

Building the Business Case for Master Data Management (MDM)

Strategies to Quantify and Articulate the Business Value of MDM

WHITE PAPER



This document contains Confidential, Proprietary and Trade Secret Information (“Confidential Information”) of Informatica Corporation and may not be copied, distributed, duplicated, or otherwise reproduced in any manner without the prior written consent of Informatica.

While every attempt has been made to ensure that the information in this document is accurate and complete, some typographical errors or technical inaccuracies may exist. Informatica does not accept responsibility for any kind of loss resulting from the use of information contained in this document. The information contained in this document is subject to change without notice.

The incorporation of the product attributes discussed in these materials into any release or upgrade of any Informatica software product—as well as the timing of any such release or upgrade—is at the sole discretion of Informatica.

Protected by one or more of the following U.S. Patents: 6,032,158; 5,794,246; 6,014,670; 6,339,775; 6,044,374; 6,208,990; 6,208,990; 6,850,947; 6,895,471; or by the following pending U.S. Patents: 09/644,280; 10/966,046; 10/727,700.

This edition published May 2011

Table of Contents

Executive Summary	2
Sizing Up the Master Data Challenge	2
Communicate in Business Terms, Not ‘Geek Speak’	3
Six Key Steps to Building an Effective MDM Business Case	4
1. Clearly Select the Business Area of Focus	4
2. Engage Key Business Stakeholders from the Start	5
3. Quantify the Consequences of Not Taking Action and Establish Target Success Metrics	7
4. Showcase MDM-Aware Business Applications	9
5. Think Big, Start Small: Multidomain Extensibility	10
6. Map Return on Investment (ROI)	11
Conclusion	12
Next Steps	12
About Capgemini	13
About Informatica	13

Executive Summary

An effective business case for master data management (MDM) communicates the problem of fragmented and contradictory data in terms that are relevant to business decision-makers. Much like master data itself, an MDM business case is ideally complete, reliable, and timely. This white paper outlines key considerations that IT professionals should keep in mind when formulating an MDM business case.

Sizing Up the Master Data Challenge

Bad data is bad for business. It hurts profits and productivity. It obscures opportunities for revenue generation and cost savings. It erodes customer loyalty, slows time to market, and introduces inefficiency and risk. As organizations seek to gain competitive advantage by effectively attracting and retaining customers, improving the quality and usability of data should be a top priority.

IT professionals recognize that MDM can quantifiably benefit the business by making master data (such as customers, products, suppliers, and assets) accurate, consistent, and accessible. They also understand the gravity of the bad data problem and that, if unaddressed, it will only continue to worsen as data volumes and complexities grow.

But business leaders are often oblivious to how bad data undermines performance. Many assume that the data they use every day is sound, and those who realize the data has issues still feel that data management is something for IT—not the business—to worry about. C-level executives may be wary of a data infrastructure project after years of multimillion-dollar investments in ERP, CRM, and other applications.

MDM is an enabling technology. Companies implement MDM to solve data challenges that impede the business from achieving their strategic imperatives. The business needs to be involved because they are the ones who will ultimately benefit from the implementation. But to get the business involved in an IT initiative, you need to build a business-focused business case. This is a challenge for IT professionals. Most make the mistake of preparing an MDM business case the same way as they might respond to a technical RFP—full of technical detail and obtuse architectural diagrams, developed solely by the IT department for the IT department. Meanwhile, the average company loses \$8.2 million a year from poor data quality, according to a Gartner survey of 140 companies.¹

“If IT departments initiate an MDM initiative, they often struggle to get the business on board and demonstrate the business value of MDM,” Gartner said. In fact, Gartner estimates that through 2015, 66 percent of organizations that initiate an MDM program will struggle to demonstrate its business value.³

¹ Gartner, “Organizations Perceive Significant Cost Impact from Data Quality Issues,” August 14, 2009.

² Gartner, “Organizations Perceive Significant Cost Impact from Data Quality Issues,” August 14, 2009.

³ Gartner, “Gartner Says MDM Is Important in a Tough Economy, and Even More Important in a Growth Economy,” press release, December 9, 2010.

