



SAS[®] Business Report

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Dear Readers,

I'm happy to present my first edition of the SAS[®] Business Report. I work with a wonderful team, who strive to make this newsletter interesting and informative. But the Business Report is *your* newsletter. I'd like to get to know you and the things you think are successful about your newsletter. Please send me your questions, ideas and suggestions, or just drop me a line to say hello.

[Waynette Tubbs](#)

Editor, SAS Business Report

Success – from the inside out

Optimizing human capital is every business leader's imperative

By Becca Goren

Business leaders know that an organization's employees represent a significant component of its total value. The work force is the organization's wellspring of innovation and renewal. Simply put, success or failure hinges on the workforce's effectiveness in supporting the organization's mission, vision and goals. Businesses can gain a competitive edge by focusing on and optimizing use of their human capital, integrating the human capital strategy within the larger business strategy.

According to a recent McKinsey Global Survey on how companies approach innovation, "Some 70 percent of corporate leaders say innovation is among their top three priorities for driving growth."¹ In this survey, top managers agree that identifying the right people and aligning them for innovation is their single greatest struggle and that the most important drivers of innovation are the organization's culture and people. Innovation, agility and competitive advantage all are conditional to an effective work force.

The missing link: workforce analytics

Business leaders are using business intelligence and advanced analytics in an unprecedented way to improve performance. Some use customer, cost and profitability analytics to measure customer lifetime value and profitability by product, channel and customer segment. Many use supply chain analytics to optimize their supply chain. Surprisingly few, however, are using workforce analytics to drive an effective human capital strategy that proactively addresses changing business needs.

Most businesses today do not track who is critical, who will likely leave, or why they will leave, so there's no opportunity to develop effective strategies to retain critical workers. In a recent Accenture survey, 40 percent of respondents said they had no formal measures to gauge the impact of their human resources (HR) and training efforts. Another 39 percent said they had measures in place, but only for some initiatives. Barely half of the respondents thought business-oriented metrics, such as profitability and revenues, were suitable measures of HR and training effectiveness.²

Workforce analytics is the missing link in today's business strategy. Most companies ramp up goals without looking to see who may be retiring or at a critical stage in life that may take them away from the organization. Building a strategy without workforce analytics actually creates greater risk. Turn the focus within the organization to ensure that the necessary talent is in place – and will be in place in the future – to support business goals. Bring balance to the strategy by including workforce analytics along with customer analytics and realize the opportunity that is found within the organization.

Understanding today's work force

In today's flattening commercial environment, businesses are global, operate 24/7 and collaborate across the globe in an unprecedented way. Outsourcing has become commonplace, expanding beyond mere tactical functions to include entire business units.

Intellectual property and innovation drive competitive advantage, making employee retention key. Yet, as baby boomers retire and twenty-something millennials enter the scene with new skill sets and different priorities than their older counterparts, it is imperative for organizations to know how

to attract, grow and retain these workers, as well as sustain the already seasoned professionals that bring depth and value to the organization.

Enabling innovation through workforce analytics

Everyone across the organization can play a role:

Business managers need to identify pending skill gaps and a pipeline for tomorrow's leaders.

Finance managers need to determine costs related to vacancies, overtime, outsourcing, recruitment and loss of critical skills, and then model strategies to address these issues.

HR needs to spot trends and develop strategies to support changing workforce demands while partnering with business and finance managers to determine the best organizational structure/restructuring to address change.

Using workforce analytics, these business leaders can benefit from a holistic view of their human capital and sophisticated insight into risk and competitive issues with the ability to measure success for continuous improvement in support of organizational goals.

Managing the work force in a truly strategic and forward-looking way through workforce analytics has the potential to deliver enormous gains:

- Improve business performance, innovation, agility and competitive advantage.
- Reduce costs and risks while improving results.
- Enhance value, productivity and esprit de corps of the work force.

Five ways to optimize the organization through its work force

Organizations that take full advantage of this new reality will gain competitive advantage, but only if they understand their workforce strengths, vulnerabilities and opportunities. Using human capital forecasting and modeling can help you design and modify current business plans that align the work force with business goals. It can also help you see upcoming skills gaps and trends so you can plan accordingly. That way, you will gain a better understanding of what your workforce needs to look like to properly sustain and maintain the business.

Here are five critical ways you can optimize your work force:

1. Align work force with business goals:

- Forecast the amount and types of talent required to execute business strategy.
- Gain full information needed to make decisions for tomorrow.
- Manage the work force to drive the organization to meet its goals.
- Identify specific talent gaps.

2. Address workforce demands at every stage of the talent life cycle:

- Acquisition: Match the right employee with the right skills at the right time at the right cost.
- Growth: Develop skills for today's star performers and tomorrow's leaders.
- Retention: Proactively respond to changing workforce demographics and trends.

