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Quick Guide to SAP® CO-PA (Profitability Analysis)

- Successfully implementing a contribution margin analysis
- Optimizing planning tools
- Defining the actual value flow
- Includes 5 video tutorials

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2 Structures in CO-PA

In this chapter I will firstly address the actual purpose of CO-PA. I will then explain the organizational structures and master data that are required for CO-PA. The chapter closes with a presentation of the definition of an example operating concern that is the basis for all further examples in this book.

2.1 The Intent and Purpose of CO-PA

In addition to mapping contribution margin accounting with actual and planned figures, the purpose of CO-PA is to answer various business questions, for example:

- Which customer do I earn the most money from?
- Which products are the key to my business success?
- Which specific products are successful with which specific customers?
- Was my last marketing campaign successful?
- What effect has my new price strategy had on the purchasing behavior of my customers?
- Should I grant a customer further discounts to increase the sales quantity?
- Are my contribution margins in a business area sufficient to cover the fixed costs assigned there?

- What do I give my customers in sales promotions—and does this lead to a higher sales quantity?
- Where do my deviations to planned figures come from?

These are just some of the questions that CO-PA can answer—provided you have customized it correctly.

As you will recognize from the various questions, CO-PA is designed as a sales controlling tool. In principle, however, it can map all of the elements of contribution margin accounting down to earnings before interest and tax (EBIT). Which CO-PA-relevant organizational structure is advantageous here?

2.2 The Operating Concern

In an SAP system, the operating concern is the organizational unit responsible for Profitability Analysis (CO-PA). What are organizational units in the SAP system? You usually use organizational units to map your company structure: you set up company codes for your independent accounting units; you create sales areas in SD; you define plants etc. for MM and PP. The entire remaining customizing of your SAP system is based on this organizational representation of your company structure. The organizational structure is the backbone of your system.

In an operating concern, you define all operating concern-relevant master data that you need for your subsequent work with CO-PA. You then assign the operating concern to one or more controlling areas. Here I would recommend a 1:1 relationship—i.e., assign the operating concern to only one controlling area. You may wonder whether it makes sense to define a 1:1 relationship here when you will want to evaluate data across the group or company later on. Your thinking is correct, but the clue is in the assignment of controlling areas to company codes: a controlling area is the organizational unit of the CO module—you can assign one or more company codes to one controlling area. To enable you to perform evaluations across the group or company (and not only in Excel or a business warehouse, which would lead to further costs), you have to assign all of your “live” company codes to one controlling area. You then assign this controlling area to the operating concern. This ensures that you can see not only your costs across the group, but also your revenues, contribution margins, and of course, your profit.

Common error in practice

If you do not think through the mapping of the organizational structure in the SAP system thoroughly from the very beginning, meaning that you have to make changes later, you will have to check the customizing that is based on this structure whenever you make changes. SAP projects often take longer and become unnecessarily expensive because the management thinks about changes to organizational structures during the SAP implementation phase. The SAP implementation is later deemed to have taken very long and been too expensive, but in reality, it is the management decisions that have caused the extended time frame. Consultants, on the other hand, are very happy.

Anecdote/common error

A fellow consultant once told me that he was called to a customer who had already gone live with SAP but was having problems with his Report Writer reports. The customer wanted to evaluate his costs across the group, but the reports did not allow him to do this. Unfortunately my colleague could not help him: the customer had set up one controlling area for each company code, meaning that he could only see the costs of this company code in the Report Writer reports for this controlling area. This example shows how important it is to think about your organizational structure in the SAP system thoroughly in advance.

However, to work with only one operating concern, all controlling areas and company codes must work with the same fiscal year variant, generally K4 (here, the fiscal year corresponds to a calendar year with four special periods). All company codes must also use the same chart of accounts.

In the next section I will explain the master data in CO-PA.

2.3 Master Data in CO-PA

There are two forms of Profitability Analysis: costing-based and account-based Profitability Analysis. The costing-based form works with value fields and the account-based form works with accounts.

As the name indicates, a value field is a field in which values are entered. For example, for each line of contribution margin accounting (unless the line can be calculated as a formula), you define a value field. This field is then filled with data “automatically,” regardless of whether you are compiling actual or planned figures. In the same way, quantity fields, as the name indicates, are filled with quantities, e.g., sales quantities.

Mapping contribution margin accounting is part of management accounting. In contrast to financial accounting, there are no legal requirements as to the presentation of contribution margin accounting—each company maps its structure in accordance with its own needs. This individuality in mapping contribution margin accounting is (naturally) possible in our supreme module CO-PA.

In account-based Profitability Analysis, you would define your contribution margin structure using accounts that you also create as cost elements.

Both forms of Profitability Analysis work with characteristics. But what is a characteristic? You use characteristics to enter selections for your Profitability Analysis dataset. SAP has a number of predefined characteristics, such as company code, sales organization, distribution channel, customer, or product, to name just a few. You can also define characteristics that are important for control in your company yourself. For example, if you want to look at the data of customer XY in a period to see whether he purchased products from product group 4711, you can use the characteristics to select your data and present it in reports. You will see not only the sales quantity and the sales, but also all costs that you can directly assign to this customer and the related products, product groups etc. We will look at this more closely later on in the book.

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