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ROI For Analytic Applications

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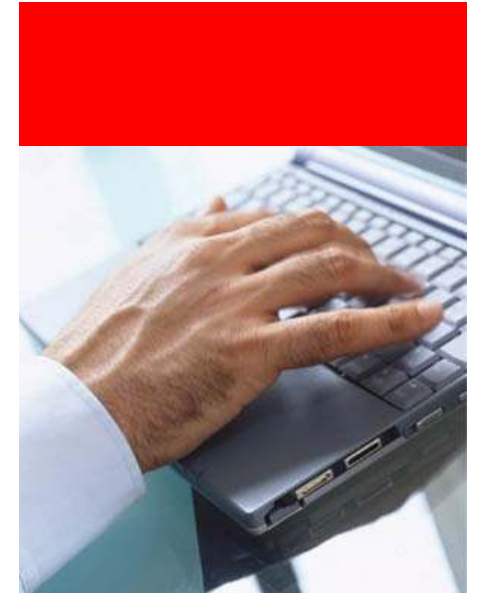


Who will benefit from this?

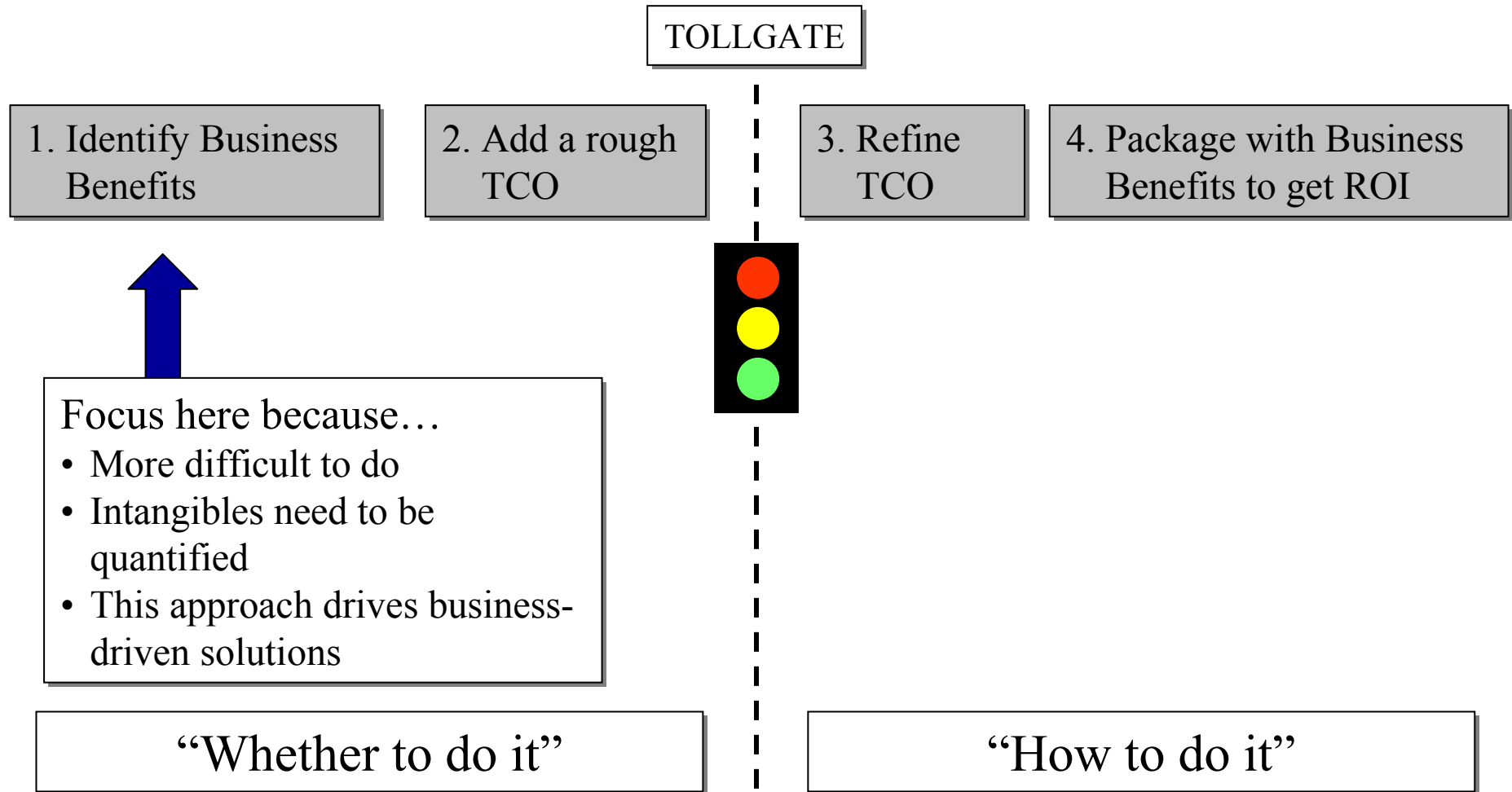
- Oracle Customer
 - IT, Business, Finance needing to justify a project
- Oracle Partner
 - Help your client or prospect justify investment in Analytics
- OR Anyone:
 - Wanting to get projects approved (or flushed) with fewer iterations
 - Concerned about turning intangible benefits into hard benefits
 - Needing to present credibly to a Finance or Steering Committee

