

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

Andre Lamego, Director, Financial Planning and Analysis - NA Supply Chain Finance, The Kraft Heinz Company

Cole Zigelstein, Lead, Financial Planning and Analysis - NA Supply Chain Finance, The Kraft Heinz Company

Las Vegas

2024

SAPinsider



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 SAP PaPM Solution
- 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



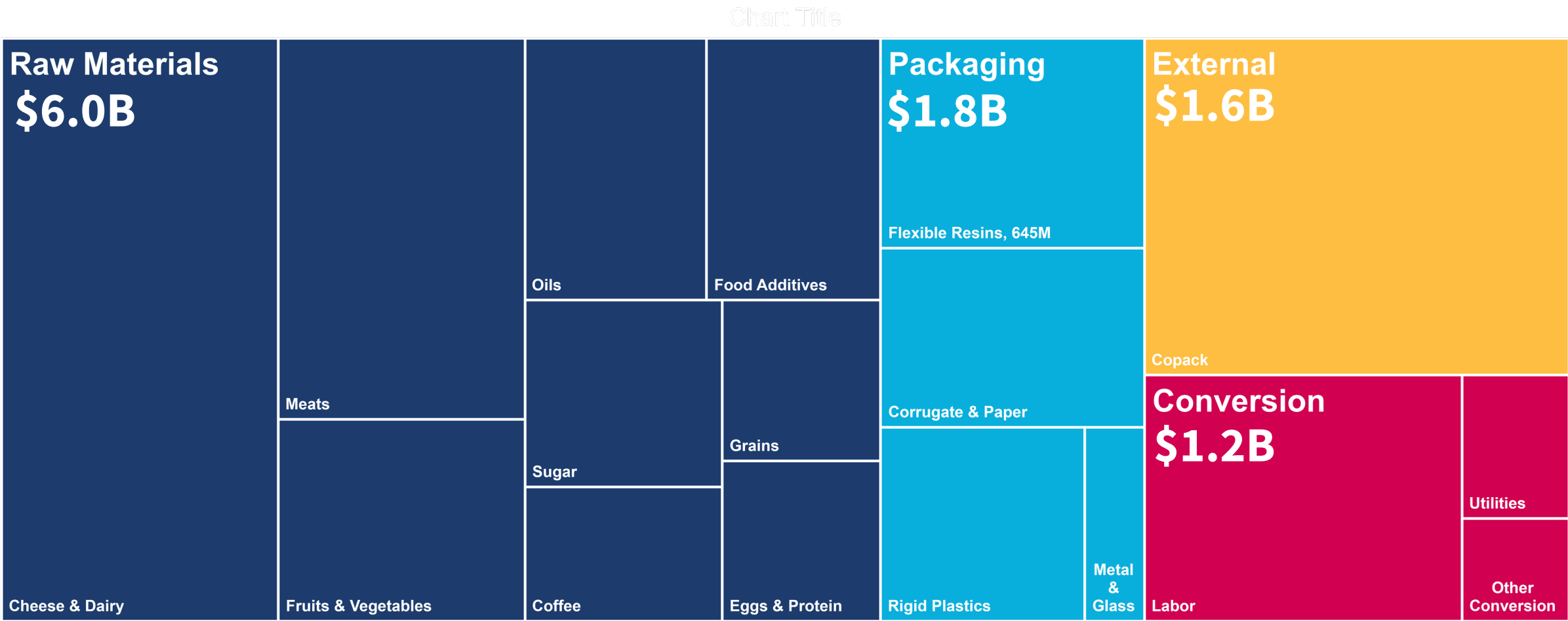
Supply Chain Finance Evolution

The scope and responsibility of SCF has increased significantly over the 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 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

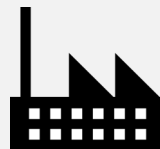
Direct Materials

*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 SAP PaPM Solution



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

To enable better decision-making:

- Accurate long-range Forecasting, allowing for quicker action on operational action to help 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 categories*

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

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)



