



SAP White Paper
mySAP ERP

FINANCIAL SUPPLY CHAIN MANAGEMENT WITH SAP

THE BEST-RUN BUSINESSES RUN SAP™



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EXECUTIVE SUMMARY

Financial supply chain management is the most effective approach to optimize working capital levels, streamline accounts receivable processes, and eliminate excess costs linked to payments. Analysts estimate that such efforts can improve working capital levels by 25%. Today, the best companies in a broad range of industries are implementing financial supply chain management solutions to improve business performance and free cash resources for growth and innovation.

With SAP® Financial Supply Chain Management, companies get a single set of applications for complete support of the entire working-capital management cycle. These applications, which you can tailor to the specific needs of your company, work in harmony with your sales, inventory, and accounting systems.

OVERVIEW

SAP® Financial Supply Chain Management (SAP FSCM) is a set of applications that can address virtually every process of your entire cash-to-cash cycle. These applications include:

- **SAP Biller Direct:** for handling Web-based payments and account and bill display
- **SAP Dispute Management:** for processing customer invoice complaints
- **SAP Collections Management:** for proactively collecting outstanding receivables
- **SAP Credit Management:** for managing customer credit lines
- **SAP Cash and Liquidity Management:** for efficiently managing and optimizing liquidity
- **SAP In-House Cash:** for centralizing intra- and inter-company payments
- **SAP Treasury and Risk Management:** for managing financial transactions and risks

These applications are modular in design, allowing companies to configure and deploy individual components according to their particular business needs. In this way, SAP FSCM helps companies map their IT implementation strategies to their business strategies – greatly improving their return on investment.

SAP Financial Supply Chain Management is now delivered as a set of applications in mySAP™ ERP. As a result, you have the power and flexibility to link your financial supply chain management strategies to broader objectives that improve order-to-cash, customer support, procure-to-pay, supplier enablement, and treasury management functions. Using SAP FSCM with other financial management applications in mySAP ERP, you can improve both your financial and your operational processes.

FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING	FINANCIAL SUPPLY CHAIN MANAGEMENT	CORPORATE GOVERNANCE
<ul style="list-style-type: none"> General Ledger Accounts Receivable Accounts Payable Fixed Assets Accounting Bank Accounting Cash Journal Accounting Inventory Accounting Tax Accounting Accrual Accounting Fast Close Financial Statements Parallel Valuation 	<ul style="list-style-type: none"> Profit Center Accounting Cost Center & Internal Order Accounting Project Accounting Investment Management Product Cost Accounting Profitability Accounting Revenue & Cost Planning Transfer Pricing 	<ul style="list-style-type: none"> Credit Management Electronic Presentment & Payment Dispute Management In-House Cash Cash & Liquidity Management Treasury & Risk Management 	<ul style="list-style-type: none"> Audit Information System Management of Internal Controls Business Risk Management Whistle Blower Complaints Transparency for Basel II
<ul style="list-style-type: none"> SAP® Product Available Business Scenario Map Available 			

Figure 1: Application Sets in mySAP™ ERP Financials

SAP FSCM IN DETAIL

SAP Biller Direct

SAP Biller Direct helps you manage account, billing, and payment information. Your business partners can display account balances from their finance and accounting departments – as well as data from their billing systems, such as information from the sales and distribution applications in mySAP ERP. That means customers can access both their open items and any available credits via the Internet and compare these against outstanding receivables. (See Figure 2.) Suppliers can also view the status of invoices and payments via the Internet.