3. Identify and mitigate risks:

- Analyze the past and look forward to spot trends in key factors related to voluntary termination, absences and other sources of risk.
- Determine the impacts of organizational change on employee performance.

- Predict where vacancies and leadership needs are likely to occur.
- Understand workforce supply-and-demand patterns, and create strategies with additional labor sources to meet that demand.

4. Plan for business change, such as mergers, acquisitions and downsizing:

- Model what-if scenarios of potential effects across divisions and geographies.
- Make strategic decisions to reduce the risk of losing good workers and keeping redundant or underperforming ones.

5. Synchronize financial and operational workforce strategies:

- Expand background for each employee to look beyond salaries and general workforce costs for a more granular understanding: absences, overtimes, training costs, headcount, salaries and other compensation.
- Develop a defensible position on how costs drive value for the organization.

Innovation through human capital

Invest in analyzing the work force just as you would the customer base because keeping your employees is as critical as keeping your customers for your organization to grow. While traditionally, managing human capital was considered an HR function, integrating human capital analytics into the business strategy provides valuable information that parallels the work force with the long- and short-term goals of the company. Learn what is needed to create a culture that attracts and retains talented individuals and anticipate changes in the work force. It's a new way of looking at the key element in the business: the work force itself.

¹McKinsey Survey, *How companies approach innovation: A McKinsey Global Survey* [McKinsey & Company 2007].

²The High-Performance Workforce Study 2006: *Lack of Connections to the Business* [Accenture 2006].

Bio: As the Global Product Marketing Manager for Human Capital and Strategy Management at SAS, Becca Goren drives the planning and marketing for these areas. In this role, she leads research studies, authors white papers and articles, and speaks frequently on this and similar topics.

Energy industry addressing aging workforce with SAS

As energy use continues to increase around the globe, the need for qualified personnel to fill critical jobs in the energy industry increases as well. Industry leaders seek everything from drilling staff stationed in the Gulf of Mexico to utilities risk managers working to ensure that the flow of energy is uninterrupted. The competition to find qualified employees is fierce, and the fact that many knowledgeable, specialized workers in this industry now are nearing retirement age turns the pressure up even higher.

That's where [SAS Human Capital Management](#) (HCM) can make a noticeable difference. "SAS HCM gives energy industry leaders a clearer vision of the future now so they can make good decisions to stay ahead of the recruiting and hiring curve tomorrow," says Fred Haubold, director of the Americas division for the SAS Global Energy Business Unit.

SAS in Leaders' quadrant for operational risk management

CARY, NC (June 10, 2008) – SAS, the leader in business intelligence, has been placed in the [Leaders' quadrant](#) of the *Magic Quadrant for Operational Risk Management Software for Financial Services*¹ by Gartner, Inc.

According to the report, the Leaders' "quadrant tends to be occupied by vendors with software applications that are addressing qualitative as well as quantitative aspects of risk management of ORM. These vendors have achieved a high level of market acceptance and enable a consistent view of operational risk across the organization as compared to separately designed and implemented risk calculation engines or audit, control and compliance reporting tools. Such vendors approach operational risk more comprehensively and holistically across the enterprise and link operational risk to CPM. They have robust organizational structures and professional services resources."

Gartner's report evaluated SAS[®] on its ability to execute and its completeness of vision. According to the report, "this axis (ability to execute) evaluates ORM software application vendors on the quality and efficiency of the processes, systems, methods or procedures that enable their performance to be competitive, efficient and effective, and to positively affect revenue, retention and reputation." The completeness of vision "axis evaluates ORM application vendors on their ability to convincingly articulate logical statements about current and future market direction, innovation, customer needs and competitive forces, and how well they map to the Gartner position."

"SAS customers know that a strong technology partner is critical in operational risk and compliance management initiatives," said David Rogers, SAS' Global Product Marketing Manager for Risk. "In my opinion, this recognition from Gartner is a testament to the power that SAS' integrated quantitative and qualitative operational risk management application suite delivers to support a firm's enterprise risk management strategy."

SAS[®] OpRisk Management

[SAS OpRisk Management](#) is an end-to-end solution built on the industry-leading SAS Enterprise Intelligence Platform. With powerful data management, analytics, and regulatory reporting and disclosure capabilities, SAS OpRisk Management helps institutions optimize capital allocation while mitigating risks in all areas of their organizations. Please visit [SAS Risk Intelligence](#) for more information.

The momentum for SAS in the operational risk management space was also evidenced by [doubled revenue growth in operational risk sales for 2007](#) and securing the [leadership position in Chartis' Operational Risk Management Systems 2008](#) for the fourth straight year.

