# HYPERION PROFITABILITY AND COST MANAGEMENT'S

# MANAGEMENT LEDGER APPLICATION

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# Hyperion Profitability & Cost Management

Helps filter the "Clutter"

Before

After

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# Oracle's Approach - Profit-Focused Enterprise™

A Profit-Focused Enterprise™ is one that maximizes **Margins** from information supplied by **Profit Clusters** and **Strategic P&Ls**.

Profit Clustering

**Segmentation**

Strategic P&Ls

Revenue Attainment

**Revenue**

Customers & Products

Operations Optimization

**Cost to Deliver**

Policies & Processes

Resource Alignment

**Capital**

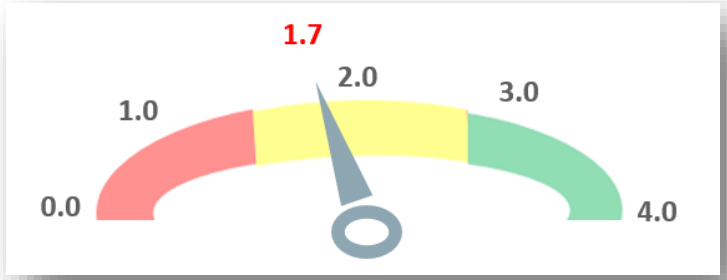
Capital & Resources

**Margins**

**.1 to 2.5%**

**+**

## Maturity of Information




**PFE™ Scorecard**

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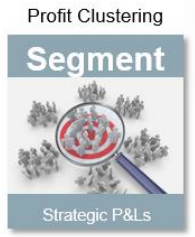
# Using Profit Clusters and Strategic P&Ls




## The "Right" Customers

- Targeted Marketing (CPL)
- Market Basket Analysis (BPL)
- Sales Strategy (IPL, GeoPL, CPL, SPL)
- Customer Profitability (CPL, STPL)
  - Top, Middle, Bottom

## The "Optimal" Product Mix

- Pricing Considerations (PPL)
- Vendor Negotiations (VPL)
- Product Rationalization (PFPL, PPL)
- Product Profitability (PPL,STPL)
  - Top, Middle, Bottom

Revenue Attainment

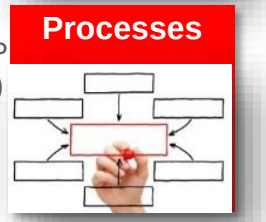
Resource Alignment

## Policy Execution

- Product Substitutions (PPL,CPL)
- Sales Incentives (SPL)
- Shared Services Behaviors (SS)
- Minimal Orders (CPL, IPL)

## Process Improvement

- Supply Chain Monetization (SCPL,CHP
- Outsourcing / Procurement (VPL, RR)
- Support (SS, RR)
- Delivery / Channel (SCPL, CHPL)




Operations Optimization

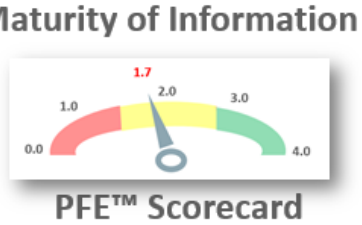
## Align Capital

- Redirect Interest Expense (CPL, PPL, RR)
- Invest in Profitable Clusters
- Maximize ROI

## Resource Alignment

- Tops Down Strategy (RR)
- Align expenses to most profitable Customer/ Product Dimensions
- Capacity / Utilization Analysis (SCPL)

# What is Your Profit Decision Maturity Level?




**Cluster Example:** Product

| | 1.0 | 1.75 | 2.0 | 3.0 | 4.0 |
|---|---|---|---|---|---|
| Profit Clusters (*) | Revenue | | Gross Margin | Net Margin | Stacked Clusters |
| Product A | **$1,000M** | | $400M | **$(150)M** | |
| Product B | $750M | | **$450M** | $200M | $200M |
| Product C | $500M | | $350M | **$250M** | |
| Product D | $250M | | $125M | $75M | $75M → **$275M** |
| Totals | $2,500M | | $1,325M | $375M | $275M |

**Company Score**

(*) By any Profit Cluster including Product, Customer, Channel, Vendor, etc.

