

SAP User Insights

January 2023

At T|A|C Events, we speak with leaders in the global SAP ecosystem on a daily basis. Via our events, webinars and content platforms, we aim to keep you informed and updated with the very latest insight and learning directly from SAP users.

Otto Group
COMPANY

Hamburg,
Germany
HQ

43.249
(2021/2022)
EMPLOYEES

Globally operating
e-commerce and
service group
INDUSTRY

SAP S/4HANA
Treasury
SAP FOOTPRINT


Introduction of a Payment Factory Target Operating Model with SAP S/4HANA

Learn How Otto Group is Standardising & Simplifying Payment Transactions for their Highly Diversified Operations



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From its humble beginnings as a mail-order business over 70 years ago in Germany, Otto Group has grown into an international e-commerce and service group operating in over 30 countries, generating €16 Bn revenues in FY2021-22. As a decentralised organisation comprising more than 100 companies, the IT landscape is very complex, with a mixture of SAP ECC, other SAP and non-SAP ERP instances.



The introduction of the Payment Factory offers great added value for the affiliated Group companies and the Otto Group

In consequence payment transactions in the Otto Group involve a large number of electronic banking systems and interfaces, resulting in low levels of standardization and automation, poor central controls over cash flows, and high security and compliance risks. The Treasury team, supported by their partner, PwC, wanted to improve the situation.

“The idea was not about saving money, it was primarily about governance, financial transparency, and stream-lining our processes”

But to make a change you need a business case, and to make a business case you need to undertake an as-is analysis, and define a target model – and then attempt to quantify the costs and benefits associated with moving from one to the other. Unusually, at Otto Group it was never just about the cost savings. In fact, if the business case had been judged purely on this basis then it would never have been approved. Yes, the target model would deliver lower transactional costs and lower bank charges as the number of bank accounts was reduced by 78%, but this was outweighed by the forecast project costs.

“The Payment Factory is a missing and necessary element of an In-House Bank for the operational group-wide payment management”

When committing to a new business case, the team at Otto Group also ensured that it would fit in with their commitment to responsible business practices. As long ago as 1986 environmental protection was made an official corporate goal. In 2008 the Otto Group targeted and achieved a fifty percent reduction in its CO2 emissions by 2020. And in that year the Group re-emphasised its commitment to sustainable business practices with the shareholder vision “Responsible Commerce That Inspires” – and continues to demonstrate that sustainable e-commerce can also be financially successful.

When looking at all these factors, the team ensured that the business case majored on qualitative factors such as process efficiency

through increased automation, process reliability, and reduction of time-consuming „low-value“ tasks. Enhanced fraud prevention was also seen as a key benefit, as well as improved compliance. Transparency of cash flows, active management of liquidity outflow, and better working capital management also helped to make the case for the new target model.

The core of the Payment Factory consists of a suite of Treasury applications in SAP S/4HANA, including: SAP In-House Cash, SAP S/4HANA Finance for advanced payment management, SAP Bank Communication Management, SAP Cash Management and in likely future phase, SAP Multi-Bank Connectivity (see illustration).

“The business case includes qualitative and quantitative factors as well as the evolution of these factors in the different stages of expansion”