Bill No.	Due Date	Bill Amount	Open Amount	Payment Amount	Action
IBEXA 000000191 of 19.07.2004/24.01.EUR DocType 02.08.2004	Sep 2, 2004	EUR 8,133.84	EUR 4,659.82	EUR 3,474.02	[Icon] [Icon]
IBEXA 000000192 of 19.07.2004/37.01.EUR DocType 02.08.2004	Sep 2, 2004	EUR 4,266.92	EUR 4,429.91		[Icon] [Icon]
IBEXA 000000193 of 19.07.2004/54.01.EUR DocType 02.08.2004	Sep 2, 2004	EUR 1,826.77	EUR 1,771.97		[Icon] [Icon]
Credit memo 1600000278 of 19.07.2004	Jul 18, 2004	- EUR 1,111.00	- EUR 1,111.00		
		Net Payment Amount	EUR 13,095.70	EUR 1,393.02	

Figure 2: List of Open Bills

The business benefits of SAP Biller Direct include:

- Considerably lower transaction costs for bill processing
- Improved liquidity planning
- Simplified payment, settlement, and reconciliation processes
- Reduced arrears
- Increased customer loyalty
- High potential for cross-selling and up-selling
- Improved customer management

SAP Biller Direct fills the existing integration gap of your current e-business solutions for financial management. It is suitable for all companies that want to exchange bills and account information directly with their business partners. As with traditional electronic data interchange connections, vendors can maintain an electronic connection with multiple customers.

Close integration between SAP Biller Direct and SAP Dispute Management allows collaboration among business partners via the Internet. It also lets customers view the status of their disputes, thereby improving customer relationships and increasing employee productivity.

Integration between SAP Biller Direct and SAP Cash and Liquidity Management enables real-time visibility of bills and invoices for liquidity management, which can improve liquidity forecasting and certainty of cash flow. You can combine SAP Biller Direct with SAP Cash and Liquidity Management to account for open or disputed invoices when monitoring cash positions, for example. The system adjusts your cash forecast when there is a change in the status of open or disputed items, giving you the most accurate statement of liquidity.

Bill recipients are informed by e-mail about changes to an account balance (due to new bills or credits) and can then access the Web page or portal of the biller to view bill and account data. Recipients can also download bills in various formats and import data into their accounts payable systems. They do not need SAP software to access this information – only a Web browser that will operate and interact with SAP Biller Direct.

SAP helps companies in many industries deploy an intelligent solution for electronic and Web-based invoicing and payments. You can integrate SAP Biller Direct with your existing customer-service portal to deliver additional accounting capabilities and support for invoice inquiries from your customers.

SAP Dispute Management

SAP Dispute Management supports the processing of receivables-related disputes. Because customers typically do not notify their suppliers in advance about payment reductions or nonpayment, many vendors must deal with huge numbers of payment deductions or delays. The result is declining cash-collection percentages and eroding day sales outstanding (DSO) averages.

Without an enterprise software solution, suppliers must spend a great deal of time manually processing disputes. Estimates show that the average cost of an invoice dispute can range from \$128 to \$640 per invoice. Because the vast majority of these disputes can be settled with a simple credit memo, companies often waste significant resources to fix rudimentary invoicing issues. SAP Dispute Management is designed to eliminate this inefficiency.

SAP Dispute Management is an industry-leading solution for integrating dispute resolution into the order-to-cash cycle. By helping you resolve disputes earlier in the settlement process, SAP Dispute Management can significantly reduce collection costs. It can also facilitate cooperation across department boundaries, considerably increasing operational efficiency.

Customer disputes arise for many reasons, including damaged goods or incorrect bills. SAP Dispute Management lets you process these disputes using a different reason code for each type of business transaction that may cause a complaint. These reason codes could include differences in price, quantity, quality, or delivery time. The system logs the status of a dispute as either open or completed. The status, along with the reason codes, controls subsequent actions on the dispute – such as notifying employees via workflow processes or generating an e-mail to the customer.

With SAP Dispute Management, all information related to a dispute is summarized in one central business object: the dispute case. This new SAP object is like an electronic folder for bundling all the information related to a customer dispute. In a single view, you can see the reason code, processor, disputed amount, and amount paid. You can also see all actions that have been taken to resolve the dispute, as well as all customer correspondence.

SAP Dispute Management allows your finance department to analyze a dispute case and examine the invoices, notes, and accounting records that are linked to a particular customer. The drill-down capabilities of this application allow users to view information from other SAP FSCM applications – such as SAP Biller Direct, SAP Credit Management, and SAP Collections Management.

