



"A Better Use of Information"

**Alta Via Consulting, LLC**



## How Clients Have Successfully Used PDCE

WHITE PAPER

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**DEVELOPING AND WORKING WITH COMPLEX COSTING SYSTEMS**, has always been Alta Via Consulting's forte. So when our customers expressed their frustration to perform product-costing simulations with their existing tools, we took action to find a solution for this operational shortfall.

After raising the issue to our SAP Enterprise Resource Planning business partner, we worked together to design, configure and test a new costing simulation approach called *SAP Product Design Cost Estimate* or PDCE. Due to our involvement in creating this new tool, Alta Via has become the PDCE subject matter expert to help clients who are seeking information, proof-of-concept data and/or implementation assistance to fulfill their product costing needs.

### HOW HAVE CUSTOMERS USED PDCE?

THE FOLLOWING LIST REPRESENTS CLIENT CASES involving successful PDCE implementations and/or proof of concept projects.

#### ***McCormick & Company – Consumer Products (USA)***

McCormicks, the international spice and flavoring company, needed a solution to replace its legacy quotation system for the Industrial Flavor Solutions business unit. After implementing PDCE, McCormick's price analysts can now perform a complete cost estimation, including simulation for the best production locations and quality processes per product. Their process time was reduced from several days for a single cost estimate down to a couple of hours, including production and volume optimization analysis. Another key PDCE feature was they now had the ability to differentiate McCormick after-sales services based on customer value and/or volume, thus balancing quality time with quality customers.

#### ***FMC – Oil & Gas (Denmark)***

Planning and constructing an oil rig does not happen overnight. For FMC, a leader in technology solutions for energy production and processing systems, it required a very long process of close collaboration between the design and controlling departments to achieve the best technical solution within a reasonable financial range. To help accomplish this operational goal, FMC used SAP CQM (Cost and Quotation Management) and PDCE to increase their production and reduce the cost of offshore oilfields.

#### ***STIHL – Industrial Machinery (Germany)***

STIHL, the premium name in outdoor power equipment, realized the transformative power and potential of PDCE throughout its global operations. STIHL used the costing estimate and simulation capabilities of PDCE for benchmarking their production costs across seven manufacturing facilities. Their benchmarking was achieved by importing the ERP cost estimates into PDCE, to better align their operations and optimize their transfer prices.

#### ***Automotive Supplier (France)***

In the automotive world, this automotive supplier experienced growth through innovative acquisitions. However, the result of these acquisitions led to inheriting many business units with a history of very diverse costing and pricing strategies. Therefore, the challenge was finding a shared costing methodology to be used successfully and universally across all business units. This supplier also needed to find a way to effectively collaborate and become further integrated with their downstream customers, the car manufacturers.



SAP CQM (Cost and Quotation Management) was evaluated and selected as the tool of choice. Since CQM and PDCE integrates with SRM (Supplier Relationship Management), connection to cFolders, and workflow from the portal, all the divisions began working together to align their cost and price strategies plus gain effective client communication through this solution. The conclusion being that PDCE provided a base costing model (called data basis) for each business unit to propel this automotive supplier forward.

### **High-Tech (China)**

A proof of concept was the goal for a high-tech company that needed to combine its internal production with a network of OEM production facilities. This proof of concept was led by the purchasing department who needed to be able to evaluate procurement savings over the next rolling 12-month period, based on future material prices and planned discounts. They wanted to reach beyond a simple unit-based savings environment to the ability of using a cost estimate run to simulate the overall impact of supplier negotiations. This company realized that saving \$1 on a key material used in 50,000 machines was more significant than saving \$10 on something used only 100 times.

The project entailed that we replace their legacy system with a PDCE solution, importing the ERP system's BOMs and use third party data for their planned quantities and material prices to be able to calculate the procurement savings over 12 months.

In another business unit, pricing was the priority. Therefore, instead of just applying a default margin on top of the costs, they wanted to leverage market analysis from SAP PMM (Price and Margin Monitor, formerly Vendavo). To do this, they needed cost information, not on the final product level, but on "building blocks". A custom development in the ERP system would select configurable materials, read from the variant the characteristics and key figures and generate the building blocks from there. With a Bill of Materials (BOM) from each building block, calculating material costs was easy and the manufacturing and overhead costs were applied on the main building block. All these cost estimates were then sent to the PMM system for pricing.

### **High-Tech (Asia)**


For this Asian High-Tech company's proof of concept, it was determined that 3 PDCE processes, with a Bill of Materials (BOM) interface, out of 5 proof of concept scenarios for costing requirements were needed after the request was initiated by this firm's sourcing department.

The first process featured the integration between SRM (Supplier Relationship Management) and PDCE. This area of the company's division had completely outsourced its production; however, they had defined a best practice for routing and overhead. They wanted to use PDCE in order to define target costs for their suppliers to bid against, and with a SRM custom view, enabled with ABAP Web Dynpro, the buyer could import an Excel or ERP BOM, then calculate target costs for materials, manufacturing and overhead.

The second process was geared towards its own internal development. In this scenario, a project was created in SAP PPM (Project and Portfolio Management) and a custom view in ABAP Web Dynpro linking every phase of the project with the PDCE project. Embedded reporting was initiated to show the planned production costs against target costs. In the third and last process, the costed BOM needed formal approval. PDCE along with cFolders were implemented to do this, using notifications and a BAAd (Business Add-In) triggered with the PDCE status manager.

### **Industrial Machinery (USA)**

For an industrial machinery company the current bottleneck occurred in the amount of time it took to answer a customer Request for Quote (RFQ). Notably for companies that process Engineer-To-Order work, where there is a great deal of collaboration involving both suppliers and customers. To alleviate the problem of upstream and downstream collaboration time lags we combined CRM (Customer Relationship Management) with PDCE.

As soon as the Bill of Materials (BOM) was imported from a customer document or via an internal interface to the engineering system, the first significant advantage was the time gained during the costing process. With PDCE, customized parts (versus "off the shelf") had been identified quickly, which then sped up the supplier's process and quotation time because the data was relayed simultaneously as the part identification process was occurring. Once the prices become available, the costing for materials, manufacturing and overhead was then automated with the result being sent back to CRM instantly. 

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