SAS' global operational risk [customers](#) are located in 28 countries across six continents and include institutions ranging in Australia, France, Japan, Mexico, Saudi Arabia, the UK and [the US](#). SAS software's leading data management capabilities and superior analytics arm institutions with the ability to view their risk profiles at an enterprise level. More than 70 institutions globally now use SAS OpRisk Management.

About the Magic Quadrant

The Magic Quadrant is copyrighted June 2008 by Gartner, Inc. and is reused with permission. The Magic Quadrant is a graphical representation of a marketplace at and for a specific time period. It depicts Gartner's analysis of how certain vendors measure against criteria for that marketplace, as defined by Gartner. Gartner does not endorse any vendor, product or service depicted in the Magic Quadrant, and does not advise technology users to select only those vendors placed in the "Leaders" quadrant. The Magic Quadrant is intended solely as a research

tool, and is not meant to be a specific guide to action. Gartner disclaims all warranties, express or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

1. *Gartner Research. Magic Quadrant for Operational Risk Management Software for Financial Services, Douglas McKibben, David Furlonger, June 6, 2008.*

About SAS

SAS is the leader in business intelligence and analytical software and services. Customers at more than 44,000 sites use SAS software to improve performance through insight from data, resulting in faster, more accurate business decisions; more profitable relationships with customers and suppliers; compliance with governmental regulations; research breakthroughs; and better products and processes. Only SAS offers leading data integration, storage, analytics and business intelligence applications within a comprehensive enterprise intelligence platform. Since 1976, SAS has been giving customers around the world THE POWER TO KNOW®.

The end of forecasting?

Or could we simply be at the end of forecasting's beginning – with unforeseen potential ahead?

By Thornton May

Researchers at the IT Leadership Academy have studied many soon-to-be-great enterprises. Their analysis shows that those exceptionally performing organizations are in the final stages of early experiments that have profoundly transformed the relationships they have with their customers. In other words, many businesses are undergoing a paradigm shift when it comes to how they think about customers.

Business models appear to be migrating from the make-and-sell mode of the industrialized past, through the sense-and-respond methods of the “Webified” present, and are now shifting toward the anticipate-and-lead ecosystems of the not-so-distant future.

In an environment where the ability to anticipate and lead is a critical determinant of success, it stands to reason that forecasting and forecasters will rise in prominence and importance. However, while forecasting is increasingly viewed as a key ingredient of strategic success, forecasting techniques and practitioners have never been so much under the magnifying glass as they are today. The powers that be are seriously rethinking forecasting.

A millennium-plus of ‘smartness’ comes to an end

From the Dark Ages through the Renaissance and the Age of Reason/Age of Enlightenment, right on up through the Industrial and Information Ages, the history of man has been one of ever-increasing knowledge. A thousand-plus years of eliminating ignorance, getting smarter and solving an ever expanding array of important problems might explain the broadly held belief in the decades leading up to the start of this century that there was not much in this world that was unknowable.

In the face of ever-improving, massively powerful and omni-connected computers, who could blame many for believing that someday real-world systems like the economy, the weather and human health would become truly and totally predictable?

Is the future truly unknowable?

The first decade of the 21st century has been a humbling one for forecasters. A new subcategory of management literature has emerged addressing and questioning the extent to which what comes next might be knowable.

For example, Michael Raynor says, “The future is deeply unpredictable.”¹ Nassim Taleb asserts, “Our world is dominated by the extreme, the unknown, and the very improbable ... the future will be increasingly less predictable.”² And David Orrell says, “Studies have shown that social forecasting, scientific or otherwise, is about as accurate as random guessing, despite the vast numbers of highly paid experts employed to do it.”³

Following the fall of the Berlin Wall in 1989, Francis Fukuyama, Professor of International Political Economy at the School of Advanced International Studies of the prestigious Johns Hopkins University, published *The End of History and the Last Man* (New York: Avon Books, 1998). In that work, he boldly prophesied that liberal democracy may constitute the “end point of mankind’s ideological evolution.” He essentially stated that we were at the end of history. Subsequent events in the Middle East, Asia and Russia demonstrated that Fukuyama’s forecast was materially off the mark.

However, Fukuyama’s response to having his forecast proved wrong provides a role model for all of those who would forecast. Rather than retreat from the public realm or move into denial or excuse-mongering, this stellar academic redoubled his efforts to understand uncertainty. His most

recent book *Blindside: How to Anticipate Forcing Events and Wild Cards in Global Politics* (Washington, DC: Brookings Institution Press, 2007) is my favorite treatment of the question of what “knowability” is.

Blindside courageously stares in the face of forecast error and asks why. Fukuyama explains that “the past decade and a half has demonstrated that nothing is as certain as uncertainty ... As the famous scatological bumper sticker suggests, bad things happen.”