**Strategic Emphasis**

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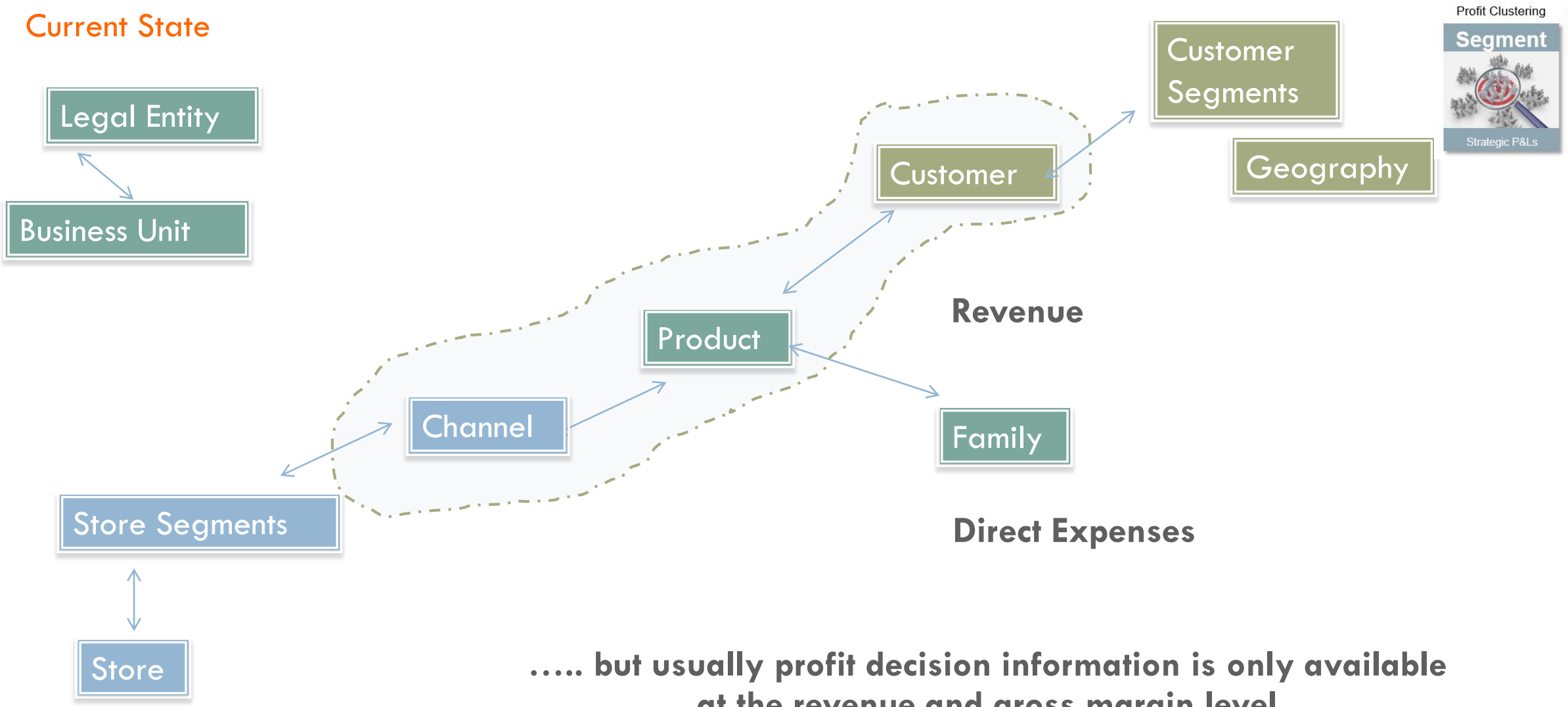
# What is a Profit Cluster?

## Current State




**….. but usually profit decision information is only available at the revenue and gross margin level**

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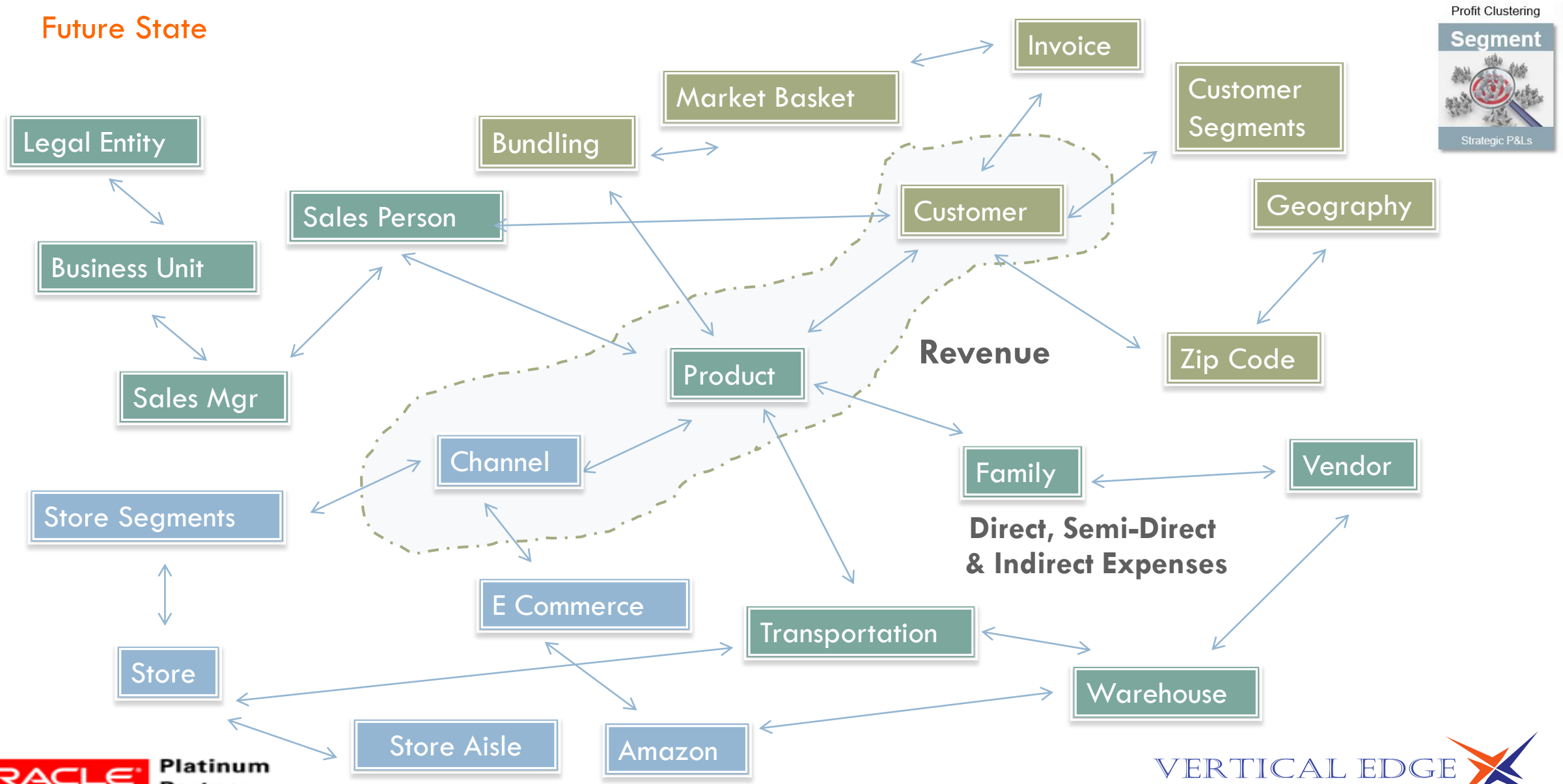
# Breadth and Depth