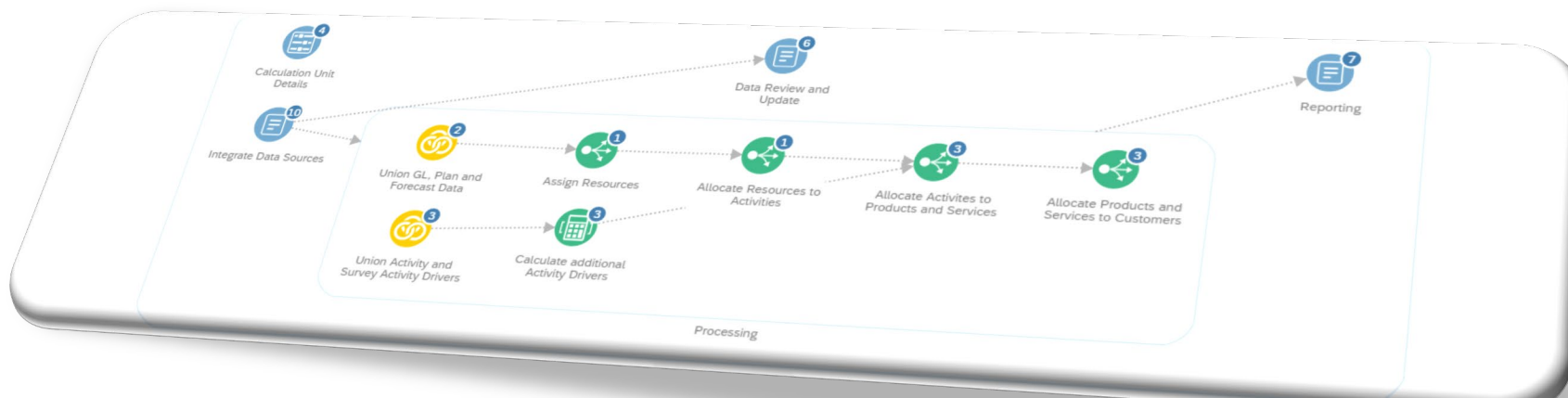
Calculation Engine: Ability to handle the data requirements necessary translate the forecast for >15k component materials that are inputs into >5k finished good skus



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



Excel Add-In: User-friendly Excel add-in to extract forecast 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



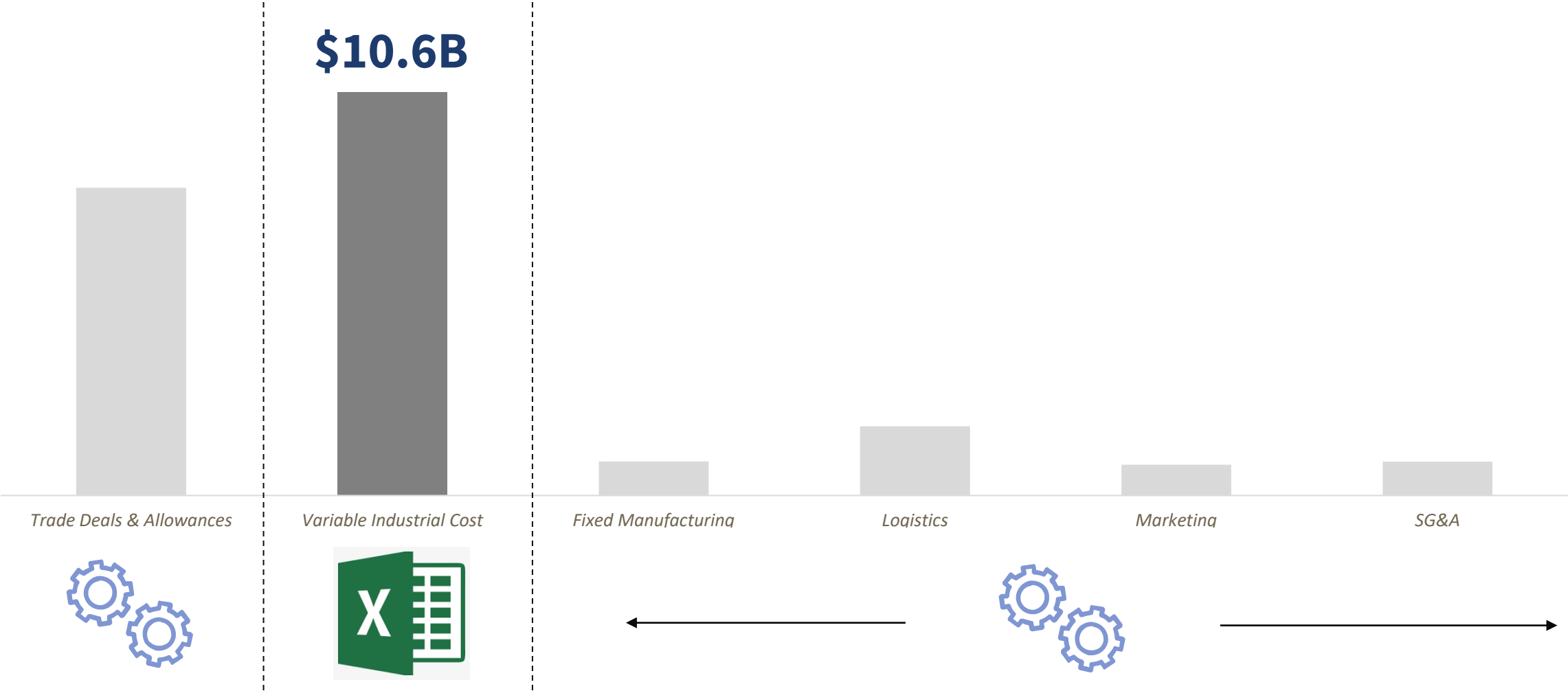
Embracing the Journey: Challenges and Overcoming Strategies

