CORPORATE PERFORMANCE MANAGEMENT, SAYS **VICTORIA FURNESS**, ENABLES THE COMPANY TO LOOK AT ITS BUSINESS, ANALYSE ITS DATA AND PLAN AHEAD

Lifting the lid on the future

THE FINANCIAL SERVICES sector is no stranger to business intelligence (BI) software. It was an early adopter of the technology that helps companies make more informed business decisions and remains one of the biggest customers of BI software today.

Before the arrival of BI technology, few financial services providers were able to turn the vast tracts of data in their back-office systems into valuable business insight. Now many banks and insurers are well versed in using BI tools and methodologies to segment their customers, for example, or identify cross-selling opportunities. On a crude level, BI processes involve:

> data extraction and cleansing – making sure the data is consistent and accurate;
> query – pulling together information from either single or multiple data sources;
> analysis – "slicing and dicing" the data to view it from different perspectives;
> "what if" modelling and data mining;
> reporting – presenting and distributing the information.

Such technologies, say analysts The Butler Group, "can help financial institutions manage risk, detect fraud, leverage customer insights and gain visibility into their profitability". But if this is the case, why did the UK's Financial Services Authority fine Abbey £2.3m (€3.3m) for failing to identify customers adequately and levy a £1.25m (€1.81m) penalty on Bank of Scotland for its insufficient customer records?

At a glance...

> **Business intelligence (BI) software offers financial services institutions the ability to search and analyse their data, distribute it and plan for the future.**
> **However, BI's potential has been unfulfilled because companies have accumulated data, but not linked the information to their business strategies.**
> **Corporate performance management helps the company benchmark how it performs against its objectives.**

The rationale behind BI is ambitious to say the least, which partly explains why the technology has not achieved its full potential. It also offers some explanation for the multiple versions of BI technology installed in most financial institutions. But this is not to dismiss BI altogether; when implemented to support organizational decision-making it can offer a valuable insight into areas such as compliance, customer relationship management and profitability.

Part of the inherent problem with BI, according to the Butler Group, is that it has been associated with "reports, queries and analysis", when clearly there is far more than this needed to give businesses greater "intelligence". Arguably, what has been missing in most implementations is the final part of the BI jigsaw or, as numerous analyst firms prefer to label it, "corporate performance management" (CPM).

According to the Butler Group: "Rather than just focusing on creating reports, handling queries and carrying out analysis, [CPM] offers what BI has always promised. It enables organizations to measure and monitor performance across the business, but also to link this into business cycles and strategies that govern their overall direction."

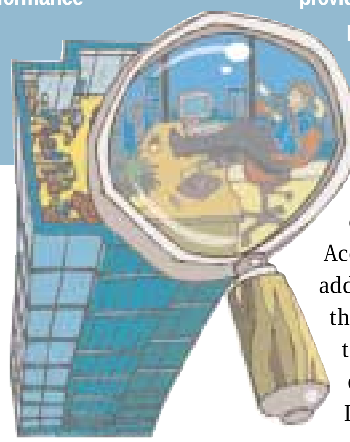
Essentially CPM does this by bringing into the BI mix budgeting, planning, scenario modelling, financial analysis, activity-based costing, reporting, monitoring, key performance indicators (KPIs), scorecards and dashboards.

ILLUSTRATION: DYLAN GIBSON

PLANNING POWER

As well as measuring financial performance, CPM can be used to measure the performance of other business functions, such as customer relationship management and HR. Since implementing Business Objects' software to measure its performance in mortgage and investment processing, West Bromwich Building Society has extended its use of Dashboard Manager to assess its performance in dealing with customers. It also plans to apply Dashboard Manager to its budgeting process and the HR department. "So it will not just be financial performance that we measure, but the entire performance of the business," explains systems development manager David Eggleston.

According to CPM software provider Atlantic Global, more than 20 per cent of a manager's time in a typical company is spent developing and populating spreadsheets to manage staff performance. It recently worked with insurer Norwich Union to help improve its planning and resource infrastructure following a merger. Since implementing Atlantic Global's Corporate Vision tool, Norwich Union has seen a reduction in its planning cycle from three months to one month. Companies often begin CPM projects by measuring the performance of financial data, for example, whether loan sales are hitting target, because it can provide quick and effective insight into company performance. But to extend savings further, organizations need to look at all their business processes to find out where their costs lie and how the company is performing as a whole.



