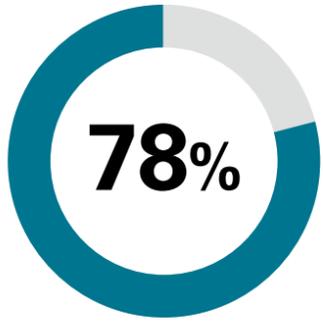


Do You Know Your Profit Winners and Losers?

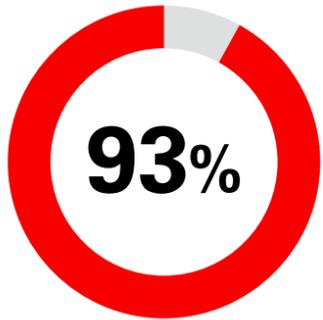
What you don't know about where your business is making and losing money can easily destroy it. In today's high-paced and increasingly competitive global business climate, it's essential that your organization focuses resources and cash on the right things. This means investing in generating more winners and/or reducing investment in losers. Either can improve overall profitability but, as we often say, the devil is in the detail. Executives realize that accurate cost information is essential—but for many organizations, that is the information they just don't have.



Cost transparency is a priority.



consider accurate cost information a top area for improvement



are taking or planning action to improve the quality of their cost information

Source: "Cost Transparency: Helping Finance Create Business Value"—Deloitte

What level of detail are we talking about? And if you have the detail, how do you decide what action to take? Can you quickly simulate the results of different actions to see the likely outcomes and choose the right one?

Most organizations don't know the detail.

Only...