Communicate in Business Terms, Not ‘Geek Speak’

To make an effective business case for MDM, IT needs to communicate in business terms, not technical “geek speak.” It’s critical for IT to recognize that terms such as “MDM” and “master data management” mean little to most business stakeholders. IT needs to draw a clear cause-and-effect relationship between bad data and subpar financial and business performance. IT also needs to illustrate how MDM can help the business meet strategic goals by arming customer-facing teams with the complete customer data they need to:

- Improve productivity and profitability
- Drive revenue with more effective cross-sell and up-sell offers
- Boost customer loyalty and retention by reducing response times
- Reduce customer service costs by aligning service to customer value
- Increase operational efficiency and cash flow
- Streamline supply chain efficiency

Recognition of MDM as a critical business enabler is on the rise in virtually every industry. For instance, Gartner predicts that MDM will grow at an 18 percent compound annual growth rate over five years, reaching \$2.9 billion worldwide in 2014. Using general industry trends in your business case illustrates to the business that their peers are investing in MDM, and that they need to invest as well.

Gartner predicts that MDM will grow at an 18 percent compound annual growth rate over five years, reaching \$2.9 billion worldwide in 2014.⁴

⁴ Gartner MDM Conference London 2011

Six Key Steps to Building an Effective MDM Business Case

With finite resources and competing priorities, companies cannot afford to fund every IT project. MDM evangelists should aim to develop a comprehensive, business-relevant business case that covers six key bases:

1. Clearly select the business area of focus.
2. Engage key business stakeholders from the start.
3. Quantify the consequences of not taking action, and establish target success metrics.
4. Showcase MDM-aware business applications.
5. Think big, start small: Multidomain extensibility.
6. Map return on investment (ROI).

1. Clearly Select the Business Area of Focus

It's important to recognize that your business case should differ depending on the business area in which you want to apply MDM. The three prevailing focus areas are customer-centric, enterprise-centric, and supply-centric MDM. Each of these areas has unique business issues and challenges, root causes of data problems, stakeholders, scope, and data types. Your business case should be tailored to reflect those area-specific issues.

- **Customer-centric MDM:** The focus for many MDM initiatives, customer-centric MDM empowers customer-facing teams with a single, authoritative view of customers, the products and services they have purchased, and their extended business and household relationships. It enables companies to drive revenue through more effective cross-sell and up-sell, and improve profits by providing the data required to align service levels to customer value. It contributes to customer loyalty and increases productivity of sales, service, and marketing teams by eliminating the need to search for and reconcile disparate data.
- **Enterprise-centric MDM:** Enterprise-centric MDM focuses on internal aspects of the business, such as general ledger, HR, order entry, cost codes, and assets such as buildings and contracts. Its objective is to standardize and control how the organization manages its information and information processes. It promotes collaboration across internal boundaries and improves decision-making based on master data that is consistent, timely, and accurate.
- **Supply-centric MDM:** The focus of supply-centric MDM is to generate a single view of suppliers and products across multiple divisions or lines of business. It enables greater cost efficiency in procurement and supplier management by identifying redundancies, allowing the negotiation of volume contracts, and assessment of supplier performance across the enterprise. A single source of the truth for suppliers and products available across the enterprise supports consistency and value while reducing risk.