In one sense, CPM makes organizations much more accountable for their actions, since metrics are used to benchmark a company's actual performance against its strategic goals and objectives. It also brings business processes into the equation. "The biggest thing BI has not addressed is processes, but you need process support for things to happen quickly and efficiently," says Nigel Youell, marketing director for Hyperion Solutions, a supplier of CPM software.

Another shortcoming of BI that CPM addresses is its tendency to look through the rear-view mirror. "If you look at BI, it is about monitoring past performance, which seems slightly counter-intuitive," says Laurence Trigwell, financial services industry director for EMEA at BI software provider Cognos.

By contrast, CPM looks at how the company will perform going forward. Advanced technologies – such as alerts, which warn a user when a parameter is about to be reached – enable organizations to "manage by exception". This means that rather than lying awake worrying about what could happen, managers can rest assured that they will automatically know if any pre-emptive action needs to be taken. Little wonder then that vendors of CPM software claim that interest in this area has increased significantly in recent months, driven by a number of market forces.

The first is compliance. The word is bandied about loosely in the IT industry, but in this case, CPM software can provide organizations with real business advantage. Compliance is not just about avoiding regulatory fines, it is about management demonstrating that they have the "right" data (clean and accurate), that they control every process and can measure different types of risk. BI and CPM play a crucial role in helping organizations demonstrate this.

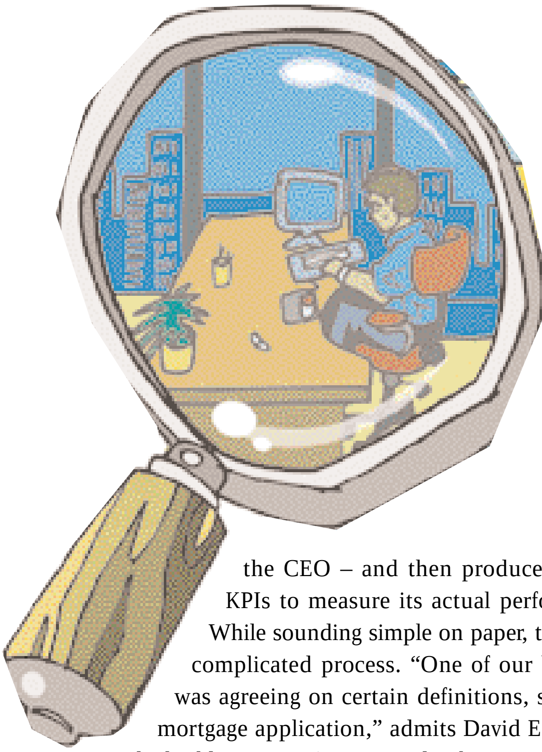
One of Germany's leading commercial banks, ING BHF-Bank, is in the process of rolling out planning and budgeting software from BI and CPM vendor, Applix, to ensure compliance with International Accounting Standards (IAS). "Although we have addressed IAS at head office, there is the possibility that at some time in the future we will take over the management of data at a regional level," explains Achim Vogt, chief operating officer of ING BHF-Bank in London.

To this end, the bank began to look for a management information system before choosing TM1 from Applix in April. When the system goes live it will replace a series of complex and interlinked Excel spreadsheets. This will not only reduce the time taken to compile its accounts under IAS, but Vogt estimates that the company will save the equivalent of paying for one full-time member of staff.

Perhaps more importantly, ING BHF will have a better quality of reporting, which will help it when compiling ad hoc reports and "what if" scenarios. "The big advantage," says Vogt, "is that we will have the capability to drill down deeper at the transactional level than we have now."

Another key driver behind CPM and BI investment is revenue growth. As the financial services sector rebounds from a tough few years, the emphasis – particularly in retail banking – has shifted from efficiency cuts to increasing revenue. "Originally the focus in the financial services industry was on cutting costs. This drove some performance management initiatives to work out where costs were in the business and how companies could get more out of their systems," says Andy Hirst, worldwide director of financial services marketing at BI vendor, Business Objects. "Now performance management is being used more to achieve customer goals."