Figure 3 shows the user interface that provides your invoicing, customer service, and accounts receivable departments with a single view of a customer invoice dispute. Users are able to view dispute status, post comments, or trigger steps to resolve the customer dispute.

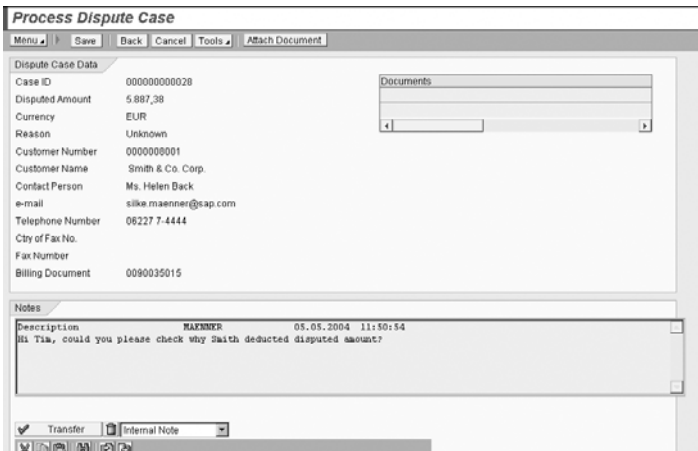


Figure 3: Dispute Case View

SAP Collections Management

SAP Collections Management can help you handle receivables proactively and prioritize accounts by risk. Efficient receivables management has become critical for many companies in a difficult economic environment, where classic dunning notices may no longer be effective with customers. Analysts estimate that efficient receivables management can help companies reduce DSO by 10% to 20%.

With SAP Collections Management, your collections agents and accounts receivable analysts have account sort-and-search tools for organizing and prioritizing their work. The agents and analysts can identify accounts that require the most attention based on receivable value, name of customer, or DSO.

SAP Collections Management lets you navigate customer accounts directly through a collections work list. The work list provides an overview of all the information you might need when contacting the customer. The customer collection view shows all open invoices, including their current status, as well as all open promises to pay and dispute cases. You can also display a history of each invoice, along with any related promises to pay or dispute cases.

In addition, the application lets collections agents document the results of customer contacts. An agent can, for example, create a promise to pay and trace it later at the invoice level. Promises to pay that customers do not fulfill automatically receive a status of “broken” or, if the payment received does not correspond to the amount indicated, “partially kept.” Agents can also create dispute cases or provide information about the status of existing cases (see Figure 4).

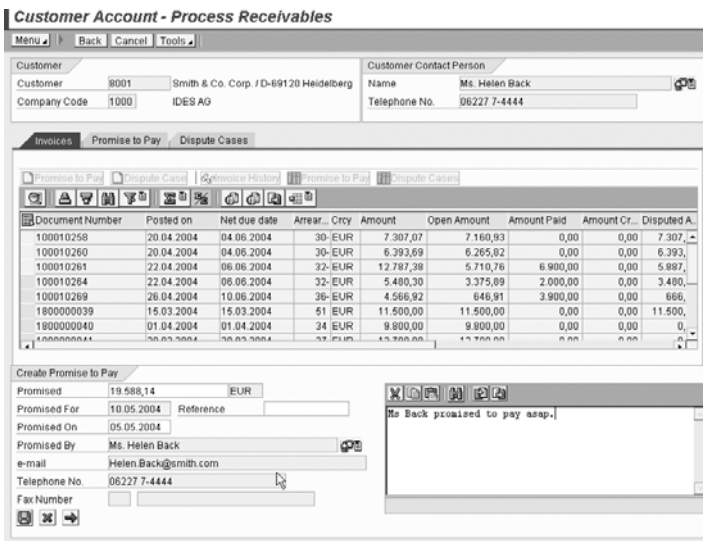


Figure 4: Collections Agent View

SAP Collections Management can help you:

