Beyond Process

The Value of Pre-planning Implementation

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Teradata
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Executive Summary

The Teradata® Business Value consulting team has helped many companies drive millions of dollars to their bottom-line – and we stand ready to help you do the same. The team draws on experience from more than 150 engagements worldwide, applying senior level financial, business analytic, and technical skills to help customers understand the value of their data warehousing investments. Among the services the Business Value consultant brings to the engagement is the ability to help each client objectively determine the financial impact of their prospective and past investments in data warehousing and analytical solutions, as well as track and monitor key performance indicators and value throughout the implementation cycles.

This white paper will help you answer the same set of questions as every other business. Those questions include: Who are our customers? How do we communicate with them most effectively? How do we deliver high-quality products and services at competitive prices? How do we do all this profitably?

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Introduction

One part of the answer to these questions is technology. It's not the entire answer, but it has to be an integral part of the larger solution. Technology is an enabler. It allows you to understand your customers better: Who are they? What do they need? And how might you best meet those needs? Technology will help you get with your customer at the right time, with the right product or service, and at the right price. And, it will allow you to do all this and earn a profit.

But the maximum level of profits will follow only if the people using the technology are properly trained and the processes are reengineered consistent with the technological requirements. If, at the end of the day, your people are still doing the same job, the same way, your investment in technology might have been better spent elsewhere. The danger to you, however, is that your competitors are moving ahead strategically. They are investing in the technology which allows them to more fully exploit the market; training their people allows them to extract the maximum value from their investment in technology; and reengineering the way information flows throughout the business.

A Major Travel Partner

Recently we worked with a large organization involved in the travel sector. Although top management was convinced their initial investment with Teradata, a division of NCR, was money well spent, they were concerned their overall performance was lagging behind the competition. We were invited in to review operations to help them determine why. Our job was to assist a valued partner to identify activities that would drive business value; to recommend process changes that, when implemented, would support the operations; to define the roles for the individuals involved in the process changes, and to develop the metrics which would allow them to know if the process changes were effective. In addition, we would assist them to develop the implementation roadmap and quantify any potential investment their changes would necessitate.

We incorporated the following process to deliver value to our partner as a result of this engagement:

1. Review the initial business case for the investment, and evaluate the financial justification.
2. Study the current process and, where necessary, recommend strategic realignment consistent with the firm's value proposition.
3. Establish metrics which allow the firm to track progress and more intelligently 'tweak the system'.
4. Establish a more effective organizational structure – roles and responsibilities – including any training programs which must be initiated in response to the changes to the organizational structure.
5. Quantify the ROI.
6. Suggest an implementation roadmap to garner additional value from their current and future investments.

> **"From our industry experience, organizations who adapt to marketplace changes and who are focused possess a stronger linkage among technology investment, process change, and financial business return. Both IT and business executives share in the accountability of the investment and together drive the financial return, which is measured against specific goals."**
>
> – Lewis Elsworthy, Sr. Consulting Partner, Travel and Transportation, Teradata

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Evaluating Existing Processes

One year after launch of the data warehouse and Customer Relationship Management initiatives, we helped our partner review the goals for the initiatives, the strategies proposed to achieve those goals, and the key performance indicators that should be tracked to better manage the strategies. What we found was our partner had neglected to implement the programs as they originally planned. Having a strong technology infrastructure is of limited use if you only deploy at the IT level. When new capability gets to the business user, considerable value is obtained. Having the capability to drive value is not the same thing as driving value. The people must be trained and developed to properly unleash the power of the warehouse. With people and processes aligned with the technology you can not only answer the question "How can we do this fast?", but you can answer the question: "How can we do this differently?", as well.

Throughout the engagement, we were able to redesign their approach to campaign development consistent with best practices. This was a dramatic improvement over the practices that had been allowed to evolve since the implementation. It is important to understand that seeds of a successful implementation phase are established during the acquisition phase. To simply incorporate new technology

Campaign Developement Marketing

Campaign Planning

Customer and Campaign Strategy
- > Defines enterprise customer communications strategy.
- > Defines customer scoring strategy.
- > Defines success metrics and reporting requirements.
- > Reviews results and reports results across the company.
- > Ensures project management and resources.

