C H A P T E R

1

Introduction

Introduction to the Tutorial

This tutorial is intended to familiarize you with the basic business profitability modeling concepts that are used in SAS Profitability Management software. To complete the profitability modeling process, move through this tutorial from beginning to end exactly as it is presented.

Even though you may be familiar with the concepts of SAS Profitability Management and customer detailed profitability reporting, working through this tutorial will make you familiar with the SAS Profitability Management software – the concepts, terminology, commands, dialog boxes, and Web reporting tools.

The key to computing segment profitability is the ability to accurately associate costs with business segments. The heart of the problem is the difference in how revenue and costs are managed and tracked in accounting systems. Revenue is generated by the customer. It is usually automatically associated with business segments by sales order, invoicing, or funds transfer systems. This makes it relatively easy to perform business segment analysis using revenue alone. In contrast, costs are not as easily associated with business segments. IT, operations, support, distribution, and administration functions generally support many business segments simultaneously.

These shared and indirect costs should ideally be tracked based on logical cause-and-effect relationships to products, services, channels and customers. Traditional cost systems violate this process by using arbitrary cost allocations with broad averages (such as the number of customers).

SAS Profitability Management is a highly flexible analysis tool that provides the ability to associate a cost and revenue with individual business transactions. Using the software, you can calculate profit and loss based on individual transactions. SAS Profitability Management provides the level of reporting detail that allows business managers to actively manage profit as a performance metric. The product enables business managers to track the profit performance of customer groups or individual customers, product groups or individual Stock-keeping units (SKU), channels or specific branches or combinations of these dimensions, or others as defined by the customer.

Technical Support

If you encounter problems that you cannot solve by reading the online help or this tutorial, refer to the SAS technical support home page at: http://support.sas.com/techsup/intro.html.

Our support goal is to provide you with the resources you need to answer any questions or solve any problems you encounter when using SAS software. We provide a variety of tools to help you solve problems on your own and a variety of ways to contact our technical support staff when you need help. Free technical support is available to all sites licensing SAS software. This includes unlimited telephone support for customers in North America. Customers outside of North America should contact their local SAS office.

Additional Training and Documentation

Additional training and tutorials can be found at www.sas.com and www.bettermanagement.com. Bettermanagement.com offers in-depth domain content about selected management concepts that are aimed at improving an organization's performance. The Web site is a comprehensive source for performance management information and resource including Web casts, white papers, training, and tutorial materials. Topics that are covered on the Web include value-based management, profitability analysis, strategic enterprise management, activity-based costing and management, business intelligence, analytic analysis, scorecarding, and performance measurement.

The documentation for SAS Profitability Management can be found at http://support.sas.com/documentation/onlinedoc/pm/.

Business Requirements for Profitability Management

Profitability management is the most significant issue for any corporation. Profitability is derived from both analyzing the revenue performance for a given business dimension (customer, product, region, channel, customer segment), and analyzing the costs directly associated with serving those customers and providing those products. The critical challenge for business is to appropriately correlate revenue and costs into a meaningful profit and loss statement at the level of detail.

In the growing level of corporate complexity and detailed transactional information tracing corporate and customer interactions, detailed data analysis can be overwhelming. Business managers need a clear tool to deal with millions of detailed transactions and to produce an actionable profit and loss statement at a customer detailed level. Businesses with millions of customer transactions have the most to gain from implementing SAS Profitability Management. This solution is most crucial in the telephone and banking industries, where customer differentiation can be most decisive to overall corporate profitability.

With SAS Profitability Management, decision makers can define the segmentation reports that they need on the fly. SAS enables business managers to drill-down into revenue and cost categories so they can manage profit as a performance metric.

Reporting Solutions that SAS Profitability Management Provides

SAS Profitability Management matches cost and revenue behaviors to detailed transactions. The association of the behaviors to the transactions is based upon a wizard-driven rules engine. The resulting calculated detailed transaction tables are then used as source content for a profit and loss statement.

The web-deployed profit and loss statement that SAS Profitability Management provides:

- ❑ Is based upon a custom-defined report layout and can support complex calculation logic to present your company's reporting needs
- ❑ Is drillable for increasing level of details (revenue breakdowns or contributing costs details)
- ❑ Is drillable based upon dimensional hierarchies
- ❑ A summary cube report that can be:
  - Created to include only specific dimensions
  - Summarized by depths noted in any dimension
- ❑ A detailed cube report that can be:
  - Defined with filter logic for a single dimension member
  - Run on the fly.