

# Soft Dollar Management: A Solution to Track Investment

## Introduction

Soft dollar is a renowned term in the financial industry to describe the commission generated from financial transactions between the client and the investment manager. A soft dollar arrangement is one in which the investment manager directs the commission generated by the transaction towards a third party or an in-house entity in exchange for defined services. The soft dollar term was in use for many years and was formalized by the U.S. Congress in 1975 when guidelines were defined. The difference between soft and hard dollars is as follows: Rather than paying service providers with cash (hard dollar), soft dollar transactions use pay-in-kind approaches to reward partners for things such as referring business. In this way, soft dollar removes the necessity for financial institutions to maintain accounts for each commission paid.

Soft dollar is not limited to mutual fund or brokerage houses. It is widely used across industries. Large enterprises often use soft dollar practices to fund marketing activities, such as in campaigns that launch new products and channel partners.

Enterprises use soft dollars for direct sales in product launches and marketing activities, such as:

- Discount
- Allowance
- Performance
- Joint Market Fund
- Marketing
- Advertisement

All of these applications can be in the form of accrual and/or claim settlements with individual customers or channel partners.

## Common Challenges of Soft Dollar Management

- No consolidated information is available to help management track the investment against the product and the projects associated with it.
- The process is distributed over multiple systems such as Lotus Notes, Partner Web and Oracle, and thus lack a single user interface to manage different programs. Data is scattered across Excel spreadsheets and emails.
- No accountability for fund usage in product development and promotional activities.
- Manual, tedious, complicated, and costly spreadsheet consolidation/rollup.
- Limited systematic workflow and approval tracking.



- Customer claims entered in multiple systems.
- Missing/inconsistent planning records and documentation.

### Soft Dollar Management Features

- **Budget Planning** - This is required to define budget for a fiscal year or quarter for various categories like marketing, product development, campaign and support.
- **Activity Definition** - This is required to define different activities needed to be executed within a project. It helps to track the fund allocations and expenses at minute details.
- **Product and Pricing Management** - Global enterprises deal with various products across multiple geographical locations and soft dollars can work with multiple currencies. Product and pricing management provides product information along with different geographical location details where it is available for sale.
- **Fund Accrual** - Funds defined in the budget planning stage are allocated to both activities and the project. This fund goes in for accrual, once activities are committed.
- **Claim Processing** - Channel partners or dealers can request a sales discount during special promotional offers. Completed activities can be eligible for generating claims against

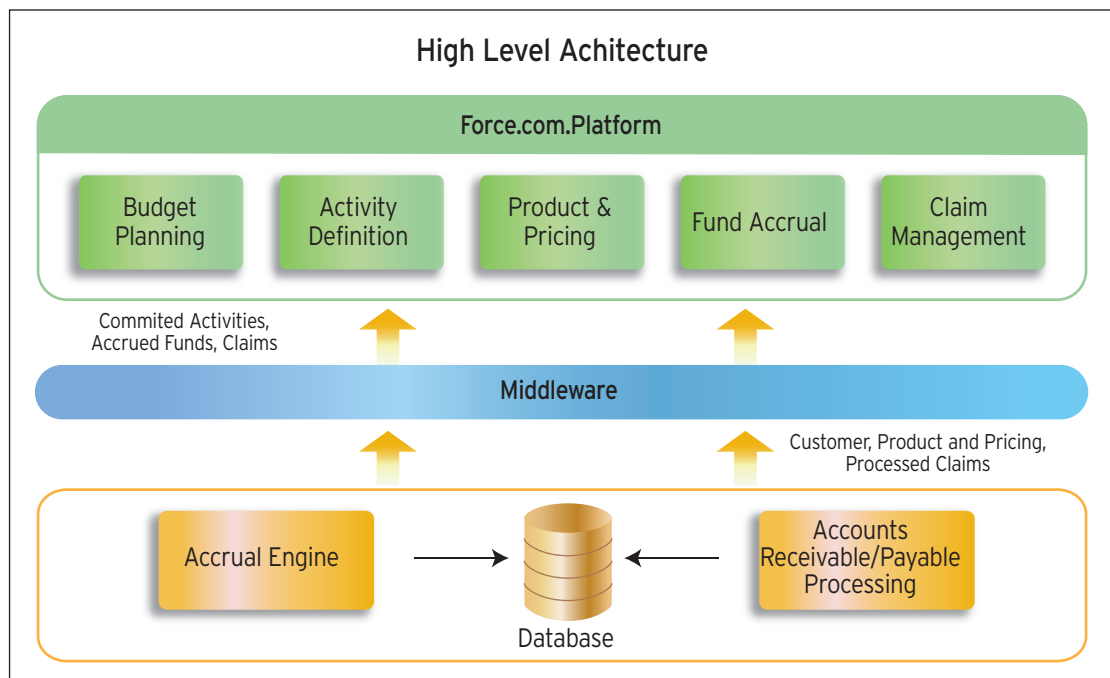
an accrued soft dollar fund.

- **Approval Process** - Activities, projects and claims need approval before being executed. The approval could be multi-level based on the activity type, product considered or customer.
- **Reports and Analytics** - Soft dollar solutions must have capabilities to have easy customizable reports and dashboards for effective graphical representation of data for management reviews.

### Software as a Service

SaaS (Software as a Service) is a software deployment model whereby a provider licenses an application to customers for use as a service on demand. SaaS software vendors can host the application on their own Web servers or download the application to the consumer device, and disable it after the on-demand contract expiration period. The on-demand function is handled internally to share licenses within a firm or by a third-party application service provider (ASP) to share licenses between firms.

The SaaS model reduces costs for the customer as well as the IT team. They don't need to purchase, install, configure, support, or provision a hardware/application stack for the application. Also, they don't need much involvement as SaaS suits market segments that do not have much in-



house IT capability, or have too many IT staff employed. The model removes a potential IT naysayer from the sales process.

SaaS can also conceivably reduce the up-front expense of software purchases, through less expensive, on-demand (pay per user and/or software usage) pricing from hosting service providers. SaaS allows software vendors to better manage their software, such as:

- Control and limit usage
- Prohibit copying and distribution
- Control all derivative versions

SaaS centralizes control and allows the vendor or host service provider to establish an ongoing revenue stream with multiple businesses and users without pre-loading software in each device in an organization.

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Passion for building stronger businesses

### World Headquarters

500 Frank W. Burr Blvd.  
Teaneck, NJ 07666 USA  
Phone: +1 201 801 0233  
Fax: +1 201 801 0243  
Toll Free: +1 888 937 3277  
Email: [inquiry@cognizant.com](mailto:inquiry@cognizant.com)

### European Headquarters

Haymarket House  
28-29 Haymarket  
London SW1Y 4SP UK  
Phone: +44 (0) 20 7321 4888  
Fax: +44 (0) 20 7321 4890  
Email: [infouk@cognizant.com](mailto:infouk@cognizant.com)

### India Operations Headquarters

#5/535, Old Mahabalipuram Road  
Okkiyam Pettai, Thoraipakkam  
Chennai, 600 096 India  
Phone: +91 (0) 44 4209 6000  
Fax: +91 (0) 44 4209 6060  
Email: [inquiryindia@cognizant.com](mailto:inquiryindia@cognizant.com)