Project
Payment Factory

Carolin Issa
Otto Group
Sub project lead business processes

carolin.issa@ottogroup.com

Introduction & Status Quo

Target model

Project Approach

Interpretation of the SAP standard

Attachment

Business segment overview

OTTO GROUP
BRIEF INTRODUCTION

The group's reported sales amounted to EUR 16.2 billion in the past financial year 2022/23.

Diversification through market-leading companies with a portfolio of strong, established brands is proving to be a key strength in times of economic uncertainty.

FY 2022/23	Platforms	Brand Concepts	Retailers	Services	Financial Services	otto group*
	OTTO ABOUT YOU	Crate&Barrel Witt-Gruppe bonprix.	baur. UNITO limango MANUFACTUM. FRANKONIA Die Jagd nach dem Echten fgh	BAUR FULFILLMENT SOLUTIONS BAUR HERMES FULFILMENT Hermes Fulfilment Hermes Europe 4) ottointernational >Agediss	eOs Hanseatic Bank	
Revenues (m€)	6,528	5,950	2,275	390	983	16,190

*) also includes sales for "Other/Holding/Consolidation" in the amount of € 65 thousand

OTTO GROUP
MARKET PRESENCE

Well balanced and diversified business across segments and geographies with sizeable presence in Europe and United States.

- Germany 56%
- Rest of Europe 24%
- USA 19%
- Rest of the World 1%
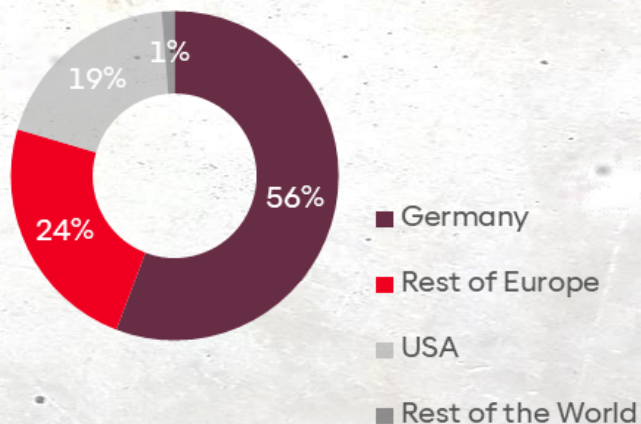
Geographic Footprint: Globally diversified footprint with operations in more than 30 countries

otto group
HOLDING

Centralized payment transactions are the missing element of our in-house bank in the holding company
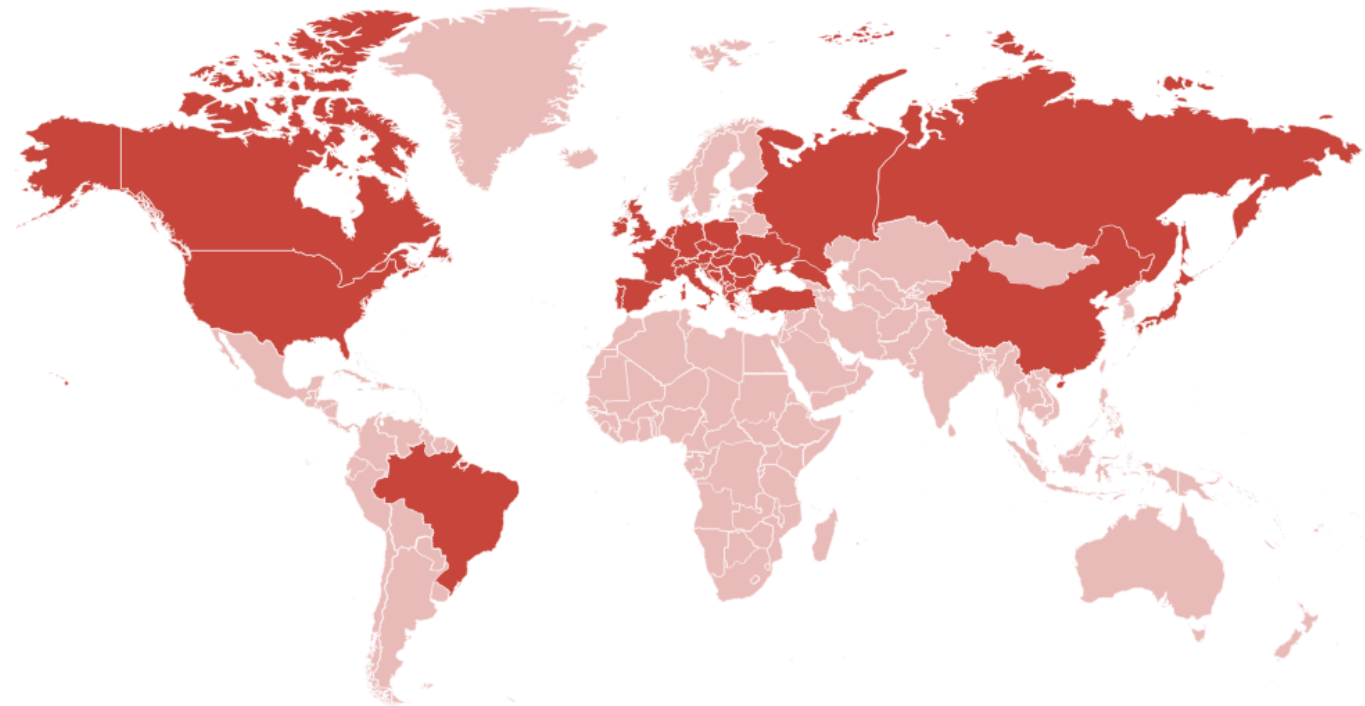
PAYMENT FACTORY
EXPANSION STAGE OF AN IN-HOUSE BANK

