

The Need for Profitability and Cost Management

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The Need for Profitability and Cost Management

EXECUTIVE OVERVIEW

Profitability and cost management (PCM) is at the core of enterprise performance management, as it represents the bottom line for every company. However, there are multiple reasons why PCM is of particular relevance, especially today.

In most organizations, the indirect costs as part of overall costs are growing. And customer self-service business models rule, so that organizations even bear the risk of losing grip on their direct cost in their business processes. Economic pressures complete the picture. In short, to preserve margins and ensure profitability, organizations need to keep their eye on the ball and monitor their business processes continuously.

Most organizations go through a maturity lifecycle for PCM. This profitability maturity lifecycle is largely implicit – organizations go through an evolution without realizing they are moving from one stage to another. The stages, however, are distinct. The end-state is part of achieving what Oracle calls ‘management excellence’.

PCM drives business performance by discovering drivers of cost and profitability, empowering users with visibility and flexibility, and improving resource alignment.

THE NEED FOR PROFITABILITY AND COST MANAGEMENT

Activity-Based Management

Activity-based management focuses on managing activities to reduce costs and improve customer value. The ABC methodology assigns an organization's resource costs through activities to the products and services provided to its customers. (Wikipedia, July 2008)

Profitability and cost management is not a new discipline; it has a long history. Its predecessors date back to mid-twentieth century Germany, where it was called *Kosten und Leistungsrechnen*, but became more popular worldwide in the late 1980s and early 1990s. Back then it was called activity-based costing (ABC) or, later, more broadly defined as activity-based management (ABM). Over the years, many best practices, and worst practices for that matter, have been uncovered and become useful today.

Profitability management can be defined both from a top-down and a bottom-up perspective. From a top-down point of view, profitability management consists of a set of processes and a methodology to bring all costs and revenues together on an operational level, providing operational managers with the insight on how to deploy their resources in an optimal way. Bottom-up profitability management entails the process and methodology of identifying the organization's operational cost and value drivers at a transactional level and aggregating them up to translate their workings into financial results.

Top-Down Definition

Profitability management consists of a set of processes and a methodology to bring all costs and revenues together on an operational level, and then successively allocate them to activities—providing operational managers with the insight needed to deploy their resources in an optimal way.

Although profitability management comprises both the revenue and cost side of the business, there is usually a stronger focus on cost management, particularly indirect costs. Indirect costs are all costs not directly associated with the production and sales of products and services, such as marketing, finance, IT, facility management, HR, and other supporting functions. Allocating revenues to operations is a fairly straightforward process. It is usually clear which product was sold to which customer, and can be counted as revenue in a particular period. However, it is not always easy to attribute revenue to organizational divisions, business units or departments. And it is harder to define a method to allocate overhead and other forms of indirect costs to business processes. Despite its history and available best practices, profitability management remains an elusive goal. According to a 2007 KPMG survey of more than 400 companies worldwide, nine out of 10 cost reduction programs fail to achieve their targets, and gains that are achieved are typically short-lived. One of the most common pitfalls cited is that cost drivers are not clear, and as a result, cost-cutting initiatives are not targeted at the right places¹. As a result, we now refer to profitability and cost management (PCM) to acknowledge this focus.

Bottom-Up Definition

Profitability management entails the process and methodology of identifying the organization's operational cost and value drivers at a transactional level and aggregating them up to translate their workings into financial results.

PCM is a core competence within any strategic enterprise performance management initiative. PCM is a key methodology for linking financial and operational management processes. This allows operational managers to get insight into the financial consequences of their operational business. Further, it allows financial managers to increase financial control and predictability of financial results². PCM is often needed to calculate the right performance indicators that

¹ "Leading the Cost Optimization Movement," *Business Finance Magazine*, March 15, 2008.

² Also see "Integrating Operations and Finance: A Two-Way Street", An Oracle White Paper, August 2008

organizations track in their (balanced) scorecards, particularly when scorecards need to be cascaded deeper into the organization. PCM is also a key methodology when introducing rolling forecasts as part of the budgeting and planning processes. Rolling forecasts tend to be operational in nature, and translate changes in an organization's activities and available resources into new financial results.

