Transforming COGS Forecasting with SAP Profitability and Performance Management (PaPM) at Kraft Heinz

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Las Vegas

2024

SAPinsider

KraftHeinz

In This Session

As part of a broader initiative to create a more simplified and systematic end-to-end COGs forecast visibility, Kraft Heinz NA selected the SAP PaPM platform to calculate their complex finance forecasting models.

SAP PaPM helped Kraft Heinz to optimize their overall COGS modelling process, greatly improving long range forecast accuracy and cross-functional visibility, allowing Kraft Heinz to make better business decisions, to maintain and grow margin.

What We'll Cover

- The Challenge
- The Solution: SAP PaPM
- Implementation: A Collaborative Effort
- Benefits Realized: Enhanced COGS Forecast Granularity
- Power of Collaboration and The Future Outlook

The Challenge

Taming Complex Financial Forecasting

- Part of a broader initiative to create a more simplified view of COGs in order to make better and more efficient business decisions
- Siloed data hampering financial transparency
- Need for a robust platform to manage intricate financial models

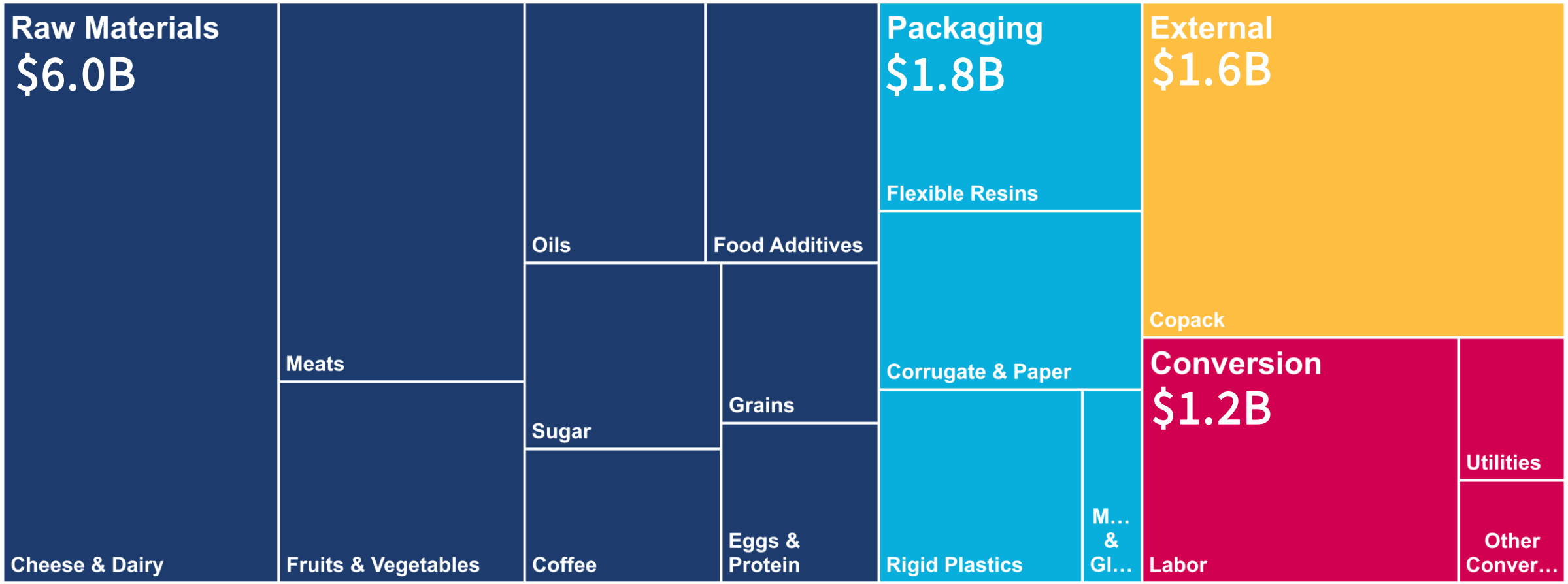
Supply Chain Finance Evolution

The scope and responsibility of SCF has increased significantly last 3 years

	2022	2023	2024
Scope (% COGS)	*28%*	*35%*	*98%*
Level of Granularity	*Function*	*Product Category*	*EPM / P&L Line*
+1 Month Forecast Accuracy	*($25M)*	*$13M*	*??*
Full Year Δ (12+0 vs. 0+12)	*($350M)*	*$200M*	*??*

Background: What is Variable Industrial Cost (VIC)?

VIC is the collection of raw material, packaging, conversion, and external copack costs



**Values are fabricated for example purposes*

The Challenge Today

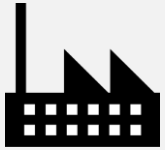
Translating the forecasts into finished goods is manual and time-consuming

Direct Materials

*Over **15k+ individual raw & packaging materials** are purchased*

Conversion

*Direct materials are processed at **30+ plants and many more copackers***



Finished Goods

*Resulting in the cost for over **5k individual finished good SKUs***

The Solution: SAP PaPM

Why SAP PaPM?

Unveiling the power of SAP PaPM

- A unified platform for financial planning and analysis
- Streamlined processes for budgeting, forecasting, and profitability analysis
- Enhanced collaboration across finance and business functions

Enabling better decision-making

- Accurate long-range forecasting allowing for quicker operational action, helping to mitigate cost increases
- Ability to tie functional operations performance into P&L forecast and actualization
- Accurate forecasting on a granular product level, allowing for effective margin management through visibility and pricing actions

Project Ambitions

Win big in process simplification, cross-functional visibility, & efficient decision-making

Mission

To transform COGS visibility by introducing a tool that **saves time, increases forecast accuracy**, & builds **cross-functional bridges** resulting in an improved ability to **make efficient decisions**

1 Build the Tool

Save Time & Improve Accuracy

Pillar: Simplify the Complex

Manual efforts to transform incurred spend into recognized COGS → ***Systematic translation of inputs costs into finished goods***

2 Forecast Cycle

Unify COGS Process & Visibility

Pillar: Democratize Data

Separate processes for forecasting & analyzing 'commercial' and 'ops' COGS → ***Integrated process to forecast total COGS with visibility to standardized drivers***

3 Margin Management

Integrated Decision Making

Pillar: Efficient Decision Making

Utilize outputs of tool as a key input into margin initiatives (e.g. revenue management, mix optimization, supply security, etc.)