50% know detailed costs by customer



43% know detailed costs by channel



41% know detailed costs by product/service

Source: US CFO Signals—Deloitte

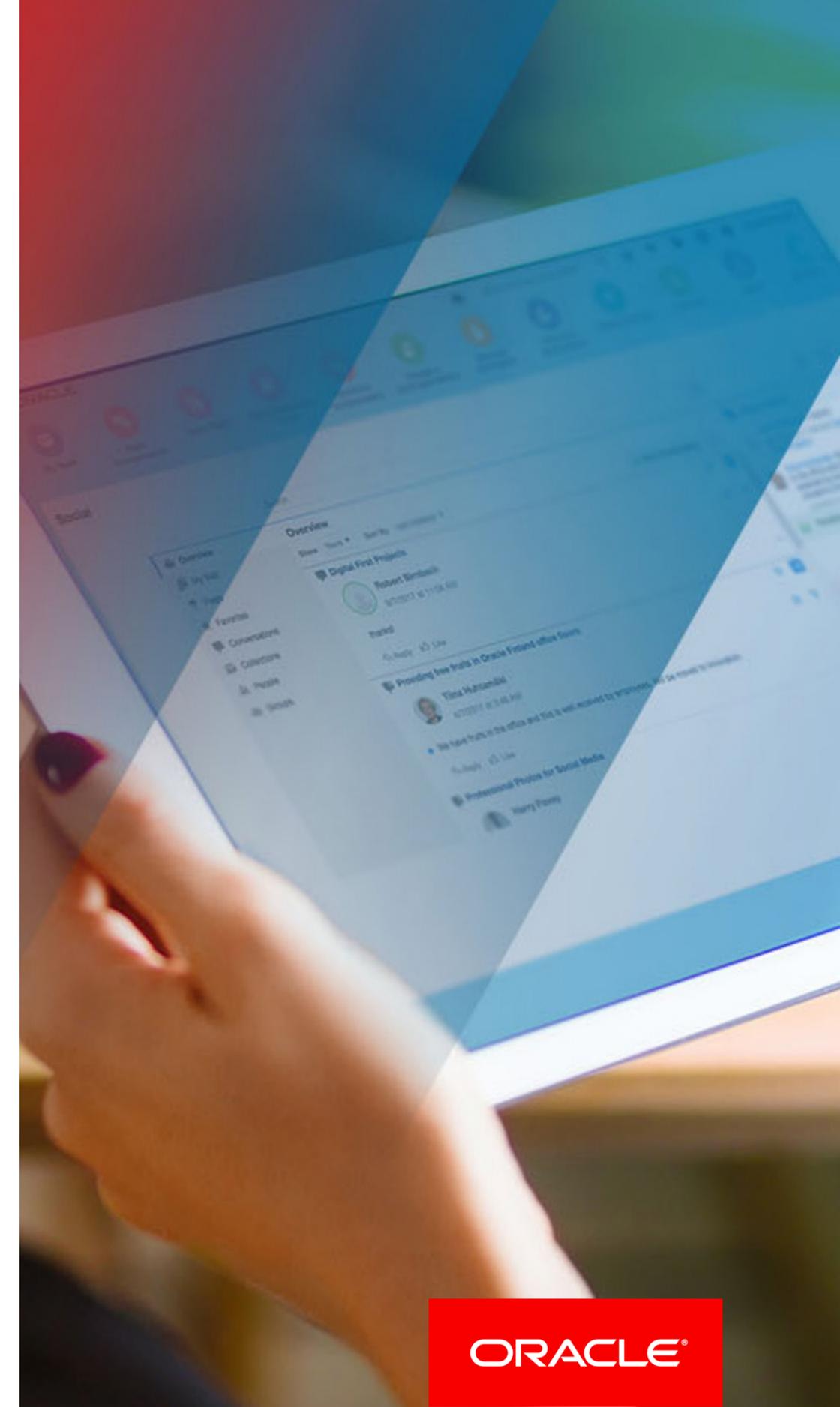


Profit winners and losers—the challenge.

Companies today need to probe ever deeper into their financial data—beyond statutory, black-and-white, gross-margin financial statements. They must look at many more aspects; a multitude of attributes, combined with the detail of true costs and revenues, must be aligned, allocated, and calculated for a very precise view of how profits are actually made. This process (and the associated analysis) is often referred to as profitability and cost management.

Traditionally, profit and cost-management approaches have fallen into three camps:

- 1** The first is to employ spreadsheets developed in-house, which is low-cost but high-risk, given all the issues of spreadsheet-based systems that have been discussed in numerous publications and conferences for the last 30 years. The risk is accentuated in this case by the complex allocation formulas required and the difficulty in checking accuracy.
- 2** The second is the homegrown or acquired “black box” system that gives little or no transparency into the allocation process. With this approach, the business has little or no control of the process and cannot own it, because it relies on IT or external consultants to make changes. This results in a static process that often does not reflect how the business changes over time.
- 3** The third is to add more accounts and operational dimensions to the general ledger to enable detailed profitability and cost reporting. This results in ever more complex journal entries, and a larger and more complicated general ledger. And a bloated general ledger slows down statutory reporting, which is its primary purpose.



Taking a modern approach.

A more modern approach leverages a purpose-built allocation engine that empowers business users by allowing them to take ownership and control of the process, and delivers state-of-the-art dashboards and reporting.

Discover what drives cost and improves profitability.

Organizations are under great pressure to improve performance, but have little visibility of what drives cost and profit. This is because existing systems containing data about cost, revenue, and profit are fragmented, unconnected, dispersed, and incomplete. This results in poor visibility into line-of-business (LOB) profit and loss, so organizations can't see inefficiencies and trends in time, or where process improvements can be made. There is a need for more detailed financial

"We can perform calculations using various dimensions, such as program, degree, course level, student's major, and type of student, ultimately enabling us to advance toward our goal of becoming a leading and dynamic university."

The New School, NYC
Steve Stabile, Vice President

analysis, based on fully allocated resource use and revenue/profit detail that is not available from the general ledger. The difficulty in correlating costs with specific customers, products, services, channels, geography, and so on, means that useful reporting is time-consuming to create. Modern purpose-built profit- and cost-management solutions enable organizations to build, maintain, and analyze cost allocations, and automatically calculate cost, profit, and other KPIs. In addition, value scoring and ranking give unique insights by LOB. Prepackaged embedded analytics, one-click reports and dashboards, along with root-cause analysis, provide details on inefficiencies.

Discover cost and profit.

- **Intelligently rationalize** unprofitable products/services/customers.
- **Maximize** company profit potential and gain control of costs by understanding the root cause of high costs and low revenue.
- **Discover** hidden inefficiencies and address them.
- **Create** initiatives that improve profitable revenue growth, minimize cost to serve, and prioritize capital expenditures relative to ROI.
- **Better manage** expenses by understanding what drives them.
- **Gain** stakeholder buy-in (as they can clearly see how amounts were allocated).