Campaign Creation & Management
- > Develops product, campaign and customer strategies.
- > Creates and manages marketing programs and campaigns to align with marketing strategies.
- > Plans and schedules campaigns.
- > Identifies individual campaign targets, offers, business rules, contact rules, and projected value.
- > Reviews campaign results and refines strategies.
- > Coordinates campaign design, copy, and testing.

Campaign Execution

Campaign Build
- > Coordinates criteria, rules, and data elements.
- > Automates processes to pull lists and create output with targets and offers.
- > Develops and reuses campaign templates.
- > Analyzes output for alignment with campaign objectives.

Campaign Delivery
- > Creates email templates.
- > Tests technical delivery.
- > Delivers emails to email service provider.
- > Analyzes output for alignment with campaign objectives.

Campaign Measurement

Campaign Reporting
- > Creates campaign reports based on defined metrics, dimensions, and user requirements.
- > Executes and distributes consistent reporting.
- > Analyzes campaign results and identifies variances from projections.
- > Campaign and Customer Analytics.
- > Manages customer scoring.
- > Develop models to examine customer behavior.
- > Creates ad hoc segments and performs analysis against those segments.
- > Reviews results and identifies new opportunities.

Figure 1. Marketing Campaign Development Process

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into existing processes without examining the skill levels of the people and the efficacy of the process will cause the investment in the technology to under perform. The new design is illustrated in Figure 1.

This new approach established corporate ownership beyond the strategic development stage. Too often we find organizations spend the necessary time to develop intricate strategic initiatives only to move the responsibility for execution and measurement to disassociated functional areas thereby obscuring the results. Our new approach suggests that our partner is more effective when performance of a system is more integrated.

In addition to helping create a workable implementation roadmap, we work with them to develop a set of reasonable expectations for the performance of their Teradata systems over time. As with any new initiative, the full benefit of the changes will take time to come to fruition. It is unreasonable to expect that when you flip the switch on the new technology that your people and your processes will respond immediately and in the right way. Reasonable expectations are based upon best practice benchmarks established through our consulting engagements.

Travel Business Case Financial Analysis

Cash Flow Statement

	Year 0	Year 1	Year 2	Year 3	Total
Benefits					
Business Traveler Loyalty					
Best Practice Value Curve		15%	55%	100%	
Incremental Net Margin	$ -	$ 3,279,375	$ 12,024,375	$ 21,862,500	$ 37,166,250
Leisure Traveler Load Increase					
Best Practice Value Curve		0%	20%	65%	
Incremental Net Margin	$ -	$ -	$ 4,969,231	$ 16,150,000	$ 21,119,231
New Route Load Increase					
Best Practice Value Curve		0%	20%	65%	
Incremental Net Margin	$ -	$ -	$ 2,257,692	$ 7,337,500	$ 9,595,192
Total Benefit	$ -	$ 3,279,375	$ 19,251,298	$ 45,350,001	$ 67,880,675
Capital Investment					
Teradata Hardware	$ (1,500,000)	$ -	$ (1,500,000)	$ -	$ (3,000,000)
Teradata Software	$ (1,200,000)	$ -	$ -	$ -	$ (1,200,000)
Professional Services	$ -	$ (1,900,000)	$ (700,000)	$ -	$ (2,600,000)
Annual Capital Investments	$ (2,700,000)	$ (1,900,000)	$ (2,200,000)	$ -	$ (6,800,000)
Present Value of Capital Investment	**($6,015,690)**				
Incremental Operating Costs					
Subscription	$ -	$ (180,000)	$ (180,000)	$ (180,000)	$ (540,000)
Maintenance	$ -	$ (200,750)	$ (260,500)	$ (340,300)	$ (801,550)
Business Consulting	$ -	$ (75,000)	$ (60,000)	$ -	$ (135,000)
Training	$ -	$ (60,000)	$ -	$ -	$ (60,000)
Depreciation	$ -	$ (900,000)	$ (1,533,333)	$ (2,266,667)	$ (4,700,000)
Incremental Operating Costs	**$ -**	**$ (1,415,750)**	**$ (2,033,833)**	**$ (2,786,967)**	**$ (6,236,550)**
Incremental Net Operating Profit After Tax	**$0**	**$1,118,175**	**$10,330,479**	**$25,537,821**	
Depreciation	$0	$900,000	$1,533,333	$2,266,667	$4,700,000
Incremental After Tax Cash Flow	($6,015,690)	**$2,018,175**	**$11,863,812**	**$27,804,487**	

