

Group Gross Profit Project Charter

1. Executive Summary

The Group Gross Profit (GGP) project will provide a new, more accurate, and more flexible means to calculate gross profits across the SAMPLE Group. The new capabilities will better support SAMPLE in making both short-term and long-term financial and business decisions.

GGP will replace a ten-year old system that has only limited capabilities to handle the order fulfillment costs that are essential in the calculation of gross profit. In addition, the older system is limited to a quarterly data update; and it is relatively inflexible in responding to organizational changes and needs.

The new GGP system will capitalize on existing SAP and data warehouse technologies to achieve greater accuracy, timeliness, and flexibility. The GGP project will arrange for the extraction of needed data from SAP; provide an interface between SAP and the data warehouse; and configure a new "cube" in the Cognos processing, display, and analysis application for users. The cube will allow users to view multi-dimensional financial data from a number of different perspectives, such as customer, product, and market.

The GGP project will be executed in three sub-projects. In the first, GGP capabilities will be extended to all sites now a part of the core SAP system. In the second, capabilities will be extended to other European sites that are not now a part of the core SAP system; and the new SAMPLE organizational structure will be supported. In the third, capabilities will be extended outside Europe.

The basic data analysis cube will be available in the first phase. A reporting tool will be linked to the system and operational in the third phase. Data from 2001 will be loaded in all phases so that historical comparisons can be made.

The GGP project has medium business and technical complexity. A few common risks have been identified and plans developed to offset their potential impact. Similar actions have been taken to deal with critical skills needs, key assumptions, unresolved issues, and dependencies between GGP and other projects or activities.

The first sub-project is expected to require between 65 and 75 days to complete, with delivery between May 15th and May 30th. The second sub-project is expected to require between 40 and 50 days to complete, with delivery between July 15th and July 31st. The entire project is expected to require between 210 and 250 days to complete, with delivery expected between December 31st 2002 and January 31st 2003. All work will be performed using SAMPLE internal resources and no other significant expenses are anticipated.

2. Project Leadership:

- Business Unit Endorsing: Chief Financial Officer
- Customer: Chief Financial Officer
- Sponsor: Chief Financial Officer
- End User: Order obtainment, finance, and senior managers
- Pre-launch Project Manager: Project Manager

3. Revision History

Date of Change	Changes	Made By
11 Feb 2002	Add scope changes requested by CFO	PM

4. Project Objectives

The purpose of the GGP project is to provide the tools required for more accurate calculation and analysis of gross profits across SAMPLE Group. Specifically, the objectives of the project are:

- To provide a user-friendly data collection, processing, and analysis system that will meet the needs of the primary users: order obtainment, finance and senior managers
- To permit solid financial analysis of the data from various perspectives, i.e., customer, product, and market
- To provide a more flexible system that:
 - Can be updated more frequently (once a month, instead of quarterly)
 - Can be adapted easily to deal with changes (e.g., the new group structure and additional SAMPLE sites)
- To achieve the above using proven, state-of-the-art technology

5. Business Case – Cost Benefit/ROI

This project will provide group gross profit information that is vital to SAMPLE in short-term and long-term business and financial planning. The project must be undertaken because the existing tool does not provide the accuracy, timeliness, or flexibility currently needed by users.

6. Background

SAMPLE's operation in several countries, with routine inter-company sales, adds complexity to the calculation and analysis of gross profits. The current GGP application was developed ten years ago and does not accurately account for the cost of transactions within the company. In addition, it generates new financial data only on a quarterly basis. Finally, it is difficult to modify to meet changing corporate needs.

A decision has been made to invest no new effort in the old system. Instead, we propose to use existing data warehousing facilities and state-of-the-art display and analysis tools. The approach was chosen also to provide the desired timeliness and flexibility.

The current GGP project was initiated last November. The new Chief Financial Officer, as the sponsor of the project, requested a number of scope changes late in January. This charter addresses those scope changes.

7. Project Scope

The locations and features that will be provided by the GGP project are shown below. The project has been divided in three sub-projects in order to provide early capabilities and a systematic implementation of all features and locations. All but one of the scope changes requested by the CFO have been included within the scope of the project detailed below.

