COST TO SERVE

MORE PROFITABLE
STRATEGIES FOR SUCCESS

WHAT IS IT?

The NTT DATA Cost to Serve solution enables consumer goods companies and other businesses to accurately capture and allocate the true costs of serving their customers across the entire value chain to improve financial performance. It acts an extension of existing SAP capabilities and provides users in different departments with the ability to analyze granular cost-to-serve data and so make data-driven decisions.

THE BACKGROUND

As CPG companies face unprecedented pricing pressures, the need to optimize business performance and improve the bottom line with actionable insights is more important than ever.

Using sophisticated models such as profitability and cost allocations, driver-based planning, shared-services costing, cash-flow modeling, and funds- and liquidity-transfer pricing, companies can get a true representation of the true cost of getting their products to a particular market, customer segment or, indeed, to an individual customer.

Such granular-level data on profitability is particularly valuable for CPG companies at a time of increased distribution and transportation costs, volatile raw material prices and higher spending on trade promotions.

BUSINESS CHALLENGE

Profitability analysis is a fundamental activity for every business that wants to be successful and produce consistent and sustainable returns for its stakeholders. The simplest way to calculate profit is:

Profit = Revenue – Cost

But how exactly do you calculate cost? At the most abstract level, on a company P&L account, for example, the cost figure is simply the sum of all the costs of doing business. But when we drill down to the level of customer segment or product group, the concept of cost becomes more elusive and a distinction has to be made between direct costs and indirect costs:

Profit = Revenue – Direct Cost – Indirect Cost

For a consumer goods company, the direct cost of producing a product would cover the costs of the raw materials and packaging, and might be relatively small. Nevertheless, the indirect costs of getting the product to the customer – the "cost to serve" -- could be considerably higher once you sum the costs relating to labor, handling, transportation, sales and marketing, and so on.

The problem arises when businesses try to calculate the cost to serve for different products or customer segments. The SAP Profitability Analysis (CO-PA) module supports two forms of profitability analysis: costing-based and account-based. But it does not permit detailed analysis at customer or product level of the cost to serve.

Costs can be apportioned based on billing amount or billing quantity or activity types etc. in standard SAP but many costs do not follow these allocation models, particularly costs incurred by third parties, such as transportation companies.

To overcome this limitation, businesses have often used spreadsheets to calculate their cost to serve, but that has many drawbacks: data has to be entered manually, which leads to errors; data cannot be easily shared, leading to multiple versions of the truth; and spreadsheet-based models are not scalable.

Based on feedback from SAP users, NTT DATA recognized there was a strong need for a more sophisticated and scalable solution for calculating the true cost to serve for consumer goods and other companies.

NTT DATA COST TO SERVE

NTT DATA's Cost to Serve is a centralized, cloud-based platform that can be configured to each customer's requirements. It generates detailed cost-to-serve data and granular product/customer costs, as well as higher-level profitability data.

 It expands on existing SAP capabilities for calculating product and overhead costs, extending them to include external costs and leveraging the analytics capabilities of the SAP Analytics Cloud to generate detailed cost-to-serve data.

The value of NTT DATA's Cost to Serve solution extends way beyond the finance department because many areas of the enterprise will benefit from having accurate and up-to-date data on the true cost of serving different customer segments, selling similar products sourced from different suppliers, or choosing between distribution models.

NTT DATA's Cost to Serve solution can thus be used as a foundation to drive process improvement in a wide range of business processes in the finance department and beyond, and because the solution features intuitive Fiori dashboards, the information can readily be understood and acted upon by any business user without requiring training or specialist knowledge.

## Business Process Improvements

- **Order to Invoice**

- **Customer Service**

- **Transportation**

- **Warehousing**

- **Manufacturing**

- **Credit to Cash**

- **Accounts Receivable**

- **Sales**

- **Marketing**

- **Finance**

Use Cases

Profitability Performance – Customer profitability analysis enables cost-based customer segmentation and improvements in KPIs such as customer satisfaction, value and market share. Product profitability and cost per order can be calculated in similar way.

Optimized Service Strategies – Business can perform a cost benefit analysis of direct and distributor-based business models, simulate costs for different service levels, and optimize the cost structure and margins of value added services.