- 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 (consider adding an image of a training session)



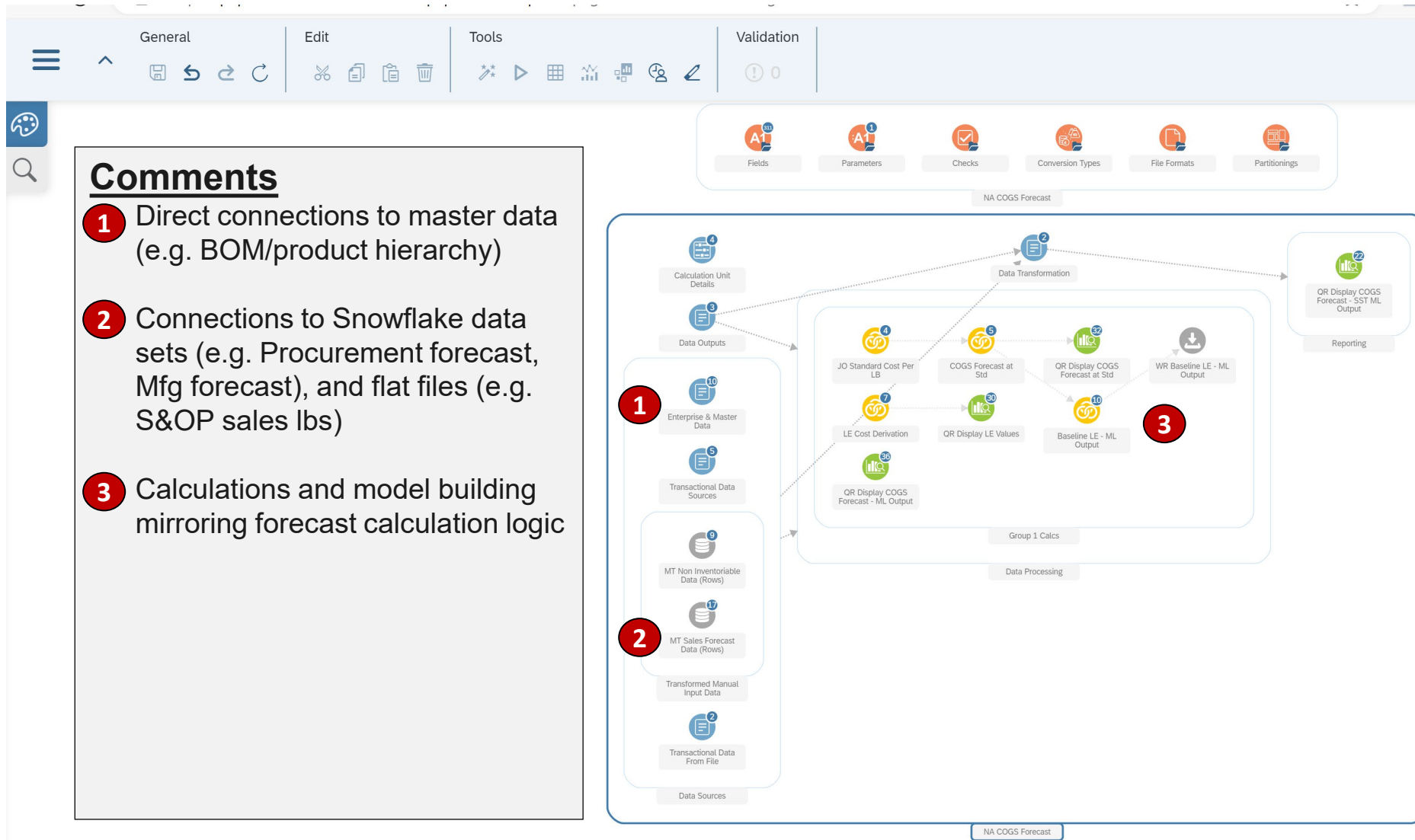
Introduction to SAP PaPM

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



*Values are fabricated for example purposes

Modeling



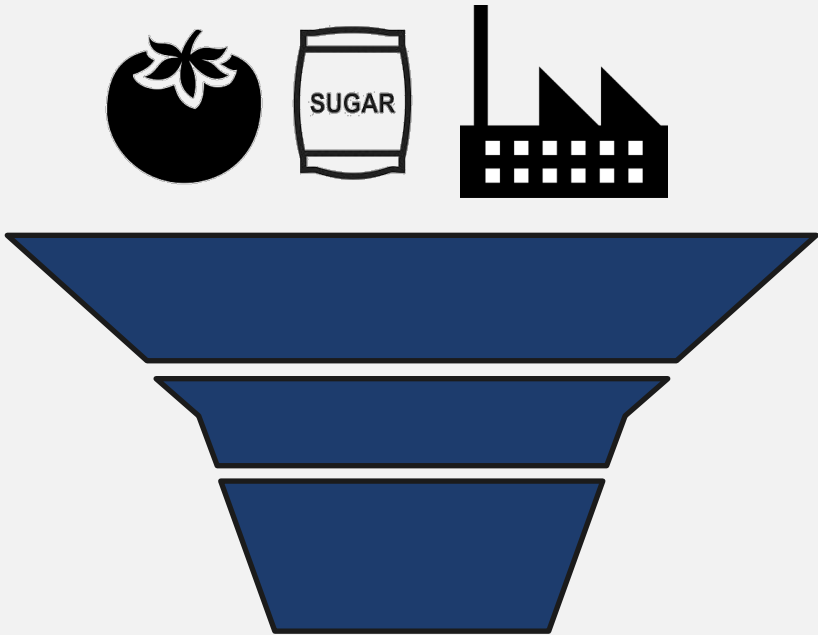






Modeling

The screenshot displays the SAP S/4HANA Fiori 'Forecast Explorer' interface. At the top, there are tabs for 'Edit', 'Layout', and 'Import & Export'. The 'Predefined filters' section includes: Forecast Period = 2023006, Sales Organization = US01, Period To Mapping = 2023006, BU Of Ownership = NA01NSNACKS, and EPM Of Ownership = NA01NKRFDTRES. A red circle '2' highlights this filter bar.

Forecast P	Data Source	Entity	Sales C	Sales Org N	Acct Cost Component ML View	Currer	Sales Volume LB	Std Cost Per L	Std Value
2023006	SALES_FCST	KFTUSZONE2	US01	KF US BU	- NRAWMATER001 ML Raw	USD	77,067,235.00	32.113424	3,577,558.
					1 110 Cheese	USD	7,701,586.00	0.039973	12,603.
					120 Dairy	USD	7,701,650.00	1.272513	102,637.
					130 Meat	USD	7,701,586.00	0.000000	0.
					140 Nuts	USD	7,701,586.00	0.000000	0.
					150 Coffee	USD	7,701,586.00	0.000000	0.