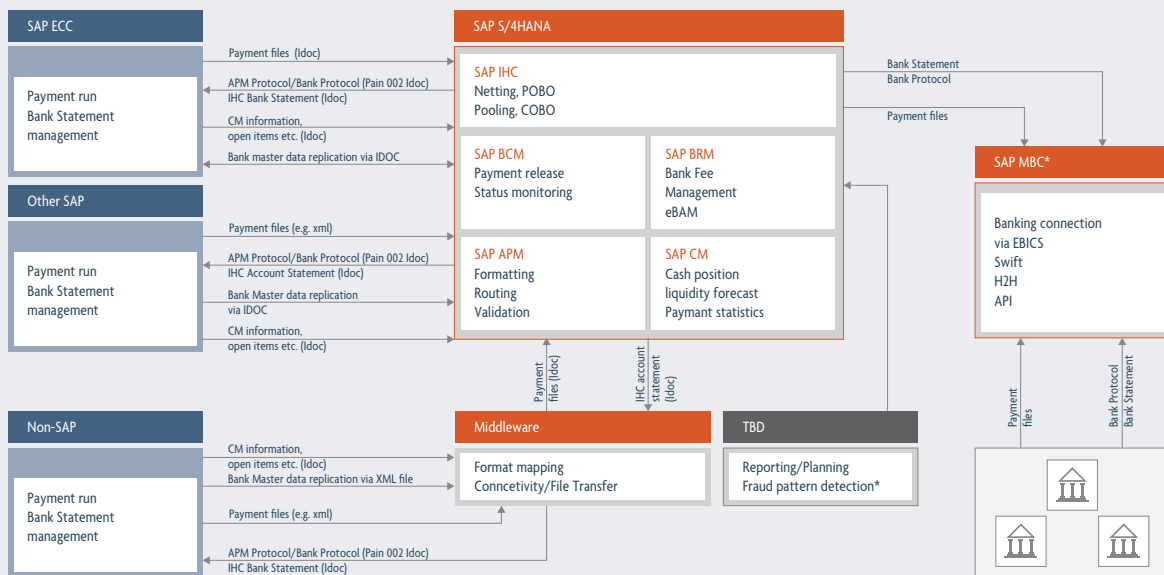
Each of these (tightly integrated) components delivers key functionality required by Otto Group. SAP In-House Cash provides Netting, Cash Pooling and Payments on Behalf Of (POBO). SAP Bank Communication Management controls payment release and also the monitoring of payments and bank statements.

“The Payment Factory will be implemented with the help of an SAP-integrated IT architecture”

As has been mentioned before, Otto Group is a very decentralised organisation, so you need to integrate the payment information from multiple, heterogenous IT systems into SAP S/4HANA, and this will be managed using SAP S/4HANA Finance for advanced payment management. Finally, SAP Cash Management is needed for cash position and payment statistics. The solution for Fraud Detection is likely to be SAP Business Integrity Screening.

The Target Operating Model will be rolled out in a phased approach, starting with core functionalities to enable the first centralised payment services,

“For Otto Group it was very important to have a safe and secure environment – which SAP can offer”



supporting Payments in the Name Of, improving fraud protection and providing Central bank statement processing.

In the following expansion stage there will be process integration into the Cash Management system and expansion of central payment services (POBO). The Payment Factory will provide virtual bank accounts to participating Group companies along with central Bank Account Management. This stage will also enable the group-wide optimisation of bank charges.

A third expansion stage is envisaged that will leverage the benefits of artificial intelligence for process automation. This will focus on the use

of robotics in payment processing, predictive analytics, and eBAM (Electronic Bank Account Management). This stage will also see the roll out of additional processes that will require high integration effort, such as Collections on Behalf Of (COBO).

It's a hugely ambitious project with a rollout planned over the next 6 years, impacting more than 200 entities across this highly decentralised organisation. But Otto Group has a 70 year track record of delivering on time and to specification – and with such careful preparation we can look forward with confidence to hearing about their success in the near future.



Insights for other SAP Customers

Ensure A Holistic Analysis

The analysis of Otto's Payment Factory "feasibility" was conducted using the design dimensions of governance, organization & people, processes and technology

Follow Best Practice

In the development of the Payment Factory, follow a best practice approach taking into account the most modern payment solutions

Don't Overlook the Qualitative Benefits

The business case should include qualitative and quantitative factors as well as the evolution of these factors in the different stages of expansion.



Want to hear more?

Christof Lange, IT Head of Financial Systems, Otto Group and Lennart Ullmann, Director PwC Treasury Practice, joined us at the [International SAP Conference on Treasury and Working Capital Management 2022](#) to share their story.