

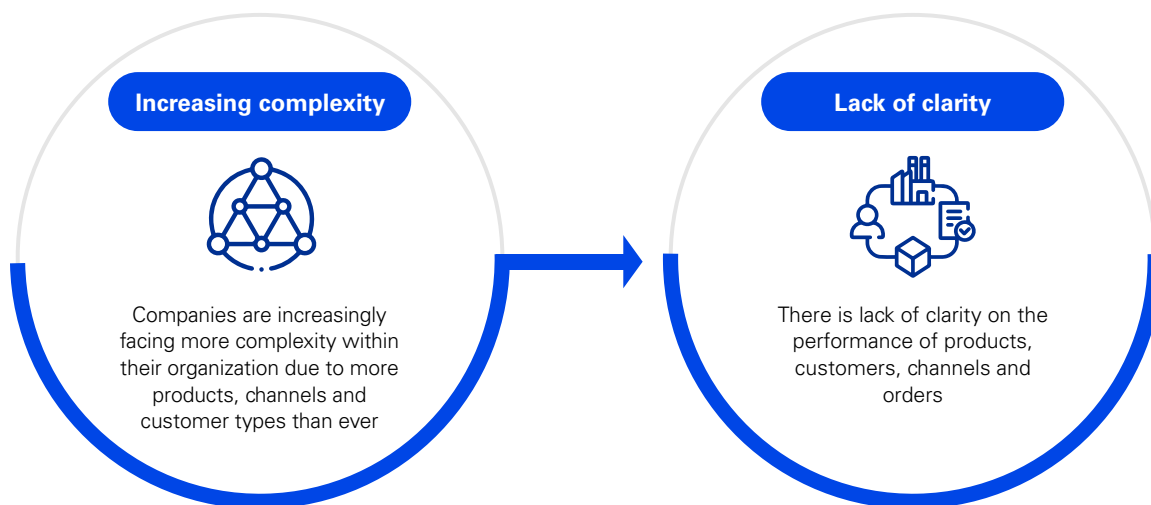
Enabling advanced data-driven strategies via a True Profitability Model

Providing transparency on profitability by customer, product, channels and more, enabling data-driven decision-making
KPMG Global Strategy Group Switzerland

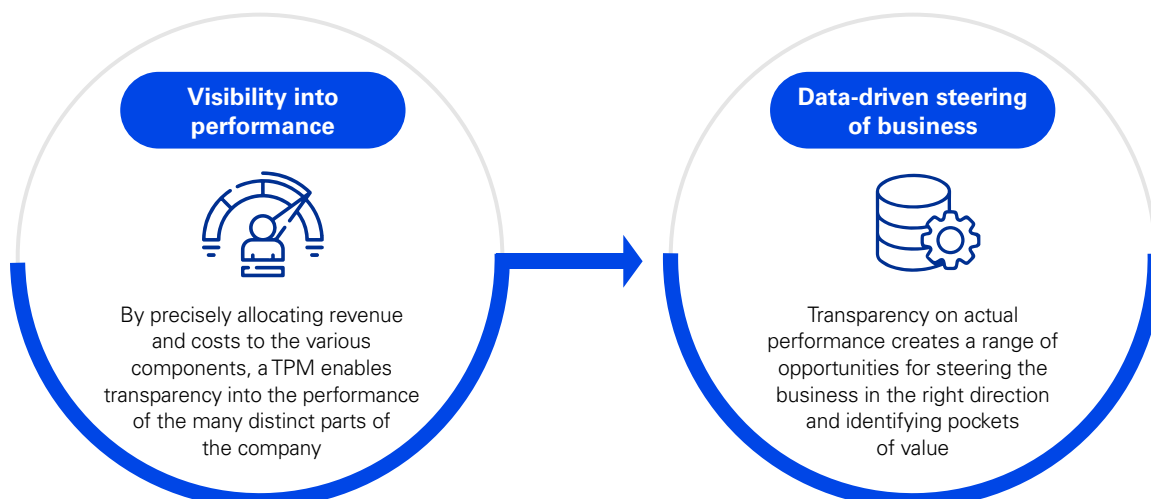
In today's competitive environment, businesses need to constantly reassess their performance and trajectory. Simultaneously, companies are increasingly facing a more complex organization, with more products, channels and customer types than ever, making it challenging to have a clear view of their performance. A True Profitability Model (TPM) provides clarity on the performance of

products, customers and even orders, helping companies to retain a grip on their organization. Using a TPM, companies can make data-driven decisions and develop their corporate strategies backed by data. Companies that do not have transparency of their true profitability are risking to steer into the wrong direction and fall behind the competition.

