

# How to Improve SAP Profitability Management - The Ultimate Guide

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# Cost of the services

- ✦ Calculate the cost of the services, applications and internal clients that IT provides or supports using a transparent and robust costing methodology that reflects how they consume IT resource
- ✦ Ensure these costs are up-to-date

# Use Integrated Planning

- ✦ Ensure Cost and Profitability Reporting is fully integrated with planning and budgeting
- ✦ This will give visibility of FUTURE product costs and customer profitability.

# Benchmarking

- ✦ Cost of key business processes are benchmarked against external data and peers.
  - ✦ Use SAP CPM to record and update benchmark data
  - ✦ Third party benchmark data providers are usually required
- ✦ Ensure you follow Benchmarking Best Practices

# Business Process Reporting

- ✦ Cost of key business processes reported every period together with forecasts for future periods.
- ✦ Critical that every process owner agrees on what constitutes a period and that they have input into probable future costs.

# Provide Monthly Re-forecasts

- ✦ Enable contributors who amend non-financial driver data, to update rolling monthly re-forecasts.
  - ✦ This also helps ensure buy-in up and down the line.

# Provide 'What-If' Testing

- ✦ Enable end-users to slice and dice the data over the web.
- ✦ They need to be able to carry out their own 'What-if?' analysis in real time so they can test out the impact of changes before committing to them.

# Model Building

- ✦ Enable rapid and flexible model building.
  - ✦ This requires skills in both model building and deep communication skills
  - ✦ Gets very *political*

# End-User Queries

- ✦ Enable self service for end-user enquiries.
  - ✦ Just because they can doesn't mean they will
  - ✦ They will do this if they know they can get the answer their boss is asking them for.

# Assignment Traceability

- ✦ Provide the capability for End-Users to trace back through assignments so they can see exactly what cost has been assigned and where it comes from.
- ✦ First level supervisors will be *especially* interested in this subject where internal labor loans take place routinely.

# Robust Reality Modeling

- ✦ Ensure functionality and flexibility that allows model builders to make assignments that reflect reality and are therefore more accurate.
- ✦ If you cannot model reality, it is only of marginal use to the end user.
- ✦ It is unlikely to be used as a system of record

# Minimize Manual Work

- ✦ Ensure minimal manual intervention for replenishing and recalculating models.
  - ✦ A robust data warehouse is critical to making this work.

# Fast Re-Forecasting Process

- ✦ When re-forecasting, ensure the entire re-forecasting process is completed in a couple of days.
- ✦ This goes beyond saying you need SAP HANA.
- ✦ You need a process that overall is both fast and reliable.
- ✦ Otherwise, it won't get used.

# Eliminate Non-Value Add

- ✦ Identify, measure and eliminate all non-value adding activities.
  - ✦ This is typically a major, on-going project by itself.

# Real Time Impact Modeling

- ✦ Your system must model the impact of possible changes in real time.
- ✦ Ideally, it will sense and alert you to changes in the environment it is has become aware of.

# Appropriate Month-End Reporting

- ✦ Provide all layers of management with Month-End cost and profitability reporting at an appropriate level of detail within a few days of the month end.
- ✦ Provide time for a 'hands-on' review with them for these numbers.

# IT Invoicing

- ✦ Provide internal clients with a detailed monthly invoice that allows them to make informed decisions about their use of IT.
  - ✦ Expect this to cause friction.
  - ✦ A lot.

# IT Invoicing

- Provide internal clients with a detailed monthly invoice that allows them to make informed decisions about their use of IT.
- Provide audit capabilities to the end user so that they can track both what they used and who to contact within IT to request additional information and support.

# On-Going Cost Monitoring

- ✦ Provide ongoing monitoring of the cost of key business processes and the capability of managing them down the experience curve.
- ✦ A good practice is provided by Wal-Mart - demand yearly reductions, whether the supplier is internal or external.

# Lose Excess Capacity

- ✦ Remove excess capacity and non-value adding activities in IT.
- ✦ However, do not constrict it so much that there is no room for innovation.

# SAP PCM Application

- Use a purpose built application such as SAP Business Objects Profitability and Cost Management (PCM).
- It provides the robust modeling capabilities you need plus a methodology that is proven.

# Activity Based Costing

- Use an activity based approach to IT resource planning and budgeting.
- Should better able to cope with the complexity of IT versus traditional budgeting.

# Activity Based Costing for Services

- Use an activity based approach to services costing and to planning and budgeting in IT.
- May possibly be part of adopting an ITIL approach to service management.

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