



Unlocking the potential of cost and profitability management

Leading company insights
2020 KPMG Cost
Management Benchmarking

June 2020



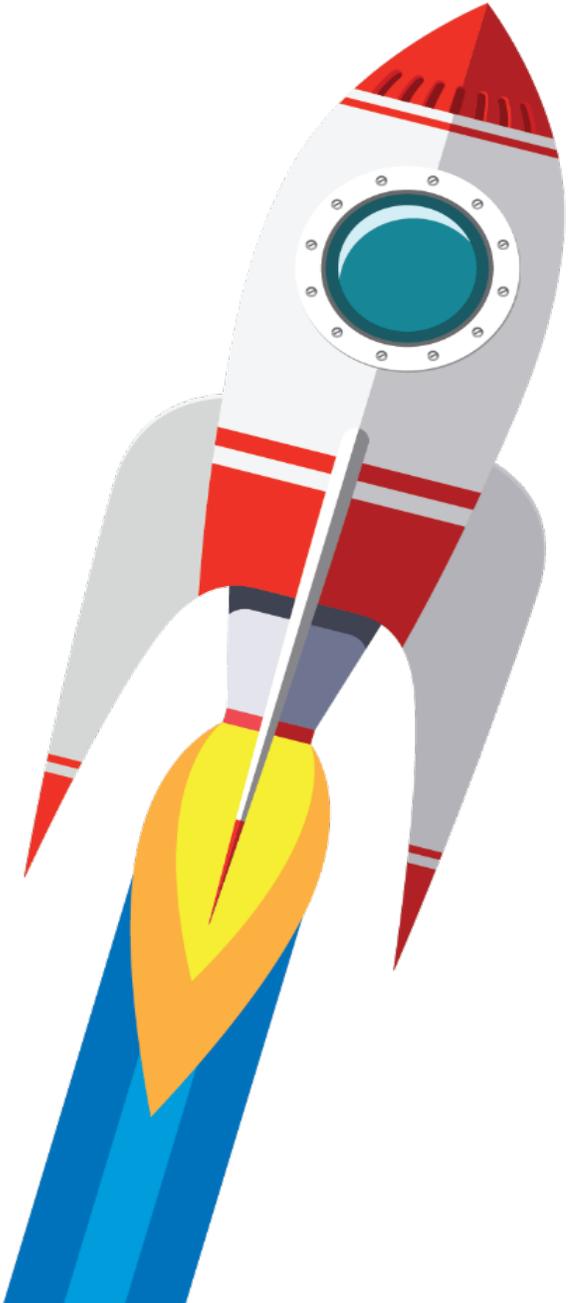


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Introduction

In today's complex and quickly evolving business environment, CFOs need real-time and granular insights into the cost of their businesses, products, customers and different activities in order to monitor performance, be able to identify improvement and investment opportunities and make the right strategic business decisions. Finance Managers need an accurate view on what is driving costs to be able to quickly take corrective actions when needed, while pricing teams need to set prices based on accurate cost and margin information.

The 2020 KPMG Cost Management Benchmarking exercise focused on identifying current industry trends as well as insights into how leading companies in manufacturing sectors deliver their costing capabilities, and what key challenges they are currently facing when doing so. ⁽¹⁾

Our point of view on this 2020 KPMG benchmarking edition's results are the following:

- 01 Cost and Profitability Management is a high priority on the CFO agenda.** The importance of cost and profitability management is increasingly recognized on the CFO agenda, given the significant strategic benefits it can provide.
- 02** Companies still face **challenges in balancing the efforts spent** to deliver the costing capability against realized benefits and outputs. Key actions to improve efficiency of the costing processes across benchmarking companies include increasing system automation and integration, but also improving (master) data quality and stepping up data cleansing efforts.
- 03** Finance cannot deliver the costing capability alone. To unlock organization-wide buy-in and realize lasting benefits, Finance should collaborate (more) with other functions within the **organizational value chain of costing**.
- 04** Companies should **move away from the spreadsheet-driven costing operating model** to improve process efficiency and costing output quality, especially for delivering flexible and real-time cost performance reporting.
- 05** ...and **integrate costing systems in the overall enterprise system architecture**. Key system improvement areas observed across the companies include further integration between production management systems and costing/ERP systems, as well as harmonization of (master) data, data definitions and rules across the different systems and sites/plants.
- 06** But don't forget: **it's more than just a calculation in a system**. Finance should avoid the common pitfall of centering its focus and efforts for costing exclusively around the technology and cost calculation components of its costing capability and consider the full costing **Target Operating Model (TOM)**.