					160 Cocoa	USD	7,701,586.00	0.000000	0.
					170 Sugar	USD	7,718,649.00	3.652503	417,528.
					180 Grains	USD	7,701,883.00	0.370773	38,460.
					190 Oils	USD	7,718,474.00	12.676362	1,607,383.
					290 Other Raw	USD	7,718,649.00	14.101300	1,398,945.
					- NPACMATER001 ML Pack	USD	30,849,314.00	13.147152	1,431,212.
					310 Flexible Package	USD	7,710,430.00	0.009107	1,181.
					320 Paper/Cardboard	USD	7,718,649.00	3.672958	401,533.
					330 Rigid/Glass/Other	USD	7,718,649.00	9.465087	1,028,497.
					390 Purchased FG	USD	7,701,586.00	0.000000	0.
					- NVLEMATER001 ML VL&E	USD	46,294,831.00	6.254230	546,365.
					410 Direct Labor	USD	7,718,649.00	1.685386	157,152.
					420 Indirect Labor	USD	7,718,649.00	0.739213	71,609.
					430 Labor Benefits	USD	7,718,649.00	1.276390	116,063.
					510 Energy	USD	7,718,649.00	1.023405	106,029.

A red circle '1' highlights the first row of data (110 Cheese). On the right side, a sidebar shows selected columns: Forecast Period, Data Source, Entity, Sales Organization, Sales Org Name, Acct Cost Component ML View, Currency, Sales Volume LB, Std Cost Per LB, and Std Value. Below this, 'Row Groups' and 'Values' sections are visible, along with 'Column Labels'.

