ACE HARDWARE

SAP® SOFTWARE PROVIDES INTEGRATED FINANCIAL ANALYSIS FOR GIANT HARDWARE COOPERATIVE

"SAP BusinessObjects Planning and Consolidation offers one integrated solution for budgeting, planning, and forecasting, plus templates for ad hoc reports."

Peter Tsang, Director of Financial Planning and Analysis, Ace Hardware Corporation

QUICK FACTS

Company

- Name: Ace Hardware Corporation
- Headquarters: Oak Brook, Illinois
- Industry: Retail
- Products and services: Hardware products and related services delivered through community-centric member stores
- Revenue: US$10 billion
- Employees: 4,500
- Web site: www.acehardware.com
- Implementation partner: Optimal Solutions Integration Inc.

Challenges and Opportunities

- Provide a single comprehensive view of financial performance
- Improve internal and external reporting
- Enable effective budgeting, forecasting, and inventory control
- Build in flexibility for wider globalization

Objectives

- Simplify 15,000-entry general ledger
- Integrate inconsistent data from several departments into a single accurate version
- Establish standard key performance indicators for members throughout the company
- Automate and centralize multidimensional sales analysis

SAP® Solutions and Services

SAP® BusinessObjects™ Planning and Consolidation application, version for the Microsoft platform

Why SAP

- Trusted brand and reputation
- Established relationship with local implementation partner Optimal Solutions
- Depth of know-how in financial planning and analysis and consolidations

Implementation Highlights

- Identified and captured all vital planning objectives
- Designed the solution to manage 70,000 products, 8,000 vendors, and 90 profit and loss accounts

Benefits

- Enhanced internal and external reporting using one central repository for all financial information
- Improved visibility of profitability for areas that previously relied on uncoordinated reports and manual adjustments
- Streamlined planning through a Web-based portal where department owners update their own figures
- Streamlined delivery of ad hoc reports using embedded Microsoft Excel templates
- Reduced the number of manual reporting processes and reduced reporting cycle times
- Enabled quicker preparation of interim revenue projections

ACE Hardware

Home maintenance leader Ace Hardware Corporation was entering the age of globalization with a legacy financial system swamped by the cooperative's explosive growth. External reporting had become a daunting task with multiple manual steps, and there was no clear picture of corporate performance. "To manage our member stores and understand overall profitability, we had to create a business consolidation solution from the ground up," says Peter Tsang, director of financial planning and analysis at Ace Hardware. "SAP software helped lead the way."

Now the world's largest retailer-owned hardware cooperative, Ace Hardware was founded in 1924 by four Chicago hardware store owners. For 50 years, the company remained a private partnership, but today stores are independently owned and operated by local entrepreneurs who have helped Ace Hardware earn top honors in the home maintenance sector. Ace Hardware also offers affordable quality in more than 12,000 electrical, plumbing, cleaning, lawn care, gardening, painting, and automotive tools and supplies under private label. About 500 staff members oversee world operations from headquarters in Oak Brook, Illinois, helping to protect the brand and maintain a stellar reputation for customer service. A total of 4,400 stores in all 50 states and more than 60 countries employ 4,500 people and generate retail sales of an estimated US$10 billion. Ace Hardware has four regional offices and currently operates 14 distribution centers in the United States. It also has distribution capabilities in Shanghai, China; Panama City, Panama; and Dubai, United Arab Emirates.

Recognizing the Need for Financial Consolidation

This success left homegrown, back-office software straining at the seams, however. In the early years of the new millennium, the Ace Hardware accounting applications could no longer meet the business planning needs of their constituency. The central ledger alone contained more than 15,000 separate accounts, so even routine online reporting for internal purposes was hit or miss and time consuming. "The existing processes definitely had issues: our internal and external ledgers did not even agree. Staff members would spend weeks compiling adjustments to reconcile the ledgers, often using offline Microsoft Excel spreadsheets to complete the task," explains Tsang. "Sales, inventory, and merchandising information were all separately derived, which left purchasing agents and account managers guessing at important vendor and customer qualifications."