Agenda

- The Economic Justification process?
- Finding Business Benefits
- Justifying your Project
- Final Thoughts and Questions



Economic justification process



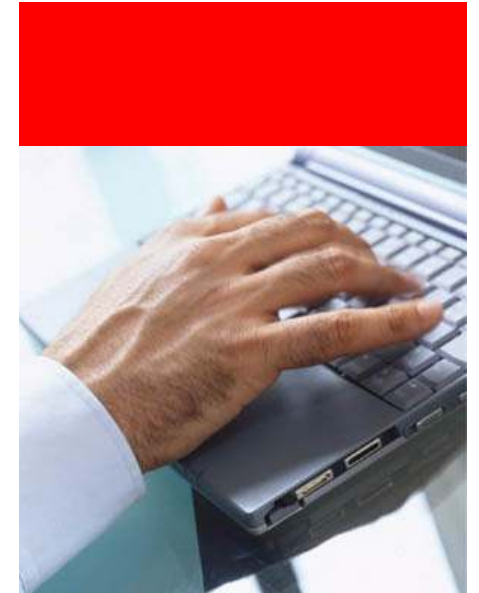


Issues with Justifying Analytics

- Since the 2001-2003 IT recession, all IT projects need iron clad financial justifications.
- Because data warehousing projects are seen as risky, organizations make the hurdles very high.
 - We usually see organizations wanting <15 month paybacks.
 - They also discount the benefits heavily.
- The benefits are seen as soft.
 - How does one quantify “increased productivity” monetarily?
 - How does one make “increased revenue” a hard number?
 - How does one quantify “better decisions” monetarily?
- IT cost reductions alone do not provide enough savings to justify.

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- What is Economic Justification?
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Benefits in Sales and Marketing Analytics

- Revenue increases usually account for >80% of the value of sales and marketing analytics
 - More Products: Get a gross margin % to convert revenue into profits.
 - Higher prices, including lower discounts, translate directly into profit.
- Most cost cutting turns into revenue increases
 - Redeploying budgets as unprofitable promotions, campaigns, sales people, or products are cut.
 - Clawbacks for contracts get recorded as revenue.
- Rebate accuracy, lower costs of sales, faster collections, and cutting finished goods inventory provide the best areas to cut costs
 - Do not base your whole argument on these.
 - Usually they alone will not generate reasonable ROI's

BUT cost cutting typically drives all other Analytics solutions



Let's explore Sales Force and Partner Analytics in detail

- Cutting the time to get leads to sales reps
 - Follow up on leads before they get cold.
 - Identify where the process breaks down.
- Improving the performance of the middle of the bell curve
 - Standardizing best practices in planning and execution
 - Identifying best places for sales management to intervene
- Identifying poor performers faster
 - Without real facts, there is a longer lag time
 - Identify and mentor or move out
- Understand sales history to predict better what to offer to each client
 - Furthers the development of bundles and sales of related products.
 - “It keeps the focus off discounts and on patient care.”