Why So Many Projects Failed in the Past

Although PCM has a long history, unfortunately many initiatives in the days of activity-based costing (ABC) were not successful. There are multiple reasons for that. As with many projects, internal politics caused failure. In many cases, allocated costs were not seen as an instrument to optimize a value chain, but as 'funny money' to shift around managing budgets. This is disconnected from reality and leads to all kinds of budget games. These politics still exist of course, but with increased pressure, organizations can't afford to fail because of internal politics.

Another reason for failure was that many initiatives 'went overboard' in looking for precision. Allocating costs and revenues is never a precise exercise. It is based on assumptions and discussion. The goal of PCM is not precision, but accuracy. The cost and revenue structure needs to reflect the cost and revenue drivers within the organization. Transparency of that process is far more important than creating a 'precise black box' that no one understands.

From an IT point of view, ABC may have come 10 years too early. There were no ERP systems that could act upon the new insights that an ABC exercise would bring. No changes would be possible, or the cost and effort of change were so big, it was not worth the effort. This made ABC systems disconnected from the actual business processes.

Lastly, ABC as taking a pure process, activity, and resource angle may have been too limiting. PCM is by nature a very multidimensional exercise, showing profitability—both revenue and cost—per customer (segment), product (groups), time period, organizational entity, channel, etc.

Still, a lot can be learned from previous experiences. PCM used to have a pure financial focus. Now, PCM is often performed in the various business domains. For instance, marketing is interested in customer profitability, and operations would like to know about product profitability. These groups should realize that their colleagues in finance may have used other terms and called it ABC, but have pioneered exactly the same concepts that marketing and operations need to use. Their best practices should be recognized and copied.

Why PCM is More Relevant than Ever

The interest in PCM is re-emerging, and the topic is increasingly being elevated to the board's agenda. PCM is more relevant than ever. There are multiple reasons for this, both on the tactical side—responding to internal and external pressures, and from a strategic point of view—increasing the organization's competitiveness.

Indirect Costs Are Increasing

Despite modern systems to track all kinds of data, indirect costs are increasing. For instance, many organizations are introducing shared service centers, centralizing certain operations either in the front or back-office. The economies of scale outweigh the overhead of such centralized operations, but the overhead and other types of indirect costs still need to be allocated. PCM helps ensure the business relevance of shared service centers. PCM can also help establish whether these shared service centers should be placed within the organization or should be outsourced. In such an exercise, the burden of internal indirect costs can be compared and benchmarked against external services.

Investments in IT, a typical indirect cost, show an interesting duality. On one hand, IT investments need to be infrastructural in nature. All business processes benefit from a local area network on which to run applications and a data warehouse from which to source data. Building a separate infrastructure for each application would lead to an extremely high cost of ownership. These infrastructural investments save considerable cost but introduce indirect costs and the need for cross-charging systems. On the other hand, increasingly IT investments are targeted outside the firewall, and involve “as-a-service” models (e.g. software-as-a-service, process-as-a-service, capacity-as-a-service). These models make IT costs more direct, as they are often based on the number of transactions routed through these services.

Competing on Service, Portfolio and Brand

It may be relatively easy to attribute revenues to the sales of specific products, but in many industries the quality of individual products does not make a competitive difference anymore. It is the service that comes with the product that makes the difference. Whereas ABC had a strong focus on the back-office as an analytical tool to optimize processes, PCM can be used for service pricing—where the relationship between resources, activities, and revenues is not always easy to make.

In many cases, products and services are only competitive as part of an overall portfolio. Current innovation often comes from product integration. Think of a telecom offering ‘triple play’ services, integrating telephony, internet, and television. Or consider a financial institution offering a package of banking products and insurance for start-up entrepreneurs to make it easier to start a business. Or a European railway introducing a ‘mobility concept’ involving public transportation, taxi pickups, and bicycle rental. The examples can be found across many industries worldwide. Increasingly, these portfolios of products and services do not come from a single organization but are the result of collaboration across an ecosystem of partners. PCM helps allocate the right costs and revenues.