In this cumbersome web of manual steps, much essential analysis had to be handled ad hoc by overtaxed IT personnel. Even with the use of Microsoft Excel, many diverse users were reading separate metrics into the documents, and there was no way to arrive at a consistent enterprise-wide version of the truth on performance. "Without reliable input for profitability analysis, the quality of external reports was slipping, and the competitors were beginning to circle," says Tsang.

Choosing a Solution and an Implementation Partner

"Before I came onboard, Ace Hardware had looked at point solutions for analyzing product and customer performance. Though they were cheaper, we could see they were only stopgap remedies," continues Tsang. He had seen the benefits of using financial software from SAP at previous positions, and adding the expert implementation services from local partner Optimal Solutions Integration Inc. made an unbeatable combination. The joint approach offered immediate relief from pressing reporting problems, along with a sound architecture unifying financial and operation performance management and establishing flexibility for growth

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and diversification. Ace Hardware chose the SAP® BusinessObjects™ Planning and Consolidation application, version for the Microsoft platform, as the cornerstone of its new enterprise performance management infrastructure.

Setting Up an Integrated Budgeting and Reporting Structure

Architecting the solution in SAP BusinessObjects Planning and Consolidation was a critical first step. As Tsang explains, "We began by organizing data into manageable quantities within the design. Optimal Solutions knew that for metrics to be transparent across dimensions, the design had to include properly sized and structured data containers."

The implementation team then aligned profit and loss line items by cost center and profit center. In the Ace Hardware solution, each department owner updates his or her own center's actual expense and income figures using standard templates in a self-service portal. Separate strands of calculations for capital expense projections by project and cost center and for variations in salaries and fringe benefits are woven into the budget in SAP BusinessObjects Planning and Consolidation. The final annual budget is then uploaded into the enterprise resource planning infrastructure for comparison with actual costs in the office of the CFO.

Building in Profitability Analysis

Profitability at Ace Hardware can now be measured by product, by customer, by vendor, and by account. Ace Hardware deals with some 70,000 stock-keeping units, now logically organized into 780 product classes, 300 merchant classes, 30 buyers, and 9 departments for reporting purposes. The customer base of 4,400 member stores and the vendor base of 8,000 product suppliers are structured into one hierarchy by parent-child relationship and another by geography. Such component figures as sales, inventory cost of sales, vendor rebates, cash discounts, and warehouse handling costs are visible at the click of a mouse for each of the 90 profit and loss accounts.

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Peter Tsang, Director of Financial Planning and Analysis, Ace Hardware Corporation

Summary comparison metrics are based on variable contribution rates, which are calculated by subtracting warehouse handling costs from direct product gross margins. "At last we have clarity and simplicity in reporting. We can get at data ourselves and perform the profitability analysis that underlies intelligent operational choices," summarizes Tsang.

Reaping the Rewards

The advantages of a thorough enterprise performance management solution using SAP BusinessObjects Planning and Consolidation are myriad. Financial staff can turn to one centralized process for consolidations, budgeting, and forecasting; a single core repository holds all internal and external reports. In addition, the cycle time and required effort for the standard collection of reports have been cut in half. With the automation of many previously manual processes, the time to produce monthly, quarterly, and annual reports has been slashed from weeks to days.

Visibility into profitability gives buyers and sales representatives the tools to compare their performance against prior periods and against established goals. Users in all departments can offload the task of creating specific reports from technical staff. In short, business initiatives get the support they deserve through greater collaboration among IT, finance, and all players that represent other links along the value chain.

Adding Other SAP BusinessObjects Solutions

Eventually, Ace Hardware would like to streamline the planning and consolidation infrastructure even further by making each department both a cost center and a profit center. This would create a level of simplicity to further reduce the number of ad hoc reports and the cycle times for standard reports. The company is considering ways to leverage related SAP software expertise in enterprise information management and business intelligence as well. "Our business planning and consolidation solution leaves plenty of room for corporate growth and integration of other functionality, and Optimal Solutions and SAP definitely count among our partners of choice for the long term," Tsang concludes.

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