

SAP Customer Success Story



Mediaset, one of Italy's largest media operators, evolved into four successful companies. To manage its corporate finances more efficiently, **Mediaset** needed to create an in-house bank and reduce the management costs of its IT infrastructure. By implementing the corporate finance management capabilities of mySAP™ Financials, the Italian media giant has consolidated its cash management activities to effectively and flexibly handle intercompany transactions.



THE MEDIASET GROUP

CORPORATE FINANCE MANAGEMENT WITH mySAP™ FINANCIALS CENTRALIZES CASH MANAGEMENT FOR GREATER EFFICIENCY AND LOWER COSTS

The Mediaset Group is the most important private company in Italy's communications and television media sector, and one of the largest in the world. Mediaset owes its success to a revolutionary entrepreneurial project started 20 years ago by Silvio Berlusconi, the founder of the Fininvest Group: to create a totally integrated group capable of controlling all aspects of television, and able to launch and win the challenge for public monopoly of the RAI, Italy's public broadcasting system.

In 1995, Mediaset opened its stock offering to important operating partners and large Italian and foreign financial institutions. The enlistment of new shareholders was in response to the dual need to enter into alliances with group leaders at the global level in the television, electronic media, and telecommunications market – and to generate adequate financial means for international competition. Today, Mediaset is among the most profitable companies on the Italian Stock Exchange and is listed on “The World's Top Companies,” the *Financial Times*' annual register of the 500 largest companies in the world. Mediaset has continued to consolidate its own successes in general television in Italy and is dedicated to expansion beyond its national borders. Presently, the Group is mainly formed by four major companies: RTI, the publishing company; Publitalia, responsible for advertising; Elettronica Industriale, managing signal broadcasting; and Videotime, producing the Mediaset networks' television programs. Each group has its own subsidiaries and branches.

THE FINANCIAL DIVISION

Mediaset's stock was initially quoted on the Milan Stock Exchange in July 1996, and was purchased by more than 240,000 small and large shareholders. In response to its initial public offering, Mediaset made a strategic decision to centralize its finance function to bring about a lower operational cost structure by standardizing business processes with SAP.

The Mediaset Finance Division manages incoming and outgoing financial flows for all subsidiary companies: cash, borrowing, banking relationships, risk management, and financial strategy. One of the biggest problems of this model is the management of payments on behalf of, and among, the various subsidiaries. In making the change to a centralized finance model, preference was given to developing an internal cash management system that was able to manage intercompany transactions in an efficient and flexible way.

CASH MANAGEMENT SYSTEMS IN MEDIASET

In 1999, Mediaset once again chose SAP, this time to help modify its own IT administration system. However, it continued to use the cash management system developed in 1996. This system interfaced with SAP, but started to show some gaps. Three other subsystems were gradually added in support of the finance area: for risk control (where the main risk is related to exchange), for budgeting and financial planning (assigned to spreadsheets), plus a system that makes it possible to deal with IAS 39 problems. (IAS 39 is a subsystem dedicated to assessing financial positions and entries.) These three subsystems, used by a total of 35 users, communicated with the SAP® administration system.

This corporate finance structure involved a high number of industry solutions and resulted in problems of functional integration between the various components, and high management costs for interfaces, balances, and updating software. This was a major factor in late 2001 for Mediaset to upgrade from the earlier SAP R/3 3.1 release to 4.6C, a project that lasted until the end of 2002. The upgrade allowed the organization to leverage new functional capabilities of mySAP™ Financials. By doing so, they were able to streamline financial management processes and deploy a common business platform across their operating units. This resulted in significant cost savings and a lower operating cost structure.

“The element of the SAP solution which has made the most positive impression is the SAP In-House Cash component, since it works like a real banking application, calculating payments, interests and value dates.”

