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How Profitability Management and Cost Accounting Reshape Business Culture for Unprecedented Success



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To drive value and success, Alternative Asset Managers (AAMs) need to foster a culture of continuous improvement with profitability and cost management as the center piece. It is not just enough to focus on efficiencies gained from technology solutions to drive change and manage costs, says the team at Everstell.

Finance professionals in alternative asset management firms (“AAMs”) are facing significant challenges in effectively managing and controlling costs. This issue stems from a lack of sufficient investment in back-office finance technology solutions and an over-reliance on manual tactical processes and routines. However, it is noteworthy that even firms that prioritize enhancing their technology stack often overlook the crucial aspect of integrating the principles of profitability and cost management into their organizational culture.

Cost and profitability management disciplines are critical to the success and growth of alternative asset management firms. It is essential not only to integrate cost and profitability information into existing financial accounting and reporting processes but also to foster a culture that embraces specific disciplines and behaviors focused on managing expenses and margins. To achieve this, AAMs must establish robust governance frameworks that hold them accountable for effectively managing operating expenses and profitability. These governance frameworks should complement the timely financial accounting processes necessary for maintaining accurate financial reporting and regulatory compliance, thereby ensuring an integrated approach to cost and profitability management.

Incorporating Profitability Management into the Culture of the Firm

As AAM's experience growth and increasingly complex business processes, the importance of cultivating a robust organizational culture that embraces the principles of cost and profitability management becomes indispensable for effective firm management. However, many firms in the industry continue to rely heavily on spreadsheets, which hinders their ability to proactively manage growth and optimize profitability. To address this, it is crucial for AAMs to invest in technology solutions that empower them to enhance their capabilities in managing growth and profitability. Over-reliance on spreadsheets and the lack of investment in automation for critical business processes such as cost and profitability management, often result in a gap of oversight processes and organizational policies that promote effective cost management practices. These firms tend to prioritize data aggregation and production over comprehensive review and oversight, further highlighting the need for advancements in their governance and accountability policies and procedures impacting organizational culture.

Setting up Governance and Accountability Improves Cost Management

Within a firm's organizational culture, it is vital to establish a framework of accountability for department heads, where they are responsible for their department's performance and actively cultivate a disciplined approach to managing operating expenses and profitability. To facilitate this, cost and profitability information should form a pivotal component of the monthly and quarterly review processes, accompanied by insightful commentaries aligned with key measurement metrics. By incorporating cost and profitability analysis into these regular evaluations, organizations can foster a culture of transparency, informed decision-making, and continuous improvement in financial performance.

Given that chief financial officers (CFOs) play a crucial role in spearheading the implementation of cost and profitability management solutions, it is imperative for them to take proactive steps in updating policies that foster organizational cultural change. In this capacity, CFOs adopt a strategic perspective encompassing both financial and non-financial information, recognizing their profound impact on all facets of the businesses they support. Furthermore, CFOs serve as custodians of the processes and information that generate cost and profitability insights, driving a culture of discipline within the firm and ultimately creating value. By assuming this leadership role, CFOs can shape the organizational mindset, promote cost-consciousness, and instill a holistic understanding of the financial implications across the entire organization.



How Cost and Profitability Solutions Promote Accountability and Governance

Cost and profitability solutions offer valuable departmental cost views that serve as catalysts for accountability and governance in cost management. These solutions facilitate accountability by providing clear visibility into departmental costs, enabling stakeholders to comprehend how resources are allocated and expenses incurred within specific areas of the business. This enhanced transparency eliminates ambiguity and serves as a foundation for informed decision-making. Additionally, these solutions aid in identifying cost drivers, pinpointing specific activities or processes that contribute to higher costs in particular departments. By understanding these underlying factors, management can take targeted actions to address cost drivers and identify opportunities for cost reduction or optimization. Departmental cost views foster a culture of accountability by making it easier to hold responsible parties accountable for managing their budgets effectively and controlling expenses within their areas of responsibility. Furthermore, these solutions enable comparative analysis of cost performance across different departments, helping to identify departments that perform well in efficiency and cost-effectiveness, as well as those that require improvement. By benchmarking performance and sharing best practices, organizations can drive cost optimization initiatives, leading to better cost management practices.

Cost and Profitability Solutions play a crucial role in fostering accountability and governance in cost management, offering a range of compelling benefits



Enhanced transparency

By organizing departmental costs in a clear and transparent manner, cost, and profitability solutions, such as Everstell, enable a comprehensive breakdown of expenses. This transparency empowers department heads and stakeholders to gain a deep understanding of resource allocation and cost drivers within specific areas of the business. With ambiguity eliminated, informed decision-making becomes the foundation for strategic actions.



Identification of cost drivers

Identifying cost drivers associated with specific activities or processes that contribute to higher expenses in particular departments enable management to precisely pinpoint the factors driving costs and take targeted actions to address them. By gaining a deeper understanding of the underlying influences on expenses, organizations can identify opportunities for cost reduction and optimization.