Input & Output Summary

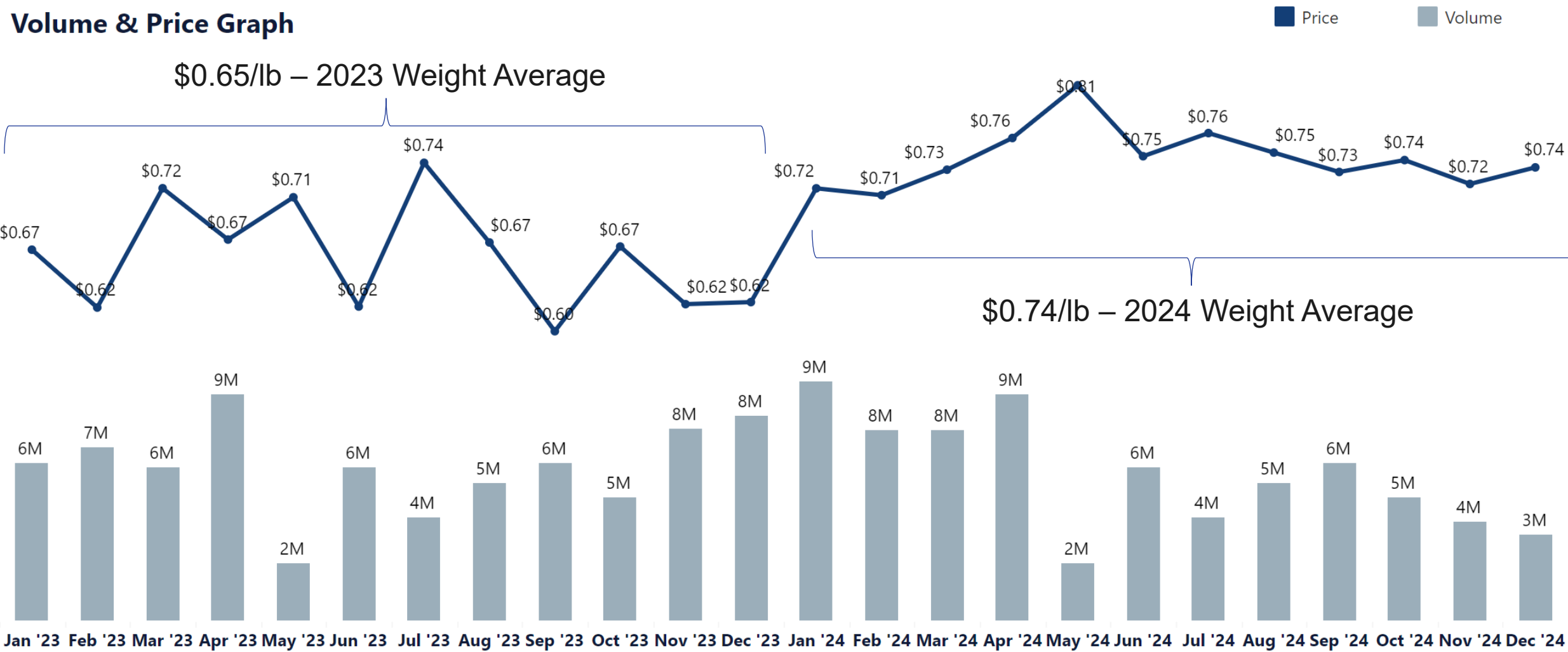
<u>What</u>		<u>Who</u>	<u>Where</u>	
1	Raw/Pack/Copack Forecast	Procurement		
2	Conversion Forecast	Manufacturing		
3	Bill-of-Materials	Central Ops		
4	Inventory Rates	Central Ops		
5	SST Actuals	Central Ops	ORACLE ePBCS	
6	Sales/Production Forecast	S&OP		
7	Non-Inventoriable COGS	Central Ops		