## Future State

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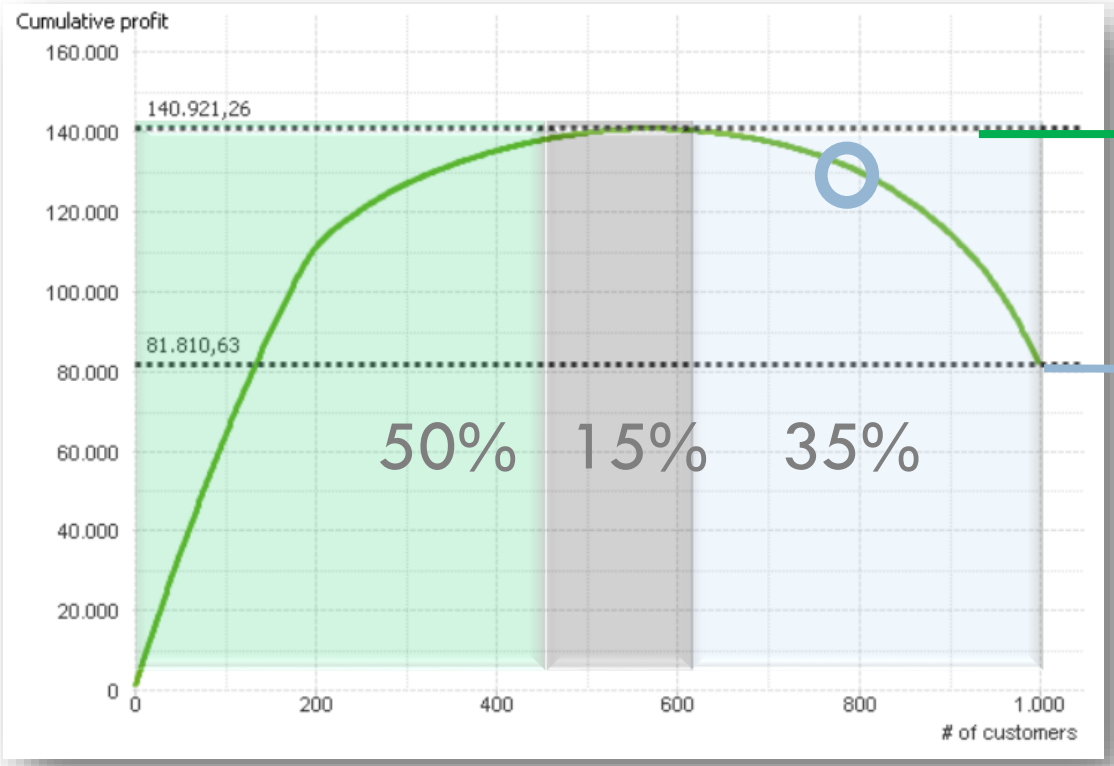
# Profit Clusters – Exploiting the Whale

Profit Clustering
Segment
Strategic P&Ls

## Service



If you can generate a whale curve by **Customer, by Service, by Channel**, etc, you're well on your way to being able to make intelligent decisions about your business.

# What is a Strategic P&L?

## Profit Clusters

SHARED SERVICES – OVERHEAD – INDIRECT

MANAGEMENT

3rd Party Supplier

Product

MARKETING

Direct Labor

Labor
Product

Warehouse

Warehouse
Labor
Product

SALES

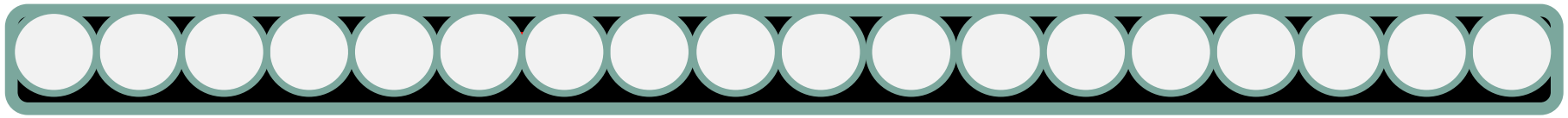
Transportation

Transportation
Warehouse
Labor
Product

CUST SERV

Channel Stores, Etc.