- Proactively collect outstanding receivables
- Identify and prioritize customer accounts
- Establish a customer-specific receivables-management process to improve customer relationships
- Reduce DSO
- Improve cash flows
- Increase the efficiency of collection agents

SAP Credit Management

SAP Credit Management helps you manage your customer's credit line. Using a centralized system to process and check customer credit lines is especially important for companies with large customer bases. By integrating the financial and nonfinancial aspects of your customer base, SAP Credit Management can reduce credit risk and optimize credit terms for each customer. SAP Credit Management is a standardized credit-control solution that can integrate data from multiple systems – an advantage for vendors that need to distribute accurate customer credit information in real time. With this capacity, accounts

receivable personnel can proactively reduce credit risks and eliminate losses on uncollected receivables. Sales personnel can use credit-limit information to manage individual accounts. SAP Credit Management makes it easier to issue credit to your best-paying customers. If you rely on external credit standards, SAP Credit Management can integrate credit-scoring information from third-party services. Combining external scoring standards with your own credit rules can improve decision making and reduce credit risk.

A centralized credit-rules engine lets you segment customers according to their creditworthiness and payment reliability. This gives you a powerful decision-support capability for sales, marketing, and other customer-relationship functions. With the credit-rules engine, you can define your own rules for decision making and automate a large proportion of your routine credit decisions. Such automation makes it easier for the credit-management department to concentrate on processing the more difficult credit accounts.

With SAP Credit Management, you create a credit case for processing credit-limit applications. Using the credit case, different parties in your company can request new credit limits for a customer. The credit case is routed to the work list of the corresponding credit manager, who can handle the application or send it to other parties for further review. Through this process, you can track any credit-limit decision in the system, identify which manager accepted or rejected a credit limit, and determine the reasons behind that decision.

Through integration with a powerful set of preconfigured reports in SAP Business Intelligence, you can identify high-risk customers and plan special activities to reduce the risk of loss from those customers. Tools for credit portfolio analysis can help you compare the overall credit exposure of your company with its strategic goals. With this information, you can plan special marketing activities for profitable customer groups and adjust your pricing for high-risk customers (see Figure 5).

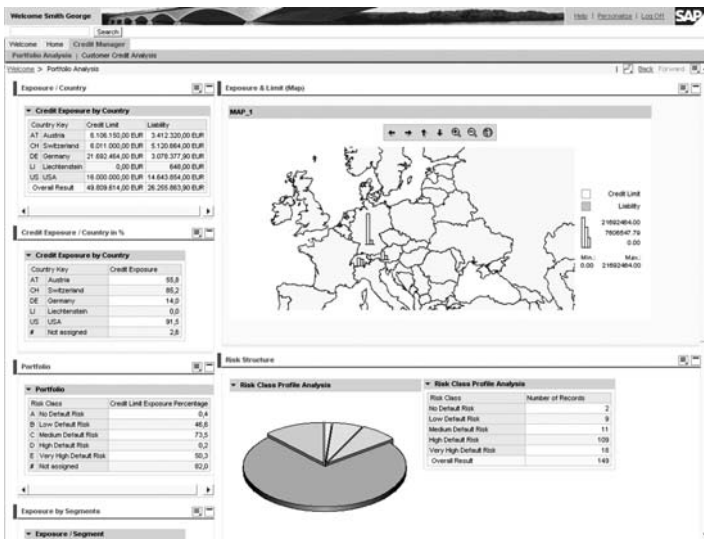


Figure 5: Credit Manager View

When making a liquidity forecast, the cash manager can use integration between SAP Credit Management and SAP Cash and Liquidity Management to distinguish new and confirmed orders from orders that the system has blocked.