Key Capabilities

Data Integration: Directly connect to SAP data (e.g., Bill-of-Materials/Material Ledger) & non-SAP data (e.g., Procurement's direct material forecast)

Calculation Engine: Ability to handle the data requirements necessary to translate the forecast for >15k component materials that are inputs into >5k finished good SKUs

Scenario Modeling: Run multiple scenarios/simulations (e.g., Base, Bull, Bear, commodity outlooks)

Excel Add-In: User-friendly Excel add-in to extract forecasts into broader models

Implementation: A Collaborative Effort

Building a Strong Foundation: The Implementation Process

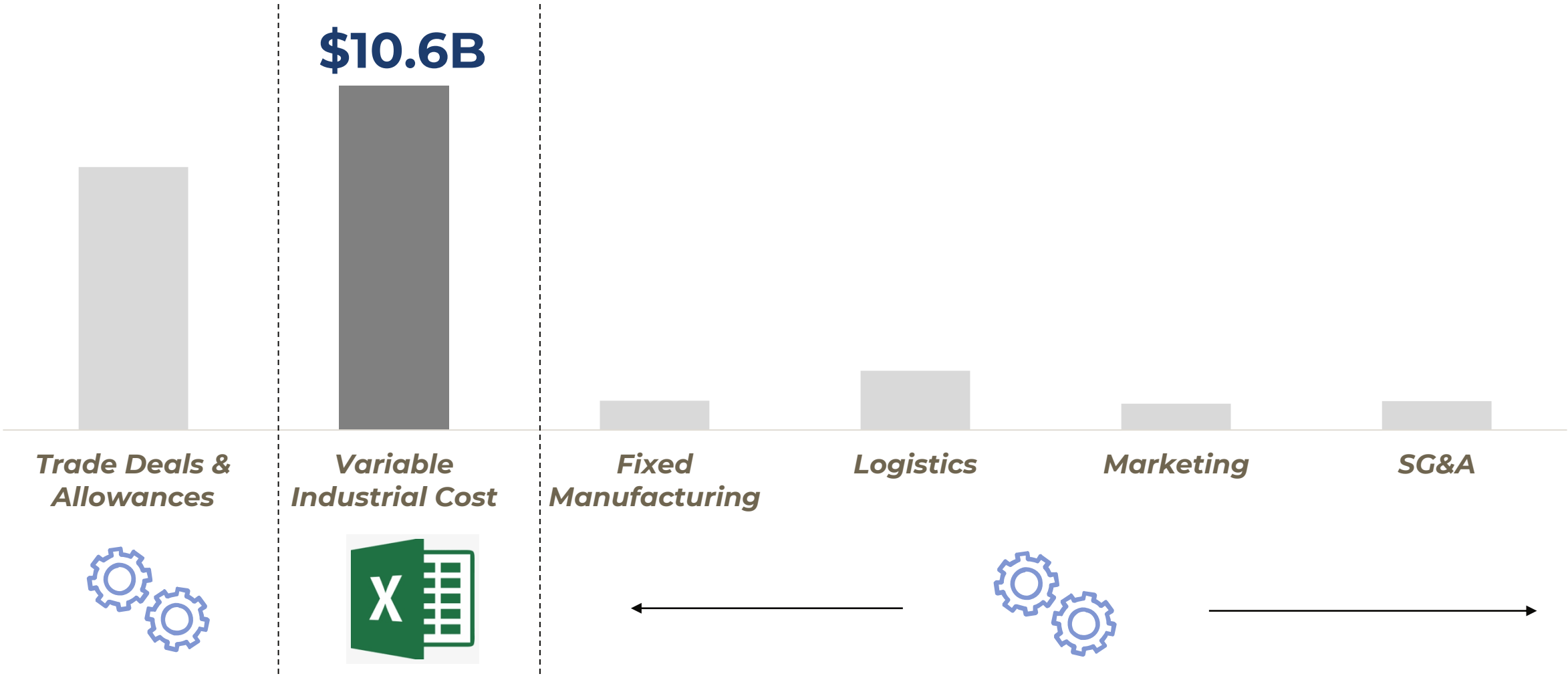
- Initiated August 2023
- Phased approach was selected to capture quick-wins while progressing towards the longer-term design
- Cross-functional team assembled for seamless integration
- Data migration and model development with SAP expertise
- User training to ensure platform adoption and knowledge transfer

Overcoming the Challenges

- Data cleansing and standardization for improved data quality
- User adoption and change management to ensure platform utilization
- Ongoing training and support to maintain user proficiency