Business forecasters face tumult – or new opportunity

Those of us in the business intelligence community need to realize that important conversations about what we do and how we do it are taking place at the highest levels of the enterprise today. If we do not involve ourselves in those conversations and compellingly portray the vital role we play in making good things happen and preventing bad things from happening, we may indeed be at the end of forecasting as we know it.

But being at the end of the beginning for forecasting technologies doesn't mean that our skills have become obsolete. In my last column, I spoke of paradigm shifts – a period of crisis that follows a period of relative normalcy when the old ways of doing things stop working, marking a shift as we search for a new, more effective way to solve problems.

Forecasting may simply be facing such a time of crisis. As old reasons for forecasting and techniques of forecasting become obsolete, those of us who are practitioners need to be open to new ideas and approaches, including:

- Understanding which situations are most appropriate for forecasting.
- Learning how to minimize volatility and randomness.
- Basing forecasts on marketplace realities, not your best hopes.

Ultimately, these and other lessons can help us from becoming obsolete ourselves.

Worst practices in forecasting

Do any of these describe the forecasting process at your organization?

- Unrealistic expectations for accuracy and inappropriate performance targets.
- Overworked and demoralized forecasting staff.
- Too much time and money spent on forecasting, yet with unsatisfactory results.
- Management distrust of, and tampering with, the forecasting process.
- The forecast is blamed for all business woes.

If so, you'll want to watch this two-part on-demand Web series: [Worst Practices in Forecasting](#)

Time to walk the walk on analytics

Top-line growth requires acute customer development, but few companies do this well

By Peppers & Rogers Group

It's easy to talk the talk about marketing measurement. Even easier to talk about how effective a company's marketing is. It's much tougher, but much more profitable, to walk the walk. An executive who only talks about marketing measurement uses adjectives like "good" or "engaging" to describe his company's activities. An executive that walks the walk has data at the ready, and adjectives just don't mean as much.

Suppose someone asks you: "How much customer value has your marketing created over the past year?" Do you answer with data or adjectives? Unless you can answer the question with data, you're in trouble. A recent research project by Peppers & Rogers Group – in conjunction with the Canadian Marketing Association – leads us to believe there are too many adjectives out there and too little data.

We surveyed members of the Canadian Marketing Association and Canadian subscribers of 1to1 Media publications of Peppers & Rogers Group late last year. Of the 175 respondents, 30 percent held C-level or vice president positions; 33 percent, director; and 30 percent, manager. Most (65 percent) of the companies have total annual Canadian sales exceeding CAD\$10 million. Only 14 percent report having achieved "high levels of proficiency" in marketing measurement. About two-thirds (68 percent) consider themselves "moderately" successful, leaving the remaining 18 percent, well ... struggling.

Money matters

The key problem is investment of time, effort and money. If you walk the walk on analytics necessary to measure marketing, you'll spend money on it. Anyone can say marketing accountability is important. But budget allocation to support analytics efforts is "too little" according to 41 percent, with 87 percent indicating that not much change has occurred from the prior fiscal year and 82 percent anticipating a relatively static level of investment this year.

Quite honestly, that's a missed opportunity to retain and attract valuable customers. People, process and technology need support at all levels of a data driven company. In the absence of data, proving that marketing activities are causing observed business outcomes is difficult.

Every marketing dollar spent should deliver two benefits. First, a tangible, immediate contribution to the business; and second, an intangible insight that will continue to pay dividends through continued improvements in future programs.

Forgetting the lessons learned because of the absence of data is not a long-term strategy. In fact, it smacks of the short-termism that plagues so many businesses that ignore customers as their most precious assets.

To be highly effective, marketing measurement both uses data (e.g., selecting a target audience or establishing a control group) and produces data (e.g., purchase behavior of customers). Despite data's importance, relatively few survey respondents reported a high level of satisfaction in the accuracy (19 percent), completeness (15 percent) and timeliness (19 percent) of data used to measure marketing effectiveness. Marketers working with inaccurate, incomplete or out-of-date data will find it difficult to measure or improve their activities.

Does not compute

If companies do generate customer data, they're often not translating it into useable information. If an IT department knows that an e-mail campaign's open rate is 45 percent, that data means nothing to the marketing department unless there's a complete picture of costs, value creation

and potential value of that campaign. Metrics must allow marketers to see quickly what's working (or not).

Surveyed companies use a variety of metrics, from hard, primary business benefits to softer, secondary influences. The metrics reported as most important in demonstrating marketing effectiveness solidly reside in the "primary business" category, including revenue, ROI and financial-based calculations (e.g., internal rate of return).