Using these and other capabilities in SAP Credit Management, you can:

- Control credit risk via real-time credit allocation and ongoing monitoring
- Speed up credit checks for faster decision making
- Reduce effective DSO by reducing payment delays and bad debt
- Increase revenue with risk-free accounts
- Reduce transaction costs by automating the credit application process
- Link dunning and dispute information to the credit-decision process
- Improve customer relations by concentrating on your more profitable customers

SAP Cash and Liquidity Management

SAP Cash and Liquidity Management, a key application for financial supply chain management, helps you monitor how your strategic planning affects cash flow – from both a macro and a micro perspective. The application’s pre-built data integration capability links you with other SAP FSCM applications. As a result, you can depict activities from operational areas such as financial accounting, treasury, logistics, and sales and distribution.

SAP Cash and Liquidity Management also lets you integrate data from third-party or legacy applications and link the systems from different subsidiaries or countries – eliminating the need for duplicate data collection or retention. With SAP Cash and Liquidity Management, your cash managers can focus on the most critical figures, make key liquidity decisions, and implement those decisions more effectively.

In addition, SAP Cash and Liquidity Management lets you:

- Determine and optimize liquidity by individual departments, subsidiaries, business subunits, or organizations
- Support various internationally recognized formats for electronic banking
- Choose between centralized or decentralized cash management
- Identify reserves held in foreign currencies
- Automate data aggregation with real-time integration of different source systems
- Choose between short- and medium-term cash-flow analyses
- Generate short-, medium-, and long-term cash-flow forecasts

Through a range of key functions, SAP Cash and Liquidity Management makes it easy to transfer inbound data, handle liquidity analysis and decision making, and effectively process outbound data. You can transfer liquidity information quickly and reliably – from both internal and external sources – including transfers of account statements for the previous day, intra-day account statements, lockbox statements, data from the operational systems, and budgeted financial commitments.

The application also delivers accurate results from reports and analyses – results that are essential for effective cash management decisions. You can access central treasury information, then structure and process this information according to your needs. In addition, SAP Cash and Liquidity Management gives you powerful tools for liquidity analyses, drill downs to line items and documents, standard operational reports, and flexible drill-down reporting. It offers a variety of comparison and control functions – such as cashed check control, value date comparison, and list of balances. Through links to SAP Business Intelligence, SAP Cash and Liquidity Management supports reporting across applications and lets you create customer-specific reports.

In processing outbound data, SAP Cash and Liquidity Management supports many standard formats for bank communications. It assigns various statuses to outgoing payments before they are completed – from the initial entry in the payment program, through the dispatch of the payment order, to confirmation of the payment via the account statement. You can identify outgoing payments by their particular statuses and display them in a variety of ways. You have several options for payment methods, cash concentration and bank transfers, recurring bank transfers, and free bank transfers – as well as for creating and processing standard formats for electronic bank communication.

SAP In-House Cash

Multinational organizations often manage a complex network of international business units and banking relationships. An increase in affiliates has led to a significant rise in internal and external payments for international organizations, as well as an increase in bank accounts. SAP In-House Cash can help reduce the substantial costs associated with both cross-border payments and global, intracompany transactions.

With SAP In-House Cash, international companies can centrally process the payments of their subunits by netting and consolidating internal accounts. This provides considerable savings in the administration of various bank accounts, as well as your internal and cross-national payments. Through a central payment function, SAP In-House Cash helps you settle subunit debts with external business partners and transfer the payments to your affiliates. Local payment scenarios, by including the external bank accounts of subsidiaries, are also possible. As payments are made, the system immediately updates cash-position data within SAP Cash and Liquidity Management. This gives the cash manager a global view of the company's incoming and outgoing cash flows.

Additional SAP In-House Cash functions – such as those for cross-bank area postings – allow you to set up several in-house cash centers (for example, one per region) and enable automatic or manual currency exchange. The in-house cash center lets you monitor and aggregate various current account balances and plan incoming and outgoing payments for group companies over the medium term. This makes the process of controlling payment flows far more efficient.

SAP In-House Cash also provides many account-management functions – such as calculating and debiting interest and charges, granting current account overdrafts, and generating bank statements for subsidiaries. You can configure the features and conditions of each account to meet your needs.