3 Year Return on Investment Summary	
Net Present Value (NPV)	$22,991,893
Internal Rate of Return (IRR)	119.4%
Approximate Payback Period (Months)	16

Financial Metrics	
Weighted Average Cost of Capital	15.00%
Corporate Tax Rate	40.00%
Depreciation (Years)	3

Figure 2. Travel Business Case Financial Analysis

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The measure of our partner's position is numerically represented through the use of the *best practice value curve*.

Figure 2 illustrates a financial roadmap that our partner uses to understand where to continue to invest to maximize returns. The highlighted area illustrates how Teradata incorporates the best practice value curve into financial analysis. The Business Traveler Loyalty initiative we help them develop and that they will deploy in the first year is expected to generate more than $21 million per year. Consistent with the conservative nature of our analysis, we include only 15% of the full value for the first year in our cash flow statement. During the second year we expect that with growing comfort with this initiative we can conservatively recognize 55% of the full value in our analysis. By the third year we incorporate the full value of the solution deployment into our model. Even with the best practices value curve the NPV is still almost $23 million and the IRR exceeds 119%.

A Culture of Improvement

Our team of professionals was able to focus our partner's efforts to a consistent process for implementation:

> Consistent measurement

> Implementation team support

> Automation of processes where appropriate

> Continuous planning

> Regular reporting of results

> Detailed performance analysis

> Provide adequate data to improve assessment

> Improved execution

> Education and training

We know our partner's investment in Teradata serves them best when we work with them to understand better how the technology fits most successfully with their people and processes. A Teradata Warehouse solution is most effective when the processes that depend on the warehouse are staffed by well-trained professionals with a thorough awareness of how everything fits together.

At Teradata, we focus on working with our partners to maximize the value of their investment in a Teradata Warehouse solution by helping them create a vision of how our solution will drive the most value for their organization. We understand that for the technology to really work for them, the people and processes must all be readied for the change. The planning of the implementation begins before the purchase occurs.

Knowing what to measure, when to measure it, and how to translate the data from the system to knowledge allowing them to make wise decisions is what separates the very good companies from the truly great ones. And we can do the same for you.

"Teradata's Business Impact Modeling (BIM) program not only employs full-time financial analysts to discover hidden costs and benefits of, for example, consolidating data marts, but also collaborates with the Kellogg School of Management on publishable research. With more than 100 assessments under its belt, the BIM team has seen 95% of its ROI estimates met or exceeded by clients."[1]

– Alex Veytsel, the Aberdeen Group

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Summary

Teradata focuses on helping our customers get the most out of their investment in their Teradata Warehouse solution by facilitating their understanding of our solution and their ability to determine how and where to deploy it most effectively. We move beyond the technology by showing what the technology enables them to do – very specifically, the new and/or better actions they can take, which in turn, drive higher profits for their business. This is a highly interactive process requiring full cooperation between various constituents (i.e., business users, technology group, finance, marketing, and operations) and Teradata to ensure that all requirements are captured, documented, and analyzed. We do this by understanding a customer's business, technology, process, and financial landscape to identify areas of potential benefits and quantify the financial impact resulting from addressing these problems. The knowledge derived along with Teradata's experience and expertise allows for the development and quantification of meaningful and accurate value-statements and the cost associated with implementing the new initiatives.

Endnotes

1. Alex Veytsel, Aberdeen Group, "Selling IT to the CFO: The New Differentiator in the Analytics World" Perspective, August 2003.

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