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FUNCTIONAL COST CONTROLLING – NEXT LEVEL OF COST TRANSPARENCY

Better decisions at the touch of a button

Background

As digitalization and centralization of corporate services are progressing, Vaillant Group, like many other companies, observes an ongoing rise of fixed costs. As group functions emerge, the need for better transparency and central steering of these budgets and resource allocation increases. The newly designed Functional Cost Controlling (FCC) solution provides the right answers to questions like:

1) What are the costs of the Supply Chain Management or Aftermarket Service function in different countries?
2) How do FTE or personnel costs for global functions like IT, HR or Purchasing develop?
3) What are the primary/secondary costs for the global Quality Management function?
4) How do the different functions perform compared to relevant benchmarks?

With Functional Cost Controlling, Vaillant Group is now able to immediately answer these questions with the power of S/4HANA at the touch of a button. So let's have a closer look at the concept and implementation.

The concept and implementation

When Capgemini was asked for the conceptual design of Functional Cost Controlling, we applied our proven concurrent transformation approach. This collaborative approach between Vaillant Group's business and IT departments and Capgemini enables the active involvement of all relevant stakeholders early on.

During the business blueprint and the design phase the definition and scope of all functions were defined and harmonized on a global scale. Next, the FTE definitions and allocation rules were harmonized to fit to global group requirements. Thus, step by step, the departments were sliced into meaningful functions according to the three Board responsibilities: Marketing, Sales & Aftermarket Services, Industrial and Group Services.

The foundation of FCC is formed by cost center structures (supported by other Controlling objects e.g. internal order, WBS elements). Next to a cost center hierarchy, a special cost element hierarchy has been developed thus enabling differentiated views on primary costs and functional costs before/after allocations.

In country workshops, local deviations and specific allocation/settlement rules were detected that needed to be harmonized. Here, we applied the Core-Shell Model which helps to establish a new end-to-end governance concept from the design through to operations. The cost element hierarchy forms the basis for functional cost reporting in Vaillant Group's S/4HANA system and corresponding SAP BI reports. Building on refined master data, all value flows within the group were harmonized to achieve global comparability within functions.

VAILLANT GROUP

Overview

Customer: Vaillant Group

Industry: Manufacturing HVAC

Location: Remscheid, Germany

Client Challenges / Business Need:

- Limited transparency on / comparability of fixed costs and corresponding FTE

- Heterogeneous center structures and cost allocations across the group

Results:

- FCC provides improved transparency and an effective benchmarking on fixed costs and FTE developments
- Assigns clear responsibilities on costs to all management levels
- Enables costs identification at their source and effective management
- Reduces manual effort for cost allocations during monthly close and ERP system maintenance
- Enhances comparability of sales entities and plants by harmonized cost structures and allocation methods

"Fix cost transparency and reduction is always a main topic during budget and actual reporting. With Functional Cost Controlling, for each function we get the full transparency of primary, secondary costs and costs charged by other areas"

Vaillant Group,
Director Group Financial Services,
Kai Hennig

The focus of FCC is on primary costs: these costs are transparently assigned to cost centers which ensures that no unmanaged costs exist within the organization. The new FCC enables a much better steering of primary costs as these costs can now be analyzed from a local as well as a global functional view. To show the full picture cost center reports include secondary costs and intercompany recharges. At Vaillant Group, the functions HR, IT and Real Estate Management are considered as secondary costs and are allocated to cost centers via statistical key figures across the Vaillant Group. One major statistical key figure are FTE numbers which represent a key driver for fixed costs. Within the project, FTE information was defined and closely aligned with Vaillant Group's HR department leading to full consistency between FTE reporting by HR and FCC reports on a global scale.

The intercompany recharges were fully automated by using SAP SD. As a result, error rates were reduced and all costs are allocated within the same function now. For example, Supply Chain Management (SCM) costs can only be recharged to a cost center within the SCM function. These harmonization efforts are a further benefit for Vaillant Group as it provides a clear guideline for master data governance and posting rules groupwide.

Transition after implementation

After the first quarterly publishing of the Functional Costs for the company, the transition phase has started. It was not just about reporting of the functional costs, published by the controlling department, but more about steering the business with the newly acquired information. This goes hand in hand with the budgeting process including the functional perspective and a change of responsibilities of the operational managers. After a transition phase of about one year, the entire organization is able to steer the fixed costs based on monthly reports that enable drill down to analyze developments and deviations.

Critical success factors

For a successful design and implementation of Functional Cost Controlling we identified the following critical success factors:

- Sound concept: It is vital to understand what requirements and objectives shall be addressed with the redesigned Controlling solution
- Management buy in: Regular update and feedback sessions together with the senior management to drive the desired changes
- IT involvement: Involve your IT department in all project phases to increase implementation speed
- Data quality: Optimize and clean up your system before implementing FCC
- Change Management: Address and communicate the opportunities and benefits to all relevant stakeholders, invest in a specific training
- Global support: Include stakeholders from the entire finance organization early on into the design phase to increase the global support of the new tool
- Governance & Report design: Validate and adjust your reporting solution in line with the defined requirements

Summary

With Functional Cost Controlling the Vaillant Group has implemented a powerful cost tracking tool. This project not only led to full cost transparency but also helped to overcome heterogenous processes and structures across the organization. If you are interested in learning more about what Capgemini can deliver to your organization, please do not hesitate to contact us – We are delighted to help you on this exciting topic - Better decisions at the touch of a button.

About Capgemini Invent

As the digital innovation, consulting and transformation brand of the Capgemini Group, Capgemini Invent helps CxOs envision and build what's next for their organizations. Located in more than 30 offices and 22 creative studios around the world, its 6,000+ strong team combines strategy, technology, data science and creative design with deep industry expertise and insights, to develop new digital solutions and business models of the future.

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