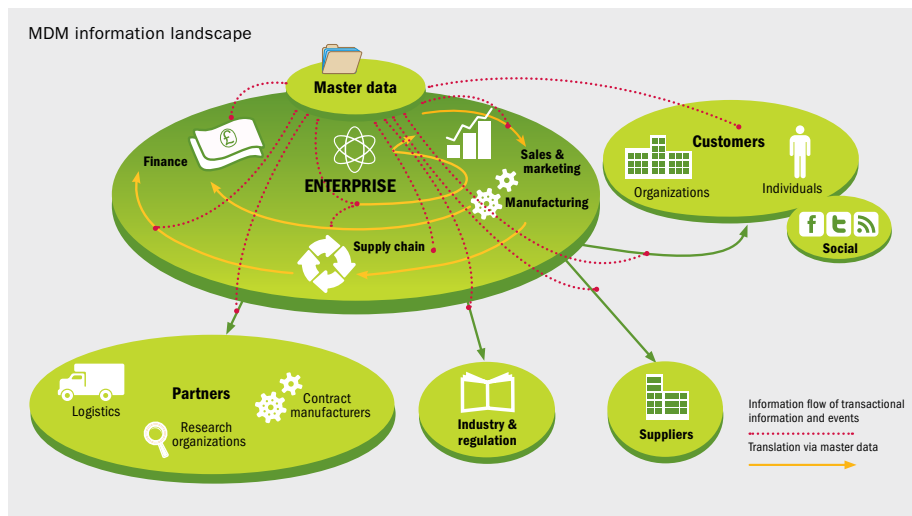


Figure 1. Master data about customers, organizations, products, suppliers, channel partners, chart of accounts, and more spans the enterprise landscape and can have negative financial consequences if not managed properly.

2. Engage Key Business Stakeholders from the Start

Effective MDM is a collaborative discipline shared by IT and business. The ideal time for IT to start collaborating with business stakeholders is at the start of MDM business case development. A strong business case requires in-depth input from business users and managers to enable IT to flesh out and quantify master data-related implications and benefits.

Your ongoing engagement with business stakeholders should begin by identifying critical business problems and/or business imperatives, and by zeroing in on the role that master data plays in key business processes. Your goal should be to build relationships with key business stakeholders and recruit an executive sponsor. The best MDM business cases are usually based on both grassroots and executive involvement.

Working backwards from a business problem or a business imperative is a proven technique that can help you establish a baseline and the case for MDM. Scenarios that can emerge during MDM business case development include:

Cross-sell revenue has declined 10 percent

Business Challenges

- Revenue is lost by making irrelevant product offers to existing customers.
- Time and money is wasted trying to acquire new customers with poor segmentation.
- Profits are lost, and customer retention and loyalty suffer because of the inability to align service levels to customer value.

Root Cause

- Company has no single view of customers, and the products and services that customers have purchased.

Solution

- Create a single view of customers, products and services accessible to sales, marketing, and customer service.

AVOIDING CRISIS-DRIVEN MDM

Sometimes it's not an effective business case that prompts an MDM implementation, but a data-related crisis. A proactive MDM implementation minimizes the risk of a crisis that otherwise may be waiting to happen.

At an \$8 billion global technology manufacturer, a C-level executive demanded a list of his company's top 400 B2B customers by revenue to support better cross-sell and service. He wanted it immediately, but it took the IT team six long weeks to compile the information. The data was strewn across multiple systems and had to be reconciled by hand. Large B2B customers had multiple subsidiaries, but it was virtually impossible to correlate subsidiaries to the parent in a clear hierarchy.

Post-crisis, the company turned to Informatica MDM for a unified view of customer and product data from across business units, and to improve data-driven marketing. The business recorded a 20 percent increase in relevant interactions with sales contacts, a 6 percent increase in cross-sell, and a 5 percent increase in repeat business.

Business Benefits

- Improve cross-sell effectiveness by 20 percent in a year.
- Improve marketing campaign effectiveness with improved segmentation.
- Align service levels to customer value.

B2B channel sales need to rise 10 percent

Business Challenges

- Sales team and channel partners cannot easily determine relationships between parent and subsidiary companies.
- Inability to identify account coverage gaps and conflicts, and effectively meet customer demand.

Root Cause

- Data on B2B customers, channel partners, and products is duplicated across multiple applications.

Solution

- Consolidate customer, channel partner, and product data, and map complex organizational hierarchies to channel partner and product data.

Business Benefits

- Eliminate coverage gaps and conflicts, improve sales and partner effectiveness, and more effectively meet customer demand.
- Increase channel sales by 10 percent.

Sales rep productivity has fallen 7 percent

Business Challenges

- Sales reps spend 70 percent of their time searching for and reconciling data from customer relationship management (CRM), sales force automation (SFA), marketing automation, and other applications.
- Reps are left with only 30 percent of their time to engage with customers.

Root Cause

- Customer data is incomplete and inconsistent.

Solution

- Deliver accurate customer data to business-user applications.
- Show a complete view of the customer's business with the company as well as extended business and household relationships.

Business Benefits

- Improve revenue per sales rep by 12 percent.

Bad data does not exist in a vacuum. One of the most vexing aspects of building an MDM business case is the domino effect that bad data can trigger across multiple functional areas and lines of business. Poor data in one system can be propagated to other applications, expanding the potential scope of impact.