Among the least valued are awareness-based metrics (e.g., top of mind recall), attitudinal metrics (e.g., beliefs, feelings), and predictive metrics (e.g., lifetime value). We think those priorities should be more balanced. Attitude is a predictive metric that can help you determine lifetime value. Lifetime value cannot simply be "promising." It should be a number.

Lack of alignment persists

There's also a persistent problem of corporate alignment and culture, especially between the marketing and finance departments. Because marketers emphasize revenue, ROI and financial-based calculations to assess marketing effectiveness, it's no surprise that marketing overlaps with finance. For marketing measurement to work, these two departments must get along.

In our research, marketing was at least as senior in the organization as finance by 68 percent of respondents. This organizational parity, however, does not extend into the relationship between the two. A minority of respondents report high levels of alignment (33 percent) and cooperation (41 percent).

Perhaps it's not surprising that only 20 percent of respondents indicate that the finance department participates at a high level to establish marketing effectiveness measures. Consistent with this finding, the Association of National Advertisers found that the finance division and/or a cross-functional team were included in the company's marketing accountability efforts in only 36 percent of the cases. This silo on the front-end selection and design of marketing measures may be one reason for the lack of alignment, cooperation and trust between the two functions.

The survey also showed that, in the C-suite, the importance of measuring marketing effectiveness varies by role, with the CMO – as may be expected – placing the greatest emphasis on the activity, followed closely by the CEO. In contrast, the CFO views measurement as important but not nearly as important as these two other C-level roles view it.

While the survey uncovers missed opportunity, there is a silver lining: 16 percent of respondents say measurement has greatly improved at their companies from a year ago.

Ask yourself: Did your company's marketing activity create value last year? An effective retailer might respond, "Customers who shopped online and in-store spent 12 percent more this year than last. And we spent the same amount of money marketing to them both years."

The worst answer is "I don't know."

Bio: The Peppers & Rogers Group, founded by Don Peppers and Martha Rogers, PhD, is a consulting firm recognized as the leading authority on customer-based business strategy. www.1to1.com.

Is lifetime value losing value?

The Direct Marketing Association recently reported that customer lifetime value is ranked last among marketing metrics.

And the Association of National Advertisers found that lifetime value is very important to only 14 percent of senior executives.

Five myths about time-driven activity-based costing

The straight facts about traditional and time-driven costing methodologies

By Tony Adkins

After decades of proven success, activity-based costing (ABC) has come under fire from its earliest and most active proponents.

Robert S. Kaplan and others are promoting a “new, innovative, time-driven methodology” that presumably “delivers great improvements to the older systems of 15 years ago.”¹ Companies are replacing their current costing solutions to try to get strategic information faster and with less maintenance.

Is this approach really new and revolutionary? Does it deliver on its promise?

Time-driven ABC vs. traditional ABC

Traditional ABC is a “push” model of costing. You start with total expenses spent on various types of resources, such as salaries or supplies, and then determine what percentage of each resource is associated with each product or service. Then you apply that ratio to the total cost, which generates cost allocations for every product.

In contrast, time-driven ABC is a “pull” model of costing. You start with estimates of two parameters: units of time required to perform an activity and the cost per unit of time. You then multiply this information by the quantity of the product.

For resources not measured by units of time, the costing methodology can accept other measures. For instance, the capacity of a distribution center could be measured by available area and priced at cost per cubic meter. The capacity of a computer server would be measured by available gigabytes and priced at cost per gigabyte.

So, “push ABC” computes actual activity costs and aggregates them into the outputs, such as products, that consume those activities. “Pull ABC” computes activity costs at standard rates and leaves a “leftover efficiency” and/or unused capacity cost variance. But both ABC methods account for the same amount of spending during a time period.

Five myths about time-driven ABC

Time-driven ABC has been heralded as more profitable and powerful than legacy ABC implementations. Despite the proven track record of traditional ABC, the following myths attempt to portray traditional ABC as an impractical methodology.

Myth No. 1: Time-driven ABC is a revolutionary new methodology.

Consulting firms, software vendors and the media have been eager to promote time-driven ABC. They love something “new.” One software vendor even sought to patent its spin on this methodology. Some organizations are rushing to change their existing ABC solutions, hoping to capitalize on the purported merits of the new methodology – said to be a simpler, less expensive, one-size-fits-all solution.

Seasoned practitioners in the cost management field recognize that this “new” methodology is anything but new. The idea of time- or event-driven ABC has been around in many forms for two decades, including output measurement methodology, “reverse-push” activity-based budgeting and bill-of-cost methodology.

Today’s time-driven ABC is simply a bottom-up approach to ABC principles, complementing instead of replacing the traditional top-down approach. The full-absorption costing calculation is

“pushed” through a model (but logically and causally traced without broad averages). The other approach is a cost calculation using rates and quantities that are “pulled” through a model. Both methods have their place, depending on the purpose or type of decision the cost calculation will help you make.