Indirect
Channel
Transportation
Warehouse
Labor
Product



PROFIT ($100)

Strategic P&Ls

Strategic P&Ls

Revenue $1,000

Direct (350)

Semi-Direct (450)

Indirect (300)

Strategic P&Ls

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# Oracle's Approach – Systematic Improvement

**1 Profit Clustering → 2 Strategic P&Ls → 3 Root Cause**

1

Business Intelligence

Overview | Customer P&L | Customer Comparison | Profit Analysis

| Inventory Turn | Avg Receivables | Total Rev |
|---|---|---|
| 4.1 | 46M | 8.0 |

Profit by Customer

2,500K
2,000K
1,500K
1,000K
500K
0K

Customers

Profit by Vendor

1,200K
1,000K
800K
600K
400K
200K
0K

Vendors

2

File Edit View Favorites Tools Help

Oracle Enterprise Perform... | Oracle Business Intelligen... | Web La... | Hyperion EPM Workspace

ORACLE Business Intelligence

A_HPCM Distribution

**Customer Profitability**

Customer Name is equal to / is in **SPRINGFIEL**

| | | |
|---|---|---|
| Product Revenue | 28,748 | 51% |
| Service Revenue | 27,197 | 49% |
| **Total Revenue** | **55,945** | **100%** |
| WAREHOUSE | 2,302 | 3% |
| DELIVERY_COST | 431 | 1% |
| CUSTOMER_SUPPORT | 16,906 | 23% |
| Indirect Expenses | 53,348 | 73% |
| **Total Expenses** | **72,988** | **100%** |
| **Profit** | **(17,043)** | |

60K
50K
40K
30K
20K
10K
0K
(10K)
(20K)

Product Revenue | Service Revenue | Total Revenue

3

| | GROCER OF NORMAN | APPLE WAREHOUSE | SPRINGFIELD WATER |
|---|---|---|---|
| Meat | 7,693 | 9,393 | 6,864 |
| Packaged | 8,201 | 5,523 | 8,729 |
| Produce | 5,321 | 6,888 | 5,795 |
| Household | 9,375 | 6,296 | 7,360 |
| **Product Revenue** | **30,590** | **28,100** | **28,748** |
| Category Mgmt | 8,093 | 5,048 | 5,679 |
| Private | 8,755 | 8,866 | 6,262 |
| Merchandising | 7,416 | 9,789 | 8,990 |
| Delivery | 5,513 | 6,825 | 6,266 |
| **Service Revenue** | **29,777** | **30,528** | **27,197** |
| **Total Revenue** | **60,367** | **58,628** | **55,945** |
| WAREHOUSE | 458 | 1,311 | 2,302 |
| DELIVERY_COST | 108 | 320 | 431 |
| CUSTOMER_SUPPORT | 835 | 162 | 16,906 |
| **Direct Cust Exp** | **1,401** | **1,792** | |
| Bus Dev Costs | 13,202 | 13,343 | 38,105 |
| Mktg Costs | 5,281 | 5,337 | |
| **Indirect Expenses** | **18,483** | **18,680** | **53,348** |
| **Total Expenses** | **19,884** | **20,473** | **72,988** |
| **Profit** | **40,483** | **38,155** | **(17,043)** |

Analyze - Refresh - Print - Export

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# What we Hear…3 Business Needs

## Allocations

- IT Chargeback
- Shared Services
- Ledger Support
- Forecasting/Budget

## Profitability

- Profit Value Chain
- Profit-Focused Entity
  - Customer
  - Product
  - Channel
  - etc

## Transfer Pricing

- Operational Pricing
- Tax Strategy and Compliance

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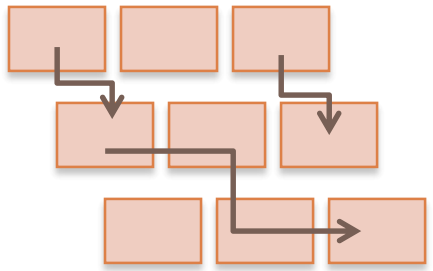
# Flexible Design Methodologies

## Configured to Requirements

### Structured Flow

**Requirements**

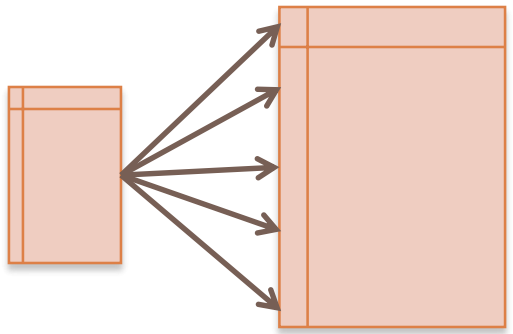
- Costing for analytical purposes
- Highly regulated costing scenarios
- Activity Based Costing
- Aggregate level Profitability



### Detailed Flow

**Requirements**

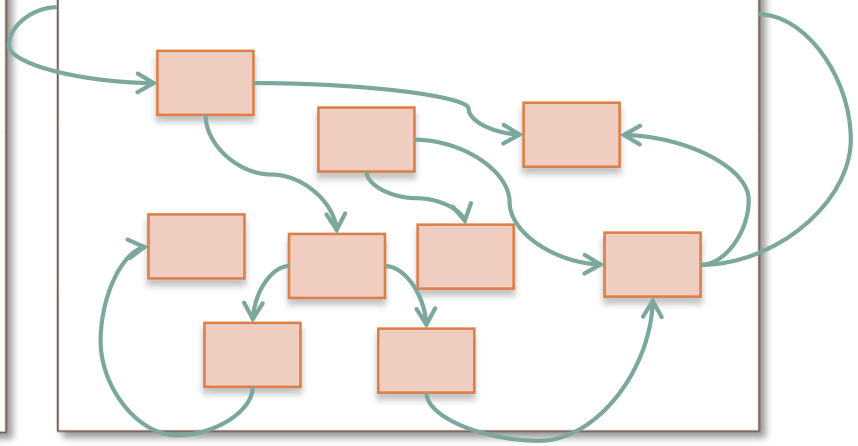
- Bottom up profitability computation
- Highly detailed, highly dimensional cost and profit objects
- Customer event, order, or transaction costing and profitability



