

Oraclet

Tidningen för dig som använder Oracles programvaror • Nr 3 • Oktober 2009

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Orcan tar dig till toppen!*

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11g har landat*

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*English reprint
from Oraclet issue no 3 2009*

Sista chansen – Boka dig på Oracle Open World! 11-15 oktober

Improved profitability with calculations of steel



Multinational stainless steel giant Outokumpu has a complex company structure with extensive internal trade. For this reason, the Outokumpu Group has started using a unique profitability analysis system, making it easy to focus right in product development, and to steer sales towards the most profitable customers.

Outokumpu is one of the world's largest stainless steel producers. The company, in its present form, is a result of numerous steel industry mergers and fusions. In total, the Outokumpu Group consists of some 50 units, situated all over the world. The customers can be found in a number of industries, such as process industry, manufacturing industry, construction and electrical industry. However, before an external customer is involved, an extensive internal trade normally takes place between several internal units, as the products are successively processed.

To obtain good decision data, and to make careful cost and profitability analyses at an aggregated, corporate level in this complex organization, Outokumpu has started to use a calculation solution, based on Oracle's products.

Basis for strategic and operational decisions

Steve Hudson is head of Outokumpu's new Vertical Profitability Office, VPO, whose main purpose is to form a basis for strategic and operational decisions by using the new solution.

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– This calculation system is unique. It is probably the most comprehensive and well-functioning solution for any major corporation. Now, we can make better decisions on what products to develop for our customers. We can also steer sales towards our most profitable customers, says Steve Hudson, head of Outokumpu's Vertical Profitability Office, VPO.

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In the past, there were only local systems for handling cost and profitability analysis, at each separate unit. It was not possible to obtain a transparent view of the whole group, due to the many fusions in the company. Also, Outokumpu operates in more than 30 countries, which brings on many cultural challenges. Cost, for example, was handled different in different parts of the company.

Driving in the dark

– It was not possible to see the entire flow in our complex delivery chain, Steve Hudson says. Trying to steer product development

and sales was a bit like driving a car in the dark without having the headlights on. Solving this problem was the driving force behind the investment in this system.

Outokumpu chose the calculation solution VPS (Vertical Profitability System) from the IT-company Astrada AB. The solution is based on a mathematical model for efficient cost allocation.

– Traditionally, a company's result can be improved in two ways: by increasing sales or by reducing cost. Using our model you are not restricted by this kind of thinking. You can, for example, identify already profitable products and markets, where a cost increase in fact will improve the result. For example by increasing the sales force, says Magnus Lövgren, team leader at Astrada.

Based on Oracle Warehouse Builder

The calculation solution is based on Oracle Warehouse Builder and Oracle Database. The Astrada application is then placed like a shell, outside the database, where it executes the local calculations, as well as the central cost consolidation. The user interface is very intuitive. It includes, for example, graphical representations of calculation diagrams and calculation models.

By using this solution, all sales to external customers can be traced back through the whole group – through all different parts and units.

Profitability per customer or product

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– We now have a much better understanding of what is happening in the delivery chain, both upstream and downstream. The calculation solution provides fast, vertical profitability information.

In other words, the purpose of the VPO is not to identify savings, but rather to identify product areas that are profitable, that the company should focus on. The calculation solution also makes pricing easier.

Steer product development for increased profitability

– When we know that some products are more profitable than others, it is easy to focus on the right thing in product development, Steve Hudson continues. We can also steer sales with a firm hand to the most profitable customers. And since we know what actually drives the company’s profitability, we now can control the internal efficiency, as well as the impact on bottom line results.

Steve Hudson does not want to estimate how much money the application saves or earns for the company.

– It gives us access to much better information than we had before, which can affect the profitability to a great extent. But at the moment we cannot give you any exact figures. In parallel to implementing this solution, many other factors have affected the steel business, in particular the financial crisis that hit us hard. This makes it even harder to estimate how much money this solution saves us.

The system has been up and running since January 2009. However, implementing the solution worldwide, in the whole company group, will continue throughout the whole year.

Shows what drives profitability

– So far, we have focused on making the system work, rather than using it for active decisions. We are still learning how to use the solution in an optimal way. We are now finally starting to understand what is driving



our company’s profitability at group level. This will definitely result in considerable profit increases in the near future, Steve Hudson says.

Måns Widman

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Outokumpu...

...is one of the four largest producers in the world of stainless steel. The company operates in some 30 countries and has about 8 000 employees. Outokumpu’s total melting capacity is 2.6 million tons and cold rolling capacity is 1.9 million tons. The company’s largest production plants are located in Finland, Sweden, Britain and the US. The annual turnover totals about EUR 5.5 billion. The head quarter is located in Espoo in Finland.

Astrada AB...

...is a Swedish IT-company that sells expertise and software solutions to large and medium-sized companies. It helps them to understand where and why profitability is made with the dimensions customer, product and sales channel as a starting point. This means that they can make better strategic and operational decisions. Astrada is located in Stockholm and has 30 employees. www.astrada.se.