Contact us to find out more or get the full benchmarking results

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2020 KPMG Cost Management Benchmarking Report



We analyzed the objectives and approach to cost management and cost performance reporting in the pharma, consumer goods and industrial manufacturing sectors.

KPMG performed interviews with international companies in these manufacturing sectors in the course of Q4 2019 - Q1 2020, with benchmark company sizes ranging between \$0,5 billion and \$60 billion revenue per year. The objective was to evaluate the strategic benefits, the tactical costing model and the target operating model of their costing delivery capabilities.⁽¹⁾



Benefits of costing

Why costing is performed and how it contributes to the company's strategic objectives



Key principles of the costing model

Accuracy and granularity of the costing model



Operating model for costing

The maturity of the target operating model supporting the costing model

⁽¹⁾ Benchmarking was completed before commencement of the global COVID-19 crisis. The benchmarking results therefore do not include any changes in costing strategies and/or costing capabilities the benchmarking companies might have performed because of the crisis.



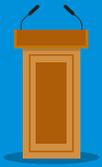
Summary

Our point of view on the 2020 KPMG Cost Management Benchmarking results:

01

Cost and profitability management is a priority on the CFO agenda

The strategic importance of cost and profitability management is increasingly recognized on the CFO agenda, given the significant strategic benefits it can provide.



02

Balance accuracy against efforts to maintain realized benefits

Key improvement areas we see to increase process efficiency across companies we spoke to include increasing system automation and integration, but also improving (master) data quality and stepping up data cleansing efforts.



03

Collaborate in the organizational value chain of costing

Finance cannot deliver the costing capability alone. The Finance function needs to collaborate more with other functions to fully unlock costing benefits.



04

Move away from the spreadsheet driven model

Finance should try to move away from the spreadsheet driven costing operating model to improve process efficiency and costing output quality, especially for delivering flexible and real-time cost performance reporting.



05

... with integration in the overall finance system architecture

Key system improvement areas observed across benchmarking companies include further integration between production management systems and costing/ERP systems as well as harmonization of (master) data and data definitions and rules across sites/plants and systems.



06

But don't forget: it's more than just a calculation in a system

Companies should avoid the common pitfall of exclusively centering focus and efforts around the technology and cost calculation components of the costing capability. Costing is more than "just" that.



01 Why Cost and Profitability Management matters

The strategic importance of costing is increasingly recognized on the CFO agenda.

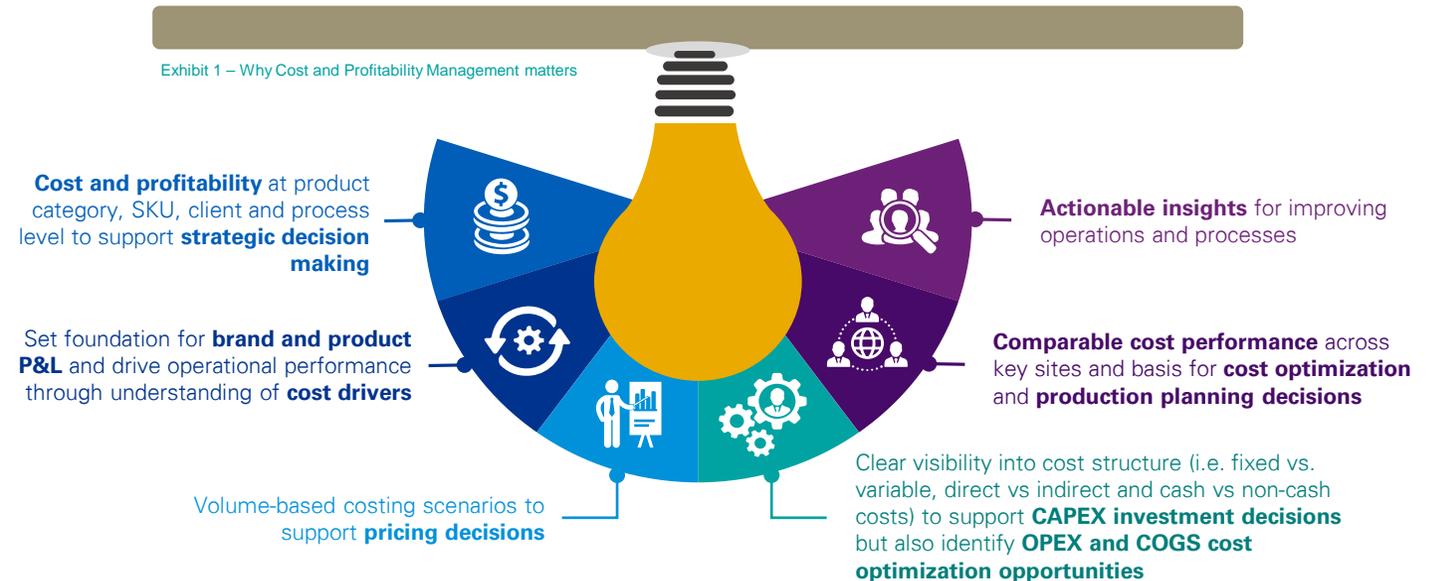
Cost performance reporting in particular - the ability to provide granular reporting on what is driving costs and cost variances (standard vs. actuals) on single product, brand, market, service, process, or customer levels – is one of the key CFO priorities we see at the companies we spoke to.