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

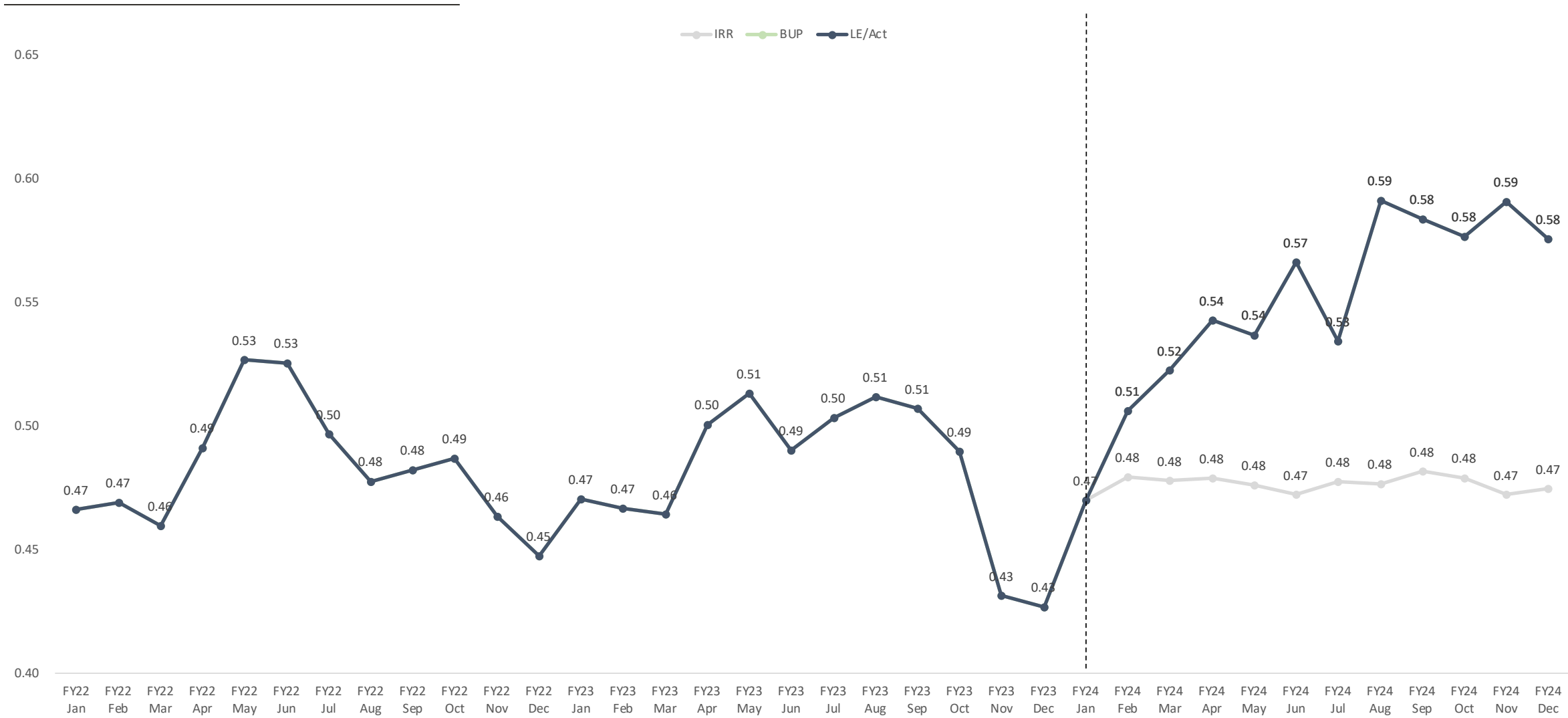
Volume & Price Graph



*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

KraftHeinz



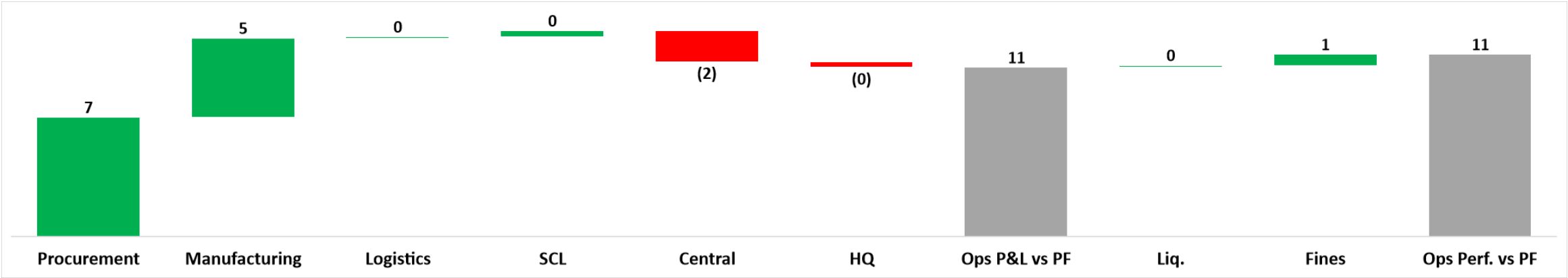
Achieving Greater COGS Forecast Accuracy

- 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 on 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

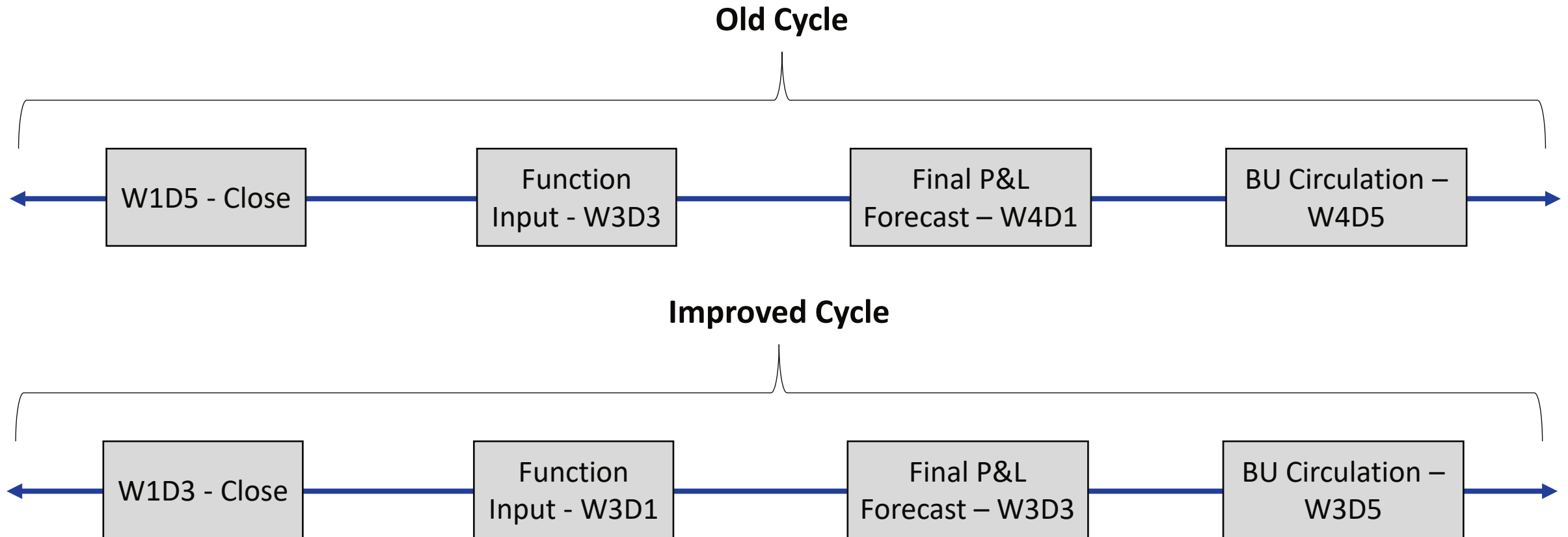
Full Category visibility, broken down by P&L Line and cost component