Introduction to SAP PaPM

An SAP based forecasting solution for the NA Zone's largest expense line

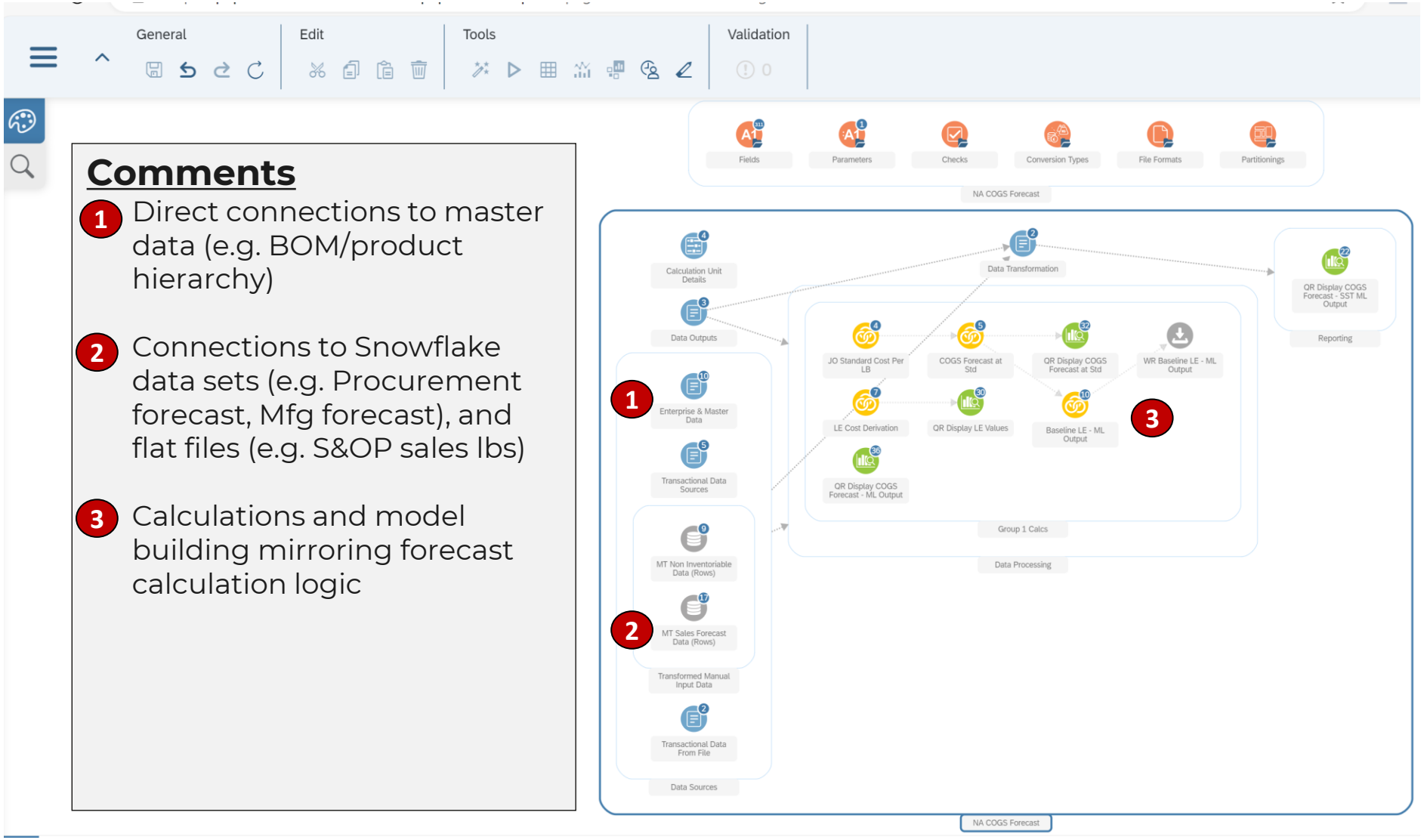


*Values are fabricated for example purposes

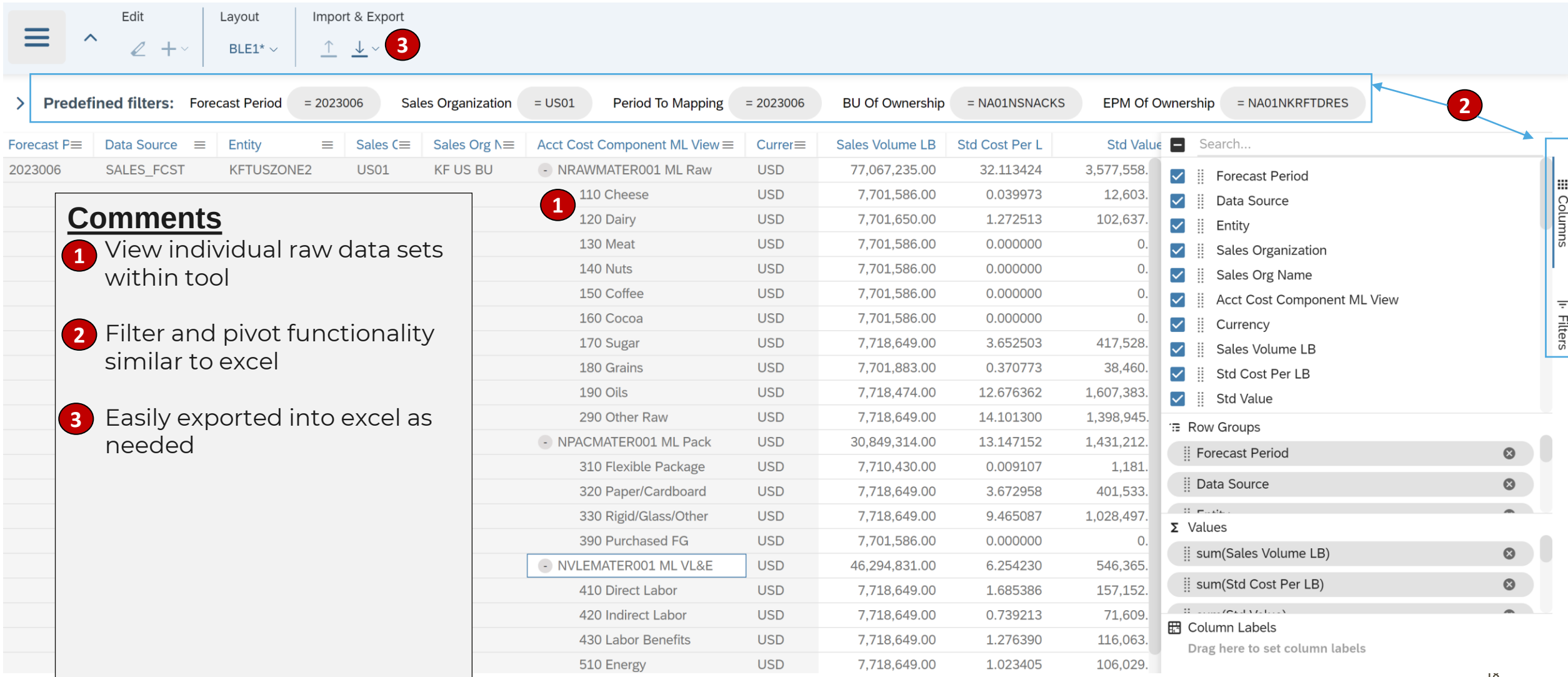
Modeling

Comments

1. Direct connections to master data (e.g. BOM/product hierarchy)
2. Connections to Snowflake data sets (e.g. Procurement forecast, Mfg forecast), and flat files (e.g. S&OP sales lbs)
3. Calculations and model building mirroring forecast calculation logic