One of its customers, West Bromwich Building Society, implemented Business Objects' Dashboard Manager to measure its overall performance against metrics, such as mortgage sales and redemptions, sales opportunities and customer service. The first step was to find out what performance targets were already in place – including those of



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the CEO – and then produce a list of KPIs to measure its actual performance. While sounding simple on paper, this was a complicated process. "One of our big tasks was agreeing on certain definitions, such as a mortgage application," admits David Eggleston, the building society's systems development manager.

Once it had resolved these issues, the challenge was to find a way for the society to present this information to senior management. Dashboard Manager provided the answer, offering its 40 branch managers a key insight into performance areas, such as mortgage redemptions and investment inflow, and the ability to drill down into separate products or branches. In addition, a traffic-light diagram highlights if the building society nears any of its internal limits. For example, if the number of commercial mortgages is likely to exceed the amount West Bromwich Building Society can offer as a percentage of its residential mortgage business, the light turns red.

"Before we had lots of methods, spreadsheets and operational reports, but it was difficult to find out what these numbers meant and what the contributing sources were," says Eggleston. There was also a time delay as the reports were compiled monthly, but did not arrive on managers' desks until the second week of the following month leaving little time for decisive action. Now managers can look at the reports every day and employees can no longer put a favourable slant on their own figures. The building society has also become more active in the management of its operations as it can now spot any trends or anomalies in its performance early on. For example, if a particular product is not selling, it can find out why and either launch a better product or withdraw it altogether.

While opening senior managers' eyes to new revenue possibilities, CPM is also adept at helping companies understand their costs and identify inefficiencies in their business processes. "Financial services providers are acutely aware that they cannot allow costs to get out of control like they did before," says Richard Barrett, vice president of global marketing for ALG Software, a provider of CPM applications. "Now financial institutions are intent on using analytical methodologies to understand cost and profitability better than they used to."

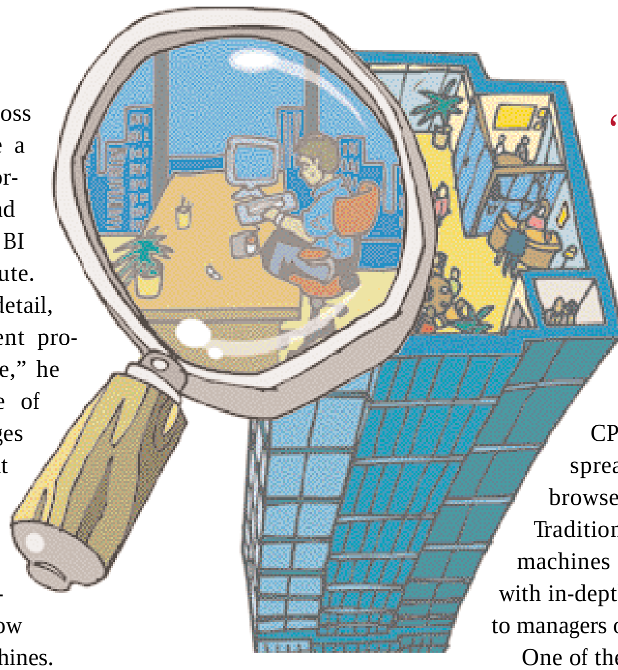
The Student Loans Company, a non-departmental public body, which pays out more than 800,000 loans to students in higher education, recently implemented Activity Analysis, a web-based, activity-based costing application from ALG Software to gain a better understanding of its costs. Prior to devolution, the Company, which has 3.2 million customers, was funded by the UK Government. Since then Northern Ireland, Scotland, England and Wales have funded it separately and each region needs to know their individual costs. At the same time, the company has extended its product range and now needs to break down costs by region and product line.

Activity Analysis automated elements of the Student Loans Company's financial reporting and data-collection processes, enabling managers to spend more time on in-depth analysis. "We now know the cost for each region and product, as well as each process, such as paying a cheque," says Alan Dickson, the Company's head of corporate services. The success of the implementation encouraged other business managers to find out the cost of activities in their own department in order to generate internal efficiency gains. Indeed, a continual cycle of improvements has been created as Dickson's team now has the insight into why one process might cost more than another.

In the insurance industry, efficiency gains remain a paramount concern as market growth remains slow and CPM is used by some financial services providers to meet this target. Chubb Insurance, for example, which specializes in the high-value, low-volume end of the market, began working with Cognos in 2001 to develop a data warehouse for its European operations. It had nine key reporting areas that it wanted to address, one of which was profitability.

