

SAP for Engineering, Construction, and Operations



RISK MANAGEMENT IN THE PROJECT-CENTRIC ENTERPRISE

SAP® FOR ENGINEERING, CONSTRUCTION, & OPERATIONS

To compete with confidence in today's complex business environment, construction companies like yours must mitigate financial risk across multiple projects. The SAP® for Engineering, Construction, & Operations set of solutions gives you the visibility and control you need to manage finances across your entire project portfolio with greater accuracy, reliability, and accountability.

The construction industry is inherently prone to risk. While profit margins continue to shrink, projects are becoming more complex and increasingly capital-intensive. To complicate matters further, most companies are also dealing with multiple subsidiaries and subcontractors in highly decentralized project environments – and it takes only one bad project to threaten the financial health of the entire enterprise.

That's why leading companies are increasingly recognizing the business value of effective financial risk controls and management. If you can monitor and plan project finances with greater accuracy, you're in a far better position to avoid losses and ensure ongoing smooth operations.

Yet many companies fail to successfully address financial risk management in the proper context. Industry analysts have cited poorly monitored financial controls as a primary cause of costly practices and overcharges, pointing out that risk management activities, when integrated into the core processes of a construction project, can identify potential problems before they occur.

SAP® for Engineering, Construction, & Operations (SAP for EC&O), which has already proven highly effective in helping construction companies to manage a wide range of risk factors, now incorporates capabilities that help project-centric enterprises to mitigate financial risk. Ultimately, SAP for EC&O gives you the kind of accuracy, reliability, and accountability you need to monitor project finances, ensure that adequate financial reserves are in place, and significantly reduce the risk inherent in managing a large portfolio of projects in a highly complex business environment.

VISIBILITY AND CONTROL: THE TOOLS FOR MANAGING RISK

SAP, working closely with several leading global construction companies, has developed new industry-specific capabilities that improve project visibility and allow for tighter controls. Now you can monitor key performance indicators at any organizational level right down to the individual project.

Construction Progress and Remaining Plan

In any complex construction project, knowing where you are and where you're going is critical for keeping projects on track and properly funded. Through tight integration with financial accounting, controlling, and project management systems, the SAP for EC&O set of solutions provides sophisticated capabilities that allow you to easily enter and monitor how much of a project has been completed and how much remains to be done.

Using Microsoft Excel templates or customer-defined user interfaces, project managers enter key data on construction progress. Enhanced visibility allows managers to access exact historical records of the project to identify how the project has progressed over time.

Looking back is very useful; looking forward is even more so. SAP for EC&O allows managers to enter anticipated costs and revenues for the remainder of the project, enabling you to evaluate and manage the remaining plan based on internal and external dependencies.

Together, construction progress and remaining plan calculations can then be compared against the actual contract amount. If your calculations deviate from the value of the contract, something is amiss. Perhaps construction progress is lagging. Maybe the remaining costs and revenues have been misstated. Whatever the issue, SAP for EC&O helps you uncover the discrepancies to ensure accounting accuracy and proactively identify potential project risks.

Valuation of Semifinished Constructions

To determine the value of semifinished constructions, managers need to accurately calculate cost of sales, assess work in progress, and specify the reserves required to safeguard the enterprise from potential losses. With SAP for EC&O, the valuation of semi-finished constructions is based on the figures generated from construction progress and remaining plan calculations – increasing accounting transparency and accuracy.

With its financial accounting capabilities, SAP for EC&O settles accounts in a way that simplifies compliance with increasingly stringent accounting regulations. Two different accounting standards are supported: the International Accounting Standard (IAS) and the German Commercial Code (HGB), which can be used in parallel.

Project Balance Sheet Key Figures

Enhanced capabilities for generating accurate project balance sheet key figures allow you to treat each organizational level or project as if it were a separate company – an important risk management strategy.

Using the highly flexible organizational structure of SAP for EC&O, you can more easily manage internal business units, subsidiaries, and other entities. These entities are then assigned to projects as needed, based on their ability to contribute to the project or sub-project. If the organizational structure is modified, the system fully accounts for the changes without disrupting established relationships or processes.

Thanks to this organizational structure, the system is able to track project finances with exceptional accuracy. Managers can analyze all financial transactions and determine the exact amounts contributed to each project or subproject by each organizational unit. Because of its tight integration with business intelligence functionality, SAP for EC&O enables managers to

define key performance indicators that clearly report the financial standing of the organizational units with respect to projects. In the end, these features simplify the monitoring of business units and subsidiaries by tracking specific financial data. You are able to view that data in different ways to analyze the financial health of organizational units and the entire project portfolio.

Payment Chains

During the course of a project, contractors often issue a series of down payments or partial invoices to subcontractors and customers. Retentions might be used to safeguard against faulty work. The SAP for EC&O solutions incorporate specific functionality that makes payment chains easy to manage, giving you the power to maintain cash flow without the associated accounting headaches.

LESS RISK, MORE BUSINESS

By covering the entire project life cycle – from scheduling and budgeting to milestone tracking, cost control, and cash-flow tracking – SAP for EC&O enhances visibility and transparency while delivering collaborative capabilities that help extend business processes across traditional organizational boundaries. In addition, strategic enterprise management (SEM) capabilities help mitigate risk by enabling companies to foresee and prepare for any number of project eventualities.

And now with extended financial control capabilities, SAP for EC&O enhances its risk management capabilities even further. Benefits include:

- **Improved Accuracy.** Control the risk of inaccurate construction progress reporting and planning by periodically checking project progress and remaining plan against the overall contract amount.
- **Greater Reliability.** Ensure that projects in progress are evaluated correctly using more accurate construction progress and remaining plan data combined with an improved valuation method. This capability helps reduce the risk of inadequate financial reserves.

- **Enhanced Accountability.** Break down key financial figures to the project level and see exactly how each business unit contributes to any given project. This capability helps reduce the financial risk of managing a large portfolio of projects involving multiple organizational units, subsidiaries and business partners.

With this increased financial visibility and control comes the assurance that your company is doing everything in its power to mitigate the risks inherent in your industry. This kind of confidence frees you up to focus on your core competencies. And when you're focused on what you do best, competitive advantage is the inevitable result.

YOU CAN MITIGATE FINANCIAL RISK – SAP CAN HELP

To find out more about how SAP can help you reduce risk across your entire project portfolio, call your SAP representative today or visit us online at www.sap.com/eco

www.sap.com/contactsap

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