Accountability at the departmental level

Transparent and measurable departmental costs facilitate holding responsible parties accountable for effective budget management and expense control within their respective areas of responsibility. This heightened accountability nurtures a culture of cost-consciousness and motivates managers to actively seek operational efficiencies. Everstell's allocation of costs to individual departments strengthens the accountability of department heads and managers for their respective cost centers.



Performance evaluation

Everstell's departmental cost views allow for a comparative analysis of cost performance across different departments. This evaluation helps identify departments that may be more efficient or cost-effective compared to others, as well as those that may need improvement. By benchmarking performance and identifying best practices, organizations can drive cost optimization initiatives and promote healthy competition among departments, leading to better cost management practices.

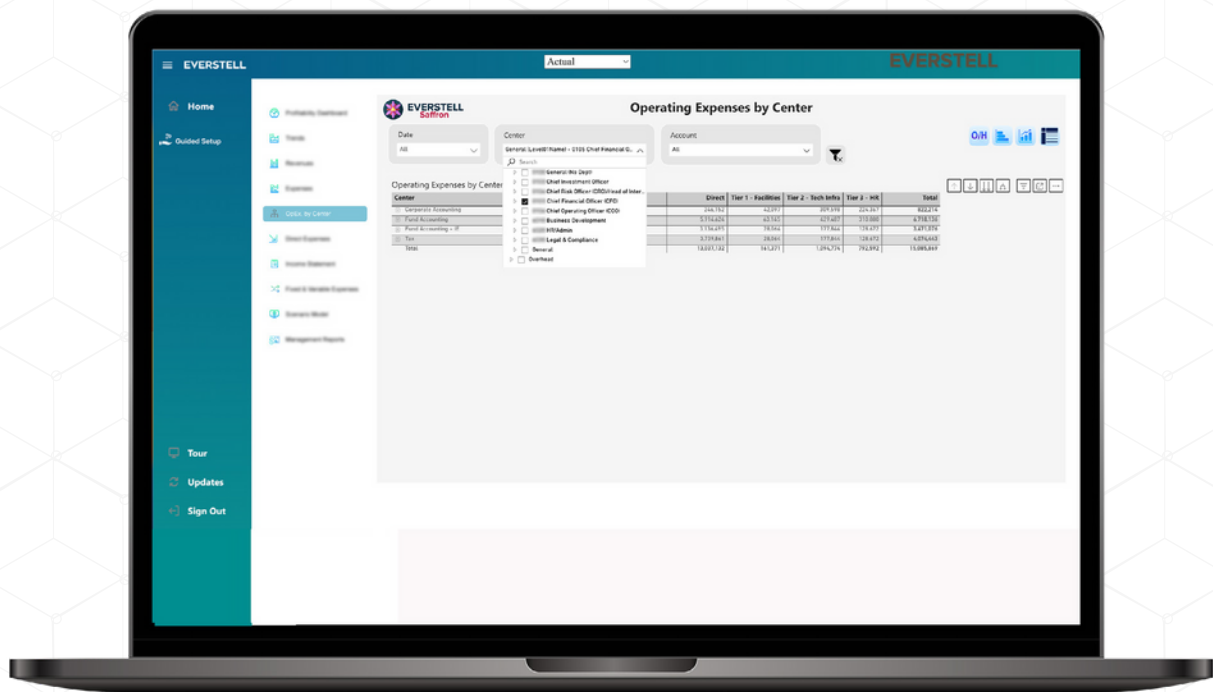


Informed decision-making

Everstell's departmental cost views equip decision-makers with essential information for evaluating the cost implications of various options or strategies. By comprehending the cost structure and associated expenses of different departments, managers can make well-informed decisions regarding resource allocation, investment prioritization, and cost-saving initiatives. This data-driven approach enhances cost governance and supports effective decision-making at all levels of the organization.

Everstell's SaaS Profitability Solution

A multi-dimensional, cloud based, solution that streamlines expense allocation and revenue attribution based on industry leading practices. Everstell leverages industry leading practices and methodologies to support multi-dimensional profitability. Solutions are easily customized to support your business needs and strategies.



The integration of profitability and cost information into the organizational culture transforms it from a “nice to have” to a “must have,” therefore making this information mission critical. By recognizing the necessity of this information, firms can position themselves for success in a rapidly evolving financial landscape. Embracing a culture that values cost management and profitability empowers organizations to make informed decisions, drive efficiency, and optimize financial performance. This shift not only enhances transparency and accountability but also establishes a solid foundation for sustained growth and competitiveness. As we navigate the future of asset management, it is imperative that firms embrace this change in thinking from “art form” to science, and fully leverage the power of profitability and cost information to secure their position as industry leaders.



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About EVERSTELL

Everstell is a United States based FinTech firm assisting asset managers, global banks, private equity firms, hedge funds, banking and capital markets, and insurance entities. Our deep subject matter knowledge of the finance function and extensive experience supporting asset management firms is our differentiating factor.

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