Customer Examples: Sales

- A North American health care company, global accounts sales
 - Increased number of different product lines over 35%.
 - Decreased discounting (they would not tell us how much).
- Nykredit, a Danish bank
 - During a pilot, the office piloted moved from 22nd out of 49 to 1st in five months.
 - 40% more products to the typical customer
 - 10% increase in customer satisfaction
- European retailer
 - 3% increase in sales of promoted products with no increase in ad budget.
 - Increase in sales of “supplier home delivery” products of about USD 40 million the first year.



Customer Examples: Marketing

- European Wireless Provider
 - Reduced campaign development cycle times from weeks to days
 - Increased number of campaigns from 1 per week to 8 per week through multiple channels
- North American Information Provider
 - Increased outbound call volume by 20% the first week
 - Significantly improved closure rates for up-sell & cross-sell opportunities (they wouldn't tell us how much)
- Hewlett Packard
 - Doubled brand advertising while reducing total marketing spend 15% after Compaq merger



Benefits in Contact Center and Service Analytics

- In North America, few call center managers care about revenue
 - Their most important metric is Average Handle Time.
 - They do not get compensated for increased sales.
- There is value in helping them avoid taking calls.
 - Answering the customer's question without transferring or calling them back (“one and done rate”).
 - Making self serve channels (e.g. IVR or web) palatable enough that people will use them.
 - Understanding the link between what happens in the IVR or ACD and the CSR.
- Most call center managers will not want to build a business case, but they will welcome the analysis.
 - If their management can cut costs, their budgets will be cut.
 - They will want to know how to increase productivity when their budgets are cut anyway.



Benefits in supply chain analytics

- Cutting costs in direct materials (i.e. raw materials or goods purchased for resale).
 - These are often 40-70% of sales. Cuts typically run 1-10%.
 - A 1% reduction alone can often justify the projects.
 - Usually done through consolidating and scoring suppliers.
 - Best for manufacturing, retail, and distribution companies
- Cutting costs in indirect materials (i.e. maintenance supplies and administrative goods and services)
 - Only compelling on companies with lots of assets to be maintained, e.g. utility or heavy manufacturing companies
 - Or on companies with VERY BIG indirect spend
 - Reductions can run 1-10%
- Negotiating better terms
 - Paying more slowly or taking goods on consignment

These apply in the public sector



Customer Examples: Supply Chain

- A North American Consumer Goods Company (1)
 - They did not have the time or people to strategically source all the commodities they needed to.
 - The head of procurement said “It was easy to justify this project to the Board.” The economics were compelling.
- A North American Consumer Goods Company (2)
 - Cost of goods sold > USD 10 billion.
 - Strategic sourcing cut cost of goods sold 10%.
 - Analytics was responsible for 10% of that, or over USD 100 million
 - Total project cost was less than USD 5 million.
- North American Consumer Durables Company
 - Identified 40 suppliers of a raw material. Selected 4 and cut costs 20%
 - Cut costs of office PC’s by >10% through configuration simplification and tailoring specifications better to users’ needs.



