Seven Ways to Reduce IT Costs with Master Data Management
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Executive Summary

Although the economic climate is recovering and IT budgets are starting to increase modestly, IT managers continue to look for ways to be more efficient and reduce costs. Master data management (MDM) offers IT departments a range of ways to be more efficient and effective. In this executive brief, we cover seven areas where MDM can help cut IT costs: 1) interface costs, 2) redundant third-party data acquisition costs, 3) data clean-up costs, 4) outsourced cleansing costs, 5) license, support, and hardware costs of redundant systems, 6) customer solution development and maintenance costs, and 7) information delivery costs.

Gartner predicts that IT spending across all industry markets will grow 2.9 percent in 2010, compared to 2009. While information technology managers are now starting to see modest increases in their IT budgets because of this growth, they are still striving to be more efficient and reduce costs. The goal is to reduce the approximately 70 percent of the IT budget that is being spent to maintain existing systems and use this money to fund new projects that drive the business forward. Savvy IT decision makers are seeking out technologies that help maximize investments in existing applications, flexibly scale and adapt to the changing needs of the business, and empower business users with access to reliable business-critical data.

Multidomain MDM is exactly this kind of investment. It ensures that business-critical data—about customers, products, channel partners, suppliers, and employees—is reliable and related (which customers are using which products, for example) before it is consumed by internal or external business processes, applications, and users. MDM is the key to making IT more efficient, while driving significant business value by improving operations, increasing revenue, boosting profits, and enabling business agility and speed.

But not all MDM technologies can provide these cost benefits. Only a multidomain, model-driven, and flexible MDM technology with easy configurability can provide rapid time to value and lower total cost of ownership (TCO). Consider the following seven ways a flexible MDM system can lower costs:
1. Reduce Interface Costs

One definite way to reduce IT costs is to decrease the number of point-to-point integrations across applications. Business processes such as order-to-cash that cut across several heterogeneous applications, including order management and accounts receivable, require complex point-to-point integration between the individual applications. Multiply that by the number of business processes handled by all business applications and what you have is a highly complex web of integrations between applications so the data can be shared. The result: an integration “hairball.”

These point-to-point integrations are expensive to develop and maintain, but MDM can simplify them by centralizing common information (master data), and making this information available at the different points within business processes. Reducing interface costs has been proven in repeated implementations. For example, a global investment bank leveraged MDM to eliminate trade failures caused by counterparty inconsistencies and saved millions of dollars by eliminating interface maintenance and support.

It’s important to select an MDM technology that supports a noninvasive approach to integration. Business applications that provide data to the MDM system should not have to be modified to store the identifier of the reconciled master record created by the MDM system. A noninvasive architecture will enable rapid integration and time to value.

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2. Reduce Redundant Third-Party Data Acquisition Costs

Eliminating duplicate data acquisition from external data providers can generate significant cost savings. For many companies, integrating third-party data from providers such as Dun & Bradstreet, Acxiom, IMS, or Reuters is a key requirement for business operations. But frequently, different departments within the same company will source data for their own uses, unaware that another division within the company already procures the exact same data from the same source. The cost of these duplicate data acquisitions has a multiplier effect.

With MDM, third-party data is integrated directly into the MDM system and distributed to all downstream applications (see Figure 2). This approach avoids duplicate data acquisitions. The same global investment bank mentioned above was able to also save millions of dollars by eliminating redundant third-party data acquisition costs. When selecting an MDM system, ensure that it provides out-of-box integration with the most common third-party data providers or, if not, offers a facility to rapidly integrate third-party data in real-time or in batch mode.

3. Reduce Data Cleanup Costs

Cleansing data centrally in an MDM system is another way that organizations can reduce costs. Most companies have invested in data quality tools to clean up data within an application for a specific business purpose such as direct marketing. Later, as data quality requirements grow for other business purposes, companies continue to cleanse the data within respective business applications. This causes two problems:

- Costs for multiple uses can compound and significantly impact the IT budget
- Since cleansing is done individually by application, duplications and inconsistencies across applications are not addressed
By integrating data from these disparate applications into a central MDM system, it becomes possible to cleanse all data across the enterprise in a single system. This approach helps resolve conflicts across source applications, and makes it possible to create and store the history and lineage of any changes to the data. Thus, by centrally cleansing the data, companies can save on license and support fees for additional instances of data quality tools. To realize these benefits, you need to ensure that the MDM system can integrate with and reuse your existing data quality tool.

4. Reduce Outsourced Cleansing Costs

An MDM system can provide significant cost savings by eliminating expensive outsourced manual cleansing. Some companies outsource the deduplication of their data to a data cleansing services provider, usually for marketing or compliance reasons. A marketing department may outsource the deduplication of its direct marketing lists, whereas under pressure to meet regulatory compliance deadlines, the legal department may outsource the cleanup of its compliance data. But in both these cases, the cleansed data is never stored in a central place for future access, and it requires repetitive cleansing. Over time, these costs can mount to millions of dollars across the organization. Further, the history of how the data has changed over a period of time is not stored, a prime requirement for compliance audits.

An MDM system eliminates the need for outsourced manual cleansing by automatically cleansing, enriching, and deduplicating data on an ongoing basis, centrally storing it for future use, tracking the changes to the data, and making the cleansed, enriched data available to marketing and compliance applications. Keep in mind that the most effective MDM technologies will store the history of all data changes and the lineage of all merges as it modifies the data through the cleanse, enrich, and deduplication processes. It should also enable users to readily view data history and lineage, at any point in time, for audit purposes.

