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# Profitability impact overview -Margin Analysis in 5 steps with S/4

- Anubhav Garg


May 26$^{th}$ 2021

# ANUBHAV GARG

SAP Certified S/4HANA Finance Associate and during the last few years I have worked as subject matter expert in Finance to help companies achieving their CFO agenda by finance transformation. I specialize in consultancy in SAP FICA, SAP FI/CO/COPA and FSCM across multiple industries.

13+ years of experience in designing and implementing integrated solutions involving multiple applications that includes S/4, ECC amongst others.

Worked in a finance-centric; business facing role to perform S4 business value case, evaluate transformation roadmaps and recommend future landscape and finance architecture.


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# ANDERS STEEN

Deloitte Norge SAP finance lead

Anders is a SAP professional with more than 10 years of SAP Finance related experience. He strives to deliver well adapted solutions enabling management to undertake strategic decisions based on accurate and real time financial data.

During his career Anders has worked on high scale implementation projects both domestically and internationally. Throughout last years he has mainly been focusing on SAP Controlling processes delivering solutions within SAP Product Costing and SAP Margin Analysis.

We at Deloitte can help in all phases of your SAP S/4 Hana journey. If you would like to discuss how Deloitte can help your company realize your strategic digital platform powered by SAP, please get in touch with me or any of Deloitte's local SAP teams to discuss.

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# PROFITABILITY IMPACT OVERVIEW

# WHY BEFORE THE HOW

Important to understand why companies need to have an even closer view on their profitability. These are only to name a few

**Revenue stream**

In these uncertain times, revenues streams are being impacted or redistributed more than ever across products and customer - demand for certain products has increased within certain customer groups while for others it is severely reduced

**Cost increase**

Costs are on the rise due to changed ways of working, larger supplier lead times and overhead with increasing variable costs

**Real time information**

Getting the information at the right time, to make the right business decisions

**Currency fluctuations**

Impact of currency exchange rate fluctuations on revenue and cost cannot be ignored

# MARGIN ANALYSIS WITH S/4 – KEY BUILDING BLOCKS

## Holistic and consistent financial information with right granularity

- ✓ Universal Journal **combines financial and managerial accounting** and directly records **all dimensions** including custom fields.
- ✓ **Common usage of ledgers, valuations, predictions, and simulations,**
- ✓ **Multiple units of measure and also in multiple currencie**s.

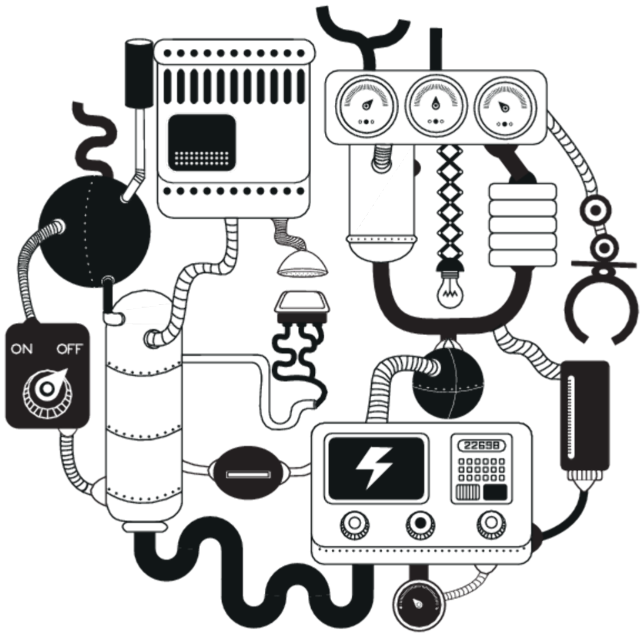
## Contribution Margin updated Real time

- ✓ **All revenue and cost of goods sold postings** are automatically assigned to the relevant dimensions at the time of posting.
- ✓ Every shipment and invoice generate inputs to COGS and Revenue to every line item of a sales document, where **both financial and management accounting inputs are combined in one line**,

## Reporting with Embedded analytics

- ✓ With S/4HANA embedded analytics dedicated - make use of all profitability dimensions and allow for a **drill-down to line item details** without data manipulation or data transfer to analytical applications.

- ✓ Margin Analysis **goes live along with the S/4 HANA** as it based on account-based approach with green field and brown field approach. For Brownfield, it is also possible to have cost based approach active as well ( if already used), which can be discontinued at a later stage.



# MARGIN ANALYSIS IN 5 STEPS WITH SAP S/4HANA

- Define KPIs to measure and steer the business
- Define P&L Line item structure to structure revenues and costs
- Define Business dimensions (a.k.a characteristics)
- Assign P&L Line items to the ledger Accounts to create Financial statement version
- Define your business processes to determine the business dimensions accurately

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# 1. Defining the KPIs

Indicators that measure the financial performance of the company and act as guardrails to steer the business.