Although intuitively direct costs are to be preferred when running a business, in many cases it makes sense to invest more in indirect costs. For instance, globalization has also led consumers to look for organizations they can trust. These can be headquartered anywhere in the world, and a good way to provide customers with the same feeling they would have with a small local vendor is to invest in their

brand value. This makes marketing a more strategic discipline than taking care of lead generation in tactical direct marketing campaigns, but also harder to measure the impact on the bottom line. PCM provides a mechanism to do so.

Customer Self-Service Business Models

Mass customization is a strategy that creates value by some form of company-customer interaction at the fabrication / assembly stage of the operations level to create customized products, with production cost and monetary price similar to those of mass-produced products. (Wikipedia, July 2008)

Most modern business models rely on a high degree of customer self-service. Consumers check themselves in via the Web, a call center or machines at the airport. Consumers provide their specifications to tailor their own sports-shoes, cars, insurances, music collections, and many other services, and can change their preferences until the last possible moment. Through *mass customization* principles, customers have taken over business processes. They provide the specifications, where every single transaction is potentially different. And, they choose the customer contact channels, such as the Web, call center, and shops, at the times and in the order they wish. This impacts all dimensions of profitability, including customer, product, and channel profitability. In fact, it calls for tight monitoring and dynamic pricing to ensure transaction profitability. PCM provides a framework to introduce such a level of control.

Horizontal Alignment

Reporting structures tend to be hierarchical in nature. New plans and strategies are cascaded top-down into the organization's hierarchy. Conversely, most geographic or functional domains self-report to their management, and at the top all information about all costs and revenues come together. However, cost and value drivers seldom report 'upwards' in a meaningful manner. Drivers tend to impact the organization 'sideways', through the organization's value chain. PCM introduces 'horizontal alignment'³, which is a crucial extension to the vertical alignment most organizations have.

For instance, the most important cost driver for a claims department within an insurance company is the risk profile that the underwriting department is using. Too many accepted bad risks lead to an increase of claims, both in quantity of claims and in size per claim. The claims department actually has little means to influence total claim size, which can be up to two-thirds of the cost structure of an insurance company.

Or, as another example, consider a typical IT department consisting of both IT operations and IT development. Many decisions made during the development and/or implementation of new software have a huge impact on how efficient that new system will perform in production—and being managed by IT operations. IT operations heavily depends on IT development for its efficiency and cost structure.

Local cost and revenue optimizations need to be avoided. Take, for instance a manufacturing plan that optimizes the production batches, and an optimized

³ Frank Buytendijk, *Performance Leadership* (New York: McGraw Hill, 2008), www.performance-leadership-book.com.

logistical plan that maximizes the use of the transportation fleet. It is in the best interest of the manufacturing department to have a large warehouse capacity to fill with products at will, as it is in the best interest of the logistical department to always find enough inventory to ship in a flexible manner. Each may individually have come up with a certain percentage of cost savings, but most likely the required warehouse in between these two departments will be far more expensive than the individual cost savings—hardly a good way of managing profitability and costs.

Business Pressures

The cliché that business experiences higher cost and regulatory pressures will come as no surprise in most industries. Stakeholders such as customers, suppliers, shareholders, regulators, and society at-large demand more transparency. Executives cannot allow surprises regarding their profitability. They need to ensure that both cost and revenue are managed in alignment throughout the organization. A solid set of processes, a comprehensive methodology, and a robust system are needed to meet these requirements. In fact, if executives do not ensure such a level of control in a transparent and regulated world, it will cost them dearly. Next to regulatory pressures, increased transparent competition can also squeeze margins. Business processes and operations need to be continuously monitored. Moreover, with current economic uncertainty, there is an increased focus on understanding profitability and costs to drive business efficiency.