The large majority of these companies are either already delivering such granular cost performance reporting, or are planning to do so. Yet, as we will see later in the benchmarking results, several companies struggle to deliver actual costing capabilities with the right focus at the right level of efforts.

Other key strategic objectives of costing mentioned by the benchmark companies include:

- Support pricing decisions based on volume-based scenarios and on an accurate split of variable vs fixed costs per product and cost per activity/process;
- Provide insights into Operating Expenditure (OPEX) and Cost of Goods Sold (COGS) cost optimization opportunities;
- Provide insights into costs to serve per customer and process;
- Perform internal benchmarking of site (cost) performance, also for production planning decisions;
- Identify opportunities for operations and process improvements;
- Support Capital Expenditure (CAPEX) investment and marginal production decisions.

Exhibit 1 – Why Cost and Profitability Management matters



02 | Balancing accuracy against efforts to maintain

One of the key challenges which benchmarking companies face when defining the appropriate costing model is finding the right balance between costing model accuracy and granularity on the one hand (e.g. accurate cost reporting on granular dimensions such as different products and clients through appropriate cost component structures and cost absorption levels) and the cost/efforts to deliver this on the other hand.

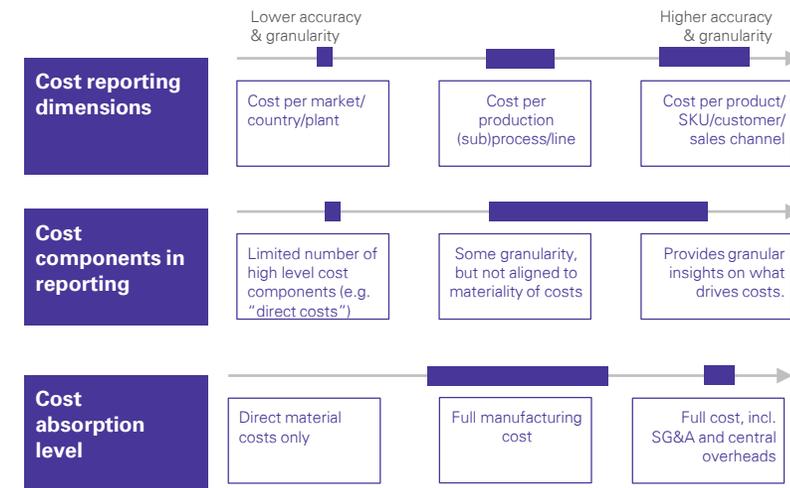
A general trend that can be observed across the benchmarking companies is that companies who are able to calculate and report on an accurate granular level, do so at a relatively high organizational effort.

Key root causes of such high organizational effort include for example:

- Low product costing data quality and master data quality with different definitions being used across sites and across different financial and operational reporting;
- Limited regular cost data (e.g. standards) review and data cleansing;
- Biased costing results/reporting due to low standardization of costing processes and related process/calculation rules across sites/businesses;
- Low system automation and integration with, for example, no dedicated costing solutions other than MS Excel, ERP systems not being harmonized across sites, no existing automated interface between operational/production systems and ERP systems, and no single interface between ERP systems and central costing systems.