### Free Form Flow

**Requirements**

- Management reporting
- Augment thin ledger efforts
- Planning and HFM allocation support
- Aggregate level Profitability



# Management Ledger Applications – Genesis

- Standard Profitability Application Challenges
  - Built for extended ABC type modeling
  - Stage wise structure safe for user but limiting
  - Customers used HPCM for far more than it was designed for

- New use cases require
  - Flexible dimension structure
  - More easily maintained applications
  - More complex logic and variability

- Standard Profitability apps could not meet these challenges

# Management Ledger Applications

- A modeling system for offline management reporting needs and allocations support for other Ledger oriented systems
- Dimensionality to support common management reporting uses and closely match HFM or General Ledger structure
- Analysis support for Profitability, Product Costing and Shared Service Charge backs, Operational Transfer Pricing
- Integration with HFM, Planning, Multi-Vendor GLs
- Addresses functionality gaps where Standard Profitability application design has been challenged in the past

# Management Ledger Applications — Main Features

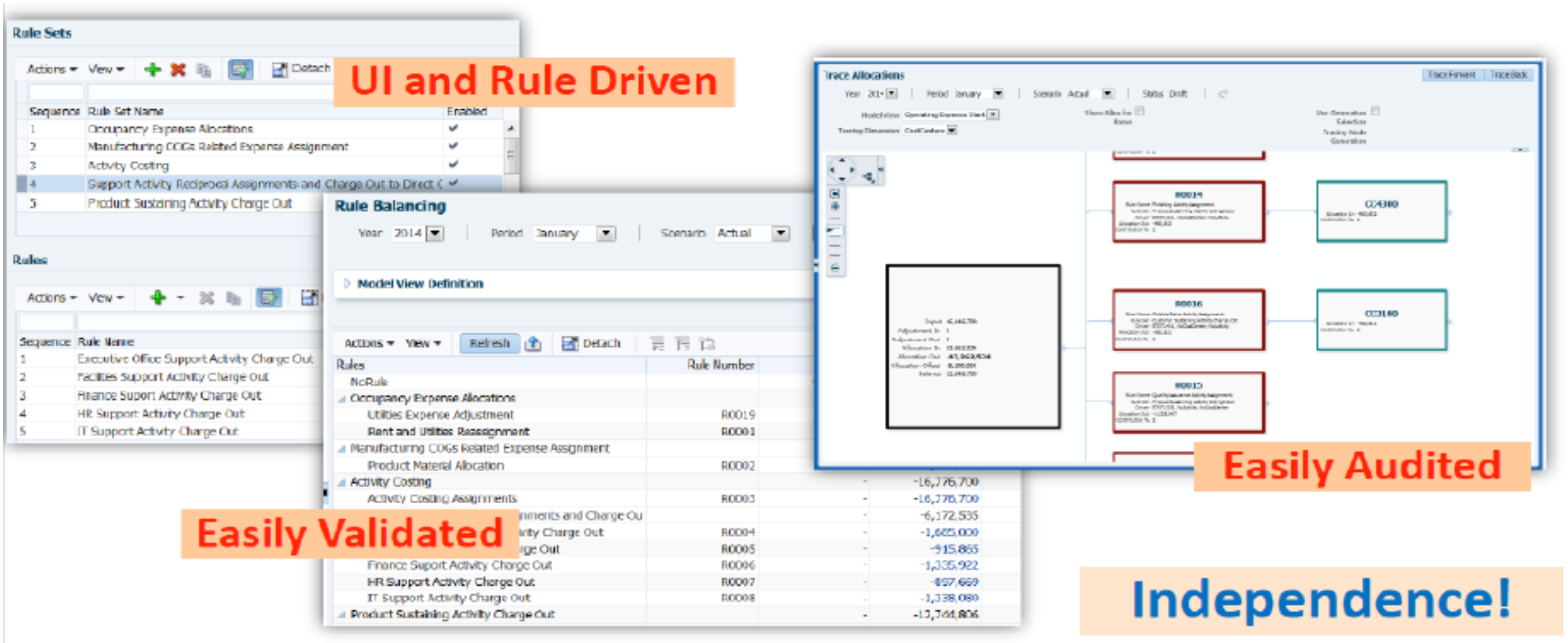
| | |
|---|---|
| Unlimited Dimensions | Stage-less design allows 4 POV dimensions and unlimited business and attribute dimensions |
| Calculation Rules | Source side rules, iterative rule support for reciprocal allocations, flexible driver references, custom calculations, and easy clear / recalculate |
| Parallel Processing | Rule execution in parallel, serial, or iterations as needed, set by user |
| Rule Balancing | Balancing by rule with allocations sent and received as well as adjustment values detailed by rule |
| Model Views | User defined slices for enhanced rule balancing and trace analysis |
| Trace Allocations | Visual allocations trace from aggregate or granular level, detailed by rule |
| Reporting | Smart View links, queries, standard system and validation reports |