For instance, a service representative's inability to see a complete customer view can hurt first-call resolution rates. Poor service results in increased customer churn, with some of the affected customers posting negative reviews of the company on social media sites. Because of those reviews, new customer acquisition suffers, but because the cause isn't clear, marketing is blamed. An executive scraps a marketing program that was effective and new customer acquisition falls even further.

Like the proverbial war lost because of a nail in a horse's hoof, your company's profitability and performance have suffered because call center agents didn't have a complete customer view to do their jobs effectively. Addressing the matrix of these negative consequences and leveraging real examples from your business users' experience should be a fundamental element of MDM business case development.

Make the data 'tell a story.' Anecdotes can provide compelling and practical examples to augment your business case. Encourage business stakeholders to relate instances in which suspect data impeded achieving an objective, and outline details in the business case. Communicate decision-making dilemmas that cost time and resources and introduced risk. The objective is to make the data "tell a story" and vividly illustrate the ramifications and potential benefits in terms that are meaningful to the business audience.

These stories are an essential part of any presentation to the business, as they turn the raw figures into examples that the business can touch. These stories help to tie MDM into the operational challenges of the business and bring the case for MDM to life.

3. Quantify the Consequences of Not Taking Action and Establish Target Success Metrics

An MDM business case must translate data into dollars. It clearly spells out the financial consequences and opportunity costs of bad data, and the cost benefits of master data that's timely, accurate, and accessible to the business. Your ability to quantify those consequences will depend on the complexity of business scenarios, your collaboration with business stakeholders, and expertise you possess and cultivate at estimating financial impact.

Developing sound figures requires working closely with business users and managers in finance, sales, service, marketing and other areas. It's important to recognize that such calculations are both art and science. Hard numbers are not always readily available, and it will pay to research best practices and examples of winning business cases. Illustrating a range of scenarios (from minimum to maximum impact) helps to make clear the scope of the problem while acknowledging the inherent limitations of the process.

At the end of the process, it is the business that ultimately owns and commits to these metrics. The process of determining the metrics and the goals for each is critical for the development of the business case. A side benefit of this process is that it's not framed as "MDM"—it's specifically framed in terms and metrics of the business.

“One of our strategies is to better meet our customer needs by making relevant cross-sell and upsell offers,” said a senior manager at the company. “We’re eliminating the need to search for and reconcile customer and product data by delivering access to detailed customer profiles across business units and channels.”

Figure 2 roughly illustrates the types of metrics and financial impact that could be measured for an MDM initiative aimed at generating a single customer view. Such data should be supported by a detailed explanation of the basis for calculation, assumptions used, and timeframes of impact. This calculation boils down to the “cost of doing nothing” and may be extrapolated over a period of years.

Costs of Bad Customer Data	Minimum	Medium	Maximum
Lost revenue opportunities	\$190,000	\$421,000	\$912,000
Increased customer churn	\$221,000	\$417,000	\$734,000
High call center inquiries	\$98,000	\$136,000	\$229,000
Mistargeted marketing spend	\$76,000	\$188,000	\$302,000
Billing and invoicing errors	\$41,000	\$67,000	\$82,000
Sales rep inefficiency	\$134,000	\$233,000	\$355,000
IT point-to-point maintenance	\$99,000	\$154,000	\$198,000
Total Costs (per year)	\$859,000	\$1.62M	\$2.81M

Figure 2. An example estimating the impact of bad customer data

Figure 3 provides a high-level example of the cost benefits of customer-centric MDM by key metrics, again using a range from minimum to maximum. It may also be extrapolated over a period of years, accounting for variables that may be introduced over time.

