

Cost and profitability management for the digital economy

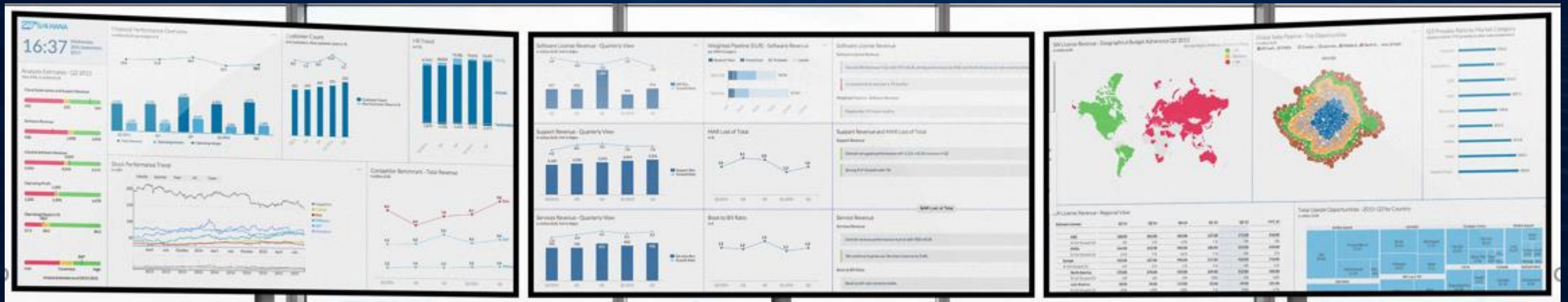
Large Turkish utility adopts SAP Performance Management
to manage profitability at the lowest levels of detail

SAP Adriatic Utility Conference, 14-15 May 2018

Franco Furlan
Solution CoE Analytics & Insight
Middle and Eastern Europe

Why profitability and costing systems in Utilities now

- **Margin pressure** ➡ **cost savings, cost transparency** “Your margin is my opportunity”
Jeff Bezos
- **Regulatory compliance** ➡ **methodology transparency**
- **Sophisticated cost models** ➡ **detailed allocations & multiple data sources**
- **Simulation / what-if scenario analysis** ➡ **business analyst owned**



Frequently seen use cases in Utilities



Product, customer, channel profitability



Bill of materials (CO-PA simulation)



Shared services cross-charging (e.g., IT)



Cost to serve (e.g., distribution, logistics)



Operational Transfer Pricing (funds and liquidity transfer pricing also possible)



Revenue breakage (retail)

Customer and Challenges

About



Founded in the '90s



Has international JV



10m customers in several regions
distribution services
to 20+m users



€ 4bn+ revenue

Challenges to profitability in Utilities



Fluctuating Cost Structure

Due to oil price and exchange rate changes, customer profitability is deemed volatile

“Some customers may evolve from profitable to not-profitable, and we have to assess it in order to act accordingly”



Changing Competition Landscape

Business is becoming more B2C focused everyday. Need a clear understanding of the financial impact from the bottom up: meter, customer, region, product/service, company, etc.