# Management Ledger Applications — Main Features

| | |
|---|---|
| Unlimited Dimensions | Better fit with GL data, HFM, and Planning |
| Calculation Rules | Eliminates staging tables, very fast design and delivery, enhances business user control messaging |
| Parallel Processing | Scale and Performance – Advantage Exalytics |
| Rule Balancing | Simplifies result validation and auditing |
| Model Views | User defines stages and steps, analysis checkpoints |
| Trace Allocations | Eliminates 'black box' objections |
| Reporting | Flexible delivery choices in addition to BIFS |

# Management Ledger Application

## Business User Managed

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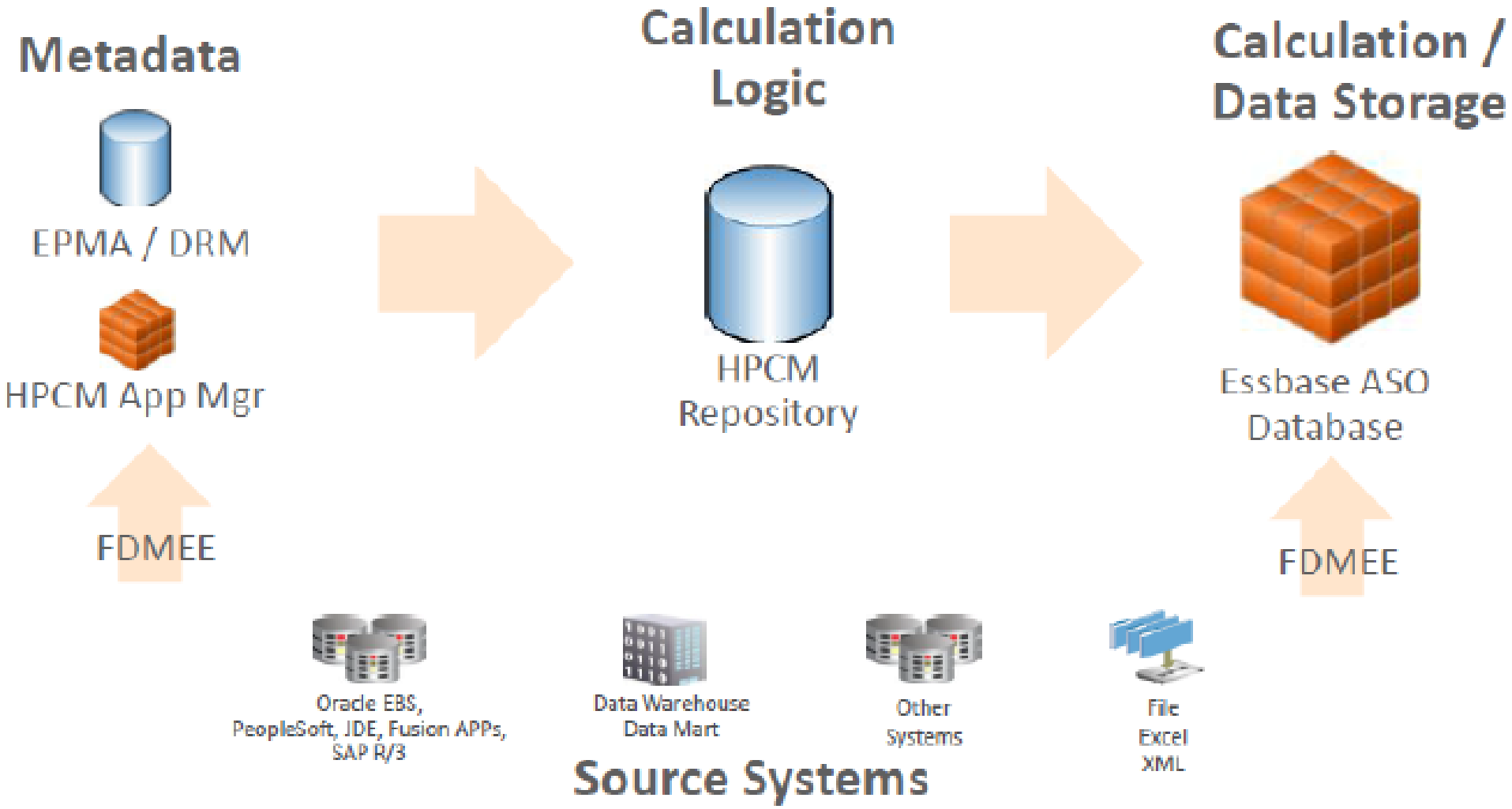
# Management Ledger App Architecture

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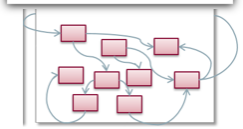
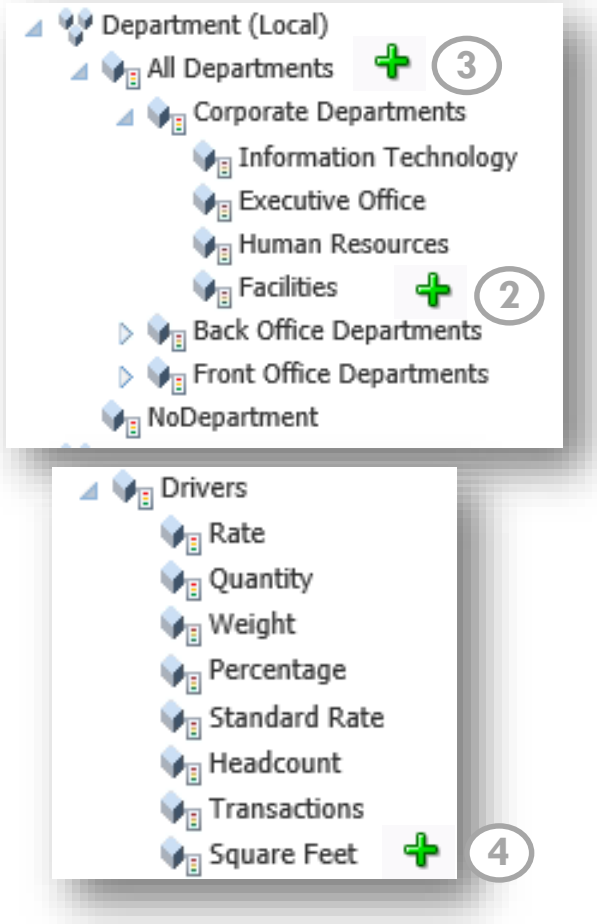
# Management Ledger