Sub-Project 1:

- Core SAP companies
 - Including data from 2001
 - Frozen standards

Sub-Project 2A:

- ES, IT, BE
 - Including data from 2001
 - Frozen standards
- PR, CH, BR
 - Including data from 2001

- Frozen standards

Sub-Project 2B:

- The new SAMPLE organizational structure

Sub-Project 3:

- KI, JP, RC, NA, CM
 - Including data from 2001
 - Frozen standards
- Consolidation between SAP, data warehouse and Hyperion reporting tool
- Data warehouse reports generation

We have not included within the scope the addition of a data “cube” to compute and display group gross margin data. We recommend that this become a separate project performed by data warehouse specialists.

Also not within the scope described above is access to the group gross profit “cube” by companies outside Europe.

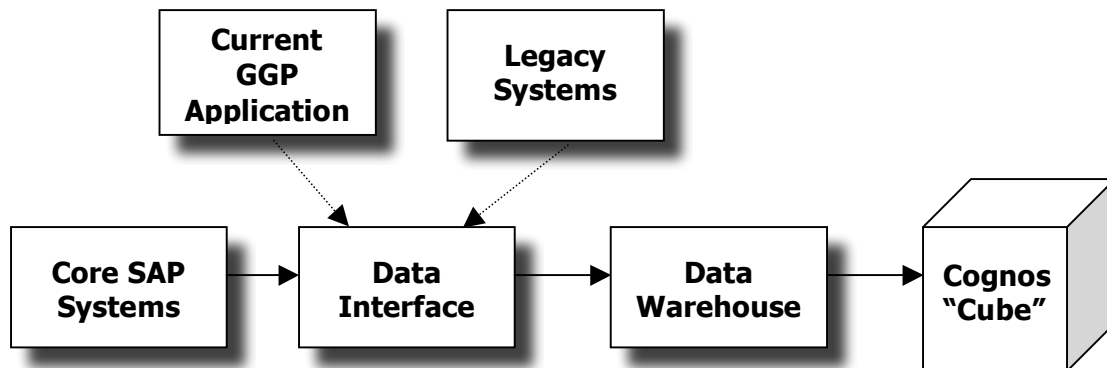
8. Project Priorities (Schedule, Scope, Budget, and Quality)

We believe that the sponsor, customer, and end user consider quality to be the highest priority among the four basic attributes of the project (schedule, scope, budget, and quality). Tradeoffs in scope and schedule are the most likely options, if changes need to be made to meet quality demands. Budget is not a major factor, since the project is being completed using internal SAMPLE resources.

9. Key Deliverables

There are four key deliverables in the project:

- The capability to collect necessary information from the core SAP system
- The definition of common interface layouts for companies outside the core SAP
- The capability to load data from SAP to the data warehouse system (DWS)
- The creation of a Cognos “cube” to process, display, and support analysis of group gross profit information by users.



10. Level of Effort and Size

Sub-Project 1:

Duration: 65 to 75 days

Sub-Project 2A:

Duration: 40 to 50 days

Sub-Project 2B:

Duration: 55 to 65 days

Sub-Project 3:

Duration: 60 to 70 days

Overall Project:

Duration: 210 to 250 days (counting overlaps in the sub-projects)

11. Special Skills Requirements

Role	Name	Responsibilities / Skill Sets
SAP FI/CO specialist	Smith	Customize collection of needed data in SAP/SAP expertise
Accelerator programmer	Reddy	Develop interface from SAP to DWS/Accelerator programming
Cube creator	Dandy	Create cube/Cognos programming
Validator	Cleaver, Spencer, Hiplin, Schwab	Validate data / Business skills

12. Locations and Business Units Affected

All SAMPLE sites will provide data to group gross profit. Access to the final cube is available only at SAMPLE sites using Core SAP (incl. AHQ)

<i>Sub-Project 1</i> SAMPLE Sites Using Core SAP	<i>Sub-Project 2</i> SAMPLE Sites not Currently Using SAP	<i>Sub-Project 3</i> SAMPLE Sites not Currently Using SAP
NL	CH	JP, Japan
FR	BE	RC, China
IT / partially	PR	KI, Korea
AU	IT	CM / NA, Charleston
DE	ES	
UK	BR, Brasil	
SW		
PL		

13. Related Initiatives

New SAMPLE Organizational Structure: The Group Gross Profit project will be affected by the changes in the SAMPLE organizational structure and processes that are now being undertaken. Group gross profit calculations will need to be adjusted to reflect the new processes. Close coordination will be required with those undertaking implementation of the new organizational structure.