Empower users with visibility, transparency, and flexibility.

Most organizations have vast amounts of operational and financial data, but no way to extract actionable insights from it. They use spreadsheets, custom solutions, or ERP allocations for calculating profitability, but these lack transparency into cost and revenue allocations. In addition, users often have to wait on IT for any model changes and reports, which means they are unable to quickly change assumptions and determine impact on cost and/or revenue. The result is that line-of-business managers lack the information required to make timely, sound business decisions.

Organizations need a purpose-built solution for rapidly building, maintaining, changing, and analyzing allocations by business users, with transparent and flexible calculations and allocations that use reusable business rules. For example, one rule could define thousands of allocation paths, and traceability reports could provide step-by-step audit trails from preallocated to postallocated values. The impact of each calculation step should be visible, and business users should be able to change assumptions easily and see the results quickly.

“Now we are able to see the transparency. We are able to see allocated results all the way back to the originating function, department, and account. It definitely clears up any confusion on where the expenses are coming from.”

MetLife
Tony Carlesimo, Manager

Empower users.

- **Empower** business users to take more ownership of the analysis of profitability.
- **Gain** business agility through comprehensive, detailed financial modeling across multiple scenarios.
- **Have confidence** in cost allocations and revenue flows with auditable traceability reports.
- **Maximize** profit and/or minimize costs through quick assumption changes, and immediately view the impact.
- **Promote** a culture of profitability by making profitability solutions more accessible to all business users.

Improve financial decision-making.

With insufficient data available at a detailed level and a limited understanding of process inefficiencies, organizations are less able to make impactful decisions. Their limited capacity to measure financial performance of customer, product, service, or distribution channels makes it difficult to respond to changes in the marketplace and new opportunities. Combined with difficult and time-consuming “what-if” analysis, along with changing assumptions in spreadsheets or custom-coded solutions, their decisions are often late and incorrect.

“From our analysis, we found certain customers were not using our product correctly, so we worked with our operations group to help change the way they do business and make them more efficient. This made it better for both of us, and we have seen quite a bit of cost savings and increased revenue from that.”

 **PGI**
Matthew Rigney, Vice President of Financial Planning Systems

“We’re more efficient and can offer more competitive rates.”

 **SIBS Forward Payment Solutions**
Nuno Costa, Analytic Accounting and
Budget Control Coordinator

To address these issues, modern systems integrate with many sources to get the detailed operational and financial information required. They also provide traceability and one-click reports that highlight scarce resources and high-cost activities or customers. Combined with easy-to-change assumptions that simulate process change and the financial impact of them, organizations are able to significantly improve their decision-making.

Additionally, powerful ad hoc analysis with a drag-and-drop interface using Microsoft Office enables a unique combination of costing,

Improve decisions.

- **Determine** where limited investments and scarce resources will have the biggest impact.
- **Maximize** profitability more frequently using accurate measurement, ranking, and scoring.
- **Lower** total cost of ownership (TCO) by spending less time on data sourcing, spreadsheet wizardry, and coding changes.
- **Promote** a culture of profitability and accountability by putting power in the hands of those who can effect change.
- **Gain** market share by responding to new demands and opportunities faster.

Discover and act on hidden profit and loss.

Oracle Profitability and Cost Management Cloud Service provides actionable insight into allocation-based business processes. By seamlessly combining data from the general ledger and other financial systems with data from operational systems, the solution provides the transparency necessary to support analysis within today's complex enterprises.

It provides business users with a solution to significantly automate and take ownership of allocation-based business processes such as:

- Customer or product profitability
- Management allocations
- Shared-service costing
- Cost-transparency initiatives
- Legal-entity allocations to support operational transfer pricing

Characteristics of a modern profitability and cost-management solution.



Allocation Engine



Rule Transparency



Embedded Intelligence



Dashboards and Work Areas



Mobile



Integrations

Becoming a profit winner.

With the right tools, you can look deep into the business to understand specifically what drives profitability, continually assess how resources are being consumed, and take action and change behavior to improve profitability—in short, become a profit winner!

More information on Oracle Profitability and Cost Management Cloud Service:

cloud.oracle.com/epm

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