Modeling

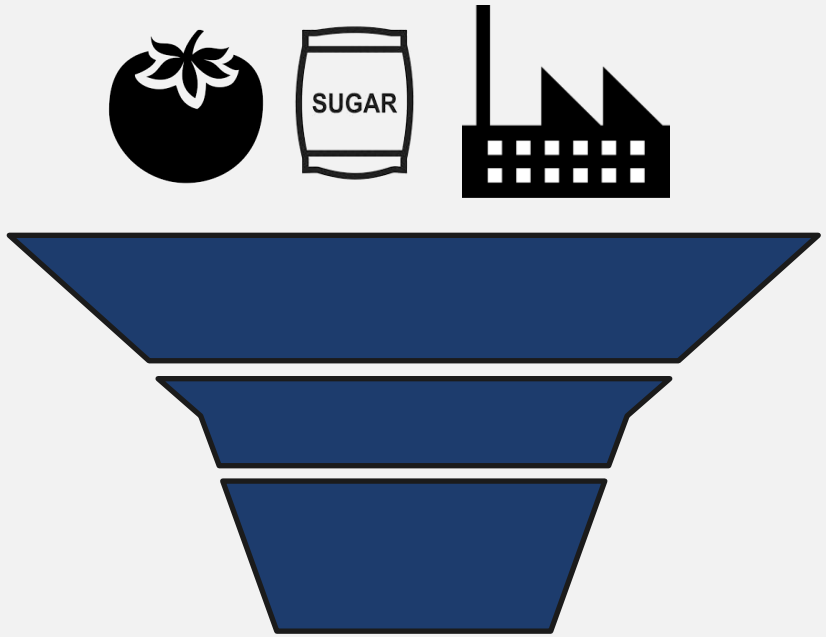


Comments

1. View individual raw data sets within tool
2. Filter and pivot functionality similar to excel
3. Easily exported into excel as needed

Input & Output Summary

	What	Who	Where
1	Raw/Pack/Copack Forecast	Procurement	snowflake
2	Conversion Forecast	Manufacturing	Excel
3	Bill-of-Materials	Central Ops	SAP
4	Inventory Rates	Central Ops	SAP
5	SST Actuals	Central Ops	ORACLE ePBCS
6	Sales/Production Forecast	S&OP	o9 OMP.
7	Non-Inventoriable COGS	Central Ops	Excel

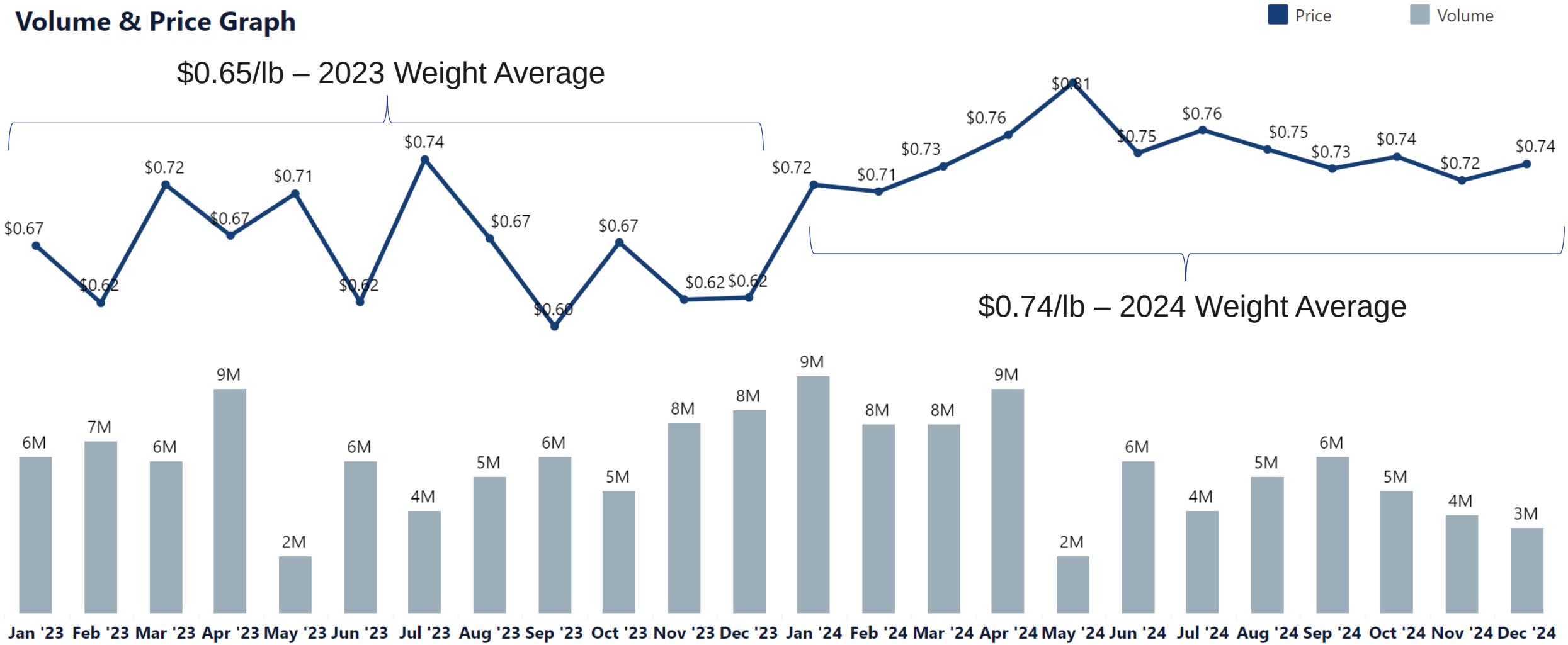


A	Inventoriable COGs Forecast	D	BOM Visualization
B	Total COGS Forecast	E	Baseline LE (Current Inventory Rates)
C	Cost/Margin Simulator	F	Placeholder (Mix, etc.)