Costing model accuracy and granularity



Efforts spent to maintain costing model

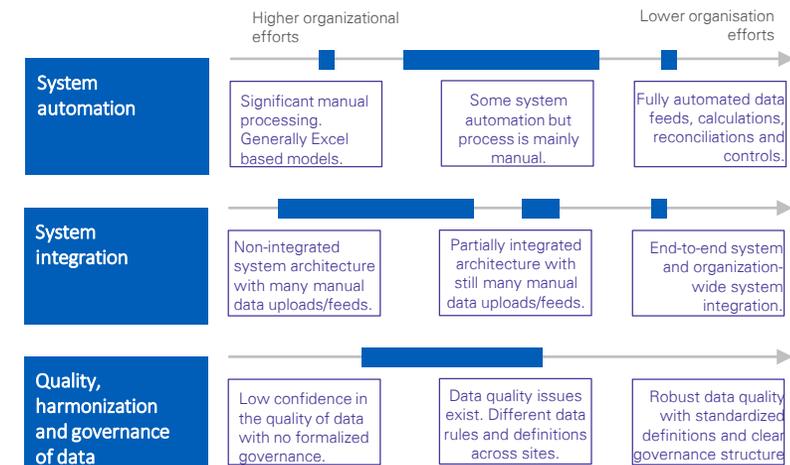


Exhibit 2 – Accuracy and granularity of the costing model of the benchmark companies

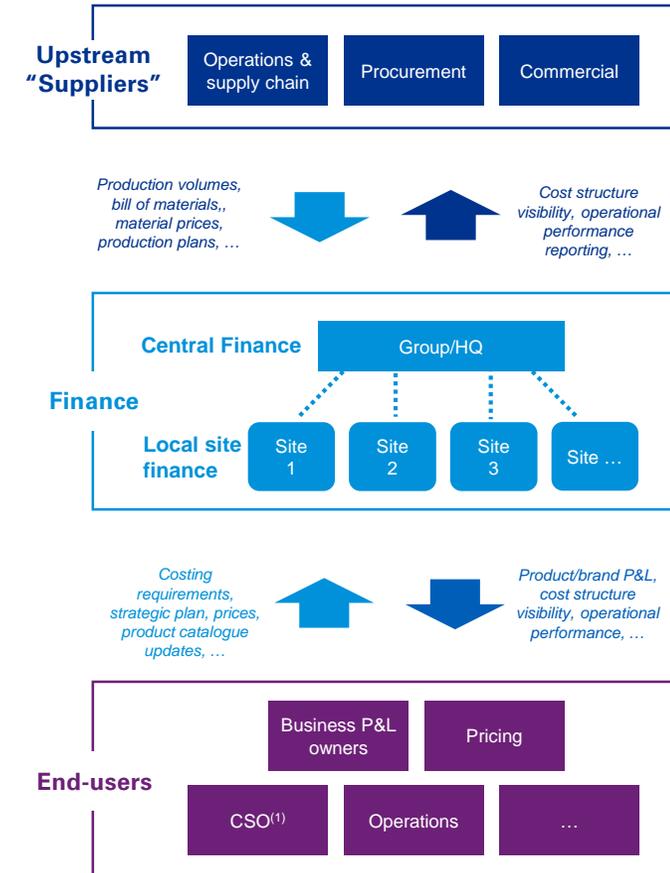
03 | Unlocking the organizational buy-in

Cost and Profitability Management can not only provide benefits and value to different end-users within the organization (e.g. pricing, commercial, operations and business P&L owners), the added value of costing outputs also strongly depends on the ability of Finance to obtain sufficient buy-in and collaboration with other functions in the organization outside the Finance function.

One of the key challenges mentioned by the majority of companies we spoke to is obtaining sufficient buy-in from, and having sufficient interaction with these (other) organizational stakeholders. Typical symptoms of broken or ineffective internal value chains for costing shared by the benchmark companies include cost (performance) reports from Finance that are not used by the business, separate costing exercises with different calculations and outputs that exist outside of Finance, product costing results that are not based on accurate production planning data and insufficient collaboration and follow-up with the teams that are managing master data in and outside ERP systems.

The potential of costing can only truly be unlocked through the existence of an organizational value chain for costing with a costing process that is business-owned, and Finance led.