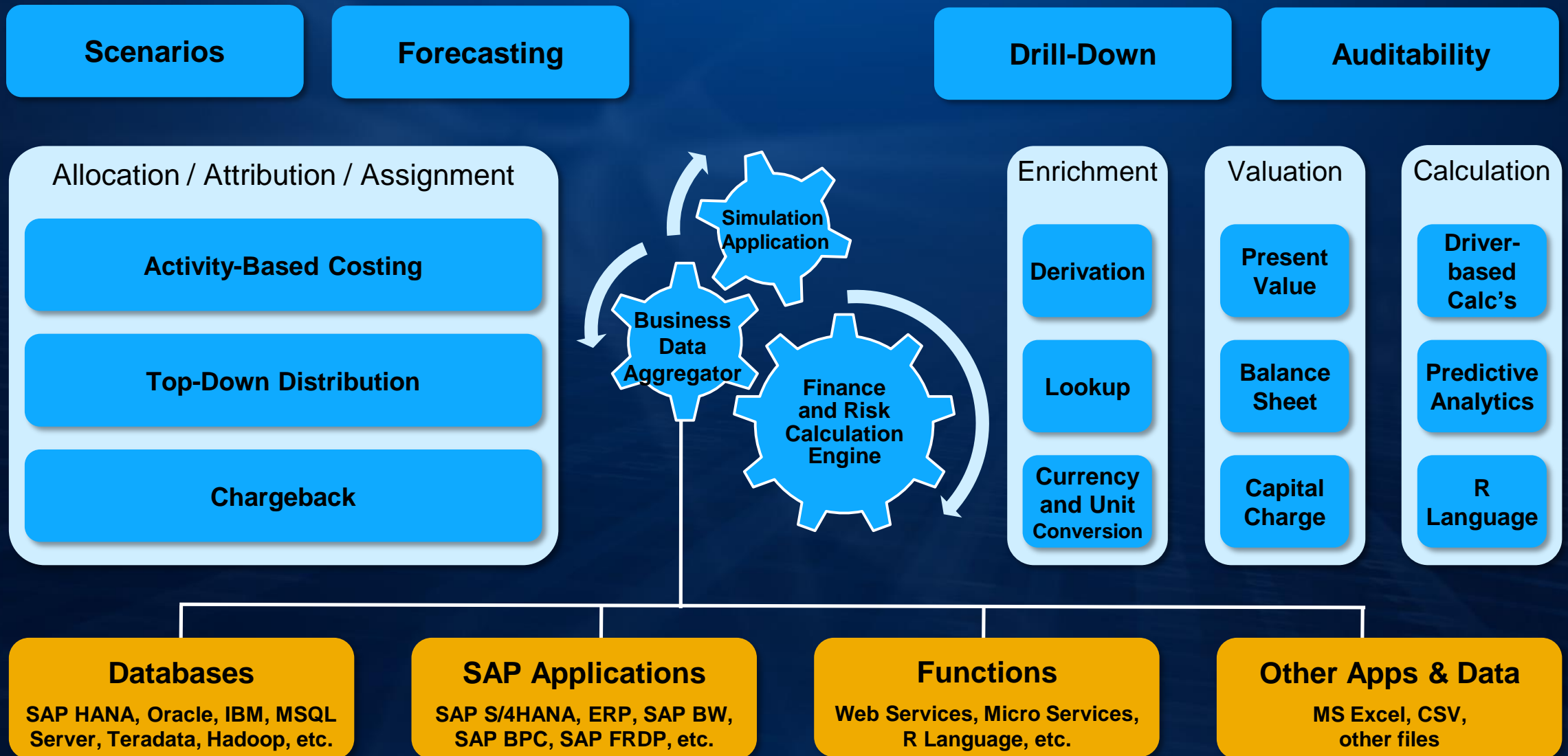
Pricing & Optimization

Decreasing margins make pricing and optimization more important

Need to understand final costs (with indirect costs allocated) to identify which pricing levels have to be maintained

Need to understand which processes are causing the most of the costs, and optimize the related processes

HANA-based SAP Performance Management – Cost and Profitability for Utilities



integrates with customer systems at high speed ... without data replication

Solution Approach

Business PoV

First, they needed a solution easy to use and maintain like Excel. Wanted to «own» it.

However, since they know Excel very well, they were sure that they needed another solution to perform the Calculations they need.

Other requirements included:

- ✓ **Traceability of data to the most granular level** (understand the data in depth when needed. It's important to trust the calculations they are making.)
- ✓ **integration with non-SAP systems** (They have non-SAP data which is important for them, so they wanted the integration to work over there.)
- ✓ **Creation of different scenarios and what-if simulations** by the business, with little or no support from IT

IT PoV

Primary concern was to use existing tools in the company.

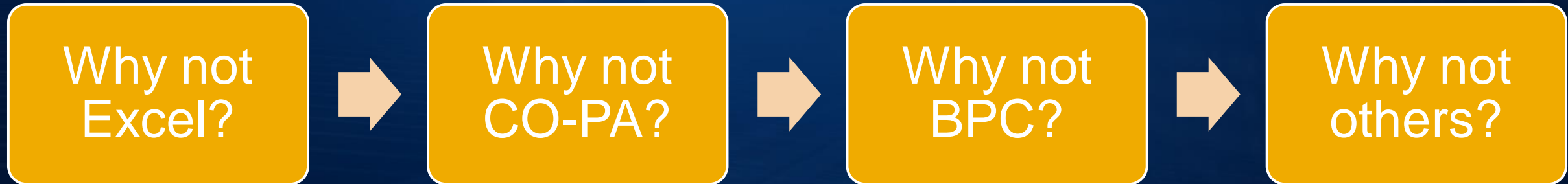
It became soon clear that non-SAP Tools they have won't be able to provide what business needs.

Important to understand why they cannot use CO-PA or BPC for this. Flexibility and performance were the most important differentiators.