Current situation makes companies lose grip of their organization



A true profitability model is therefore key to unlock the full potential of your business



What is a True Profitability Model?

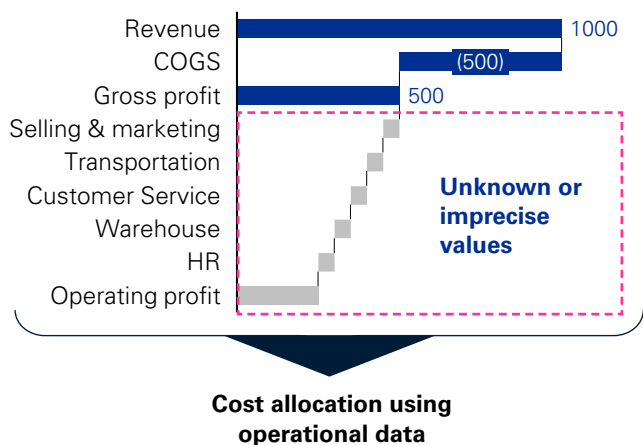
KPMG's TPM allocates all operational and overhead costs to an area of interest, such as entities, countries, customers, products and sometimes even orders. Currently, these costs are often too generically allocated or not allocated at all, giving an insufficient view on the real profitability and value created by the business. Typically, such costs are central operational and overhead costs, like selling & marketing, transportation, customer service, warehouse and HR costs that need to be allocated appropriately to an organization's value drivers (e.g. customers, products, orders, entities). The allocation is mostly done using operational or financial data aiming to fairly reflect the reality as closely as possible.

There are many ways to allocate costs to an area of interest – for example, if you want to allocate HR cost to entities, you can use by entity the number of total FTEs, number of HR

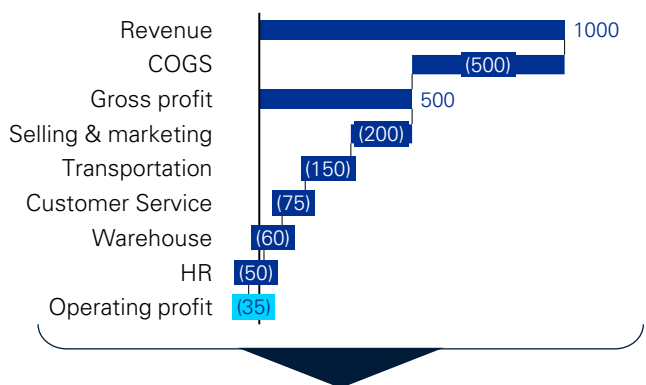
FTEs, revenue share, activity data of HR FTEs (e.g. number of hires, number of hiring interviews) or other custom allocation keys. It is fundamental that this allocation corresponds to the functional organization and aligns with reality.

A common use case is creating a TPM that assigns the fully-loaded costs to a customer and showing its true profitability. Currently, organizations often capture the revenue and product profitability per customer. However, with a TPM, other costs such as selling and marketing costs, transportation costs, customer service costs, costs for returns and corresponding warehouse costs are considered, giving a more precise analysis on customer value for the company. These levers and expenses can be made as specific and tailored as necessary, to meet the requirements of every business and industry.