Exhibit 3 – The organizational value chain of costing



(1) Chief Strategy Officer

04 Moving away from the spreadsheet-driven model

Only a minority of companies we spoke to currently have central costing solutions in place that are not 'ERP + spreadsheet' driven. Such dedicated central solutions can be off-the-shelf or in-house built solutions that are compatible with and have direct feed from ERP systems and/or data warehouses.

The advantages of dedicated costing solutions in comparison to spreadsheet-driven ones can be considerable, including higher automation (leading to for example less efforts spent on period-end activities), the ability to cope with more accurate costing models than ERP only solutions, but also real-time and flexible reporting.

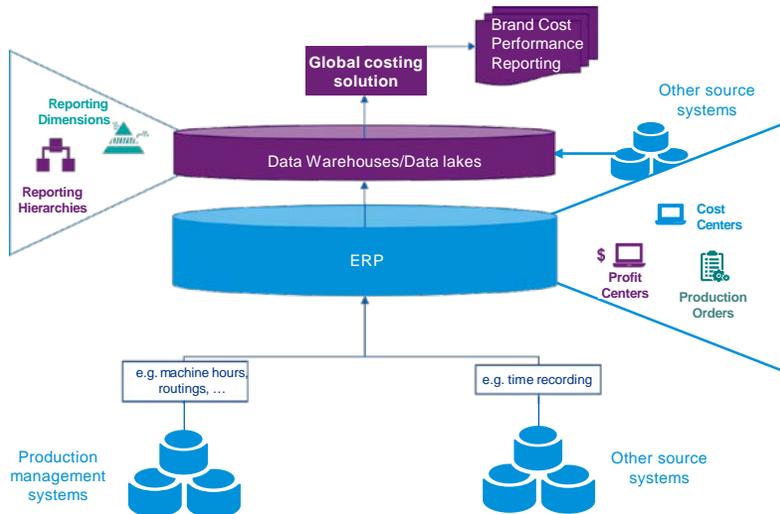


Exhibit 5 – Example of system architecture for costing

Tooling options

	ERP solution	ERP + BI solution	ERP + dedicated costing tool
Pros	<ul style="list-style-type: none"> Real-time availability of Actual Costing information End-to-end actual cost execution and reporting capability within ERP No additional licensing costs 	<ul style="list-style-type: none"> The solution is 'lighter': likely a faster implementation Does not require operational system changes Easier change process and change efforts that mainly impact costing team 	<ul style="list-style-type: none"> Provides drill-down capability and granular details to SKU level Gathers inputs from structured and unstructured sources Intuitive and easy to use Quick Proof of Concept and rapidly scalable
Cons	<ul style="list-style-type: none"> Can only deal with limited costing model complexity, granularity and reporting flexibility Performance drag due to data intense nature of activity Often high costs of configuration and timeline to realize improvements 	<ul style="list-style-type: none"> Can only deal with limited costing model complexity and granularity May require new resources to manage analytical requirements 'Ground up' configuration required for BI tool Adds additional 'silo' to finance systems landscape 	<ul style="list-style-type: none"> May require SAP master data changes May add to knowledge, capability load on embedded Finance teams

Exhibit 4 – Pros and Cons of tooling options

05 ... with integration in the overall system architecture

System automation and integration go hand-in-hand to perform costing in a more value-adding and efficient manner. Very few of the benchmark companies however have a consistent end-to-end - from local site data systems to group reporting systems - integrated system architecture for costing, although several of them are planning or already starting to improve their system integration.

Typical improvement areas with regard to system integration we currently see in the market include more automated data feed from production management systems (e.g. with activity rate information) into ERP systems, harmonized data feed across different ERP systems, and consistent and integrated master data management across the entire system infrastructure.

06 | But don't forget: it's more than just a calculation in a system

A common reason why the implementation of costing systems or large finance transformation projects for improving costing capabilities fail or take much more time/efforts than expected to succeed, is that such transformation projects are sometimes erroneously centered exclusively around the technology and cost calculation components: how to calculate the cost per product, brand, customer, ... what allocation keys (machine hours, labor hours, ...) to use, how to calculate these rates, and how to embed and integrate all data and the calculations in the system.

Other key dimensions of the target operating model - such as embedding costing in the full organization, ensuring sufficient automated data feed and system integration, and attaining high (master) data quality and consistent application of standardized processes, rules and definitions across sites - are often forgotten or not sufficiently prioritized.

