

# Teradata Value Analyzer

## A Behavioral-Based Approach to Profitability Measurement



Understanding profitability is fundamental to the growth of any business. But all too often, companies fail to accurately assess what is driving the bottom-line value of their customers, products, services, or channels. That's because traditionally, businesses have based their profitability calculations on averages and assumptions derived from the financial systems of record, particularly general ledgers.

Unfortunately, this limited value measurement creates a summary picture of revenues and expenses that can grossly misstate profitability across dimensions. Why? Because it's a value measurement built on a cornerstone of aggregated information, a measurement that leads to misguided business decisions. You simply can't make sound, strategic decisions around targeted marketing, sales and service alignment, and pricing if you are basing them on inaccurate premises. The results can erode your profit. What if, for

example, you discover that 75% of your customer population has been classified into the wrong profitability decile?

To answer that question, you must first understand the dynamics behind enterprise profitability and the true drivers of your company's financial performance. Your financial statements may provide a summary of revenues, operating costs, and expenses, but how do you bridge the gap between summary measures and individual customers, products, or channels? Averages and assumptions won't get you there. The key is individual behavior – everything from a customer's transactional frequency to the product failure rates of

a specific product ID. Behavior is what ultimately impacts profitability – and your bottom line.

## Detailed Flow of Revenue and Expense

In order to bring detailed behavioral insight into your profitability measurements, Teradata Corporation developed a dynamic solution called Teradata® Value Analyzer. Teradata Value Analyzer addresses the converging demands of two distinct facets of your organization: Finance's need for an enterprise-wide view of company profitability and operational managers' need for actionable views of profitability that inform their daily and strategic decisions. We engineered Teradata Value Analyzer to answer key questions about the profitability, or lack thereof, of any

Business Area	Specific Benefits
<b>Marketing</b>	<ul style="list-style-type: none"><li>&gt; enhance high value customer base through appropriate services, products, and relationships</li><li>&gt; increase wallet share with effective targeting of campaigns and customers</li><li>&gt; strengthen accuracy of segmentation methods</li></ul>
<b>Product Management</b>	<ul style="list-style-type: none"><li>&gt; minimize churn with relevant products and relationship pricing</li><li>&gt; increase product bottom line performance</li><li>&gt; design cost-effective, customer-centric offers</li></ul>
<b>Distribution</b>	<ul style="list-style-type: none"><li>&gt; align investment in customer servicing and relationship management</li><li>&gt; access channel value, usage, and optimization</li><li>&gt; investment or disinvestment in channels</li></ul>
<b>Finance</b>	<ul style="list-style-type: none"><li>&gt; clarity of cost and expense drivers for improved cost management</li><li>&gt; performance assessment, process management, and planning</li><li>&gt; risk-adjusted assessment of value</li></ul>
<b>IT</b>	<ul style="list-style-type: none"><li>&gt; improve the quality of information in the Teradata system</li><li>&gt; single, detailed view of profitability for the entire organization</li></ul>

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aspect of your enterprise. Teradata Value Analyzer lets you identify individual differences between customers, products, and organizations. For example, it provides insight into how revenue is generated, how costs are incurred, and the bottom-line impact of a customer's use of a specific channel.

Teradata Value Analyzer allows you to precisely measure profitability, down to the most detailed level at which you need to see it. Unlike traditional value measurement methods, Teradata Value Analyzer takes a "bottom-up" approach beginning with the transactions, events, and activities of the business. It provides you with consistent and accurate profit level analysis across a complete set of business functions and views.

Teradata Value Analyzer provides you with the necessary profitability insight to make better-informed marketing, distribution, product, and risk management decisions. Not only will you better understand your current profitability, but you can leverage the power of detailed data to build a proactive, more profitable business.

Teradata Value Analyzer allows you to define the object of measurement (the profit object). Using transactions, events, and activities it compiles detailed Profit and Loss (P&L) statements that can include seven critical components of a complete financial model: operational and interest revenue, direct and indirect expenses, risk, capital provisions, and allocated balances. When the calculation

Total Account Analysis Factors	
<b>Operational Revenue</b>	All revenue streams relating to your business.
<b>Net Interest Revenue</b>	Represents all revenue accrued through your balance sheet activities.
<b>Direct Expense</b>	Represents costs that apply to customer behavior or events through various channels at various locations and times.
<b>Indirect Expense</b>	Relates to the costs of doing business that are not driven by transaction activity of customers, e.g. overhead expense.
<b>Risk Provision</b>	Reflects the analysis of an individual customer for risk, fraud, loss provisioning, and exposure management.
<b>Capital</b>	Reflects capital allocation down to the customer or account level. Useful in calculating shareholder value.
<b>Allocated Balances</b>	Non-financial assets or liabilities allocated to profit objects for the purpose of transfer pricing or amortization.

*Every calculation cycle, Teradata Value Analyzer produces a P&L statement by profit object. It breaks down total profit into a number of "factors." These factors and the supporting detail enable the answer to the question, "Why is this object profitable or unprofitable?"*

engine runs, Teradata Value Analyzer links the appropriate revenues and expenses to every transaction associated with the specified profit object. Once complete, this detailed information can be aggregated to the views required by the business including customer, product, and channel – across your entire company.

Teradata Value Analyzer's profitability measurements are fully integrated with your company's costing processes. Our solution allows the specific assignment of costs or cost pools to products, customers, organizations, or channels. In addition, Teradata Value Analyzer automatically updates cost pools and driver values every reporting period, and ensures that all data

is reconcilable to your underlying operational systems.