The centralization of financial processes in the form of an in-house bank is a successful model and market standard in German industry. The finance / treasury function in the Group holding company acts as a "banking partner" for the Group companies (hereinafter: GC). The main components of an in-house bank are:

Cash Pooling

- Intercompany Funding

- FX trading

- financial risk management and

- Centralized payment transactions (payment factory)

Cash Pooling

Intercompany-Funding

FX trading

Financial risk management

Centralized payment transactions

✓ Already used in-house bank function of Otto Group holding

⊗ Currently not used

Introduction & Status Quo

Target model

Project Approach

Interpretation of the SAP standard

Attachment

otto group
HOLDING

PAYMENT FACTORY
EXPANSION STAGE OF AN IN-HOUSE BANK

The Payment Factory is a holistic approach to organize payment transactions and payment flows within a group of companies. Payment transactions are regulated under uniform governance. The processes are standardized across the group and centralized as far as possible.

The design dimensions for the solution approach included in the project approach are:

Governance		Processes	
Technologie		People & Organisation	

With the Payment Factory, key objectives in outgoing payment transactions can be realized
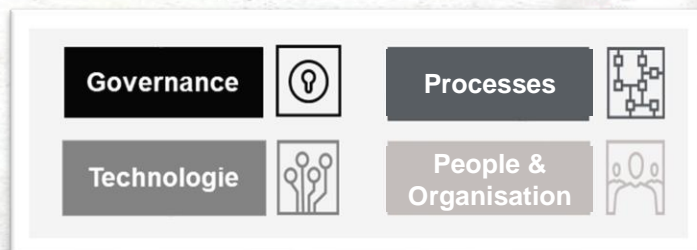
✓ Development of a central payment transaction platform for the Otto Group

✓ Replacement of current online banking / electronic banking solutions for creditor payment transactions

✓ Significant reduction of external bank accounts with the POBO approach ("Payments-On-Behalf-Of")

✓ Standardization and automation of processes in outgoing payment transactions

✓ Increased security level through interface reduction and future-proof technology

✓ Improvement of governance / compliance in payment transactions

✓ Integration of payment flows into central cash and working capital management

System architecture: The technical core of the Payment Factory is based on SAP S/4HANA

SYSTEM DIAGRAM
PAYMENT FACTORY

Following the existing local ERP system environment, an SAP-based technical core with the core components described will be set up in expansion stage 1:

- SAP Advanced Payment Mgmt.(SAP APM)
- SAP Bank Communication Mgmt. (SAP BCM),Part of SAP Cash Mgmt. solution
- SAP Business Integrity Screening (SAP BIS)
- SAP Multi-Bank Connectivity (SAP MBC)

In expansion stage 2, the technical core is then expanded and fully utilized. The inclusion of SAP Inhouse Banking (IHB) and SAP Cash Management (SAP CM) enables the switch from external bank accounts to internal clearing accounts (POBO approach). At the same time, the basis for integrated daily planning and liquidity planning is created.