Raw Material

Component used in the bottoms up forecast of a finished good

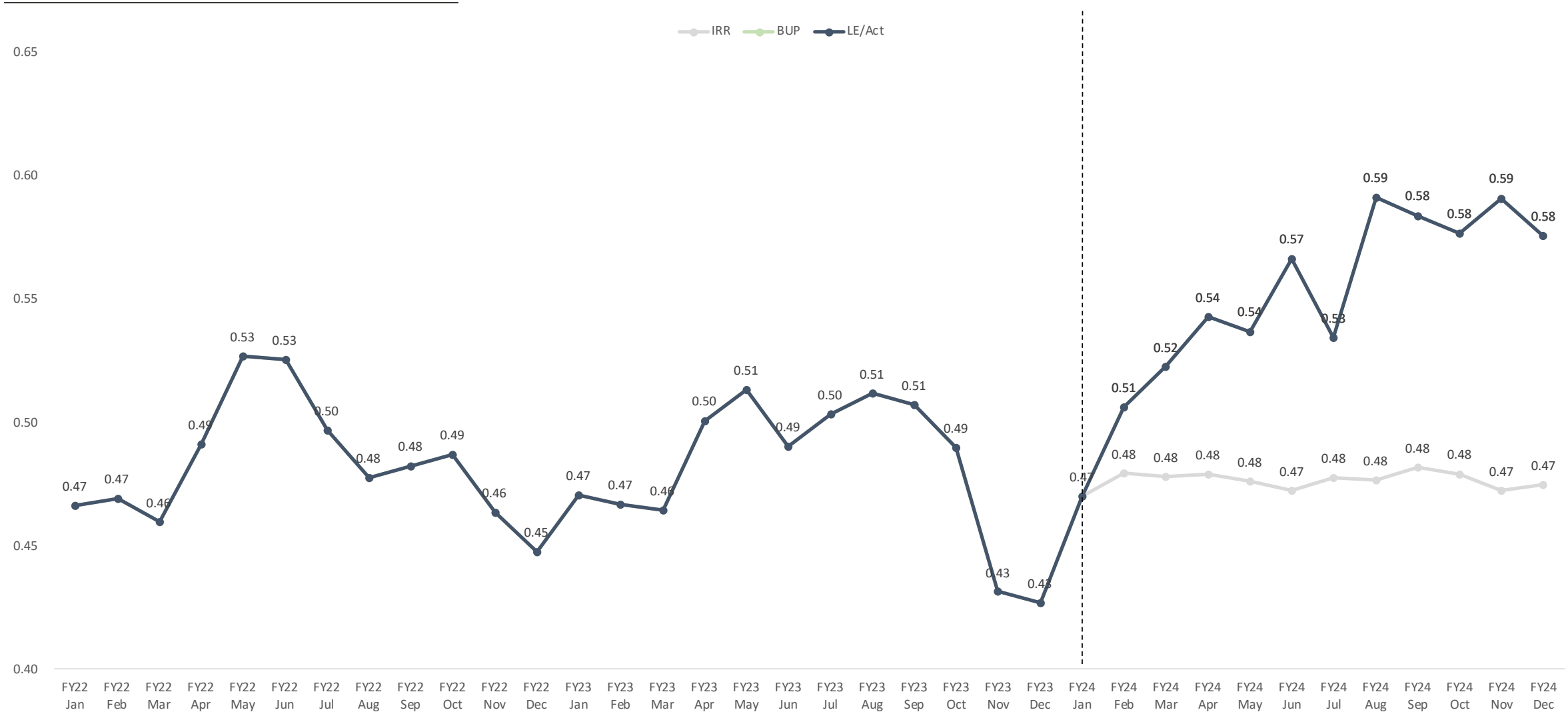
Volume & Price Graph



*Values are fabricated for example purposes

Corresponding Finished Good

The bottoms-up forecast, corresponding to this Finished good price, is reflected in the forecast



**Values are fabricated for example purposes*

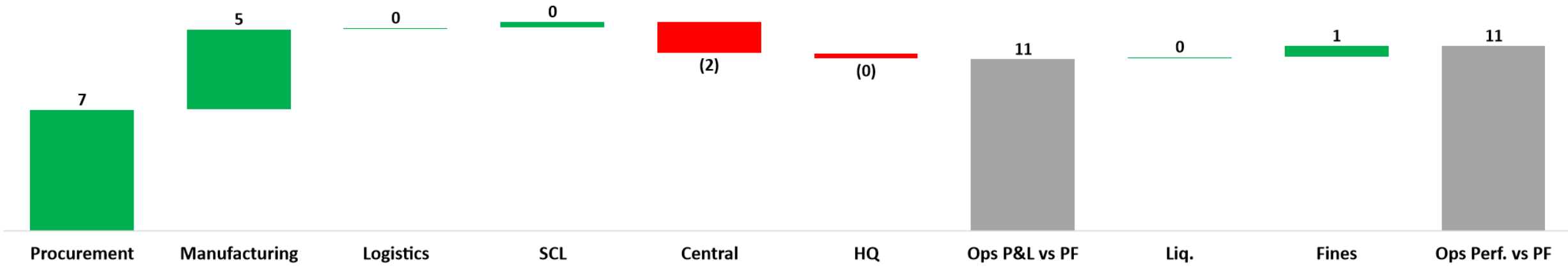
Benefits Realized: Enhanced COGS Forecast Granularity