SAP Treasury and Risk Management

SAP Treasury and Risk Management offers a comprehensive set of functions for managing financial transactions and risk. These functions enable straight-through processing for all conventional types of instruments used for investment, debt, and foreign-exchange management – from trading to the back office – with postings that go directly into financial accounting. In addition, you can automate and link your financial processes with treasury functions on an enterprise-wide scale. With SAP Treasury and Risk Management, you can run a centralized treasury and reap the benefits of economies of scale – without the cost of creating and maintaining separate interfaces.

Integration between SAP Treasury and Risk Management and the system's cash- and liquidity-management functions lets you base trading decisions on data from current global liquidity and risk analyses that reflect cash flows from your company's operational business. Furthermore, the investment, debt, and foreign-exchange management capabilities comply with current regulations and accounting standards, such as FAS 133 and IAS 39 (see Figure 6).

With the risk-management application, you get more than the traditional, isolated view of individual sections or specific risks. You get all the information you need in a single, fully integrated solution – including data on operative cash flows and financial transactions. To measure your foreign-exchange and interest-rate exposures, you can calculate the value of your positions and simulate what would happen to future values should interest rates change. You can then explore possible hedging transactions to reduce your interest rate risk. Traditional corporate treasury management transactions are less susceptible to error because the application is completely integrated, in real time, with your SAP accounting and financial reporting solution.

Figure 6: Hedge Management Interface in SAP Treasury and Risk Management

The application can also help you measure and control your credit and settlement risk. You have significant freedom in defining and structuring the levels for default risk.

Flexible reporting and evaluation tools – which include key customary figures such as net present value, duration, and value-at-risk – let you analyze financial transactions, positions, and portfolios.

KEY FEATURES OF SAP FINANCIAL SUPPLY CHAIN MANAGEMENT

Feature	Advantage
Web-based invoicing and payments	Through SAP Biller Direct, your customers and suppliers can access invoicing and payment information via your own business portal. Seamless integration with your accounting system lets you handle electronic payment and settlement processes with customers or suppliers.
In-house banking	Using SAP In-House Cash, you can net accounts, pool cash and payments on a regional basis, and reduce transaction costs for intracompany payments.
Online credit evaluation	SAP Credit Management accelerates the ability of your credit managers to extend or deny customer credit limits. Your credit scoring system for each customer is greatly improved through the real-time aggregation of your own credit data and information from third-party credit scoring agencies.
Financial risk management	With SAP Treasury and Risk Management, your trading decisions are based on real-time liquidity positions and operational data. The ability to run scenarios that test the impact of fluctuations in exchange or interest rates can greatly improve risk analyses.
Collection case management	SAP Collections Management helps you improve the productivity of your collections or agents. By making it easy for agents to identify problem accounts or issues, you can greatly increase collection rates.
Dispute case management	SAP Dispute Management gives your accounts receivable department 100% transparency for customer invoicing and billing issues. Comments, open items, credits, and resolutions are all visible via a single access point – accelerating invoice settlement.
Advanced cash and liquidity reporting	SAP Cash and Liquidity Management greatly improves your ability to forecast and react to cash and liquidity positions. All components are preconfigured for real-time reporting and analysis of your liquidity position.
Portal integration	SAP FSCM applications integrate seamlessly with SAP Enterprise Portal, as well as with existing customer- or supplier-facing portals.

REAP THE BENEFITS OF END-TO-END FINANCIAL SUPPLY CHAIN MANAGEMENT

SAP FSCM can greatly simplify financial supply chain management in your organization. With this set of applications you can more easily address the multifaceted challenges of managing cash flow and optimizing working capital – two critical elements for successful financial performance today.

As part of mySAP ERP, SAP FSCM offers greater value by helping you execute new strategies without wholesale changes to your current financial-management practices. Working with other solutions in mySAP Business Suite, SAP FSCM and mySAP ERP can help you configure processes for sales, distribution, customer support, and supplier relationship management that are intelligently tied to your financial supply chain.

To learn more about how mySAP ERP and SAP FSCM can help your organization, visit our Web site at www.sap.com/financials

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