Hyperion Profitability & Cost Management

Helps filter the “Clutter”

Before

After
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**.

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**Revenue**

- **Segmentation**
  - Profit Clustering
  - Profit Clustering
    - Segmentation
      - Cost to Deliver
      - Policies & Processes
      - Operations Optimization
    - Customers & Products
  - Strategic P&Ls

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**Capital**

- **Revenue Attainment**
  - Resource Alignment
    - Capital & Resources
    - Maturity of Information
      - **Margins** 0.1 to 2.5%
      - PFE™ Scorecard

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**Policies & Processes**

**Operations Optimization**

**Strategic P&Ls**

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**Capital & Resources**

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**Vertical Edge Consulting Group**
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

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

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

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

Align Capital
- Redirect Interest Expense (CPL, PPL, RR)
- Invest in Profitable Clusters
- Maximize ROI
<table>
<thead>
<tr>
<th>Cluster Example:</th>
<th>1.0</th>
<th>1.75</th>
<th>2.0</th>
<th>3.0</th>
<th>4.0</th>
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</thead>
<tbody>
<tr>
<td>*<em>Profit Clusters ( )</em></td>
<td><strong>Revenue</strong></td>
<td><strong>Gross Margin</strong></td>
<td><strong>Net Margin</strong></td>
<td><strong>Stacked Clusters</strong></td>
<td></td>
</tr>
<tr>
<td>Product A</td>
<td>$1,000M</td>
<td>$400M</td>
<td>$(150)M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product B</td>
<td>$750M</td>
<td>$450M</td>
<td>$200M</td>
<td>$200M</td>
<td></td>
</tr>
<tr>
<td>Product C</td>
<td>$500M</td>
<td>$350M</td>
<td>$250M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product D</td>
<td>$250M</td>
<td>$125M</td>
<td>$75M</td>
<td>$75M</td>
<td>$275M</td>
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<tr>
<td><strong>Totals</strong></td>
<td>$2,500M</td>
<td>$1,325M</td>
<td>$375M</td>
<td>$275M</td>
<td></td>
</tr>
</tbody>
</table>

(*) By any Profit Cluster including Product, Customer, Channel, Vendor, etc.
What is a Profit Cluster?

Current State

- Legal Entity
- Business Unit
- Store Segments
- Store
- Customer Segments
- Geography
- Revenue
- Product
- Channel
- Family

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

MARKETING
Warehouse
Labor
Product

SALES
Transportation
Warehouse
Labor
Product

CUST SERV
Channel Stores, Etc.
Indirect
Transportation
Warehouse
Labor
Product

Revenue $1,000
Direct (350)
Semi-Direct (450)
Indirect (300)

PROFIT ($100)
Oracle’s Approach – Systematic Improvement

1 Profit Clustering → 2 Strategic P&Ls → 3 Root Cause
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
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
<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlimited Dimensions</td>
<td>Stage-less design allows 4 POV dimensions and unlimited business and attribute dimensions</td>
</tr>
<tr>
<td>Calculation Rules</td>
<td>Source side rules, iterative rule support for reciprocal allocations, flexible driver references, custom calculations, and easy clear / recalculate</td>
</tr>
<tr>
<td>Parallel Processing</td>
<td>Rule execution in parallel, serial, or iterations as needed, set by user</td>
</tr>
<tr>
<td>Rule Balancing</td>
<td>Balancing by rule with allocations sent and received as well as adjustment values detailed by rule</td>
</tr>
<tr>
<td>Model Views</td>
<td>User defined slices for enhanced rule balancing and trace analysis</td>
</tr>
<tr>
<td>Trace Allocations</td>
<td>Visual allocations trace from aggregate or granular level, detailed by rule</td>
</tr>
<tr>
<td>Reporting</td>
<td>Smart View links, queries, standard system and validation reports</td>
</tr>
<tr>
<td>Feature</td>
<td>Description</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Unlimited Dimensions</td>
<td>Better fit with GL data, HFM, and Planning</td>
</tr>
<tr>
<td>Calculation Rules</td>
<td>Eliminates staging tables, very fast design and delivery, enhances business user control messaging</td>
</tr>
<tr>
<td>Parallel Processing</td>
<td>Scale and Performance – Advantage Exalytics</td>
</tr>
<tr>
<td>Rule Balancing</td>
<td>Simplifies result validation and auditing</td>
</tr>
<tr>
<td>Model Views</td>
<td>User defines stages and steps, analysis checkpoints</td>
</tr>
<tr>
<td>Trace Allocations</td>
<td>Eliminates ‘black box’ objections</td>
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<tr>
<td>Reporting</td>
<td>Flexible delivery choices in addition to BIFS</td>
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Management Ledger Application

Business User Managed

UI and Rule Driven

Easily Audited

Easily Validated

Independence!
Management Ledger App Architecture

Source Systems:
- Oracle EBS, PeopleSoft, JDE, Fusion APPs, SAP R/3
- Data Warehouse
- Data Mart
- Other Systems

Metadata:
- EPMA / DRM
- HPCM App Mgr
- FDMEE

Calculation Logic:
- HPCM Repository

Calculation / Data Storage:
- Essbase ASO Database
- FDMEE

File, Excel, XML
Management Ledger

Available Dimensions

HPCM Steps

“Connect the Dots”

1. Define Rule
   (Create Name)

2. Select Source
   (Department)

3. Select Destination
   (Department)

4. Select Driver
   (Drivers)

Facilities Exp Allocations

Facilities

All Departments

Square Feet
“Connect the Dots”

1. Define Rule
2. Select Source
3. Select Destination
4. Select Driver

### Task Area
- Manage Model
  - Model Summary
  - Points of View Manager
- Manage Program
  - Manage Rules
  - Trace Allocations
- Validate
  - Manage Model Views
  - Rule Balancing
  - Model Validation
- Reporting
  - Manage Queries
  - System Reports
- Calculate
  - Manage Database
  - Manage Calculation
- Job Status
  - Job Library

### Manage Rules
<table>
<thead>
<tr>
<th>Description</th>
<th>Source</th>
<th>Destination</th>
<th>Driver Basis</th>
<th>Offset</th>
<th>Rule Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent and Utilities Reassignment</td>
<td>Occupancy Expense Allocations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Select Dimension Members

- Exec Office
- IT
- HR
- Facilities
- Sales
- Mining
- Finance
Run, Balance, and Trace Results

Trace the Calculation
Questions and Answers
Vince Tran – Vice President Operations

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