Benefits of Customer MDM	Minimum	Medium	Maximum
Improved cross-sell	\$255,000	\$513,000	\$1.1M
Greater customer loyalty	\$264,000	\$489,000	\$965,000
Reduced call center costs	\$127,000	\$288,000	\$451,000
Targeted marketing conversions	\$98,000	\$212,000	\$350,000
Reduced billing disputes	\$75,000	\$100,000	\$136,000
Better sales rep inefficiency	\$177,000	\$344,000	\$501,000
Better IT efficiency	\$145,000	\$199,000	\$304,000
Total Costs (per year)	\$1.14M	\$2.15M	\$3.81M

Figure 3. An example estimating the positive impact of customer MDM

The qualitative benefits of improved decision-making. Though the business will agree that reliable, consistent data supports smart decisions, quantifying the impact is seldom easy. Improved decision-making is one of the “soft” benefits of MDM that needs to be addressed in a business case, even if hard numbers cannot be associated with it. It can help to identify bad business decisions and determine whether bad data was a culprit. Was the information used for the decision complete? Did it overlook a critical consideration that could have been revealed by an unused data source? Did the data include errors that prompted the bad decision? Though instances at your company are preferable, external examples identified through research can make the point as well.

Revealing hidden problems and mitigating risk. Though it cannot be quantified, your business case should make clear that MDM is likely to uncover business-impacting data problems that would otherwise go undetected. Particularly in large global companies, it’s not uncommon for a small data anomaly in pricing, production, or other data to cause needless costs or revenue leakage. An ongoing MDM program and associated data governance enables a company to proactively monitor for such hidden problems and mitigate the risk posed by bad data.

4. Showcase MDM-Aware Business Applications

Your business case should clearly depict the practical utility that an MDM system offers to business users. Business leaders tend to think of MDM as a back-end infrastructure solution but, in fact, the best MDM technology gives business users hands-on access to and control of master data in the applications they use every day.

For instance, new technology called Informatica Data Controls—part of Informatica MDM—enables you to make CRM, ERP, and other enterprise applications “MDM aware.” This means that non-technical business users are presented with consolidated, reliable multidomain master data within their preferred applications, be they salesforce.com, Oracle, SAP, Siebel, or others.

Let’s say a salesforce.com user wants to establish an account for a new customer called EG. The problem has been that CRM applications don’t know that the same company, by another name of Electric General Company, already exists in the database. The sales rep ends up establishing a new account for a company that’s already a customer, which creates two problems: One, the rep has no visibility into potential cross-sell opportunities within EG/Electric General Company. Two, a duplicate account will cause issues down the road, such as inability for a sales manager to view total sales for a single company with two names.

Integrated with salesforce.com, Informatica Data Controls detects the duplicate and informs the sales rep before the EG account is created. An MDM-aware application will also present to the business user:

- Customer transactions and interaction histories
- Complex hierarchies of B2B parents and subsidiaries
- Customers’ extended business and family relationships
- Third-party demographic/firmographic data from providers like Acxiom
- Real-time data changes (e.g., large customer transfer between accounts)
- History of data changes (who changed what when; useful for compliance)

The ideal business case will highlight how the latest MDM technology can empower front-line sales, service, operational, supply chain, and other staff with information that can improve business performance. In effect, MDM-aware applications promote proactive usage and governance of multidomain master data among business users without the need to learn and use a specialized MDM application.

Acquire & Retain Customers by Enabling CRM with Trusted & Complete Customer Data

The screenshot displays the Salesforce CRM interface for the account 'Informatica Corp'. The top navigation bar includes 'Home', 'Contacts', 'Accounts', 'Opportunities', and '360 Degree'. The main content area shows account details such as 'Account Owner: Bob Miller (Change)', 'Account Name: Informatica Corp', and 'Account Type: Prospect'. Below this, there is a 'Hierarchy View: Informatica Corp' which is a tree diagram showing a hierarchy of contacts and devices. The root node is 'Informatica Corp.', which branches into 'SOMAS ABBASI'. Under 'SOMAS ABBASI', there are four child nodes: 'GRESH PANDIA', 'Series 300 (Ivori...', 'CHRIS BOORMAN', and 'IVAN CHONG'. Further down, 'GRESH PANDIA' has a child 'DARRIN CURRIN...', 'Series 300 (Ivori...' has a child 'iVoiBerry 300', and 'IVAN CHONG' has a child 'ARVIND PAKHIA...'. The bottom of the page shows billing and shipping addresses, customer priority, and SLA information.

Figure 4. Informatica MDM delivers master data to common business applications.

5. Think Big, Start Small: Multidomain Extensibility

Chances of funding increase if your MDM business case targets a well-defined and focused area that stands to deliver rapid payback. However, business case development presents the opportunity to articulate a longer-term strategic vision for how MDM can be extended across multiple domains of the enterprise.