Myth No. 2: Time-driven ABC is the panacea for estimating costs.

The primary purpose of ABC is to provide information that executives, managers and employee teams need to make better decisions – particularly decisions that will keep the company in alignment and on track with strategic goals.

Both ABC methodologies achieve this by identifying key strategic factors (i.e., product profit margins, channels and customers) and operational areas (i.e., costs and capacity for processes). The objective is to measure, monitor, manage and improve these areas quickly and easily.

Because the two methodologies arrive at their calculations from different directions – accounting for the same expenses – they each have merit for providing a variety of insight:

- To understand unused or estimated capacity issues, the time-driven approach will provide more clarity.
- To identify potential areas of cost savings, traditional ABC will provide broader perspective.
- To determine what things cost, and why, either method will deliver accurate results.

Ultimately, organizations are best served by a modeling tool that makes it easy to apply either or both methodologies depending on the desired outcomes.

Admittedly, traditional ABC does not distinguish used from unused capacity, so destination cost objects (such as products or customers) may have some idle capacity factored into the calculation, which results in slight over-costing. However, this effect is generally accepted because users believe that managers are vigilant about ensuring a match between resources and workload demand. Also, some traditional ABC methods are made “capacity-aware” by isolating estimable idle capacity in the resource and assigning it to a business-sustaining cost object, thus removing over-costing effects.

Myth No. 3: A time-driven ABC model is easier to develop and maintain.

Part of the allure of time-driven ABC is the promise that employee surveys to quantify time spent on specific activities will become simpler and less frequent. Managers will estimate the units of time required to perform an activity for a specific product, and that calculation will go into the model to be multiplied by the volume of outputs as reported by automated systems and databases.

However, any estimation process is prone to error. A one-minute flaw in a time estimate multiplied by thousands of transactions can greatly skew results. In fact, such a modest estimation error could possibly be greater than it would under traditional ABC.

Another assumption is that after implementation, a time-driven ABC model will be virtually maintenance-free. Activity cost drivers reference formulas, the thinking goes, so it’s easy to modify the formula. For instance, if employees get an 8 percent raise, simply modify the cost driver to reflect that 8 percent.

In reality, organizations change constantly and should update models to reflect every change. Kaplan advises an update to time-driven ABC models with every event – whether it’s cost of a resource, a change in required resources or a change in efficiency.

That’s a lot of change. In a perfect world, if everything in the model was based on rules-based

driver relationships, the updates would indeed be simple. But in the real world, a time-driven ABC model contains components of traditional ABC to address areas of the business where that methodology is more appropriate. So, resurveying activity costs would still have to take place.

Consider also that the real work of effective decision making begins after a model is created, calculated and used. Time and energy spent worrying about perfect cost drivers and third-decimal-point precision will commit too much of the ABC project team's time to building models. The true value of ABC comes from the post-modeling analysis that will generate the best management decisions, which leads us to the next myth.

Myth No. 4: Time-driven ABC drives faster, better business decisions.

It can, but it can also drive a myopic focus on time, to the exclusion of other cost factors. Focusing on time standards can direct too much attention to reducing the duration and weight of time in the activity cost driver, instead of investigating other, more effective cost reduction factors.

For example, a modem manufacturer used time-driven ABC to understand the complexities of its business and identify cost-cutting and efficiency opportunities. Its model showed that costs were too high for the process of attaching rubber feet to the bottom of the modem case, a case shipped from an external supplier. Process engineers focused a lot of time and effort to reduce the time standard for this task – even timing experienced and inexperienced workers. They simply could not reduce the amount of time to add the rubber feet.

By focusing so narrowly on reducing the time standard – emphasized in time-driven ABC – the team wasted a lot of time before reaching a much better decision: having the supplier add the feet to the case before shipping. A traditional ABC model could have revealed this option much earlier.

Also, we can often conceptualize the language of quantity more easily than time for costs. For example, a bank loan officer more naturally estimates the number of credit reference checks instead of how many minutes a credit check takes.

It's easier to relate to a metric of \$35 per credit check than 14.5 minutes per credit check. The dollar figure readily suggests ways to cut costs – performing five credit checks per loan application instead of seven. The metrics time-driven ABC would produce are less intuitive for this purpose.

Myth No. 5: Only certain vendors can do time-driven ABC.

Several major costing software vendors can calculate costs based on multiple assignment methods that can either push costs based on collected driver quantities or pull costs through a cost model based on equations that reference automatically updated, dynamic databases. Users have the option to choose either method for different parts of their model.