Achieving Greater COGS Forecast Accuracy

- Automation of Cost Of Goods Sold forecasting for 24 months with ability to overlay additional assumptions
- Transparency into raw material price assumptions and scenario analysis
- Transparency into impact of conversion cost assumptions in COGS Forecast
- Transparency at the BU/platform/category/product family level
- Increased forecast precision for direct materials through integration of the Bill of Materials
- Increased flexibility and agility

Legacy View

Forecast would be at total function value, with no Category visibility



*Values are fabricated for example purposes

Modern View

Full Category visibility, broken down by P&L Line and cost component

In Millions	Total Δ	Raw/Copack	Cheese	Dairy	Meat	Nuts	Coffee	Cocoa	Sugar	Grains	Oils	Other Raw	PFG	Pack	VL&E	Plant VL&E	Ext Mfg	Fixed
00. NA Zone - Ex RTD	*(13)*	*4*	*5*	*3*	*(19)*	*(1)*	*(7)*	*(0)*	*(0)*	*1*	*9*	*14*	*0*	*(1)*	*(8)*	*29*	*(37)*	*(9)*
00. NA Zone	(27)	(37)	5	3	(19)	(1)	(7)	(0)	(3)	1	9	16	(41)	22	(3)	35	(38)	(8)
01. FBD	(36)	(38)	3	2	(19)	(0)	(0)	(0)	(5)	5	1	12	(37)	23	(13)	24	(38)	(8)
FFM - Cheese	4	4	1	1	0	(0)	(0)	0	(0)	(0)	0	1	2	(1)	3	0	2	(2)
FFM - Meats	(1)	(9)	0	0	(19)	0	0	0	0	0	(0)	5	4	0	11	11	(0)	(3)
Flavorful Hydration	(14)	(42)	0	0	0	0	0	0	(3)	0	0	3	(42)	22	5	6	(1)	0
Real Food Snacking	(24)	10	2	0	(0)	0	0	0	0	5	0	2	1	1	(32)	7	(40)	(3)
Easy Indulgent Desserts	(2)	(2)	(0)	0	0	(0)	(0)	(0)	(2)	0	0	1	(1)	(0)	0	(0)	0	(0)
02. TMA	15	12	2	3	(0)	0	0	0	1	(2)	7	2	(1)	(1)	8	8	(0)	(3)
Taste Elevation	5	1	1	1	0	0	0	0	1	0	3	2	(8)	0	4	4	(0)	1
Easy Meals Made Better	3	4	1	(1)	0	0	0	0	(0)	(2)	1	(2)	7	(1)	2	2	0	(2)
Away From Home	5	8	0	1	(0)	0	(0)	(0)	2	(0)	4	1	(1)	(1)	1	1	(0)	(3)
KHI	1	(1)	(0)	1	0	0	0	0	(2)	0	(0)	0	(0)	0	1	1	0	0
03. CANAC	(5)	(11)	0	(1)	(0)	(1)	(8)	(0)	1	(2)	1	2	(3)	0	3	2	1	3
US Coffee	0	(3)	0	0	0	0	(2)	0	(0)	(0)	(0)	(0)	(0)	(0)	1	1	1	2
CN Coffee	1	2	0	0	0	0	(6)	(0)	0	0	0	0	8	(1)	(0)	(0)	0	(0)
CN Taste Elevation	(0)	(4)	0	(0)	0	(1)	0	0	1	0	0	1	(5)	1	1	1	(0)	1
CN Easy Meals Made Better	(4)	(4)	0	0	0	0	0	0	0	(2)	0	0	(3)	(0)	1	1	(0)	0
CN FFM	(0)	(0)	0	(1)	0	0	0	0	(0)	0	0	1	(1)	0	0	(0)	0	(0)
CN Flavorful Hydration	0	(0)	0	0	0	0	0	0	(0)	(0)	0	(0)	(0)	0	0	0	0	0
CN Easy Indulgent Desserts	(1)	(1)	0	0	0	0	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	0
CN AFH	(0)	1	(0)	(0)	(0)	(0)	0	0	1	0	1	0	(1)	0	(1)	(1)	0	(0)
CN Non-Platform	(0)	(0)	0	0	0	0	0	0	0	0	0	0	(0)	0	0	0	0	0

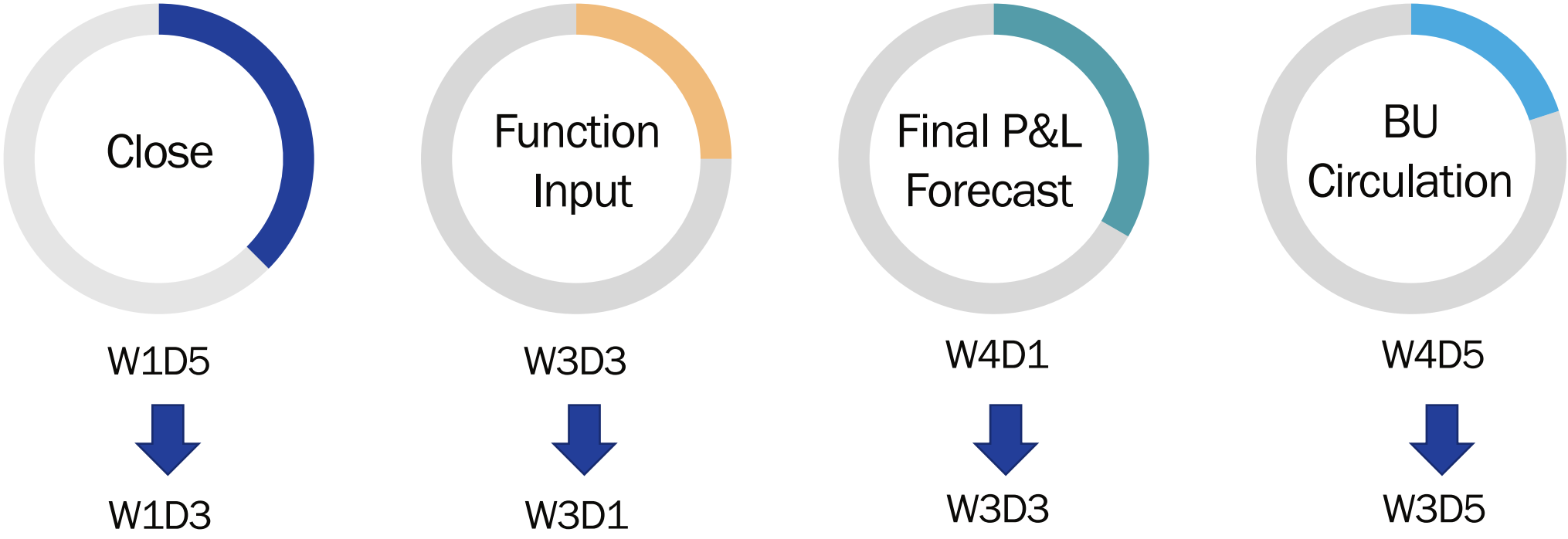
**Values are fabricated for example purposes*