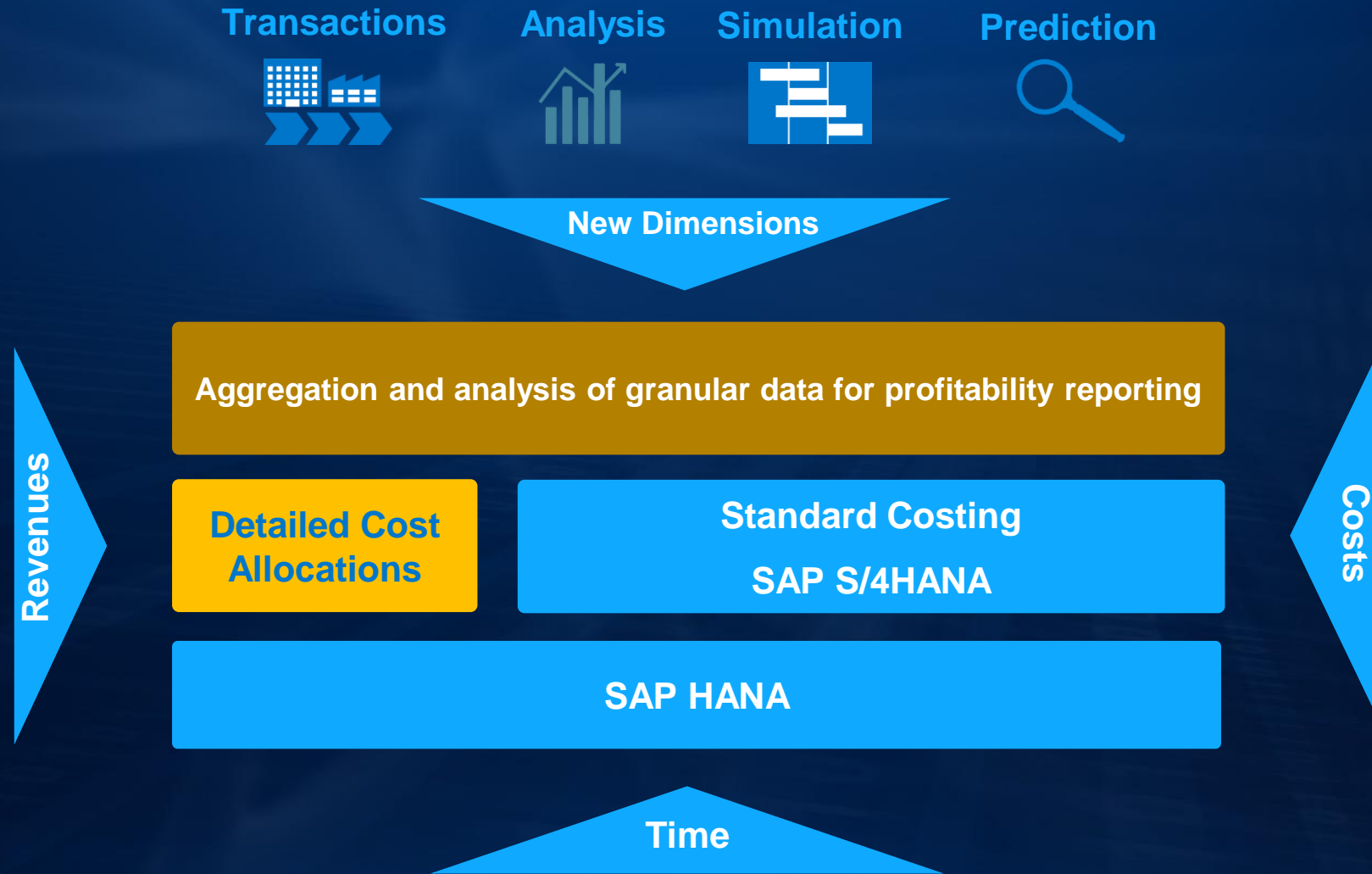
- ✓ **IT understood during our demo session that FS-PER enables users to go to the deepest levels.**
- ✓ **Also a main concern for IT. ETL processes and integration burden would make it hard to maintain the system.** Since FS-PER applies to non-SAP environments, it was a good fit for integration, even without ETL.
- ✓ **IT observed the flexibility and performance of the system, and agreed that FS-PER would add new functionalities to their current investment base.**

“Why not others?”

Usually questions come in this order, so it's a bit like a process ...



Detailed cost allocations *complement* accounting in Utilities



Expected Benefits

Both Finance and Strategy departments have benefits from the Project. Finance is mostly interested in profitability- and cost optimization-related benefits, whereas Strategy is interested primarily in Pricing and Process Optimization.

- ✓ **Assessing the «real» profitability in every level of the company; and create a strategy to maintain profitability at the customer level.**
 - Arrange customer level actions pricing, promotions, marketing, etc. based on profitability
 - Determine how departments/products/services/regions are performing in terms of profitability and define profitability KPIs for them

- ✓ **Pricing from a cost-based perspective**
 - For the products/services whose prices are not regulated by government, company will be able to understand the eligible prices
 - Understand the real margins for the products/services whose prices are regulated, and optimize costs for processes

- ✓ **Simulations**
 - When deciding between different scenarios, apply simulations easily and compare

Why SAP Performance Management in Utilities

Roots in Banking and Insurance

- Large customer numbers and profitability sum-up in banking is a good reference
- To-Be model of utilities has many B2C influences, so Banking is highly relevant

Flexibility and speed

- Business team want a tool that they can use
- They liked the demo, understood they can use it
- High-performance also important, but not the primary driver

Integration with application landscape

- As a customer with BW on HANA, they understood this fits in their landscape
- Need to integrate with other systems was a concern, so using HANA smart data access was a valuable criterion

Additional benefits

- Profitability calculation at different levels brings additional benefits:
 - Process optimization (which processes to optimize?)
 - Customer, region, product, etc. Profitability at different levels
 - Pricing Calculations for additional services (energy price is regulated)

Questions our Utilities customers become able to answer

Why, how, what: revenue, costs, charges, profitability, resources, rates, cost drivers, sales operations

Which tariffs are profitable for a particular service?