Benefits in financial analytics

- Lowering working capital
 - Speeding up collections and slowing down payments
 - Borrowing or lending more optimally through better visibility to cash requirements.
- Minimizing bad debt
 - Identifying problem geographies, industries, products, or customers
- Better expense control through detailed visibility of spending.
 - Ability to take mitigating action earlier with timely information
- Lower expenses to comply with regulatory reporting
- Sarbanes-Oxley or Law 198 considerations
 - A controlled, auditable “Single version of the truth”
 - Audit trail of data transformations and definitions

Harder to quantify

- Better visibility into financial numbers to guide financial analysts



Customer Examples: Finance

- North American Regional Bank (1)
 - Had a tremendous write off on credit cards
 - Didn't have a model to determine who they should be looking at
 - Combined financial analytics with predictive analytics to identify high risk accounts earlier
 - Almost immediately able to identify high risk accounts before they went into arrears or loss, resulting in multi-millions in savings
- North American Regional Bank (2)
 - Fastest and least expensive way to implement Know Your Customer regulations
 - Prevented large fines (> USD 1 Million for similar institutions)



Benefits in workforce analytics

- Lowering regrettable turnover
 - Better assignment of people to jobs that reflect their desires and strengths.
 - Cutting recruiting and training costs.
- Lowering HR compliance costs and possibility of violations.
- Better management of overtime and contractor expenses
- Better monitoring of pay for performance
 - Less waste from compensation plans that do not do what management wanted them to do.
- Better layoff planning
 - Better targeting of people to be laid off.