Conventional customer profitability bridge



TPM customer profitability bridge



Various data-driven value creation initiatives can be derived due to this newly gained transparency

- Optimize operational cost
- Review of product portfolio/SKUs
- Incorporate incentives for customers
- Initiate conversation with customer to explore revenue uplift or cost cutting measures
- Develop/adjust KPIs for your organization



Case study

Client challenge

A global leader in medical devices was experiencing eroding margins due to market challenges and headwind from multiple trends, such as Covid-19, rising material costs, and tight government budgeting.

The client asked KPMG to identify areas for value creation and develop a roadmap to improve their performance.

KPMG approach

KPMG supported the client by building an Advanced Segmentation Model based on TPM principles.

Large amounts of commercial data of the region were ingested, which consisted of multiple years of sales details on a clients, SKU, as well as order level, and was complemented by detailed costs of manufacturing, supply chain, delivery, R&D and backoffice.

Based on these data insights, a multi-disciplinary KPMG team consisting of Strategy, Commercial, Supply Chain and Tax experts developed hypotheses for value creation.

Management sessions were conducted to validate these hypotheses and transform them into a concrete and actionable strategy.

Outcomes and benefits

Leveraging the model, the newly formed strategy identified a margin improvement of 25% and cash flow improvements of 30%.

KPMG provided a BI solution and trained business leaders to enable them to closely monitor performance and to drive adoption of the new segmentation.

True Profitability Models have to be an integral part of your strategic decision-making process

As companies collect more and more data within their organization, data analysis, such as a TPM, should become a

fully integrated part of the corporate DNA. Key topics where a TPM supports companies are as follows:

Developing data-driven strategies



Use as an input to develop data-driven strategies such as portfolio rationalization, product mix optimization, and customer focus

Value creation



Identify opportunities or underperforming areas in the organization to unlock the uncaptured potential

Tracking and accountability



Track the impact of strategic decisions and investments over time

Success factors when creating a True Profitability Model

The methodology of a TPM could seem simple. However, as always, the devil is in the details – a simplistic model does not provide real insights as the allocation does not reflect the reality, while an overly complex model could be difficult to handle, as there are many inputs and dependencies which

could introduce inaccuracies or make it difficult to update the model with the latest data.

Highlighted below are the six key success factors across three main areas — data, people and capabilities:

Data

01



Clean data:

A TPM is usually fed by data from different systems that are tied together into a model. It is therefore key that inconsistencies in the data are clarified and cleaned to present an accurate model.

02



Updateability:

The model should be set up so that it is easy to update with the latest data. After an update, the race against the clock begins as the data is immediately outdated. Therefore, it should be possible to have regular updates with latest insights.

People

03



Cross-function involvement:

As operational and overhead data comes from different functions, there should be an independent project team which acts as an interface between the different functions.

04



Leadership involvement:

The model is a strategic tool. As with all strategic tools, it can only create an impact when it has buy-in and support from the leadership.

Capabilities

05



Data analytical capabilities:

Meaningful TPMs are complex. Therefore, to avoid any inaccuracies, the right data analytical skills should be present.

06



Methodology:

The model and the insights can only be as good as the conceptual allocation methodology. This requires expertise in TPMs combined with sector knowledge.

KPMG is your experienced partner to build a True Profitability Model for your organization

KPMG has advised and built several TPMs for a range of clients from smaller enterprises to multi-billion-dollar industry

leaders. With our expertise, we are positioned to support you with the following:



TPM setup

We know which advanced data & analytical technology to use. Our experience ensures the right setup of a TPM, considering different allocation methodologies and making it an easy-to-update model to mitigate the possibility of detrimental errors.



People

We are an independent party, making it easier to address the cross-functional component and create buy-in from senior leadership.



Capabilities

Our multi-disciplinary approach combines technical with functional and sector expertise, enabling us to build customized TPMs, derive value creation hypotheses for your organization and support the implementation of such initiatives.



End-to-end

Our experience in People and Change management helps create traction in your organization and ensures an accurately aligned model. We can help you throughout the whole lifecycle: from building a model, through strategy development, to execution of identified initiatives.



Speed

We can deliver TPMs with speed. Depending on the business size and complexity, the setup can be completed in a few weeks' time.

Contacts

Contact us to see what the possibilities are for your company

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