Which customer groups are most profitable with which products or services?

Do we have the capability to measure profitability at product, channel and customer level or even down to single transactions?

What is the profitability of a particular product in different sales channels?

What are my channel costs in cities with less than x customers?

What profitability can we expect, if we increase or decrease our IT expense by a given percentage?

Does our tax team have automated, transparent and documented methodology for tax / cost allocations?

Could our company benefit from switching to a different risk and capital scenario?

Are planned operating expenses higher or lower than actual costs?

What is our return on equity?

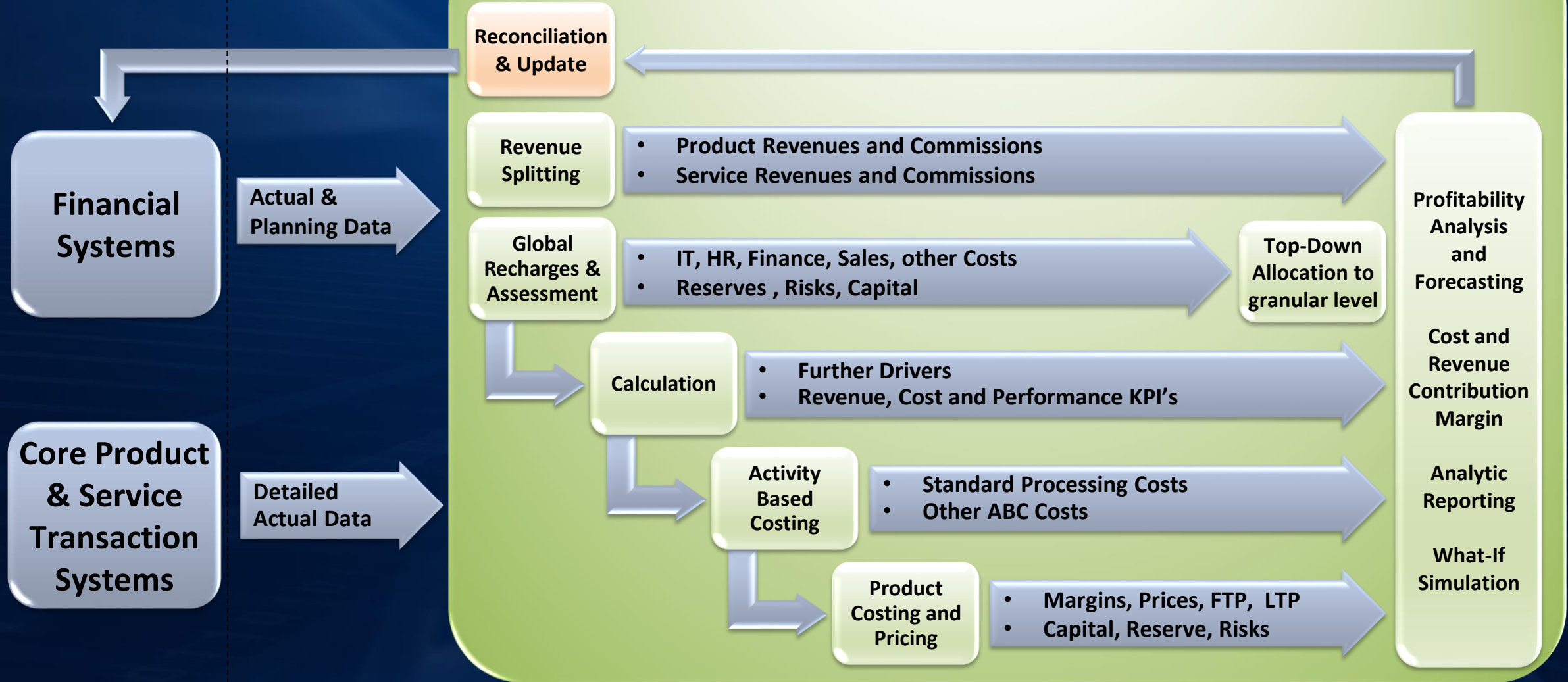
Use cases

Utilities-specific or cross-industry



Main Utilities use case: profitability and cost management

SAP Performance Management

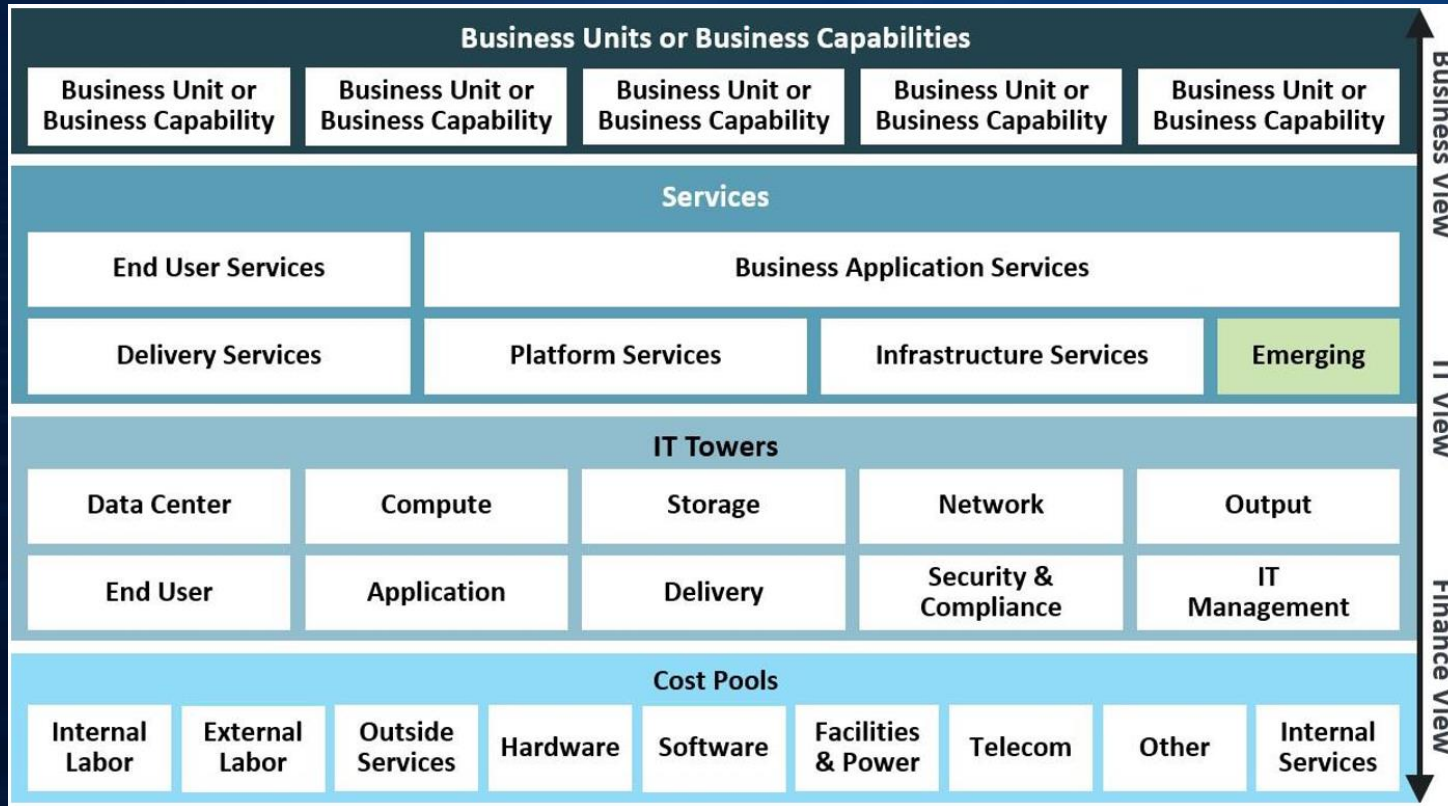


Cross-industry use case: IT Cost Management

IT Cost Transparency, IT Financial Management and Automated Bill of IT