Optimized Location Strategies – Accurately calculate true costs of different fulfilment models, including retail distribution centers, direct to consumer (DTC) and omnichannel, and perform demand/supply planning simulations.
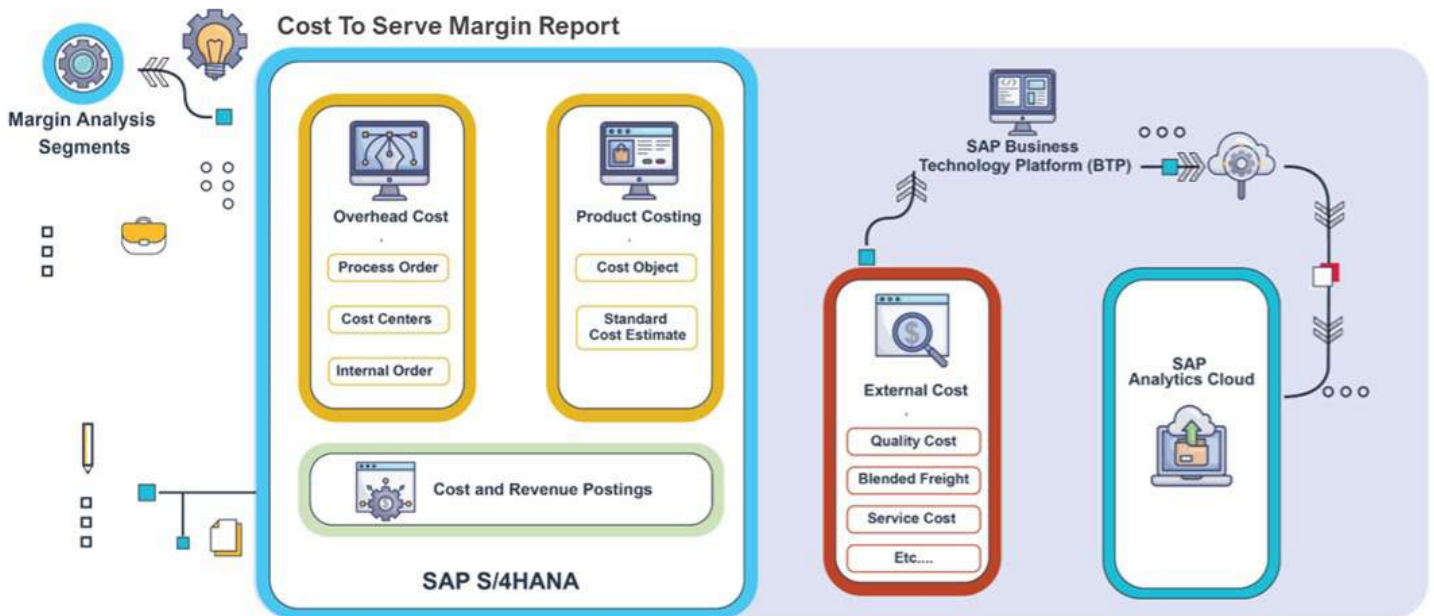
Cost to Serve – Business Process and Data Flow

BENEFITS

- Harmonizes enterprise data and systems

- Enables better business decisions through visibility into a richer data set

- Integrates with other SAP systems without the need for replication or redundancy

- Easy to use and understand for all types of business user

- Creates flexible financial simulations and scenarios

SYSTEM REQUIREMENTS

- SAP S/4HANA

- SAP Analytics Cloud

- SAP Fiori

WHY CHOOSE NTT DATA FOR YOUR SAPCONSUMER GOODS PROJECT

WE ARE EXPERTS IN CONSUMER GOODS

NTT DATA serves some of the largest CPG brands in the world and has more than 2,000 Consumer Goods experts worldwide. We understand the business and technology challenges facing CPG companies as they face as they seek to evolve to become more agile, data-driven businesses in today's more complex and uncertain business environment.

To accompany companies on their SAP S4/HANA journey, NTT DATA has a team dedicated to S/4HANA transformation and an S4/HANA Center of Excellence that establishes the most appropriate evolution strategy for CPG brands that want to evolve to S/4HANA and other SAP solutions, platforms and technologies.

NTT DATA has developed a SAP CPG template for S4/HANA and accelerators to help CPG companies overcome specific challenges and reduce time to value.

SAP GLOBAL STRATEGIC PARTNER

NTT DATA is a formidable force in SAP services with more than 20,000 SAP professionals, 2,700 SAP clients worldwide, 21 delivery centers and operations in 41 countries. It is a truly global organization committed to seamlessly working together with its clients to deliver SAP-centric projects that can be delivered at scale and across multiple locations.

Our solutions leverage our business-specific expertise and skillsets in SAP technologies but also in other digital technologies, such as AI and IoT, for example. NTT DATA has achieved the highest accolade awarded by SAP, Global Strategic Partner, which recognizes its ability to offer a wide range of best-in-class business consulting and solution implementation services in support of SAP technology.

THE NTT DATA DIFFERENCE

NTT DATA CPG TEMPLATE

- Fully customized SAP S/4HANA system including all core areas such as finance, procurement, sales, logistics and production

- New SAP modules such as EWM, IBP, TM, VMS, etc. are included

- SAP Business Technology Platform and Cloud Integration

NTT DATA CPG ACCELERATORS

- **Customer SegmeNTTor** helps CPG brands to achieve hyper-segmentation of their customer base and easily develop and evaluate different what-if scenarios based on predictive behavior model, so helping CPG brands to maximize the ROI of their commercial actions.

- **Supply Chain Tower** provides end-to-end visibility of the supply chain along with real-time integration with SAP data sources. Offers tight integration between planning and execution systems.

- **Operations Center of Excellence (SCM, PLM, MES)** provides CPG companies with access to deep knowledge of the end-to-end supply chain from both a functional and IT perspective and combines expertise in core SCM industry processes, KPIs and associated IT solutions.

- **CPG Commercial Center of Excellence** helps CPG companies achieve their commercial priorities, such as greater revenues or customer centricity, by leveraging the real-world experience and knowledge of end-to-end commercial processes in this sector available from NTT DATA's specialists and our strategic partners.

ABOUT NTT DATA

NTT DATA – a part of NTT Group – is a trusted global innovator of IT and business services headquartered in Tokyo. We help clients transform through consulting, industry solutions, business process services, IT modernization and managed services. NTT DATA enables clients, as well as society, to move confidently into the digital future. We are committed to our clients' long-term success and combine global reach with local client attention to serve them in over 50 countries. Visit us at nttdata.com.

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