Expedited Financial Process

Close Cycle and Forecast cycles shortened in time and improved output quality

Reduction of an Entire Week

25% improvement in the cycle time



Deep Dive – Trend Assumptions

Cost Component	Q1 '24	Q2 '24	Q3 '24	Q4 '24	FY '24
PFG	*(3)*	*(15)*	*(17)*	*(13)*	(48)
Cheese	*20*	*43*	*62*	*70*	195
Dairy	*1*	*6*	*0*	*(0)*	8
Meat	*1*	*7*	*40*	*49*	96
Nuts	*0*	*2*	*2*	*2*	6
Sugar	*1*	*8*	*8*	*8*	24
Grains	*0*	*0*	*0*	*0*	0
Coffee	*1*	*3*	*9*	*11*	24
Oils	*(1)*	*(5)*	*(6)*	*(5)*	(18)
Cocoa	*(0)*	*(0)*	*(0)*	*0*	(0)
Other Raw	*0*	*(2)*	*(1)*	*(12)*	(15)
Pack	*(0)*	*1*	*4*	*4*	9
VL&E	*(5)*	*(19)*	*(18)*	*(15)*	(57)
Fixed	*(3)*	*(12)*	*(13)*	*(12)*	(41)
Total Market Overlay	***7***	***9***	***12***	***10***	***38***

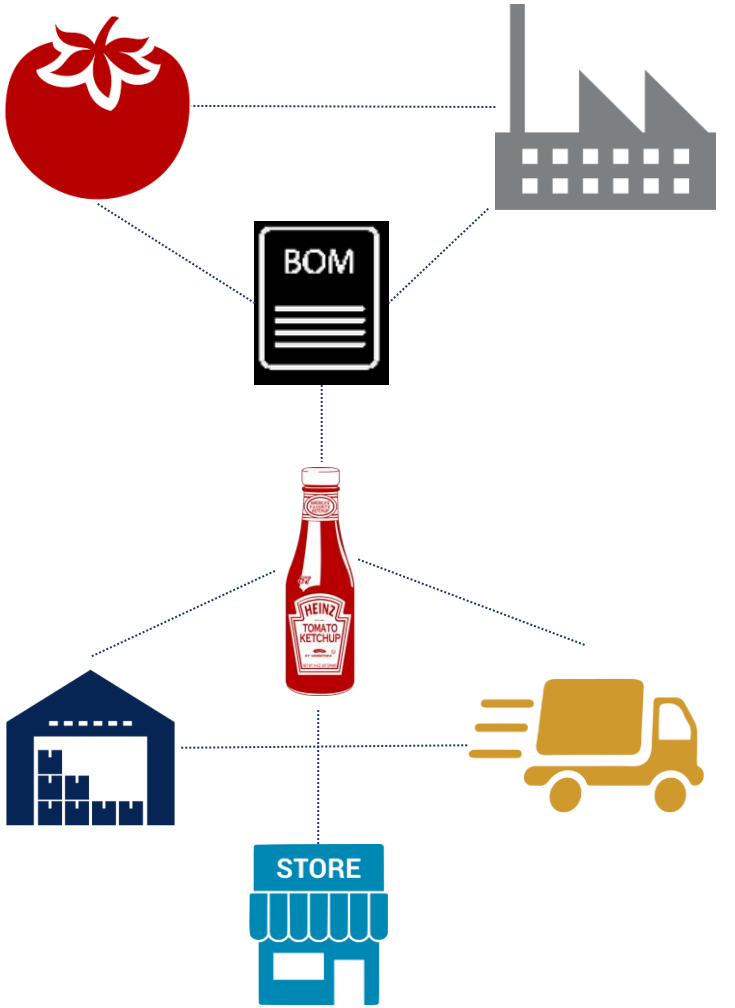
Power of Collaboration and the Future Outlook

Stronger Together: A Look Ahead

- Finance and business teams working seamlessly with shared data
- Enhanced communication and alignment on forecasts
- Cross-functional ownership for improved decision-making
- Leveraging SAP PaPM for advanced analytics and insights
- Continuous improvement and platform optimization
- Implement SAP PaPM for the all the functions (Procurement, Manufacturing and Logistics)

SCF Technology: SAP PaPM Vision

Integration of Supply Chain Data Into One Tool



Project Phases

1 Finished Good COGS

Developing a solution that translates input costs into finished goods resulting in better visibility to commercial teams so that we can **make efficient business decisions**

2 Functional Forecasting

Win big in process simplification and touchless forecasting across procurement, manufacturing, and logistics to **save time**, **increase engagement**, & **improve accuracy**

3 Working Capital & SCL

Integration of inventory, accounts payable, SCL forecasting to identify opportunities to **drive cash conversion improvement** & **reduce waste**

People with Purpose | **Simplify the Complex** | **Democratize Data**

The Future State Solution

End-to-end forecasting solution from the time we purchase raw materials to the time products are sold to customers

	Incurred Spend	Inventory Deferral	Recognized Cost
Process Flow			
Inputs	Procurement Forecast; Mfg Forecast	Bill of Materials (BOM); Production Forecast	Sales Forecast
Outputs	Incurred Forecast	Inventory $/Lb by Month	COGS Forecast
Key Benefits:	✓ Ability to ingest **raw material forecasts** ✓ Enables **'what-if' analysis** to simulate impact of changes to input cost assumptions	✓ Direct connection to **bill-of-materials** ✓ Connection to SAP material ledger cost for **current inventory costs** ✓ Simulation of inventory roll-forward to calculate **weighted-average cost of inventory**	✓ Combine standard + variance for **fully-loaded COGS forecast** ✓ Ensures **consistent sales volume** forecast is being used across functions ✓ **Simulate impact on margins** based on raw material scenarios ✓ **Inform pricing decisions** based on latest raw material assumptions

What the Stakeholders are Saying

Re: Total COGS Submissions this Cyle

Gregoris, Michael
To Vanden Bos, Joe; Lamego, Andre; Lyra, Marcelo 1/31/2024

You replied to this message on 2/1/2024 6:39 AM.