These apply in the public sector

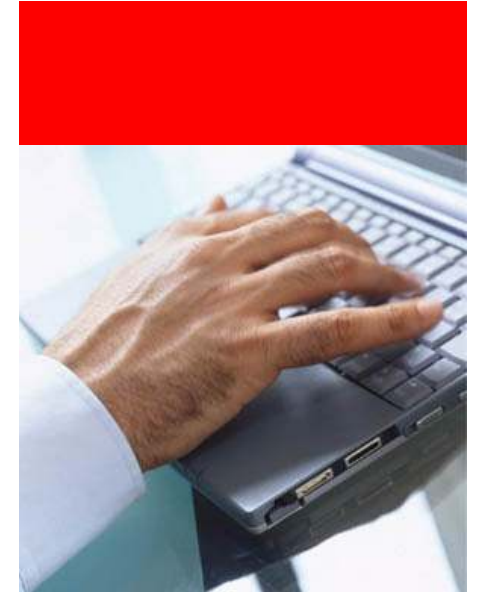


Examples

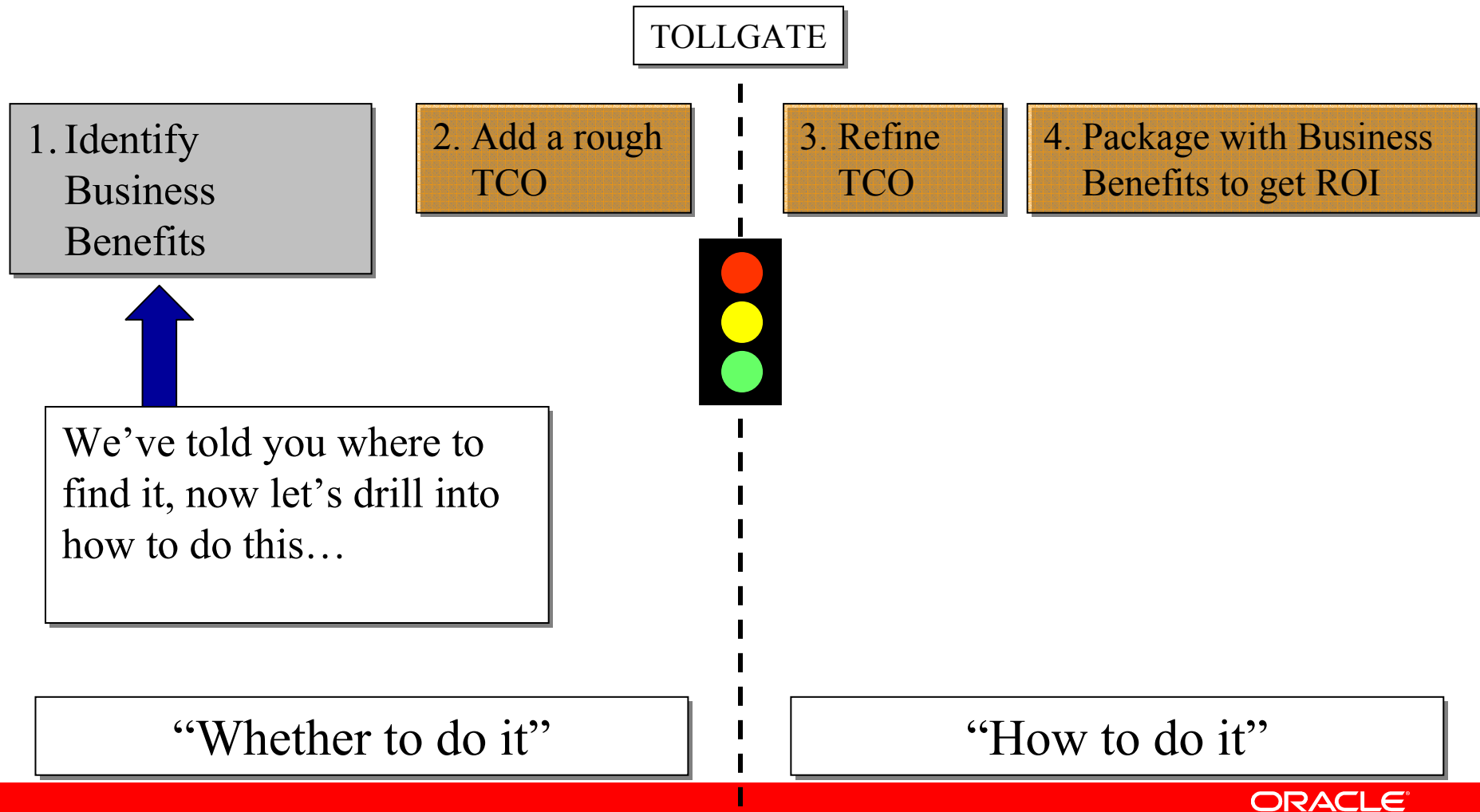
- State Government
 - After major disaster, they suspected workers double billed for overtime.
 - Information was spread across 20 payroll systems.
 - They were right. Many people were convicted.

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Economic Justification Process





Creating the Benefit Statement

- Conduct Discovery
- Quantify the Benefits
- Harden the Benefits
- Present the Findings
- Get Agreement to Proceed



Conduct Discovery

- Start with top-level business strategy
 - e.g. CEO's letter to shareholders in the annual report
- Identify areas of opportunity to support key business initiatives
 - Develop questions to quantify the benefits of these
- Ask questions of a high level, line of business executive
- Have enough questions to ensure that if you only get 20% favorable answers you will still have an adequate ROI
- Be conservative in your assumptions
 - Cut back the expected benefit as much as 90%. Much of the benefit will occur because of improved people or processes.
- Get the business's buy in early and frequently.
- If you cannot get buy in, you are probably talking to the wrong people.



Sample discovery questions

- If you understood a customer's entire sales history, how would that change how you sold to them? How much more could you sell? How would that change how you bundled or priced?
- If you understood better who was likely to default, how much sooner would you move them into "workout", and how would that affect your default rate?
- If all sales reps could plan their territories as well as the best, how much more could they sell?
- If you could segment your customer base better and develop more personalized offers, how would that improve your response rate?
- If you could shorten the time it took to strategically source a commodity by half, how much more spend could you target with strategic sourcing?
- If you understood your day to day cash requirements in detail, how would that change how you borrowed or lent short term? What would that do to the interest you pay or collect?



Quantify the Benefits

- Translate sales into profits
 - Use gross margins to translate sales of more products into profits
 - Price rises and reduced discounts drop straight to the bottom line.
- Use total sales, service, or procurement volumes to translate percentages to dollar volumes.
- Use win rates and average selling prices to translate increased lead volume or win rates into sales.
- Turn productivity improvements into increased selling, servicing, or marketing time.
 - e.g. if we can remove 5% administrative time from sales people, they will have more selling time.
 - If that does not work, you can translate these into layoffs, but the return is not nearly as great.