<i>In Millions</i>	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



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

KraftHeinz



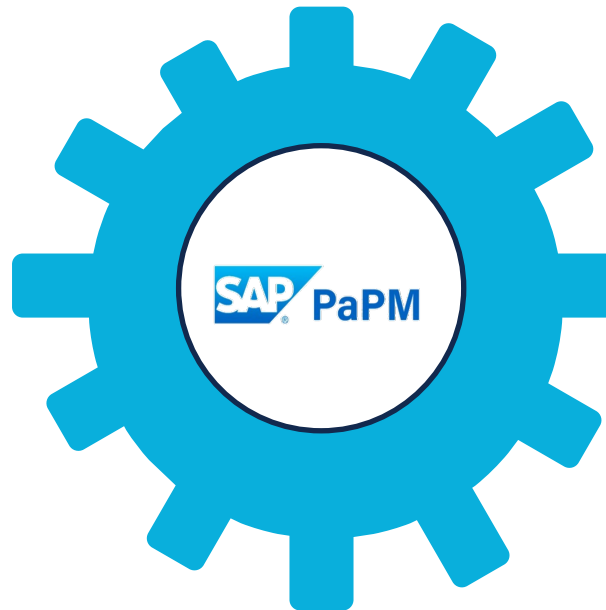
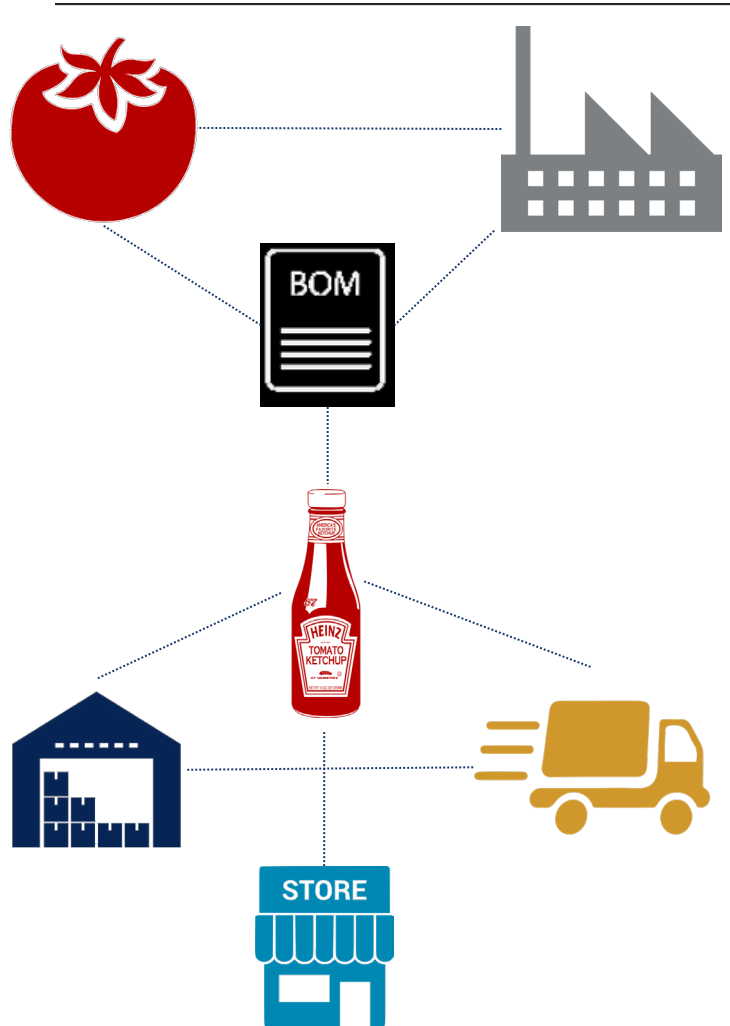
Stronger Together: A Look Ahead

