

Increasing Business Agility Through Profitability Management

In today's competitive global market, precise insights on profitability by products, standard service lines, distribution channels, customers, and other business dimensions are critical for agile and successful decision-making. However, many companies fail to establish visibility and transparency for these insights owing to a lack of time, technology, a belief that it is too difficult to execute, or leadership backing.

Best Practices for Cost Allocation and Profitability Management

When CFOs and Finance teams "allocate" indirect expenditures to products and standard service lines, they do so like "butter on bread." In doing so, CFOs break the general "causality principle" of cost accounting. Activity-based costing (ABC) addresses this by "tracing and allocating" expenditures based on cause-and-effect connections for how products and service lines use work activities, which consume resource expenses.

If we go back to the 1950s, when direct labor and materials accounted for the majority of an enterprise's expenditures, widely averaged cost allocations for indirect expenses were acceptable. However, in today's world, when indirect expenditures account for the majority of an enterprise's spending, the averaged cost allocation technique might result in substantial incorrect and deceptive cost mistakes.

Allocating expenses such as salaries, equipment, travel, supplies, and occupancy to the various costs of work activities that occur in a department, such as claims processing, provides a clear picture of which groups of customers consume relatively more versus fewer resources, as well as their expenses.

Customer Profitability's Power

Understanding whether customers or segments of customers are contributing value vs diminishing value is essential to creating long-term stakeholder financial value, especially for shareholders and business owners, because a company's worth is a consequence of the value it receives from its customers. CFOs may assist Sales and Marketing in better targeting customers by fully knowing customer profitability.

Organizations can better target the sorts of consumers they want to keep, expand, and acquire, as well as make the necessary price and customer service improvements to convert less profitable and even unprofitable customers into lucrative ones.

Product and Customer Profitability at Henniges Automotive

Henniges Automotive is a leading global supplier of highly designed automotive sealing and anti-

vibration systems, with 19 production sites and four technical centers spread across eight countries. The Henniges team expanded their use of the OneStream platform into numerous more processes, including Product Line Reporting, after selecting and deploying OneStream to replace Hyperion Enterprise for financial closure, consolidation, and reporting.

The challenge is that Henniges produces thousands of automobile products that are highly customized for each client and vehicle, and as a result, profitability varies greatly across them. Understanding profitability at the customer, platform (vehicle), and product levels is important. For this type of analysis, manual methods and Excel spreadsheets were extremely inconvenient, with 80 percent of the time spent gathering data and just 20% spent evaluating it.

Henniges was able to harmonize, store, assign, and aggregate data at a detailed (part number) level after migrating this process to OneStream, allowing the Finance team to:

- Produce a summarized P&L (thru EBITDA) for any part, platform(vehicle), product, or customer
- Enable end-user assignment of specific variances (scrap/freight)
- Perform system-generated allocations of other variances
- Identify InterCompany Sales (and Profit) with the ultimate end customer/platform/product

The Henniges team seized control of several features of the OneStream platform, notably its extensibility, to achieve this. This allowed the team to create two cubes, one for financial reporting and the other for profitability reporting, within a single application. The Profitability Cube contains extra dimensions such as Customers, Products, Parts, and Platforms to assist profitability reporting and analysis.

Henniges and other clients have reaped many business benefits from using OneStream for financial and profitability reporting. This includes the capacity to collect data more quickly and on a more regular basis, such as switching from yearly to quarterly or even monthly profitability reporting. The solution gives you a better understanding of which parts of your company are creating (or not producing) bottom-line profits, and why. This knowledge aids managers in making better judgments in areas such as pricing, commercial negotiations, determining which clients to prioritize, and executing cost-cutting measures.