Core SAP: The Group Gross Profit project will affect the existing core SAP system, imposing new requirements on SAP to run batch jobs to provide data in flat file format to the data warehouse. The estimated run time of the batch job has to be taken into account.

14. Key Assumptions

The following assumptions have been made:

1. Group gross profit is calculated as follows:

$$\begin{array}{r}
 \text{Net Sales to Customers} \\
 \quad - \text{Actual Costs} \\
 \quad - \text{Order Fulfillment Costs—CRU} \\
 \quad - \underline{\text{Order Fulfillment Costs—OPU}} \\
 \text{Group Gross Profit}
 \end{array}$$

2. GGP will only be calculated for sales to final customers.
 - Joint Venture sales are taken into account.
 - ICO sales are not taken into account
3. Each manufactured product belongs to one OPU per period, which is responsible for production and cost calculations.
 - The OPU is responsible for the calculation of monthly Actual Costs; if not available, Standard Costs are used.
 - Transfer of production during 1 or more periods is possible. Therefore, a responsible plant will be identified every month in the following sequence: WPL, WDE, WFR, WPR, WNL, WUK, WBR, WCMC, WKR, WRC, WJP, SCL, WUS.
 - If a part is set-up in one company as manufactured part, it is assumed as 100% manufactured within SAMPLE group. A split in manufactured and merchandised is not possible
 - Manufactured parts produced by OPU's not yet participating in GGP calculation are taken into account as merchandised goods
4. Each CRU is responsible for merchandised parts.
 - In the case of merchandised material, "Order Fulfilment Cost of OPU" is zero
5. The GGP calculation is based on the simplification that each customer's sales are based on an approach that has one or two levels:
 - First level: CRU invoices CUSTOMER (merchandised or manufactured (all) parts)
 - Second level: OPU invoices CRU (manufactured parts)
6. There is no difference between "Order Fulfilment Cost of CRU" in the case of direct shipment and indirect shipment.

7. Order Fulfilment Cost of CRU and OPU are based on fixed percentages which have to be maintained by local controllers in all companies.
- Percentages based on Standard cost (different percentages for CRU and OPU)
 - Percentages are fixed for one year (adjustments are possible, if required)
 - Consolidation of total periodic actual "Order Fulfilment Costs," with aggregated costs allocated to products/customer, in SAP/DWS is:
 - Possible for single unit gross profit.
 - Not possible for GGP due to assignments within different periods [OPU sales (ICO) in period A, CRU sales (final customer) in period B].

All assumptions detailed above have been verified. There are no unverified assumptions.

15. Risks

Risk1: Failure to satisfy customer needs due to poor data quality or user interface.

Action: Prepare detailed test and validation plan, ensure further availability of existing tool.

Risk2: Communication problems, due to different locations of project-related personnel.

Action: Prepare sound communication plan, track progress, and take actions to correct problems discovered.

Risk 3: Critical skills are missing, due to turnover or reductions in staff.

Action: Train additional internal staff or use external consultant.

Risk 4: The schedule for previously planned work was unrealistic (too tight).

Action: Get approval on realistic delivery dates and ensure assignment of resources to the project

16. Complexity Zone:

The project has a medium level of business and technology complexity. It relies on known technology, with proven hardware and software. Computation of gross profit is based on well-established practices. Project complexity stems from the international location of sites and the handling of legacy information systems.

17. Constraints

All constraints have been addressed in the risk section, above.

18. Unresolved Issues

- Actual calculations at year-end (December) are not accurate, due to changes to BOM and special routings, which are not time dependent.
- No OFF costs OPU available with old method of split via Profit Center, valid in FR, NL and UK e.g. parts produced in FR and shipped to French customer.

19. Approvals

CFO		
Project Sponsor Approval	Method	Date
CIO		
IT Approval	Method	Date