Time-driven ABC isn't one-size-fits-all

Organizations should be able to choose resource and activity cost drivers – push or pull – that best fit their situations. They should be able to build sustainable costing models that support the real goal of ABC: better decision making.

If you want to track used and unused capacity and associated costs, a time-driven ABC model can “back into” the cost of idle capacity: for example, helping to identify redundant or inefficient employees. Time-driven ABC may also be useful for situations of highly repetitive work (creating interest in standards) and paper-thin profit margins, such as retail distribution.

In contrast, if you want to answer questions about what things cost and why, a traditional ABC model continues to be the fastest, easiest way to get those answers. The time and effort of implementing and maintaining time-driven ABC may simply not be worth it.

Time-driven ABC offers advantages over traditional ABC costing to meet certain goals, but it doesn't dramatically simplify the process of creating and managing models. It should be considered complementary to, not a replacement for, traditional ABC. Traditional ABC is still a proven way to trace and assign costs and identify cause-and-effect relationships.

¹ Robert S. Kaplan and Steven R. Anderson, "Rethinking Activity-Based Costing." *Harvard Business Review*, Jan. 2005.

Bio: Tony Adkins, Product Manager at SAS, has supported, implemented and spoken about cost and profitability management modeling worldwide. He is also the author of *Case Studies in Performance Management: A Guide from the Experts*.

How ABC helps you manage – and improve – performance

According to a recent Datamonitor brief, ABC doesn't always get the respect it deserves. "In the lexicon of business performance management, activity-based costing, ABC, a budgeting and analysis process that evaluates business operating overheads and costs, is often the Cinderella that doesn't get invited to the ball."

But because of the information it provides about costs – both direct and indirect – its reputation as a critical piece of larger performance management initiatives is growing.

Read [Datamonitor's report](#)

See what JMP® can do with your data

Visualization gives you a greater understanding of what your data is trying to tell you

By Arati Bechtel

Using spreadsheets to try to analyze and communicate business data is so 20th century. Spreadsheets are static and can answer only simple queries. You want to see trends and projections, and you want to handle multitudes of data. That's why you're a SAS user.

But you also want to interact with your data. You want to visualize it in a new way and see things you might otherwise miss.

Innovative 21st century organizations across industries have come to this same conclusion, and they are exploring and analyzing their problems visually with JMP statistical discovery software. Because it's from SAS, JMP integrates perfectly with other SAS products. JMP is a visual and interactive interface to SAS.

Now you can see for yourself. Check out a variety of visualizations below that show how JMP turns data into knowledge.



What is this? **Categorical analysis.**

What is it for? It is designed to analyze multiple-response data from such things as surveys, defect records and clinical trials.

What can it do? In this instance, a pharmaceutical company can see adverse effects from a drug's clinical trial. Using color and width of the bars in the charts as well as the statistics above them, the analysis compares the drug to the placebo. You can see that the drug resulted in 294 cases of tinnitus (peach color), while the placebo resulted in 68.

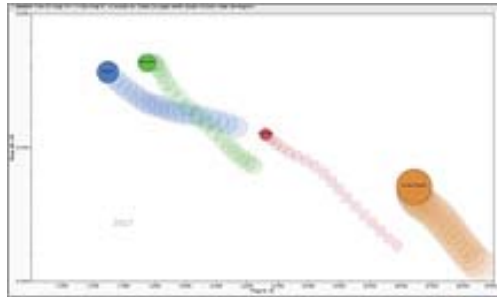


What is this? **A tree map.**

What is it for? It presents data as a two-dimensional tiled graph, wasting no space and enabling quick analysis of many categories by comparing the sizes of the rectangular tiles. In contrast, the bar chart tucked in at the left depicts the same data as the tree map, but it has a lot of unused

space and is less effective because it has so many bars.

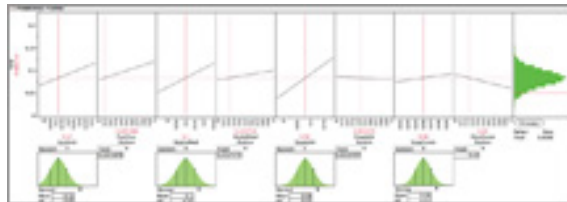
What can it do? The marketing department of a company, for instance, can see where its revenue is coming from so it can better focus its efforts and grow profits. This tree map shows that manufacturing, telecommunications and healthcare customers were major contributors to the total revenue.



What is this? **A bubble plot with trails.**

What is it for? It shows change and trends over time.