A Word of Warning

A publisher of magazines introduced PCM in its management control practices. After allocating overhead and other indirect costs, it found one magazine was making a loss. Surprised with this insight, the publisher discontinued the magazine. The indirect costs, which largely remained unchanged, put more pressure on the other nine magazines. As a result, another one started showing a loss. Based on this new insight, the publisher discontinues the next magazine. As a result...

Although this is a silly story, it describes likely what happens if PCM is used in the wrong way. PCM is a management instrument, not physical science. By definition, allocated costs and revenues are not correct or reality-based. They are the reflection of business assumptions, discussion in the management team, and perhaps even compromises and negotiations (although that preferably should be avoided). Precision is not the goal; it usually leads to a black-box solution that no one understands anymore. The goal is to create an accurate (not precise) framework that helps decide where and how to deploy resources, where indirect costs should be eliminated, and where there are opportunities to prevent local optimizations.

Lastly, try to avoid confronting middle managers with excessive indirect costs. If the cost structure includes too many indirect costs that the operational manager cannot influence, the manager may be tempted to abandon these pressured activities. They do not help the manager reach targets and limit the flexibility of the available budget. Like in the publisher's example, these pressured activities may

even be perceived as loss-making. Sometimes it is better to keep certain costs and revenues on the corporate level.

The Profitability Life Cycle

Introducing profitability and cost management (PCM) is a comprehensive initiative. It involves mastering a methodology, understanding the business drivers, changing business processes, and introducing a system. The impact of PCM ripples through to all management processes. The way the organization will budget and plan will differ and most likely other, better, performance indicators to report on will appear. It takes a while before organizations reach a certain level of maturity.

Most organizations go through a maturity lifecycle for PCM. This profitability maturity lifecycle is largely implicit; organizations go through an evolution without realizing they are moving from one stage to another. The stages, however, are distinct.

Stage 0: So What?

At the macro or company level, profitability is simple and easy to measure and evaluate: $\text{revenue} - \text{cost (expenses)} = \text{profit}$. For organizations that have experienced unbridled growth, and perhaps have a straightforward set of products and services, this may be enough for a long time. However, when economic circumstances change or if the product and services portfolio grows, a better grip on the cost and contribution of processes, products, and customers is needed.

Stage 1: Know What

Profitability in the micro environment of the organization, for example at the customer or product level, can easily become complex, difficult to measure, and often leads to multiple interpretations of the data.

The first stage—the “know what” stage—in the profitability maturity lifecycle of an organization begins with *profitability reporting*. In this stage, the organization simply measures the profitability key performance indicators (KPIs) that drive their business. For example, if an organization wants to determine customer/product profitability, profitability reporting would focus on questions such as:

- What is the profitability of each customer/product?
- Who are the most profitable customers/products?
- Which products have the highest margins?
- How much does it cost to serve customers?
- What is the total cost of producing the products?
- What are the ongoing service and support costs?

- What is the direct support cost for each customer?

Most organizations would be happy if they could accurately measure their profitability KPIs. This reporting is often the trigger point in examining the profitability data for accuracy. Thus begins a cycle of analysis to ensure the validity and accuracy of the data.

Stage 2: Know How

The second stage—the “know how” stage—begins with an understanding of the meaning behind the numbers in an organization’s KPIs, in other words *profitability analysis*. Most businesses try to manage price, sales volume, variable costs, and overhead to drive their financial performance. Price and sales volume are often not debated. They are pretty straightforward. The variable costs and overhead, however, are not well understood. Why are some customers profitable and others not? Why is there a difference in the profitability of like customers? Why is a particular customer consuming more support resources than another? Comparing the variable costs against all customers in a segment can help provide answers to the variances in profitability of customers in a segment. These variances are not only the key to understanding and developing the core drivers of profitability, but are necessary to developing a plan of action to improve profitability.

Stage 3: Now What?

