



## SAS® Profitability Management

Use high-volume, granular profitability analysis to manage profit as a performance metric

### Overview

You can only calculate true segment profitability by allocating expenses and revenue to specific business segments. The ability to do this accurately depends on how revenue and costs are managed and tracked. Customer revenue is typically straightforward and often associated automatically with business segments through sales orders, invoicing or funds transfer systems. Costs, however, aren't calculated for business segments as easily since IT, operational, distribution and administrative functions generally support multiple business segments simultaneously. Traditional costing systems allocate shared and indirect expenses to business segments using arbitrary volume-based allocations with broad averages (e.g., revenue, direct cost or number of customers), which usually results in severe over- and under-costing.

**SAS® Profitability Management** uses flexible and reliable cost-and-revenue business modeling to provide critical cost and profitability intelligence – including insights into what drives that profitability. By better understanding profitability drivers, you can make quick improvements in areas that have the greatest impact – such as differentiating customer treatments to retain, grow and acquire customers with the highest expected lifetime value. You can also set reliable profitability metrics, budgets and targets throughout the enterprise – from the division level right down to the individual customer, product or channel if desired.



### Challenges

- Measuring revenue without understanding profitability.** Standard cost accounting systems use too broad a brush to properly allocate costs to products and customers, and current methods for calculating profitability – where available – cannot calculate at the appropriate level of detail due to the sheer volume of data on disparate systems.
- Poor investment decisions and higher cost to serve.** If you don't understand the profitability that each customer, offering and channel contributes to the organization, you cannot know which products to grow or eliminate, nor can you make decisions on the most appropriate level of service to provide.
- Ineffective customer segmentation.** There's no way to effectively manage customers based on their level of profitability, nor optimize marketing initiatives and provide value-appropriate experiences.



## The solution

**SAS Profitability Management** is built on the SAS Business Analytics Framework, which optimally integrates individual technology components within your existing IT infrastructure into a single, unified system. The result is an information flow that transcends organizational silos, diverse computing platforms and niche tools – and delivers new insights that drive value for an organization.

SAS Profitability Management calculates profitability at a more granular level than has ever been possible with traditional activity-based management systems. The solution enables decision makers to manage profit as a performance metric, with the ability to:

- Understand revenue and cost drivers.
- Segment the customer base.
- Identify, measure and manage an accurate representation of the value of a customer, product or channel and the characteristics of each varied business segment.
- Analyze costs to serve.
- Measure profitability at the transactional level.
- Define and redefine segmentation reports on the fly.
- Test and execute new strategies.

## Why SAS®?

SAS Profitability Management applies user-defined assignment rules – not arbitrary costs and broad-brush averages – so you can accurately allocate shared and indirect costs to products, services, channels and customers. The solution lets you:

- **Associate costs and revenue with individual business transactions**, using robust, yet highly flexible analytics to calculate profit and loss at the most detailed level.
- **Actively manage profitability as a performance metric** down to the most granular level – across billions of transactions and interactions.
- **Understand why and how** individual customers and products affect the bottom line.
- **Gain insight into key drivers and trends** so you can make strategic decisions to effectively grow the business.

Decision makers across the enterprise – from finance to marketing – can investigate issues and develop corrective actions. Designed for executives, line-of-business general managers, P&L owners, controllers, finance/accounting analysts, IT and marketing sales managers, the solution enables organizations to track the profit performance of customer groups or individual customers, product groups or individual SKUs, channels or specific branches with drill-down and at-a-glance views into the supporting data.

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“With a full profitability system, you can actually incent on profitability. That’s what we have done with commercial banking, so [managers] are focused not just on cost reduction, not just on fee income, but on the whole package. What is it really about the customer that makes them profitable?”

### Loraine Dexter

Senior Vice President, Management Reporting  
Mutual of Omaha

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This drill-down view into revenue, cost and asset categories enables you to manage profit as a performance metric. Such a level of granularity has not been possible with traditional activity-based costing systems.

Decision makers can even define and redefine the segmentation reports they need on the fly. Removing delays in centralized report creation improves productivity as field personnel create their own reports as needed.

## Benefits

### Greater confidence, strategic insights and bottom-line growth

- Accurately model costs and revenues at the transaction level (the level where the costs are incurred).
- Make strategic and tactical decisions that affect the bottom line.

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### **An accurate and insightful view of segmented profitability**

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- Prepare P&L reports by segment from top to bottom – from division summary to individual customer or SKU.
- See the actual costs and profitability scores assigned to specific customers, products, channels, etc.
- Distribute profitability information throughout the organization to those who need it, in a format they can understand, through powerful multi-dimensional reporting.

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### **Direct the right customers to the right products on the right channels**

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- Make better decisions on how to price offerings.
- Determine how best to segment and migrate customers across channels.
- Identify which channels to promote, which to prune and how to appropriately resource the productive ones.
- Decide which products to retire and which to promote.
- Create a single holistic view of the customer across the entire enterprise.

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### **Identify the true value of customers, products or channels – and how they became that way**

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- Measure and track the profit performance of customer groups and individual customers, product groups and individual SKUs, channels and specific branches, or a combination of these.
- Define and redefine segmentation reports on the fly.

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### **Accurately model costs and revenues where costs are incurred**

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- Model costs at the transactional level so you can make confident strategic and tactical decisions that will positively affect the bottom line.
- Detect potential problems, identify opportunities for improvement and turn those opportunities into action.

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### **Use profitability as a metric**

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- Use profitability as a metric not just at the enterprise level, but right down through divisions and departments to the product, customer and channel levels.

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“Intensifying focus on profitability analysis – customers, products, orders and channels – requires attributing cost to revenue. Allocation models don’t readily reflect real cost. It’s all about profitability. I’ve done a lot of research on the pricing and profitability management market lately, which is all about setting and getting the right price to increase margins on a deal-by-deal basis.”

**John Hagerty**  
AMR Research

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## **■ The SAS® difference**

- **Scalability.** Accurately calculate revenue and costs for an extensive number of products, channels and customers at frequent time intervals for substantial volumes of cost drivers and transactions never before possible.
- **Ability to calculate costs at the individual transaction level.** Accurately model costs and revenues where they are incurred – at the transaction level – for the most accurate representation of profitability.
- **Multiple costing and management methods.** While many vendors are tied to a single or limited approach, SAS does not force you to use any one specific methodology; this gives you the flexibility to model the way your business is designed.
- **The most advanced analytics available.** Profitability is a key metric in many analytic efforts, such as forecasting customer or product mix, distribution analysis, lifetime value, best-fit models, etc. You can feed your revenue, cost and profit data into SAS Analytics and derive more credible results.
- **Shared technology platform.** The SAS Business Analytics Framework provides common metadata, integrated reporting, advanced analytics and cross-platform data integration. Multiplatform and mixed platform support allows you to fully exploit your IT resources.

## About SAS

SAS is the leader in business analytics software and services, and the largest independent vendor in the business intelligence market. Through innovative solutions delivered within an integrated framework, SAS helps customers at more than 45,000 sites improve performance and deliver value by making better decisions faster. Since 1976 SAS has been giving customers around the world THE POWER TO KNOW®.

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