Some of the KPIs can be important could be

- Measure Gross Profit by: Product groups / Business units / Products / customer group
- Incoming orders / orders backlog across market segment
- Measure EBIT by Legal entities and product group
- Contribution Margin Analysis of individual business segments over timeframe

Best Practises

- ❑ Define KPI'S clearly and accurately
- ❑ Harmonize them across different lines of business to ensure consistent measurement of results and defining the right set of solution building blocks
- ❑ KPIs later can be translated into easy to access and use FIORI tiles to get a real time view for management to act upon

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# 2. Defining the P&L Line item structure

Categorize different types of revenue and costs to report Gross Profit I, II or III and contribution margins structured

Defining Profitability view of P&L. As an example

- Contribution Margin 1 - Gross profit with directly attributable costs of R&D, SGA
- Contribution Margin 2 - Includes all overhead costs - not attributable to R&D, SGA
- Contribution Margin 3 - Contains all remaining costs down to the EBIT

Practical examples:

- At an industrial manufacturing company, the business was interested in visualizing costs that were directly attributed to production within Gross Profit 1 and 2 and any other costs as part of Gross profit 3
- At a resource and product company, adopted different a way of handling transportation costs– internal transportation cost was considered to be part of the product cost, but external transportation costs were considered as indirect costs and part of Gross profit 3

Profitability view of the P&L was adjusted accordingly. There could be multiple views created as well, based on how the management wants to analyse the costs

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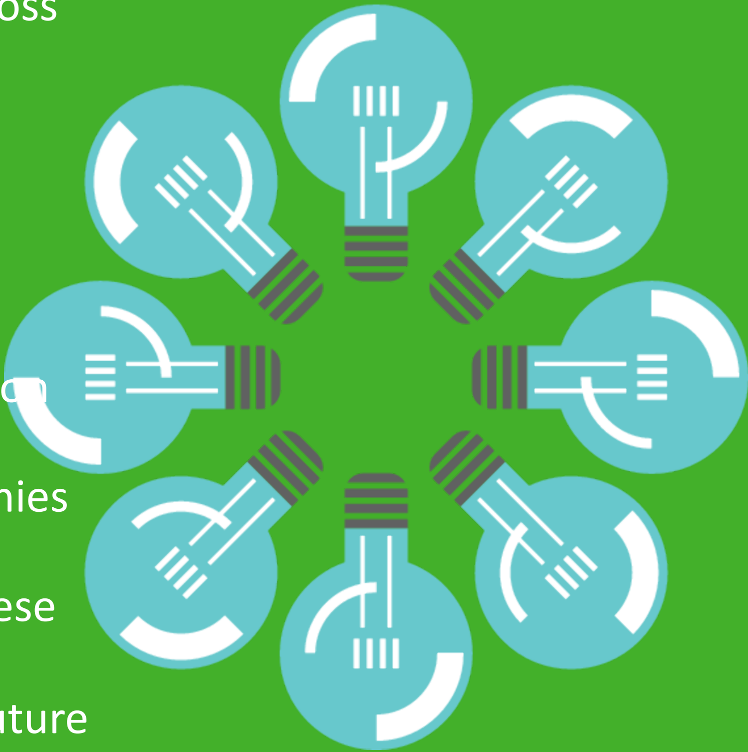
# 3. Identify the business dimensions

Business dimensions define the granularity on which business wants to view the Profit & Loss statements. Some of these are customer, product, sales org, country.
It's imperative to define these dimensions in close collaboration with business.

Define these dimensions in an iterative way and consider these factors

- ❑ Start with defining broad business dimensions for segment, product, customer and region followed by going into defining granularity for each of them.
- ❑ If hierarchical P&L view for these business dimensions is required. Define those hierarchies for ex. product hierarchy, customer hierarchy
- ❑ Determine with business, the extent / depth (Gross Profit I, II or III) to which each of these business dimensions to be reported.
- ❑ S/4 has possibility to define around 60 Dimensions (characteristics), good to consider future requirements and should have good business justification for defining characteristic



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# 4. Assign the P&L Line items to Chart of Account

P&L line item structure defined in step 2, should be mapped to the chart of accounts general ledger accounts.

This step must be performed in collaboration with the key finance business stakeholders and put special focus on

- ❑ Identifications of G/L accounts for different types of sales / revenue
- ❑ COGS mapping to level of split required in the reporting – raw materials, activities, overheads
- ❑ Variance Analysis and assignment of different categories of variances
- ❑ Multiple hierarchies or Financial statement versions can be created to get different views as required

Best Practise

Important to define one common harmonised chart of accounts with minimal local adaptations to ensure consistency and harmonious reporting of the profitability

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# 5. Align business processes to derive the business dimensions

Organize workshops with the business process owners / SME to:

- ❑ Define value flows & derivation of business dimensions with process steps.
- ❑ Determine business specific value flows i.e. settlement vs direct postings for different types of objects -project systems for R&D, customer projects, internal orders or similar.
- ❑ Determine steps which can be automated or removed, if redundant e.g. S/4 enable automatic reconciliation of finance and controlling.
- ❑ Define details for period end sub process step- allocations or assessment to move the costs to right granularity.

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# Summary

- Based on my experience working in similar projects, I recommend to follow this best practice driven, structured and step-by-step approach to define a robust profitability model for their enterprise.
- This would not only be aligned to the future growth strategy but would also support them in effective decision making and steer the business in the right direction, especially in the times we are living in.
- It also enables close collaboration with business stakeholders, which is a key for success when implementing solutions like these.
- Further improvements from SAP are planned in this area.

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# QUESTIONS

# Q&A

## The floor is yours