The company previously obtained information on its performance by manually combining several systems, but managers were unable to gain additional information beyond line of business or individual broker. Now the systems have been combined into one repository and users can view data by multiple factors, such as size of premium or whether the company is a multinational. "We can make better predictions based on the past, identify parts of the business going well and deal with future problem areas," says Peter Thomas, VP of European management information technology at Chubb Insurance Europe.

The new system has also brought ownership of the process into the hands of the underwriters. "They are no longer reliant on the actuarial department," says Thomas. "This makes the underwriters more accountable – they cannot say that they did not receive information, for example – and enables them to identify trends in the business."



“BI drills down into more detail; performance management gives you the bigger picture”

John Wilkes, SAS Institute

The ability of CPM to look across the entire business and provide a complete view of corporate performance is key, says John Wilkes, head of performance management at BI software provider the SAS Institute. “BI drills down into more detail, whereas performance management provides you with the bigger picture,” he says. Wilkes cites the example of Europay Austria, which manages Austria’s network of ATMs. Until it implemented SAS’ Data Modelling and Data Warehousing applications, the company relied on the estimates of the local bank manager to work out when and by how much it needed to fill its cash machines.

Using SAS, Europay was able to develop a model for optimum filling, based on historical management data, interest costs, transactional data, and the number and duration of periods when the machines were empty. It estimates that it is now saving €8.5m (£5.8m) annually as a result of the new process. In addition, the SAS model is supplied with new data constantly, from which Europay can calculate new filling estimates continuously and send these to the filling operatives each morning.

Another trend driving investment in CPM is globalization. Increasingly, multinationals can no longer afford to operate as disparate regional units and instead need to develop a strategic, global outlook. This was the situation at Fortis, one of the top 20 financial services providers in Europe, which had historically managed its budgeting process on a regional basis. “We wanted to move from being a conglomerate of ‘local’ companies to a global company with one way of doing performance management,” explains Alexander Carp, director of process management at Fortis. “Instead of having discussions based on not understanding a number in the budget, we wanted to talk about what lay behind the numbers.”

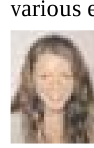
The group previously used multiple spreadsheets to manage its budgeting process, with more than 400 people involved in the task. To improve the process and develop a global, integrated budgeting system, Fortis implemented software company Geac’s MPC system in July. Now Carp estimates the budgeting process has been reduced from six months to two and a half months. More importantly, says Carp: “We can now spend more time on interacting with customers, compared with putting together budgets.” He also anticipates that the translation to IAS will be much easier to manage now it has a new process and supporting tools in place.

It has only become possible for companies to distribute CPM tools and processes on a global, widespread scale since the development of the web browser and supporting internet technologies. Traditionally, the software was installed on the machines of the “power” users, typically IT managers with in-depth analytical expertise, since providing access to managers outside this function was complex and costly.

One of the results of web-based deployments has been the “democratization of information”, which has enabled banks and insurers to extend BI to managers on the front line, who best understand their working environment and need to make quick decisions. “In the past, the information was exclusive to senior executives, but increasingly organizations are open to pushing data out to more people,” explains Daniel Lessner, financial services technology analyst at Datamonitor. “This gives the people at the bottom of the department a direct sense of how they contribute to company strategy.” In practical terms this means providing employees with easily accessible web-based dashboards, which present them with an indication of the KPIs needed to manage the business and the company’s performance in meeting these targets. “It gives employees a real-time sense of how the company is doing, compared with 20 years ago when they would only have found out when the annual report was published,” says Lessner.

An intuitive and easy-to-use presentation layer also hides the complexity behind the system for users that are not IT experts. One feature ING BHF-Bank particularly liked about Applix’s TM1 application, for example, was that it displayed the data in a similar way to Excel, a familiar front-office environment for its staff.

Increased interest in CPM and the deployment of BI will fuel investment in the technology. But before companies rush in, a word of caution. A significant proportion of any implementation’s success lies in the financial services provider’s understanding of its strategic goals and ability to link KPIs on an operational level to corporate strategy. Without this due diligence, CPM will follow the path of various early BI implementations and fail to put the intelligence back into “business intelligence”. **FW**



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