If, for instance, you initially target customer data management, be sure to map out a case for multidomain MDM extensibility—applying MDM to enterprise operations, supply chain, and product management, or across separate lines of business of geographic locations. You should also highlight the readiness that MDM offers in rapidly consolidating and reconciling data in different formats across multiple systems in the event of a merger or acquisition.

This multidomain extensibility aspect of the business case should outline the cost-effective reusability of an MDM platform and make clear that the initial investment is not a one-off sunk cost. Today's best MDM technologies take a platform approach that enables MDM architects to build from the bottom up, beginning with a flexible, foundational data model, followed by business logic, and finally the user interface. This differs from the top-down application approach, in which the order is reversed and a fixed data model is used.

As a result, the platform approach offers greater long-term cost efficiency, as the data model may be repurposed without the time and costs invested in the original implementation. An additional benefit is the lower ongoing maintenance cost of a platform-based MDM solution, compared to silos of MDM applications.

6. Map Return on Investment (ROI)

Some financial managers may zero in immediately on one metric—the ROI that your MDM project promises to deliver. Particularly for decision-makers weighing competing proposals, ROI provides a common denominator by which value can be judged and funding decisions made.

Like the rest of your business case, your ROI calculations should be in the language that your organization's financial and business leaders speak. Work with your business-side contacts to understand the data and documentation they expect in a sound ROI calculation. Look to external sources for how-to guidance and best practices on the nuances of ROI models.

At a high level, your ROI calculation will weigh the expected quantified benefits of an MDM solution against its costs in software licensing and maintenance, servers, implementation, consulting, training, and potentially others. If your benefit is \$2 million and your costs are \$1 million, then your ROI is 100 percent. As with your calculation of benefits, ROI may be presented in a framework of minimum, moderate, and maximum to account for various contingencies and unknowns. It should also annualize payback over a period of years.

But you may find that your company doesn't view ROI quite so simplistically, and prefers to judge investments based on internal rate of return (IRR), which requires calculating net present value (NPV). Both of these measures incorporate additional variables into the equation (such as time, risk, discount rates, and more). Due diligence into your company's preferred means of measuring value will pay off with a business case that communicates your proposal in terms relevant to decision-makers.

Conclusion

Bad data will never cure itself. Unchecked, it will continue to compromise business performance through lost opportunities, high operational costs, and subpar customer loyalty. MDM enables companies to empower the business with trusted and complete data to improve business processes and enable strategic imperatives. Because of this, it requires a different business case than most IT professionals are accustomed to building. It requires a business-focused business case. With a thorough business case, MDM advocates have an opportunity to turn vision into action and drive quantifiable bottom-line benefits for their organizations.

Next Steps

Capgemini and Informatica offer introductory workshops to help you assess the master data issue at your organization and lay the groundwork for an effective business case. Additionally, services are available to assist you in MDM business case development, applying best practices in discrete functional areas, profiling data to assess its weaknesses, and other areas. An introductory engagement can help get you started on strategizing on the business focus area and scope of an MDM implementation, and generate initial cost estimates needed to determine the overall value of the investment.

About Capgemini

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients. Present in 40 countries, Capgemini employs around 110,000 people worldwide. More information is available at www.capgemini.com.

About Informatica

Informatica Corporation (NASDAQ: INFA) is the world's number-one independent provider of data integration software. Organizations around the world turn to Informatica to gain a competitive advantage in today's global information economy with timely, relevant and trustworthy data for their top business imperatives. Worldwide, over 4,350 enterprises rely on Informatica for data integration and data quality solutions to access, integrate and trust their information assets held in the traditional enterprise, off premise and in the Cloud.

For More Information

1-800-653-3871 (in the U.S.)
+1 650-385-5000
www.informatica.com

Connect with Informatica

www.facebook.com/InformaticaCorporation
www.linkedin.com/companies/3858
www.twitter.com/InformaticaCorp



Worldwide Headquarters, 100 Cardinal Way, Redwood City, CA 94063, USA
phone: 650.385.5000 fax: 650.385.5500 toll-free in the US: 1.800.653.3871 www.informatica.com