The result? Information you can use to support an array of strategic and tactical decisions concerning:

- > Relationship pricing
- > Targeting campaigns to the right customers
- > Cost management
- > Channel migration initiatives
- > Service levels
- > Structuring of products and services
- > Identifying under-served customer segments
- > Customer management

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## Converging Needs

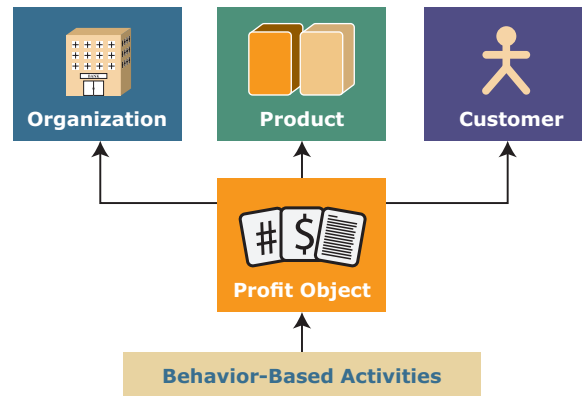
Teradata Value Analyzer provides an important link between enterprise-wide and detailed, behavior-based views of profitability. Modeling the relationships of the business, it can capture expense and revenue flows among all entities. Supporting a flexible and complex modeling environment, Teradata Value Analyzer focuses on creating behavior-based profitability information and provides modeling support for costing and profitability analysis.

## A Blend of Speed and Accuracy

We've built the Teradata Value Analyzer solution on the powerful Teradata Relational Database Management System, the foundation for maximum scalability. Teradata Value Analyzer executes all processes and calculations, and stores all data, right in the warehouse. This eliminates data duplication as well as the risk associated with data movement between systems. Teradata Value Analyzer also delivers usable information with unmatched speed, despite the complexity of profitability calculations and the vast amount of data processed. Once the calculations are complete, you can quickly understand the results and take action to improve profitability.

Of course, accuracy of data is just as vital as speed when it comes to making swift, sound business decisions. Working in a single integrated database, Teradata allows you to validate your profitability data

## Profitability Measurement Model



*This figure shows business views of profitability within a company. Unlike traditional value measurement methods, Teradata Value Analyzer takes a “bottom-up” approach beginning with the transactions, events, and activities of the business. By measuring profitability at a detailed level, it provides you with consistent and accurate profit level analysis across a complete set of business functions and views.*

## Robust Profitability Functionality

<b>Open Methodology Structure</b>	Multi-dimensional modeling capability in a single database
<b>Not just revenue minus cost</b>	Captures Balance Sheet impacts as well
<b>Unlimited Hierarchy Structures</b>	User defined and table driven
<b>Scenario Management</b>	Define and run a “what if” view of rules without rule duplication
<b>Periodicity</b>	Run analyses and reporting weekly, monthly, or quarterly based on preference
<b>Amortization</b>	Based on user-defined recognition timing and patterns
<b>Event Definitions</b>	Unlimited ability to define activities along multiple dimensions
<b>Auditable, Traceable Results</b>	
<b>Reconciliation</b>	Pre and post-processing reconciliation to ledgers and source data
<b>Restatement</b>	Re-process historical profit metrics in accordance with present-day methodology changes
<b>User-Defined Persistence and Wrap Process</b>	Results are embedded in the logical and physical database structures

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against all relevant measures across the company, not just a sample that may offer misleading results.

## Easy to Manage and Enhance

Teradata Value Analyzer is also adaptable – ready to accommodate change in your business, from cost updates to new products to expanded channels. It's a dynamic solution that you can use to define and support a roadmap for changes in your measurement practices.

Rules based and data driven, Teradata Value Analyzer performs calculations based on user-defined rules. That means its rules and the resulting calculations are driven by the specifics of your data. A Graphical User Interface helps you ensure the scope and precision of your profitability model by entering and updating your own business rules and parameters. What's more, Teradata Value Analyzer is a solution you can customize to fit your company's current requirements, while knowing that you can easily update it to fit future changes in your profitability analysis needs.

## Put Your Profitability Intelligence to Work

Teradata can show you how to build a better business by converting a combination of your customer data and your business methodology into profitability intelligence.

## Conducting Business around Detailed Profitability

Prior to implementing Teradata Value Analyzer, RBC, formerly Royal Bank of Canada, conducted customer value analysis using sophisticated methodologies developed at the institution. They used a system of deciles to classify customers according to their calculated value. However, once the bank implemented the Teradata Value Analyzer application, its results were altered drastically. Using Teradata Value Analyzer, subsequent analyses showed that 75% of the bank's clients shifted two or more deciles. Why is this important? Because this information was extremely valuable to the bank as it made decisions about how and where to invest marketing dollars, how to develop new pricing strategies, and how to determine what were the best opportunities and greatest challenges.

That's because we've had a long and successful track record of helping companies – in industries ranging from retail, financial services and telecommunications to travel, transportation logistics and e-commerce – apply customer management techniques. And because we offer a spectrum of services customized to your business needs – everything from consulting services and data mining to advanced analytics, education programs, and project management support. Our Professional Services consultants are support specialists who focus exclusively on data warehousing and are available to you around the clock.

We understand the unique challenges you face every day, and we bring you the power

to proactively manage business relationships in a way that drives growth. Teradata Corporation has a built-in foundation of industry knowledge, consulting expertise, global customer support services, and world-leading hardware technology - a combination of strengths unmatched in the industry, a combination of strengths ready to go to work for you.

For more information about how Teradata Value Analyzer can help you determine the true value of your customers to grow a more profitable business, contact your Teradata representative or visit [Teradata.com](http://Teradata.com).

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