Harden the Benefits

- Sales
 - For revenue increases, get sales management to take more quota
 - For example, a benefit analysis showed \$8 million more revenue. The VP of Sales agreed to take a \$2 million quota increase.
 - Get operations or supply chain to sign up to reduce finished goods backlogs or inventories.
- Marketing
 - Higher response = higher sales at the same or lower costs
 - Target most profitable customers for higher gross margins
- Service, Supply Chain Management
 - Get procurement to sign up for lower costs or inventories.
- Prioritize by level of benefits:
 - Across functional areas using an Enterprise BI Strategy



Present the Findings & Get Approval

- Define Success
 - The right people understand why to fund the project
 - A decision to proceed is made
- You want to answer the question, “Why fund this project?”
 - How will it make your sponsor look good?
 - How can you make the cost to delay a compelling event?
- Talk about the business, not about IT.
- Talk about what can be accomplished, not how.
 - Speak the organization’s language, not IT language
- Use the business’ numbers with enough detail to look credible.
- Other tools will answer “How do we do this, and what will it cost?”
- Present in a way that forces a decision on whether and how to proceed
 - Let your audience know that a decision is expected
 - Communicate that next steps include gathering TCO data
 - If you get agreement on the benefits you should have a rough TCO target.



Sample Agenda

Agenda

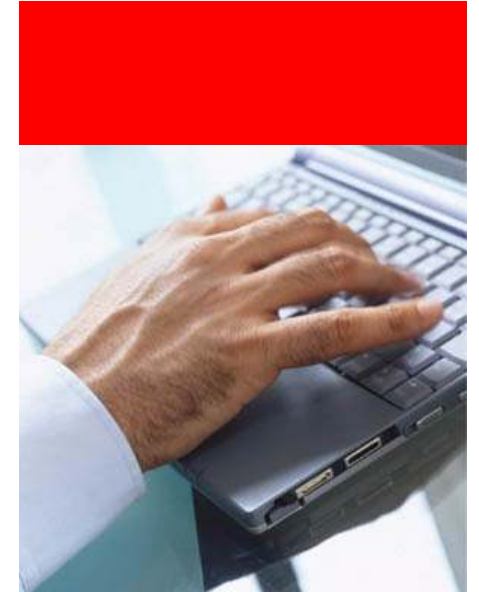
SIEBEL

- **Our understanding of your situation**
 - Sales Force Effectiveness
 - Integrated Contract Pricing
 - Sales Fulfillment
 - Promotion Effectiveness
 - Disease State Targeting
 - New Product Introduction
- **Findings**
 - Areas analytics can impact -- \$7.9 million/year revenue identified so far
 - Less promising areas
 - Areas for future study
- **Conclusions and next steps**

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Final Thoughts

- Build economic justification early.
 - It focuses the discussion on what matters to the business.
 - It sets up cost of delay as a reason to start now.
- Focus on revenue for sales and marketing
- Focus on costs for call center, service, supply chain, workforce, and finance
- Get user buy in early and frequently.
 - If you do, the business will sign up to deliver the benefits, hardening your justification.
 - If you do not, the exercise almost always fails to produce the desired results.



Final Thoughts

- Closing the Loop with Deployment
 - Leverage knowledge of the benefits to plan deployment
 - Plan for a phased implementation, providing rapid, high-value, high-visibility results
 - Establish success metrics up front, based on the targeted benefits
 - Benchmark the current situation metrics
 - **MEASURE** the benefits
- The ultimate achievement is a ‘self-funding’ project – and increased credibility to get the next project approved

Why we measure ROI?




- “What gets measured gets done.” – DuPont Corporation
- “If you can’t put a number on it, you don’t know very much about it.” – Francis Bacon
- “If you don’t know where you’re going, any road will get you there.” – the Koran
- “When the facts change, sir, I change my mind. What do you do?” – John Maynard Keynes
- “In God we trust; all others bring data.” – Sara Lee

**Measurement is the basis
for ISO 9001, six sigma, etc.**



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