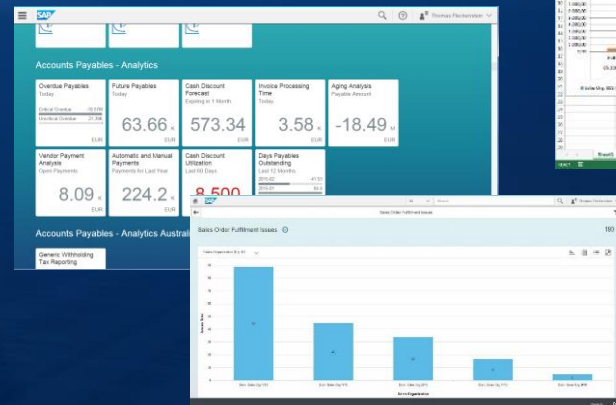
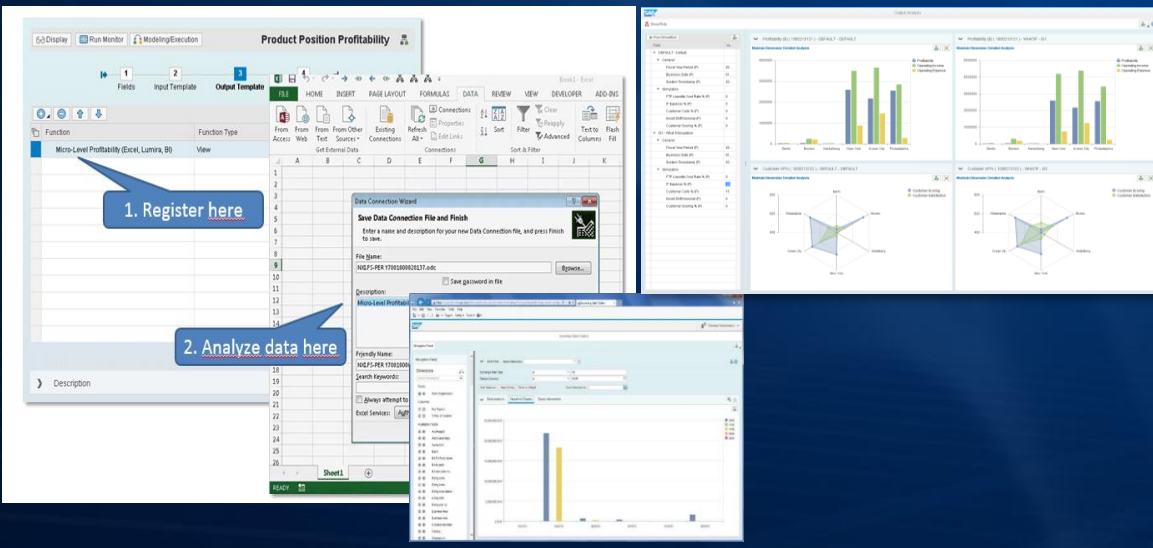
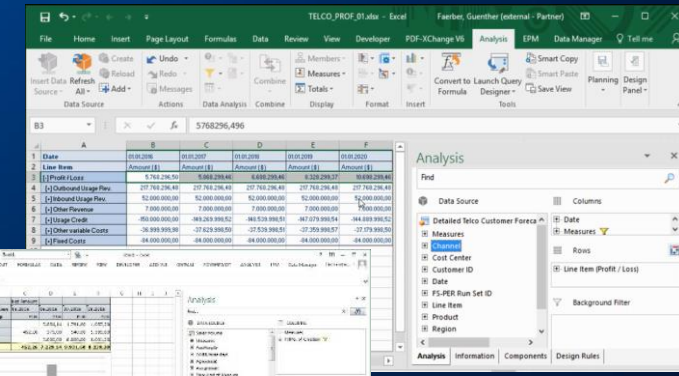
Demo available on demand



SAP Performance Management

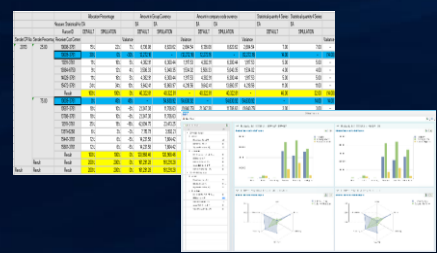
Reporting options complement built-in reporting and interactive simulation

Self-service Reporting

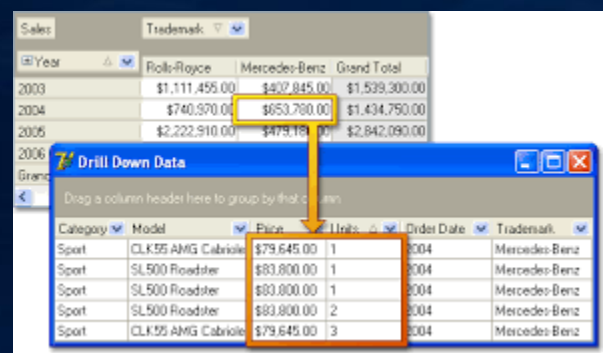


Integration with BPC, Analysis for Office

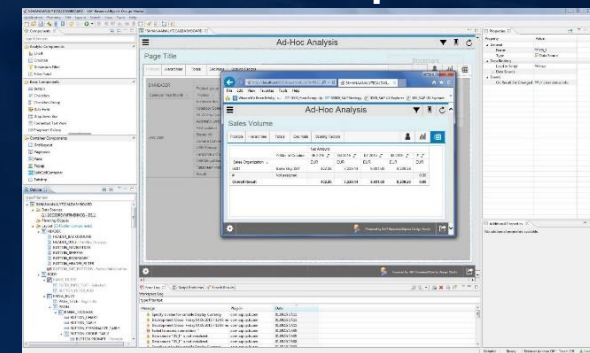
S/4HANA Analytics with Smart Business Cockpits