5. Reduce License, Support, and Hardware Costs of Redundant Systems

By centralizing data for the enterprise, MDM makes it possible to reduce the number of, or even eliminate, redundant data stores. Instances that hold duplicate data can be retired, significantly reducing costs. Consider this scenario: A multi-national company operating in over 100 countries held its employee records in 70 different HR application instances. With this distributed approach, HR executives had no way to compile an accurate employee headcount; it would take over two weeks to tally the employee count, by which time a number of employees would have joined, quit, or been terminated.

By centralizing employee information in an MDM system, this company can now track employee headcount instantly, at any point in time. And it was able to retire its redundant HR instances and decrease costs in several ways:

- Reduced license and support fees
- Saved on costly IT maintenance for unneeded systems
- Eliminated costs for tools required for customization
- Lowered costs associated with hardware to run those systems
6. Reduce Custom Solution Development and Maintenance Costs

By replacing old custom masters, companies can save on development and maintenance costs. Some companies have developed their own proprietary custom masters, such as a customer information file (CIF) or operational data store, by stitching together various tools. These masters were likely originally developed to solve a specific business problem, but over time became incapable of meeting the growing demands of the department. As such, they became far less capable of addressing business needs in different parts of the organization. Besides, creating and maintaining these types of systems are resource-intensive—armies of programmers are required to code, test, and customize them. By replacing antiquated custom masters with a configurable off-the-shelf MDM system, companies can save significant development and maintenance costs on the custom solution, and help refocus IT to support business operations with timely data.

Many pharmaceutical companies and banks relied on custom masters until it became cost-prohibitive to maintain and extend them, after which they replaced these masters with off-the-shelf MDM software. Pharmaceutical companies have always faced the challenge of integrating several external data sources, and in some cases as many as 50 sources such as IMS, AMA, and DEA, with their internal data. These firms had to deal with data inconsistency between internal and external systems and rampant duplication. Banks, meanwhile, deal with millions of customers spread across several applications, and in some cases hundreds of applications, requiring a single operational data store to gather all the customer data to support key business processes such as new account openings.

Companies in pharmaceuticals and banking were leaders in switching to off-the-shelf MDM software, and showed early on how MDM could be used to cut costs immediately and to save on future development costs. Firms considering an MDM implementation today need to keep in mind that an MDM system must be easy to configure and not require significant coding. With flexible configuration, you can rapidly take over the current master and extend your MDM implementation to address future business needs in other parts of the company.

7. Reduce the Cost of Information Delivery

IT can reduce costs by delivering the right information at the right time. Compliance and management reporting are two of the major functions supported by IT. Errors in the reports delivered to regulatory agencies can result in fines, and errors in reports delivered to management can result in misinformed and poor strategic decisions. When auditors or managers doubt the authenticity of data in reports, they may call upon IT to assess the veracity of the data. Inaccurate reports can undermine management trust in IT and result in diversion of critical IT resources to mine the data for historical changes, which can be an expensive operation. MDM can help eliminate this situation by:

- Managing a single version of the truth along with a history of all changes
- Delivering this information to any reporting, business intelligence, or data warehouse system

With MDM, compliance and management reports created from these systems always have the most authentic information. Verification of data accuracy can be easily achieved with an MDM system because it stores all the changes to the data. Hence, the MDM system helps reduce IT costs by delivering reliable information. Because most reporting is performed using the combination of a business intelligence and a data warehousing system, it’s important to ensure the MDM technology provider has experience performing such integration and can provide customer references showing that it has done so.
Investing in a Flexible MDM System Saves Time and Money

For the reasons stated above, investing in MDM software is a smart way to cut IT costs. For some companies, a single reason might be large enough to warrant investment in an MDM system. But for others facing a litany of performance issues stemming from poor data quality, a number of these reasons would apply and an MDM investment would be more than justified.

Decision makers should also be aware, however, that not all MDM systems provide lower TCO and rapid return on investment (ROI)—both of which are necessary to secure the funding for an MDM system. MDM technologies that offer a loosely integrated set of core capabilities, model only one data domain such as customer or product, offer only a simple architecture such as registry, and integrate with just operational or analytical systems can actually increase IT costs by requiring extensive coding and customization.

It’s important to select a configurable MDM system that comes with an integrated set of core MDM capabilities out of the box. It should be able to model any type of master data, be easy to implement, and support a flexible architecture for integration with both operational and analytical systems. Such a system will yield rapid ROI and keep maintenance costs down, resulting in lower TCO.

Summary

While the economic climate seems to be improving, IT managers continue to look for ways to be more efficient and reduce IT costs. By ensuring that reliable and related business-critical data—about customers, products, channel partners, suppliers, and employees— is available across the enterprise, by both analytical and operational systems, MDM helps IT cut costs.

From reduced interface costs to reduced information delivery costs, MDM is the key to making IT more efficient. But not all MDM technologies are adequate. Look for an MDM system that is multidomain, model driven, flexible, and easy to configure to achieve rapid time to value and reduce TCO.
About Informatica MDM

Informatica® MDM™ empowers companies to improve operations with business-user to consolidated and reliable business-critical data—such as data about customers, products, channel partners, suppliers, and employees—as well as the relationships between data. Flexible and proven, Informatica’s multidomain master data management (MDM) system provides comprehensive support for all MDM requirements—data integration, profiling, quality, and master data management—on the same platform. Best-in-class companies choose Informatica MDM because they can start small by addressing any pressing MDM-related business problem with rapid implementation and then expand to address additional business problems across the enterprise, realizing fast time to value, lower TCO, and superior ROI.

About Informatica

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