Free Form Flow



Four Easy Steps

## Available Dimensions



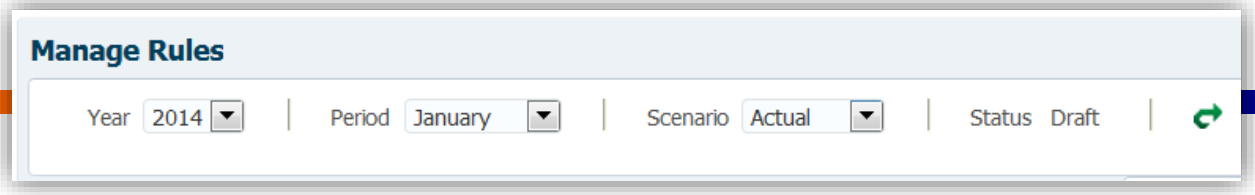

## HPCM Steps

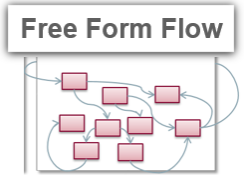
1. **Define Rule** *(Create Name)*
2. **Select Source** *(Department)*
3. **Select Destination** *(Department)*
4. **Select Driver** *(Drivers)*

## "Connect the Dots"

- *Facilities Exp Allocations*
- *Facilities*
- *All Departments*
- *Square Feet*