Thanks Joe. Just wanted to share that I've been getting lots of great feedback from my team on how useful they find this tool and have robust it is with all sorts of great detail that helps them understand cogs. Thanks for putting this together

Mike

RE: PaPM Milestone #1: VIC @ Standard Automation

Maxwell, Alison
To Vanden Bos, Joe; Pinto, Jayme; Kaminski, Mike; Sohi, Ashish; Shebek, Nick; **+5 others** 10/26/202
Cc Lamego, Andre; Zigelstein, Cole; Lyra, Marcelo; Toyama, Eduardo Hideki; Gromala, Jessica

You replied to this message on 10/26/2023 6:42 PM.

It is fantastic to see! Most of the team on this email knows I have a lot of concerns with how our current FY24 COGS forecast is built, so I am in full support of moving to the methodology and capability that Joe and team in PaPM as soon as feasible.

RE: PaPM: '24 VIC @ Standard Rate Convergence - TMA

KM Kaminski, Mike
To Vanden Bos, Joe; Akyel, Ayca; Scharrer, Patrick Mon 4:29 P
Cc Lamego, Andre; Zigelstein, Cole; White, Austin (Contractor); **+3 others**

You replied to this message on 11/27/2023 7:53 PM.

Thanks Joe – appreciate the benefit the tool is bringing! For our upcoming forecast we'll have the following updates to further align:

RE: PaPM Milestone #1: VIC @ Standard Automation

Pinto, Jayme
To Vanden Bos, Joe; Walsh, Melissa; Gregoris, Michael; Maxwell, Alison; **+6 others** 10/26/2023
Cc Lamego, Andre; Zigelstein, Cole; Lyra, Marcelo; Toyama, Eduardo Hideki; Gromala, Jessica

You replied to this message on 10/26/2023 9:02 AM.

Joe, great milestone for us!

@Fitzwater, Jack/@Arana, Pablo moving forward, we need to include this as a topic for IR – scorecard of the outcomes, areas of disconnects between BU-PaPM; additionally, I expect these figures (for Standard costs) to start converging this cycle

@Walsh, Melissa/@Gregoris, Michael/@Maxwell, Alison there are a number of callout areas across the BUs, that show differences for 2023 YTG and 2024 FY – solving these (especially the 2024 ones) can change our discussions on Gross Profit profile.

Hilbert, Kyle 1/31 4:46 PM

KH yup ok that checks out to what I'm seeing - thank you so much for the clarity here. Absolutely loving the new COGS Forecast detail y'all really popped off with this one

❤️ 1

RE: PaPM: '24 VIC @ Standard Rate Convergence - TMA

Scharrer, Patrick
To Vanden Bos, Joe; Kaminski, Mike; Akyel, Ayca Fri 7:12 AM
Cc Lamego, Andre; Zigelstein, Cole; White, Austin (Contractor); **+4 others**

You replied to this message on 12/1/2023 7:13 AM.

Hi Joe/team,

The remaining AFH/KHI variances called out in the deck have now been investigated and we agree with the PAPM model output. I updated our forecast submission to align with the PAPM rates.

Echoing Mike's comments below, this tool appears to be accurate at this point and will bring a lot of benefit in the process when it is rolled out in 2024!

Best,
Pat

RE: Citrates Update

Dunphey, Rebecca
To Maxwell, Alison; Singh, Vikramjeet; Schmidt, Brian; **+5 others** 11/16/2
Cc Srivastava, Mehul; Lyra, Marcelo; Mello, Andre; **+4 others**

You forwarded this message on 11/22/2023 2:23 PM.

This is an awesome example of end to end thinking and work! Thank you Joe and Lucas for not only the work, but setting also for setting an awesome example of what we can do with an end to end mindset!

Where to Find More Information

SAP Help Portal

https://help.sap.com/docs/SAP_PROFITABILITY_PERFORMANCE_MANAGEMENT

https://help.sap.com/docs/SAP_PROFITABILITY_PERFORMANCE_MANAGEMENT_CLOUD

E-bite: Introducing SAP Profitability and Performance Management (SAP Press, Marius Berner, December 2023)

https://www.sap-press.com/introducing-sap-profitability-and-performance-management-papm_5791/

Key Points to Take Home

- **Enhanced COGS Forecast Accuracy**: SAP PaPM improved Kraft Heinz's COGS forecast accuracy through better data integration and scenario modeling
- **Streamlined Financial Processes**: Streamlined budgeting, planning, and profitability analysis, leading to increased efficiency
- **Cross-Functional Collaboration**: Finance and business teams collaborated seamlessly with shared data on SAP PaPM, fostering better communication and decision-making
- **Quantifiable Improvements**: Kraft Heinz achieved measurable success, including increased forecast accuracy, reduced budgeting cycle time, and improved profitability analysis efficiency
- **Empowered for the Future**: With SAP PaPM, Kraft Heinz is positioned for continuous improvement through advanced analytics, platform optimization, and sharing best practices within the SAP community

Thank you! Any Questions?

Andre Lamego

https://www.linkedin.com/in/andreglamego/

Cole Zigelstein

https://www.linkedin.com/in/cole-zigelstein-225800126/

Please remember to complete your session evaluation.

Thank you!

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