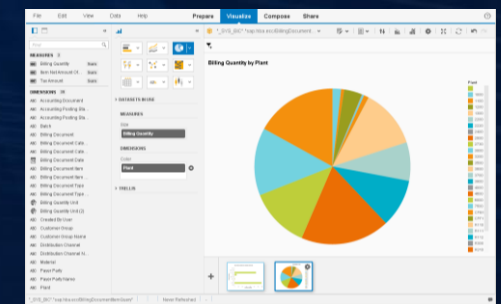
Side by Side Simulation



Drill Down Capabilities



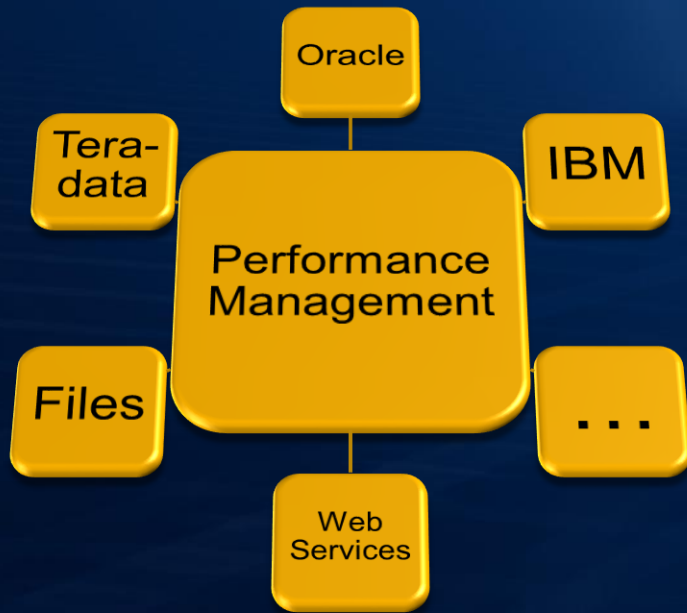
SAP Design Studio



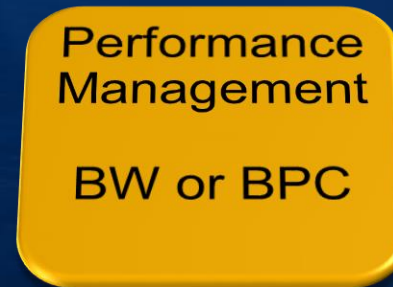
SAP Lumira

Deployment Options in Utilities

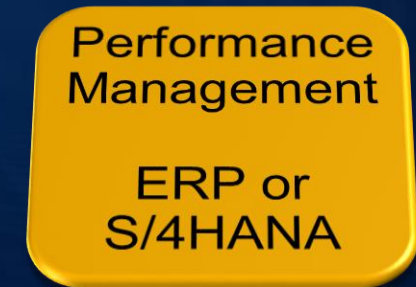
Stand alone,
but integrated



Together with
BW or BPC



Together with
ERP or S/4HANA



SAP Performance Management (“FS-PER”) in Utilities

Key takeaways

COST AND REVENUE ALLOCATIONS

HIGH SPEED
CALCULATION ENGINE
AND
PERFORMANCE

Access local and remote data sources without ETL

Maximize reuse of data, minimize
data replication

OPERATIONAL TRANSFER PRICING

FUNDS TRANSFER PRICING

PROFITABILITY ANALYSIS

All processes are
performed in HANA:
high speed, in-memory

Works with major SAP and third-party databases as
remote sources and targets

Central Maintenance and decentral
deployment possible (Template Approach), e.g.
to Headquarter and Branches

**Business analyst
owned**

FORECASTING

**WHAT IF
SIMULATIONS**

On-Premise Deployment, easy to maintain using robust SAP standards
Cloud Deployment, full maintenance by Service Provider (e.g. SAP HEC)

**BUSINESS PROCESS
AUTOMATION &
RECONCILIATION ACROSS
FINANCE AND SUPPLY CHAIN
ORGANIZATIONS**

WEB BROWSER UI

**TAX OPTIMIZATION AND
PLANNING**

**OUT-OF-THE BOX
AND ENHANCED
REPORTING**



SAP Performance Management (“FS-PER”) in Utilities

Brief videos to get you started

Introduction to SAP Performance Management

<https://www.youtube.com/watch?v=NtF3jVBJDjQ>

FS-PER enables Utilities and cross-industry companies to maintain and execute sophisticated financial models in the areas of: profitability and allocations, driver and model based planning and forecasting calculations, funds and liquidity transfer pricing functions as well as risk, capital and solvency calculations.

All of that in a business user friendly way, using deterministic, predictive and stochastic methods.

It comprises business data aggregation capabilities for SAP and non-SAP systems, a high-speed calculation engine, and comprehensive simulation and scenario management. These give business users the ability to manage and analyze the complete process in one central solution.