- 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

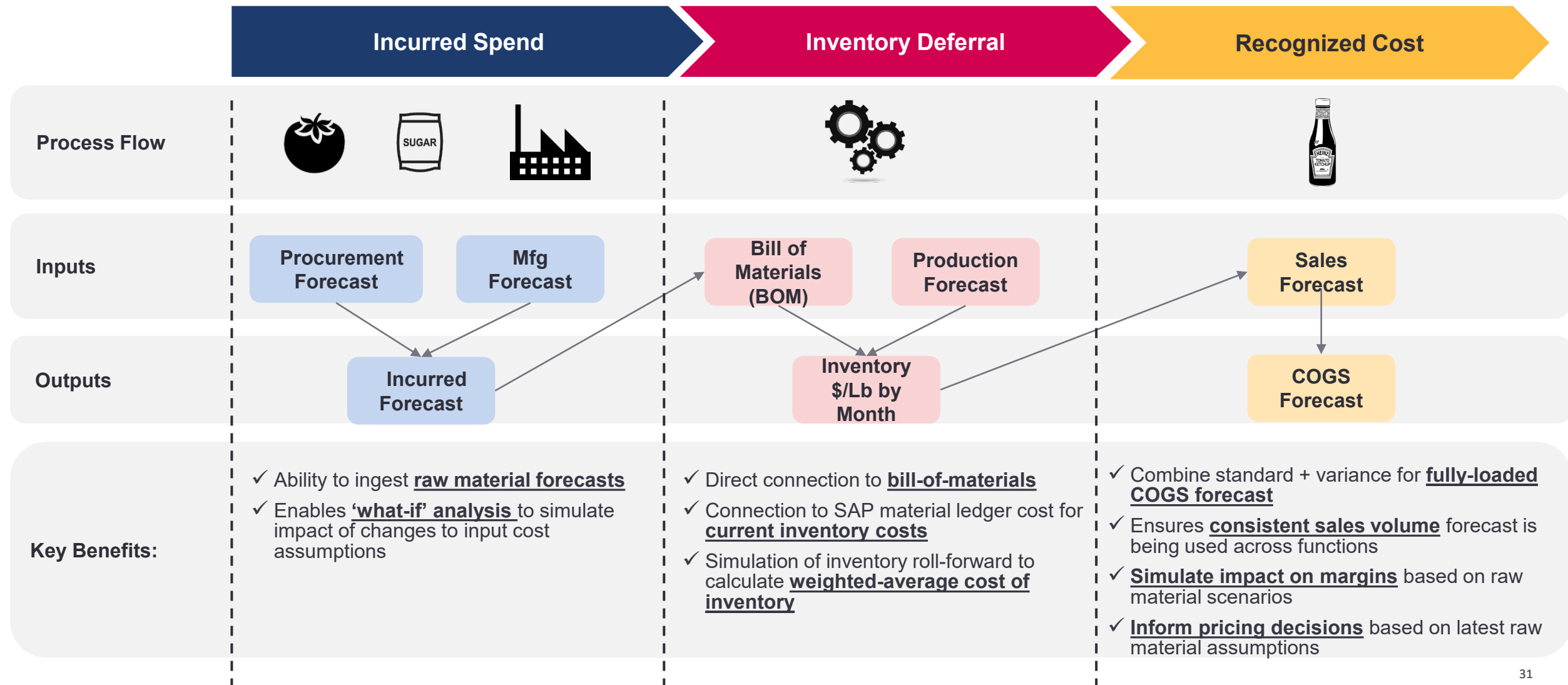
People with Purpose

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



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: '24 VIC @ Standard Rate Convergence - TMA



Kaminski, Mike


To

Vanden Bos, Joe; Akyel, Ayca; Scharrer, Patrick

Cc

Lamego, Andre; Zigelstein, Cole; White, Austin (Contractor); +3 others

Mon 4:29 PM

 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

Cc

Lamego, Andre; Zigelstein, Cole; Lyra, Marcelo; Toyama, Eduardo Hideki; Gromala, Jessica

10/26/2023


 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



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

RE: PaPM Milestone #1: VIC @ Standard Automation



Maxwell, Alison

To

Vanden Bos, Joe; Pinto, Jayme; Kaminski, Mike; Sohi, Ashish; Shebek, Nick; +5 others

Cc


Lamego, Andre; Zigelstein, Cole; Lyra, Marcelo; Toyama, Eduardo Hideki; Gromala, Jessica

10/26/2023

 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



Scharrer, Patrick


To

Vanden Bos, Joe; Kaminski, Mike; Akyel, Ayca

Cc

Lamego, Andre; Zigelstein, Cole; White, Austin (Contractor); +4 others

Fri 7:12 AM

 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

Cc

Srivastava, Mehul; Lyra, Marcelo; Mello, Andre; +4 others

11/16/23

 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! 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.



**Sample full image
with text overlay**

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