The third stage—the “now what” stage—begins by developing a plan of action for improving the profitability of an organization’s underperforming assets, i.e. those customers and products that fall below the line. Profitability optimization and profitability planning are introduced, after profitability reporting and profitability analysis. The key drivers of profitability (in the second stage) provide the baseline for the desired profitability performance of the assets.

Improving profitability requires more than just identifying the delta between the plan and the actual results. It requires creating and comparing multiple scenarios to achieve optimal performance. Once a scenario is selected, budgets and plans need to be updated to execute upon the selected scenario. Organizations in this stage often benchmark profitability internally, asking questions such as: What is the profitability today versus a time-period ago? How does the profitability with the new organizational structure compare to the old organization structure? Many organizations in this stage bring in external data to establish benchmarks in order to compare themselves to their competition.

Stage 4: Know Why

Organizations that have fully matured have built in profitability management in their core business processes. They do not only know where they are profitable, but also why they are profitable. PCM is not an after-the-fact analysis, or a top-down plan. Instead, it is incorporated into every single transaction. Indirect functions know their impact and contribution on the core processes. Operational

managers have the information to assess the efficiency and effectiveness of their decisions. The planning process doesn't just focus on financial results, but rather dynamically incorporates resources and activities. Any change in these leads to a new financial forecast.

Organizations that have reached this level have extended their 'operational excellence' strategies to include 'management excellence'. Oracle believes there are three pillars to achieving management excellence.

1. **Smart:** There is no shortage of data and every organization has access to the same data, both internally and externally. The difference is continuous insight in how small internal and external changes can be leveraged to increase profitability.
2. **Agile:** Being smart is useless if you can't turn insights into action. Organizations are constantly changing through global expansion, product lines, and acquisition. New opportunities to increase profitability need to be implemented immediately and dynamically plug into the evolving enterprise information architecture.
3. **Aligned:** The third pillar of management excellence is about aligning insights across the value chain and to all the stakeholders of the enterprise. Many of an organization's profit drivers are located outside the organization's firewall. Organizations must evolve from a command and control approach to a collaborative model incorporating contributions from all stakeholders.

Profitability and cost management is at the core of management excellence.

Choosing the Right Tool for the Job

A variety of software tools are used to support PCM. As with many other performance management tasks, spreadsheets are often relied upon to address PCM requirements based on their wide availability and familiarity. While spreadsheets can support revenue and cost allocations for selected projects, when used for a corporate process the use of disconnected spreadsheets leads to inconsistency in calculations and errors. There are also limitations in terms of the scalability of a spreadsheet-based process for enterprise-wide PCM. And the reporting and analysis capabilities of spreadsheets are also limited.

Many organizations use their general ledger system to perform revenue and cost allocations. While this approach does provide a more centralized and scalable solution, GLs were not designed to handle profitability and cost management, and complex, multi-step allocations. So a high level of manual effort is typically required to support this approach, often involving other tools to support the GL-based process. Alternatively, what often results is that companies perform profitability reporting at a gross margin level, based on direct revenues and costs and some limited allocations. But this approach leaves out the allocation of corporate overhead and does not provide visibility into profitability on a fully-loaded basis.

Business intelligence tools and databases are also used by many companies to perform PCM, often in conjunction with activity-based costing tools. This

approach does provide a more scalable environment. With robust reporting and analysis capabilities, the use of ABC tools can help address complex costing and allocation requirements. However this tool-driven approach does require manual effort to support the integration and sharing of data and cost-drivers, and the ongoing maintenance of this type of system can be time-consuming.

To address the shortcomings of prior approaches, a new generation of packaged performance management applications is emerging to address the challenges of enterprise-wide PCM. These applications integrate powerful costing and allocation functionality with multidimensional analytics and reporting—eliminating the need for manual integration and providing a scalable environment to support complex calculations, what-if analysis, and reporting of this information across the enterprise.