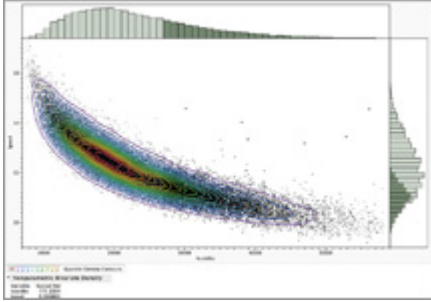
What can it do? In this case, government policy makers can visualize population trends and projections. This plot shows the percentage of people who are 19 years old and younger in four countries from 2000 to 2017. Policymakers in all four countries can see that low birth rates have resulted in fewer and fewer workers to support retirees. For the United States, this trend of the decreasing proportion of young people is projected to stabilize by 2017, but not so for Japan.



What is this? **Profiler with simulation and optimization capabilities.**

What is it for? It is used for exploring scenarios and finding optimal solutions.

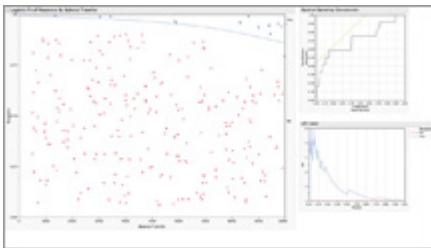
What can it do? To meet specific financial goals, an individual investor might use it to determine the best mix of four mutual funds in a portfolio. The investor may want to minimize the risk of a low yield, for example, less than 8 percent return. By adjusting the allocation of the funds, the investor can dynamically explore predictions of risk.



What is this? **A scatterplot with nonparametric density contours and marginal distributions.**

What is it for? It shows where the data is most dense, with each contour line in the curved shape enclosing 5 percent of the data.

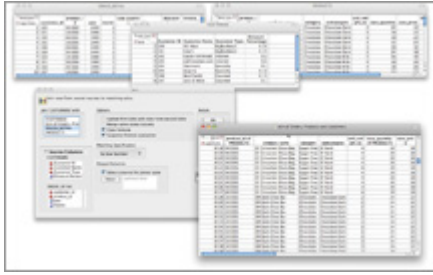
What can it do? For example, the manufacturer of computer processors can analyze the relationship between the speed of a chip and any factor that engineers can control, such as standby current, to improve quality and profit margins. Using this scatterplot, the manufacturer can identify abnormal chips – the ones represented by points lying farthest from the curved shape – and see that reducing standby current helps increase the speed of chips. Chips that are expected to be too slow would not be processed to completion, avoiding unnecessary cost and time.



What is this? **A logistic regression.**

What is it for? This type of analysis explores the relationship between the odds of success (or failure) and another variable.

What can it do? In this example, a credit card company is exploring how increasing the initial balance-transfer offer affects the odds that a consumer will sign up for a new credit card. The red dots represent individuals who did not sign up for the credit card (failure), while the blue pluses are individuals who accepted the offer (success). The curved line in the main graph shows the increasing probability that a consumer will sign up as the initial balance-transfer offer increases.



What is this? **The joining of three different data tables.**

What is it for? It enables users to play with data from a variety of sources.

What can it do? A business user, for example, might need to use data from a SAS data warehouse and an Excel spreadsheet. Perhaps he or she wants to explore this data to discover sales trends among product categories. This example demonstrates the joining of detail data. The resulting window in front shows the data joined together, ready for action.

Events

The Premier Business Leadership Series

<http://www.sas.com/events/pbls/2008/mumbai/index.html>

Sept. 11, Mumbai

http://www.sas.com/events/pbls/2008/las_vegas/index.html

Oct. 28 – 30, Las Vegas

M2008

<http://www.sas.com/events/dmconf/>

Data Mining Conference, Oct. 27 – 28, Las Vegas

Webcasts

BetterManagement Today

<http://www.bettermanagement.com/keycode.aspx?keycode=539754>

Tune in to the *BetterManagement Today* business show **July 10 at 11:30 a.m. ET** to hear David Axson discuss enterprise risk as it relates to performance management.

Forecast Value Added Analysis: Step by Step – On Demand

<http://www.sas.com/events/cm/176129/index.htm>

Learn the four steps of Forecast Value Added Analysis: mapping your process, gathering data, conducting analysis, reporting results.

Outperform the Competition with Analytics – On Demand

<http://www.sas.com/events/cm/165049/index.html>

SAS' world-class data mining experts Darius Baer and David Ogden explain how analytics can help solve common business challenges.

Multimedia

Sustainability and corporate responsibility

<http://www.economist.com/debate>

Join the debate to decide if **Going Green** is just a marketing gimmick or a sign of responsible organizational management.

2-for-1 Training in July

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Credit Risk Modeling for Basel II Using SAS

<http://support.sas.com/training/us/crs/basel53.html>

Use registration code BK15 when you sign up by July 1 for the New York course and you'll save 15%! Class date: July 21 – 24.