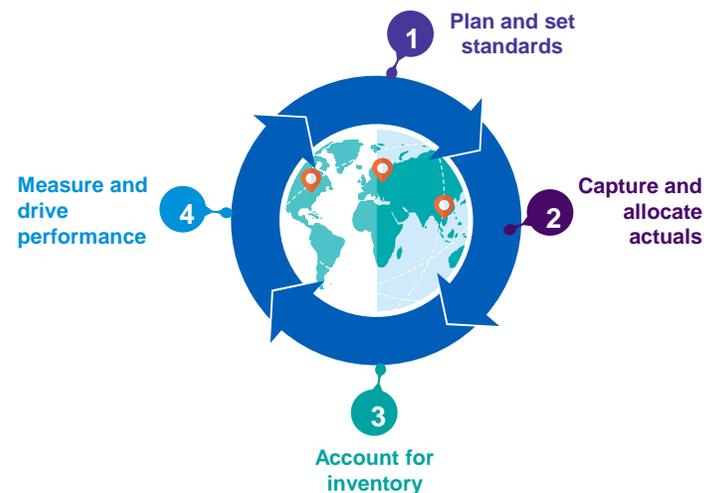


Exhibit 6 –The costing target operating model – leading practice examples

 Reporting	<p>Performance insights through both a manufacturing and product/customer lens</p> <p>Inventory reports accurately reflect product level COGM at period-end</p> <p>Advanced analytics and visualization tools are fully integrated with calculation engine</p>
 Policy	<p>Globally standardized costing calculation roles, definitions and approach adopted by all sites</p> <p>Processes, including period-end process, are understood and consistently applied across all sites. Corrections are made at source</p>
 Process	<p>Clear roles and responsibilities across functions and central vs. local Finance</p> <p>Manufacturing Variances stocking and release approach leads to accurate brand P&L and inventory view</p>
 Technology and (Master) Data	<p>Fully automated data feed and calculations, with low reconciliation efforts</p> <p>Data recorded at source and flowing to actual costing system without intervention</p> <p>Monthly updated actuals for allocation targets through continuous update of data and accurately maintained master data</p>
 Delivery Model and People	<p>End-to-end costing value chain: business-owned, Finance governed costing approach</p> <p>Time focused on performance and forward-looking analysis and optimization</p>

The result: a complex and/or over engineered calculation method and costing solution which do not provide consistent and accurate results with a costing process which is not sufficiently embedded in and beyond the finance organization, leading to costing outputs that do not provide the envisaged value to the business.

Therefore, when engaging in your next transformation project, don't forget that costing is more than "just a calculation in a system".

How KPMG can help

How KPMG can help

The KPMG Cost & Profitability Management Competence Center located in Brussels hosts a large international team of Subject Matter Experts. We advise our clients with various cost transformations: from strategy and design to the implementation of improved costing operating models.

How we can help...



Costing Target Operating Model

Improve your costing operating model to facilitate strategic decision making, from data, processes, rules and definitions, and systems to reporting and controls.



Cost Performance and Profitability

Enhance your reporting with multidimensional reporting and analytics to gain insights into what drives costs, cost performance (actuals vs planning) and profitability of your businesses, products, customers and markets



Regulatory Costing

Not only accurately meet regulatory reporting requirements, but also harmonize and unify your regulatory costing with business costing needs.



Cost Efficiency and Control

Identify sustainable opportunities on a OPEX, CAPEX and TOTEX level to better manage costs and profitability taking into into account the value-add of activities



Tooling: Selection & Implementation

Select and deploy the right costing tooling based on your needs and finance organization model. We can assist you in this journey.

... based on our experience with typical challenges we see at our clients

"We lack insights into what's driving costs between our different products, brands, services and customers"

"How do we need to account for large cost variances through balance sheet and/or P&L absorption"

"Costing rules, definitions and policies vary significantly between different sites and business leading to difficult comparisons"

"The business has low confidence in the cost reporting and insights that we provide "

"We want to find opportunities to improve our SG&A spent and overall budget control mechanisms"

"We want to improve (master) data quality and master data management governance"

"How can I accurately report on, and eliminate intercompany profitability"

"My ERP is not set up for my costing processes, and does not drive cost reporting"



Detailed benchmark results

**Contact us to get the full benchmarking results
and find out how well you score**

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