finally, there is a need to access information, both in a timely manner and with adequate quality or perfect quality so that the needs are addressed for the line of business. So, now let's look at continuing all these best practices, how an indicative set of products could be used to serve those specific needs and let me assure you here that the products listed here is by no means comprehensive from an IBM Cognos or an IBM capability. There are more specialized needs, which can be addressed with specialized products, but this is more at the generic level as to how we drive best practices around it. Let's start with understanding how visualization and interaction works. IBM Cognos has capabilities through the IBM Cognos 8 business intelligence suite around *[Inaudible]* and the Go! Suite of products that talk about the application layer interaction and visualization capabilities, be it Excel and browser based application, portal frameworks, mobile applications, and what not. TM1 Cognos has capabilities from a mid market offering to address these needs for mid market customers around visualization and interaction. Business modeling is addressed through the financial analytics blueprints that we will be touching up on in the next couple of slides and also through IBM Cognos TM1 and also business viewpoint which talks about multidimensional management. We also talk about the robustness of TM1 as a product to address some of those rules based languages and scripting and also the scenario forecasting and the ability to store scenarios. So, when we look at the problem domain depending upon what the need is, IBM Cognos has the breadth of capabilities to address it. Now, let us come down to the IT layer. When we look at multidimensional cubing, IBM Cognos has a variety of capabilities starting from Cognos 8 PowerCubes, the Cognos TM1 capabilities around cubing and the InfoSphere Cubing Services and these variety of capabilities can be applied to address multidimensional cubing in a need that is very specific to a customer perspective. We talk about the access to information, both quality and in a timely manner through the robust IBM information on demand capabilities and as I just said, IBM has invested close to 10 million dollars in the recent past to address the needs of customers in this area and finally, we talk about the scalability in performance of enterprise needs and that is addressed through some of these robust platforms of Cognos 8 BI and IBM Cognos TM1. Let's look at finally how IBM Cognos plans to drive these best practices. One is about addressing problems through product capabilities that address those problems, but the increasing need for enterprises is to build up on the thought leadership around financial analytics that IBM Cognos can ultimately deliver customer value through point innovation and what do we mean by point innovation? It is about solving the specific problem of the customer, around customer profitability or product profitability or the other types of financial analytics problems that we discussed and doing so in a manner where specific application templates, business value guidelines, and web demonstrations are being given and that too free within the IBM Cognos innovation center for performance management. Existing IBM customers have the ability to get on and download and get up to speed with minimum investments of time and effort. How does the IBM Cognos innovation center seek to *[Inaudible]* with this? Well, not just the thought leadership, but bringing in and developing these assets that are offered for free from a involvement of customer or a

customer perspective, bringing in a business partner who understands the application of the capabilities from within IBM Cognos, driving some of these development of these assets through the best practices that have been built within IBM Cognos, leveraging the technology expertise not just of IBM Cognos, but across the IBM family and finally having a proven customer reference to show the value that is derived out of these blueprints. So, the use of these blueprints through best practices that too for free is one of the immediate values that IBM Cognos seeks to deliver in the financial analytics agenda. Now, we come to that part of the transformational journey where upon not just automating and immediately driving the best practices, but also pushed towards an enterprise wide deployment of performance management capabilities. IBM Cognos is unmatched in its ability to address this through comprehensive set of capabilities of the performance management system. Starting from the lower level information integration and warehousing management, data management, and content management infrastructure that IBM has built over the last several years to also having the breadth of capabilities, be it at a platform level, business modeling level, the universal set of capabilities around query, reporting, analysis, scorecarding, dashboarding, and planning and finally driving it through access and interactivity as we talked about around visualization and interaction to address the top layer through applications and blueprints, which we just discussed, around specific customer oriented problems that can be addressed in financial performance *backing[Phonetic]* risk performance and this is easy for an enterprise given that such assets exist within the IBM innovation center and also the extended partner ecosystem of IBM Cognos. This is about getting to value with minimal investment and maximum speed and finally why IBM Cognos? #1, IBM Cognos is a recognized leader in the business intelligence and financial performance management space with analyst recognition from major analyst firms around the world; #2, IBM Cognos leverages and builds upon the 10 million dollars worth of investments which IBM has made around information management leadership; #3, IBM Cognos has the necessary product leadership capabilities through both organic and inorganic *moves[Phonetic]* with products like TM1 and Cognos 8 BI; and finally, IBM Cognos has the broadest and deepest partner ecosystem leadership that addresses the specific problems customers have around their pain points. So, now let's take a few minutes here to understand what are the key takeaways from this session. #1, we were able to understand what are the CFO challenges that are faced during these turbulent economic times both from a short term acute care and a long term wellness perspective and the need for the CFO to step into the transformational journey of the enterprise and we also understood that that requires the need for not just efficient management systems, but also the need to embed new intelligence into those processes and data models. #2, IBM Cognos capabilities are being leveraged by enterprises worldwide and used within the performance management framework context to address problems not just within the finance organization, but also in the enterprise adjacencies. We also touched upon financial analytics as a new FPM market that is evolving and is being addressed by IBM Cognos in a very serious way in 2009. We also got into the way the world has embraced financial analytics and why it is a fast growing opportunity. We went on to spend and understand that problems within an enterprise around financial analytics be it in spreadsheets or other types of enterprise information division needs have relied on the need to address specific customer, product, and channel profitability or resource optimization type application which means it is a

potential fit for financial analytics within an enterprise and finally, IBM Cognos has the necessary capabilities across software, services, and the ability to deliver on its promise to address the financial analytics needs of customers. If you are interested in learning more, please do visit the hyperlink that is provided out here to learn more about TM1. You can also reach me at the e-mail address that has been provided here. So, once again folks thank you for taking the time today to attend the Virtual Finance Forum 2009 around financial analytics and I am sure the investment of your time will be very valuable in your pursuits as CFOs or folks supporting the CFOs to transform the enterprise in these turbulent economic times, not just in the short term, but also leveraging and extending on those opportunities to deliver value in the long term. Thank you.