Allocation Models

<https://www.youtube.com/watch?v=Dgv0Yvnhp9c>

Cost allocation is nothing new, of course – but new technologies have transformed its potential. It can help companies meet the challenges posed by decreasing investment returns, tighter profit margins, complex regulatory requirements, and mature, saturated markets

Forecast Planning and Modeling

<https://www.youtube.com/watch?v=NSJ0ti3rbUQ>

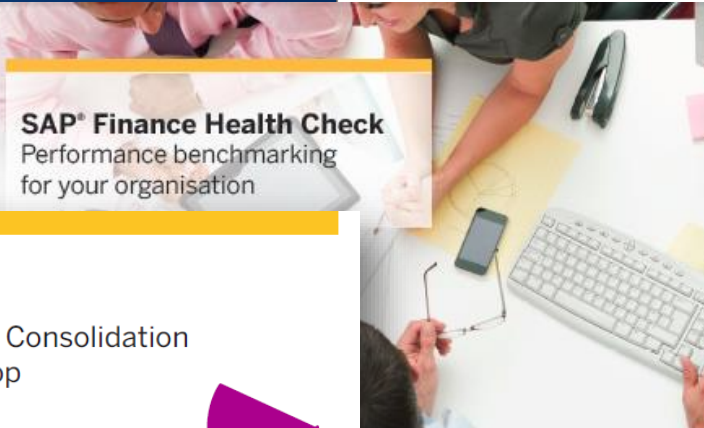
Forecast and planning modeling capabilities, for example, driver-based models, predictive and machine learning models, stochastic models as well as deep learning models



Thank you

Consider contacting your SAP Account Executive or us, for more information and to arrange a follow-up!

Franco Furlan
 Solution Center of Excellence
 Middle and Eastern Europe
franco.furlan@sap.com
 +41 79 830 1536
 @FFurlanS



WORKSHOP 1: FINANCE BENCHMARKING SURVEY

- The Finance Benchmarking Survey also delivers insights into Finance Best Practices Metrics such as:
- Finance Strategy and Leadership
 - Compliance and Risk Management
 - Budgeting and Forecasting
 - Business and Operations Analysis and Reporting
 - G/L and Financial Closing
 - Treasury and Cash Management
 - Accounts Payable and Expense
 - Payroll Administration
 - Accounts Receivable
 - Customer Billing, Credit and Collections



Gain Agility and Control SAP Business Planning and Consolidation Hands-On Training Workshop



Join experts and your industry peers for a one-day, free training session on the SAP Business Planning and Consolidation application. Discover how you can deploy and get the most value out of this widely adopted application from SAP's Enterprise Performance Management solution suite.

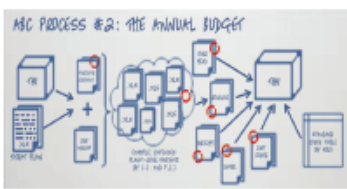
- Training Workshop Sessions:**
- Date:** August 21, 2013
Location: SAP Singapore
 - Date:** August 23, 2013
Location: SAP Malaysia
 - Date:** September 18, 2013
Location: SAP Singapore
 - Date:** October 18, 2013
Location: SAP Singapore
 - Date:** December 6, 2013
Location: SAP Singapore

- At this free training event, you'll learn how to:**
- Planning Topic:**
- Generate both web and excel reports
 - Import source data from Non SAP and SAP sources and drill back to your source
 - Setup business process flow for the planning process
 - Extend reports with functionality like dynamic formatting, sorting, filtering and ranking
 - Text comments management
 - Publish book of reports
 - Administrator functions: adding accounts and create formulas to calculate
 - Setup security including users, data and task profiles



Since 2004, SAP has assisted Senior Executives from over 4,000 organisations align their finance processes with strategic business objectives. What's more, we've conducted over 30 business processes assessments, and have established more than 1,200 KPIs and 1 500 Best Practices

- This workshop will help you:**
- Align short and long-term business goals with the most appropriate technology solutions
 - Understand the seven Assessment Areas of the Finance Value Streams, including infrastructure, data, segments, applications, processes, people and analytics
 - Implement a Performance Value Roadmap (PVR) that serves as a month-by-month finance transformation guide to optimising performance management



For More Information
 Call your SAP representative, or visit us at www.sap.com

© 2018 SAP SE or an SAP affiliate company. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or for any purpose without the express permission of SAP SE or an SAP affiliate company.

SAP and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP SE (or an SAP affiliate company) in Germany and other countries. Please see <http://global12.sap.com/corporate-en/legal/copyright/index.epx> for additional trademark information and notices.

Some software products marketed by SAP SE and its distributors contain proprietary software components of other software vendors.

National product specifications may vary.

These materials are provided by SAP SE or an SAP affiliate company for informational purposes only, without representation or warranty of any kind, and SAP SE or its affiliated companies shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP SE or SAP affiliate company products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.

In particular, SAP SE or its affiliated companies have no obligation to pursue any course of business outlined in this document or any related presentation, or to develop or release any functionality mentioned therein. This document, or any related presentation, and SAP SE's or its affiliated companies' strategy and possible future developments, products, and/or platform directions and functionality are all subject to change and may be changed by SAP SE or its affiliated companies at any time for any reason without notice. The information in this document is not a commitment, promise, or legal obligation to deliver any material, code, or functionality. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates, and they should not be relied upon in making purchasing decisions.