Maurizio Rovati, Head of the Finance Division, Mediaset Group

THE MEDEA PROJECT

This decision gave rise to a major initiative, dubbed the Medea project. The goal was to bring the whole cash management system available in corporate finance management with mySAP Financials onto the SAP platform by the end of 2002, beginning with Transaction

Manager, In-House Cash, and Cash Management applications. In the initial phase, this change did not involve the subsystems, but concentrated wholly on the core of the cash management legacy system. Mediaset planned to roll out the implementation over two years, leaving until 2003 the implementation of another two applications: Market Risk Analyzer and Liquidity Planner. “The decision to divide the investment in the implementation program over two years derived both from the complexity of the implementation, which was assigned to SIC Global Value and Deloitte Consulting, and the effort to transform business processes along with creating a training plan on the new application platform,” explains Maurizio Rovati, head of Mediaset Group's finance division. The SAP implementation gave the company the opportunity to evaluate how it conducted

business, and where improvements could be made to change business processes and practices in order to take advantage of the new functionality provided by mySAP Financials.

The implementation involved all internal users. The transition from one system to another took place almost instantaneously, with the shut down of the legacy system on December 31, 2002, and the start-up of the new system on January 7, 2003. The first balances coincided with the closure of the first quarter. On the whole, the change was made without any serious problems, thanks to intense preparation, training, and personnel support.

A REAL INTERNAL BANK

“The corporate finance management implementation with mySAP Financials is still in process and, for the present, the old lives alongside the new,” says Rovati. “Obviously, many functions were already present in the previous solution. However, the capability of the SAP solution that has made the most positive impression is the SAP In-House Cash application. In this project, our intention was to replace a system that processes tens of thousands of transactions with another system that is more integrated with the rest of our infrastructure. The SAP In-House Cash application is something more than this, since it works like a real banking application, calculating payments, interests, and value dates.” SAP In-House Cash is a fundamental tool for groups with large numbers of subsidiaries or branches. The main functions include intercompany invoice control, payments “in the name of” and “on behalf of,” cash pooling from electronic account statements, and intercompany interest management.

MORE INTEGRATION, MORE FUNCTIONAL COVERAGE

With the mySAP Financials solution for corporate financial management, Mediaset is increasing the level of uniqueness of its own systems by customizing capabilities to fit its business processes. More generally, and from an economic point of view, the project has made it possible to control maintenance costs with the elimination of non-SAP, third-party systems. This has

led to a significant reduction in costs for reconciliation work between different systems. The acceptance of standard SAP methods and shared group solutions are key benefits, while the adoption of integrated solutions provides greater functional coverage. Technical innovation and the development of advanced professional skills have transformed the finance division. In the last few years, finance division personnel have changed their functions, developing from a group of accountants balancing incoming and outgoing transactions into a team of specialists, managing financial derivatives, exchange risk, and liquidity risk. They are “graduates” with a specialization in finance that form an aggressive front office supported by the back-end banking system.

FORECAST COMPLETION

“The project that finished at the end of 2002 rebuilt the whole cash management activity with a new engine, while standardization of the remaining modules will be completed in 2003,” says Rovati. “The resulting standardization will create a cash management system with one single information database, integrated with the administration system. Creating a single database common with financial administration will make it possible to eliminate those reconciliation operations that we cannot currently avoid: for example, the need for a monthly clearing of balances that the accounting and administrative departments view differently, although it is the same data.” This homogeneity also derives from the fact that all the Mediaset-controlled companies use SAP. The Mediaset Finance Division is proceeding with implementing the other SAP components envisioned for 2003. With assistance from the consulting services of BGP Consulting and SIC Global Value Consulting, they are reprocessing and redesigning all the workflows for managing planning and creating financial balance sheets, followed by the implementation of the SAP Liquidity Planner application.

The last step planned is implementation of SAP Market Risk Analyzer, the risk control application that will replace two subsystems in the previous solution, including the one dedicated to assessing financial positions and entries (IAS 39) and calculating key values for managing market risks. The implementation of the mySAP Financials solution for corporate financial management will be completed when these two solutions go live.

AT A GLANCE

Company name	Mediaset Group
Industry	Television, electronic media, and telecommunications
Challenge	Improve and consolidate cash management to handle intercompany movements in a more effective and flexible way
Solutions	Corporate finance management capabilities of mySAP™ Financials
Implementation highlights	Went live with Transaction Manager, In-House Cash, and Cash Management applications
Benefits	<ul style="list-style-type: none">- Deployed consolidated cash management throughout all Mediaset companies- Created standardized cash management system with one information database, integrated with the administration system- Eliminated reconciliation operations such as the need for a monthly clearing of balances- Improved communications and operational efficiency while lowering IT management costs
System environment hardware	IBM
Operating system	Windows NT