Key Requirements for Profitability and Cost Management

Key Requirements for PCM:

- **Allocation engine**
- **Analytic foundation**
- **Overall EPM System**

The journey of profitability and cost management begins with creating a profitability model that can allocate costs and revenues. A flexible allocation engine that can be easily used by the business users is, therefore, a must. A flexible allocation engine provides the basis for granular allocations, leading to more accurate profitability data. In most organizations, allocations are a rather arbitrary process. While the granularity of allocations is the precursor for accuracy, the confidence in the accuracy of the allocations can still be suspect. Therefore, being able to visually trace the path that an allocation takes can quickly turn doubt into confidence, thus empowering users to make effective decisions.

While allocations are necessary for accuracy, analyzing profitability data to discover the key drivers of cost and profitability is at the heart of a profitability and cost management solution. Therefore, having a robust analytic foundation is also a necessity. The analytic foundation needs to provide an intuitive user interface for “speed of thought” analysis. Business users must be able to manipulate large profitability data sets to monitor complex scenarios, forecast outcomes, and perform what-if analysis to identify customer/product profitability trends.

Profitability and cost management solutions have traditionally focused on reporting and analyzing profitability—generally as an accounting, analysis or operational process. The users could report and analyze the data but there was no integrated or systemic process to execute the decisions stemming from the analysis. With profitability as part of performance management, profitability is not merely reported—it is planned, measured, and interpreted.

Profitability and cost management solutions today must provide a systemic process to execute upon and implement best practices discovered as a result of profitability analysis. There must be a closed-loop system between the profitability management system and the budgeting and planning system so that resources can be strategically allocated as a result of the profitability data. Planning ensures that efforts are directed toward the achievement of corporate objectives. Measurement checks and adjusts progress against plans by matching revenue against costs incurred, making

adjustments by tweaking processes to align with profitability metrics. Interpretation of profitability data helps identify developing trends that alert management to ask the right questions and take action.

About Hyperion Profitability and Cost Management

Oracle Hyperion Profitability and Cost Management is a new performance management application that provides actionable insights into cost and profitability. As part of Oracle's enterprise performance management (EPM) system, Hyperion Profitability and Cost Management drives business performance by discovering drivers of cost and profitability, empowering users with visibility and flexibility, and improving resource alignment.

Discover the Drivers of Cost and Profitability

This paper described the reasons why organizations are focusing on accurately understanding the drivers of cost and profitability in their businesses. In fact, obtaining this insight is becoming a leading practice across industries and is increasingly a critical component of EPM implementations. Using Hyperion Profitability and Cost Management, you are able to identify the value added by the activities you perform in order to support your products and services, establish benchmarks, and enable process improvement.

Hyperion Profitability and Cost Management leverages Oracle Essbase—the industry's leading online analytical processing (OLAP) server—for faster, easier, powerful multi-dimensional analysis and scenario modeling. Support for both revenue adjustments and cost allocations provide an accurate and complete understanding of all revenue and cost values.

Empower Users with Visibility and Flexibility

Hyperion Profitability and Cost Management offers a flexible allocations platform for any method including activity-based costing (ABC) and time estimation. Traceability maps and audit trail capabilities provide new levels of transparency for greater confidence in the analysis and reported results.

Improve Resource Alignment

Hyperion Profitability and Cost Management shares a common foundation and is integrated with the other Hyperion performance management applications from Oracle. As such, results from Hyperion Profitability and Cost Management can be easily shared with Hyperion Planning and other applications. This data can then be leveraged into strategic, more aligned decisions to improve business performance such as pricing strategy or resource allocations.

Oracle's Value Proposition

The following features differentiate Hyperion Profitability and Cost Management from other solutions on the market.

Business User Driven Profitability Modeling

With an open, flexible, and easy-to-visualize modeling environment, business users can follow a suggested path—or create their own process—to create, maintain, and deploy their cost and profitability models. This offers a huge advantage over traditional “black box” cost and profitability solutions, which required specialist analysts and intensive use of IT resources to develop models.

Flexible Allocation Platform

Accurately measuring and allocating both cost and revenue is the key to calculating profitability. Hyperion Profitability and Cost Management’s allocation engine supports your cost and revenue modeling approach whether it uses cascading allocations, custom calculations, ABC, time estimation, or industry-specific revenue adjustments. Multiple allocation methodologies can be combined to form your own custom allocation methodology.

