



## Cost and Profitability Management in Capital Markets

Understand the contribution of each business activity, location and product to costs and revenues faster and control risk

### Business impact:

“In this business, a great deal of profit directly relates to market movements. In good times when the markets are up, you make more money and costs are less focused. A big downturn in the market, however, has a direct impact on the bottom line, and you can't do anything about that. But you can keep a tight control on costs, to ensure your margins are still attractive. This is what SAS Activity-Based Management is helping us to achieve.”

**Sean Whitman**  
**JP Morgan Asset Management**

In both asset management and trading, there is a need to track costs and revenues. On the basis of this, investment can be targeted. The most profitable geographies, fund types and asset classes will benefit. The most profitable customers can also be tracked.

It is well known that in many industries, the minority of most profitable customers subsidise the loss making majority. In global financial markets, things are not always this simple. Sometimes, relationships mean that customers are highly profitable in one area, but break even or loss making in another. Investment in new trading centres, asset classes or fund offerings may need a period to become mature.

Regardless, you can make better decisions when the facts about profitability for a given cost driver are clear. Your aim is to achieve this for different audiences such as the board, the traders or fund managers, and the financial control function. This is the objective of all of the SAS® cost and profitability management solutions.

### How SAS® can help

**SAS® Financial Management** is one of the solutions within the SAS® Financial Intelligence family, and provides quick start financial reporting and analysis of costs and revenues.

Other related measures, such as subscriptions and redemptions for funds, or trading volumes for a particular client, can be included. The ability to consolidate financial metrics and drill down are here.

In addition, you can view the data from the perspective of any category. Customer, asset class, geography, fund family and currency are just some of the examples.

**SAS® Activity-Based Management** is another SAS Financial Intelligence solution, taking cost analysis a step further.

Using the techniques of Activity-Based Costing (ABC) costs can be allocated to any number of cost drivers. Some of those drivers already noted may usefully be treated as hierarchies. For example: customers (legal entities), and currencies (Europe, Asia, dollar, other). Other costs drivers such as the distribution channels for funds, or the execution venues for trading flows, are often of interest.

Activity-Based Management (ABM) is the combination of ABC with intuitive, graphical reporting. It is the ultimate in flexible analysis to discover how costs vary with different drivers.

**SAS® Profitability Management** is a variant of Activity-Based Management. It can be used as a simple, initial step towards ABM. Alternatively, once the importance of a driver has been established using ABM, profitability management allows more frequent reporting against a background of high volume drivers such as the trade flows themselves.



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With cost and profitability solutions from SAS, you can:

- Manage how shared service costs are allocated to funds, customers, distribution channels and trading locations.
- Examine how pricing of funds affects quality of earnings in asset management.
- Analyse back office costs as a factor in overall P&L of different instruments in proprietary trading.
- Satisfy different communities of interest by generating the right level of easily digestible detail, split by the appropriate categories, at a suitable frequency.
- Examine profit margins and determine how sensitive they are to market conditions and volumes of business.
- Track revenues and costs as new investments, such as funds, trading desk locations or instrument families move through the investment cycle from initiation to maturity.

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### How Cost and Profitability Management is different with SAS®

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SAS invested in cost and profitability analysis in 2002 by acquiring market leader ABC Technologies Inc. Since then, we have completely rebuilt the solution, integrated core SAS functionality, improved speed and scalability, and proved that it works for more than 750 customers:

- **Use any activity-based costing methodology**, including bottom-up, consumption and time-driven, to best meet the needs of financial markets businesses.
- **Build on essential data cleansing**, enrichment and integration, with common metadata at every step.
- **Go beyond reporting by using cost**, revenue and profitability metrics as the basis for forward-looking predictive analytics and optimisation.
- **Tailor the solution** to reflect the complexity and transaction volumes appropriate for your own area of financial services, whether asset management, proprietary trading, brokerage or another specialisation.



THE  
POWER  
TO KNOW.

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