# "Connect the Dots"



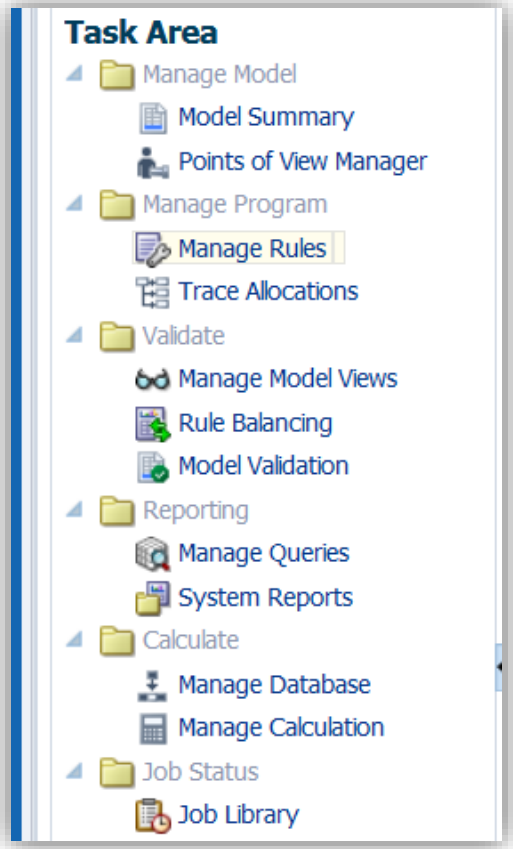



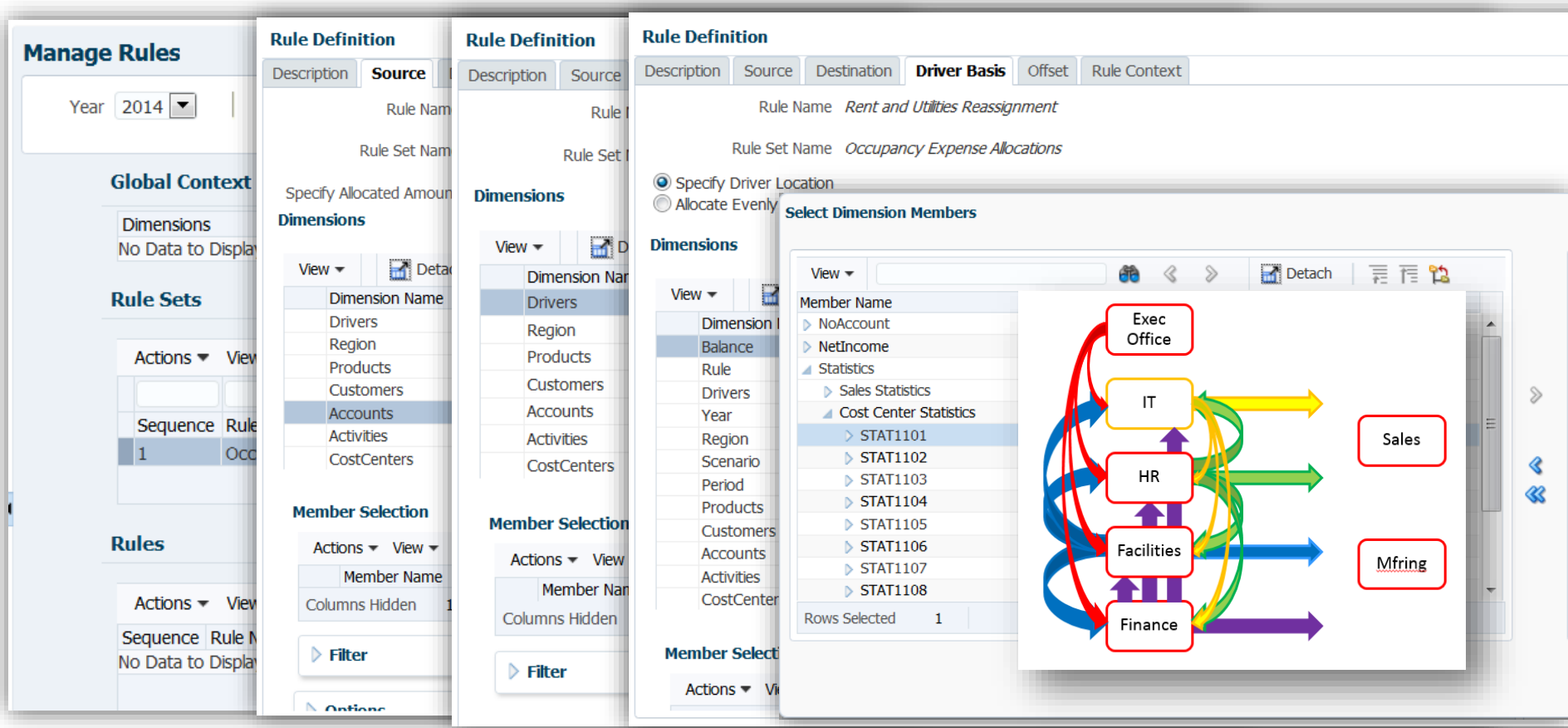

1 *Define Rule*

2 *Select Source*

3 *Select Destination*

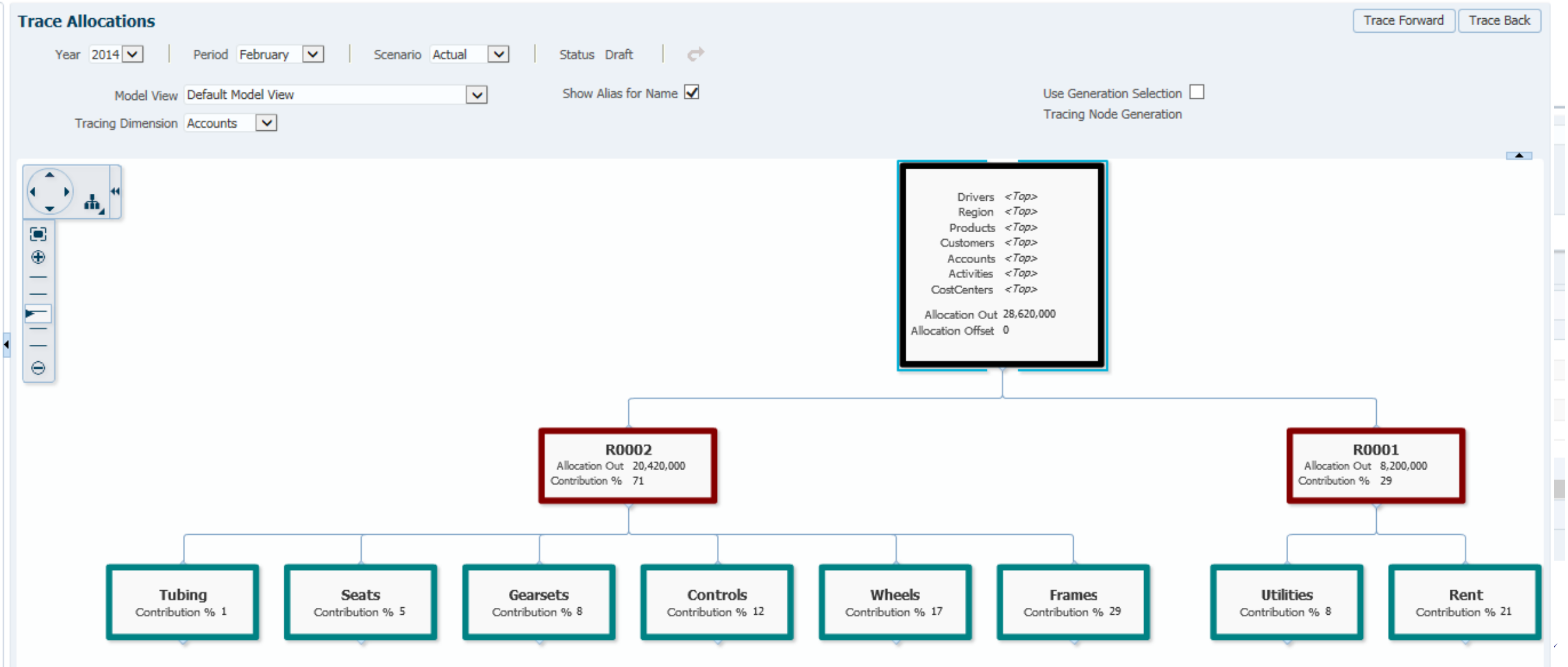
4 *Select Driver*



# Run, Balance, and Trace Results

## Trace the Calculation

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# Questions and Answers

# Contact Information


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