Business Rules Engine

The business rules engine in Hyperion Profitability and Cost Management allows line-of-business personnel to drive application design and rapid iterations. Its intuitive interface makes it easy to build dimensions, hierarchies, metrics, and scenarios.

Traceability Maps

Traceability maps—graphical depictions of allocations—provide a new level of transparency into cost and revenue allocations through multiple steps. Using traceability maps, users can verify that business rules have correctly applied the allocations. Traceability maps can serve as documentation so that independent reviewers are able to comprehend and, if desired, duplicate the allocation algorithm to validate the profitability model.

Model Validation Reporting

Hyperion Profitability and Cost Management provides users with stage-by-stage cost and revenue assignment validation reports for testing the completeness of their cost and profitability models and reduces the time required for troubleshooting. In addition to the allocation calculations, Hyperion Profitability and Cost Management includes a process to create genealogy data. The genealogy data creation process calculates the allocation detail for source and destination intersections that do not have a direct assignment but instead have an indirect relationship. These calculation processes, together with the embedded traceability maps and validation reports, support complex analysis and reporting of causes and effects within the model.

Hierarchy and Dimension Management

The dimension and hierarchy management capabilities synchronize metadata across Hyperion performance management applications. Users can graphically design their profitability application using existing artifacts from the common performance

management library in EPM Architect. Dimensions and attributes defined for one model can be used in multiple models.

Multidimensional Calculations

Hyperion Profitability and Cost Management is the only packaged profitability application that leverages Oracle Essbase for faster, easier, powerful multidimensional analysis. One point of maintenance makes it easy for an administrator to manage business rules.

Powerful Analysis and Reporting

The data generated by Hyperion Profitability and Cost Management delivers powerful insights for decision-making. Business users can visualize multi-dimensional information in a highly intuitive manner through user-directed query and analytic capabilities.

Integration with Other Performance Management Applications

Oracle offers an integrated suite of performance management applications that provide common security, workspace, and metadata management that enables a single point of maintenance. This means a reduced cost of administration and ownership over nonintegrated point solutions. Integrated within the EPM processes, Hyperion Profitability and Cost Management enables faster, better decision making and allows organizations to allocate resources more strategically.

Conclusion

Profitability and cost management is a business imperative. Organizations should start by assessing their 'as is' situation, by identifying their position in the maturity life cycle. Then they should define their particular business case. This can be either tactical, by focusing on cost management, or strategic, by using it to enhance the business model and enabling portfolio management, customer self-service and value chain integration through horizontal alignment.

In evaluating solutions, organizations should not focus on PCM as a single discipline; it should be seen as a foundational part of an overall EPM system.

ABOUT ORACLE CORPORATION

Oracle is the leader in Enterprise Performance Management (EPM), unifying Performance Management and Business Intelligence (BI), supporting a broad range of strategic, financial and operational management processes. Oracle provides a complete and integrated system for managing and optimizing enterprise-wide performance. This allows organizations to achieve a state of management excellence – being smart, agile and aligned - which provides competitive advantage and leverages their operational investments.

- **Smart** – Leverage market-leading products and technologies that address enterprise-wide requirements and drive new insights into your business
- **Agile** – Enable advanced integration that improves agility and lowers costs of ownership
- **Aligned** – Drive pervasive intelligence across the enterprise by linking strategic, financial and operational management processes

For more information, go to <http://www.oracle.com/epm>.

Contact us with any comments or questions at epmgbu_ww@oracle.com.



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Authors: Frank Buytendijk, Vijay Lal, and Jennifer Toomey

Contributors: Mike Haley (Landmark Decisions) and John O'Rourke

Oracle Corporation

World Headquarters

500 Oracle Parkway

Redwood Shores, CA 94065

U.S.A.

Worldwide Inquiries:

Phone: +1.650.506.7000

Fax: +1.650.506.7200

oracle.com

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