Technical target model
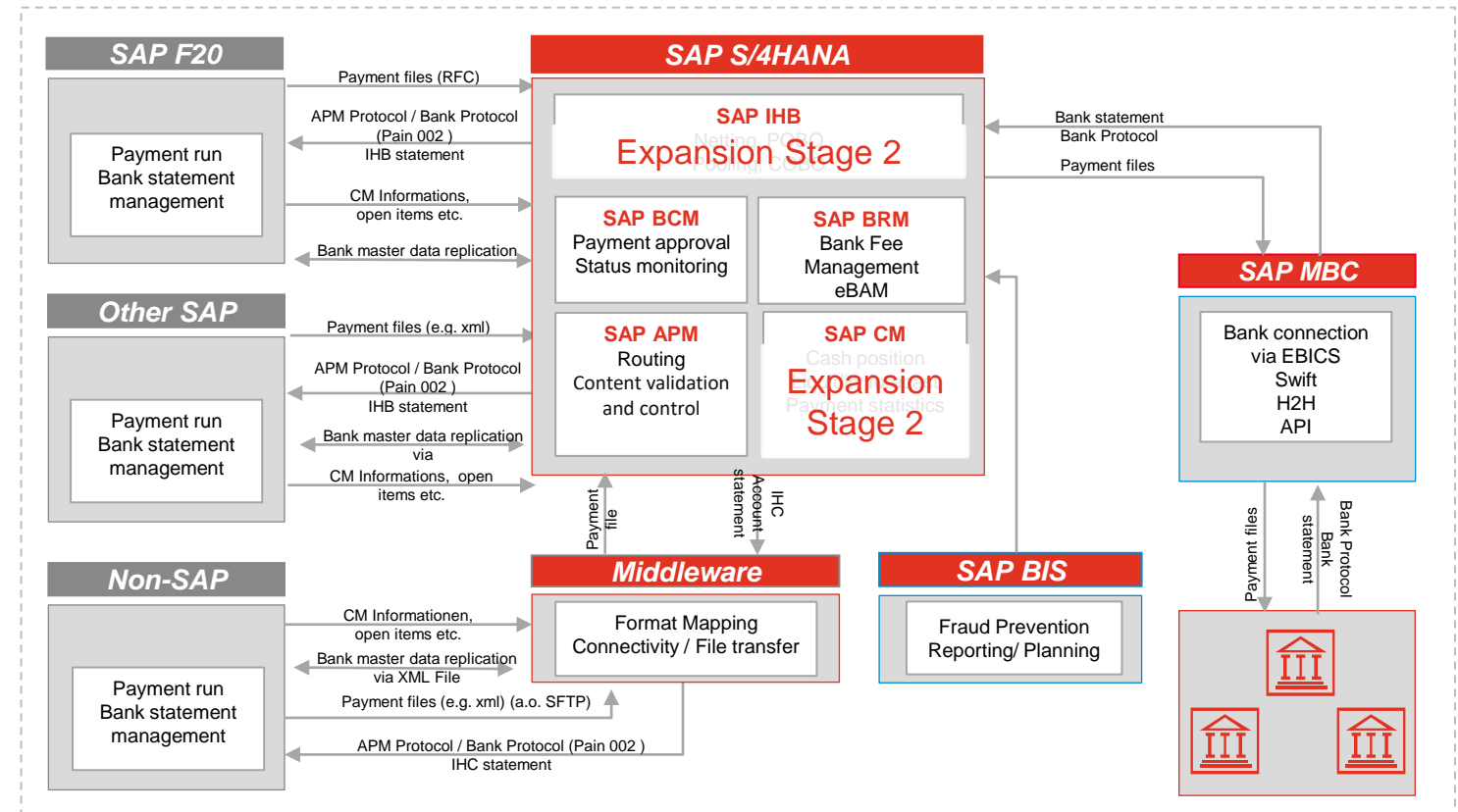
Legend	
Local Subsystems	Payment-Factory--Component

STANDARDPROCESS
PAYMENTS-ON-BEHALF-OF (POBO)

In the POBO approach, payments are executed via the Payment Factory's central bank account and released there. Intra-group payments are settled via internal bank accounts within the payment factory.

In the target scenario (expansion stage 2), payments are made via a central bank account

Schematic (simplified) process representation in expansion stage 2
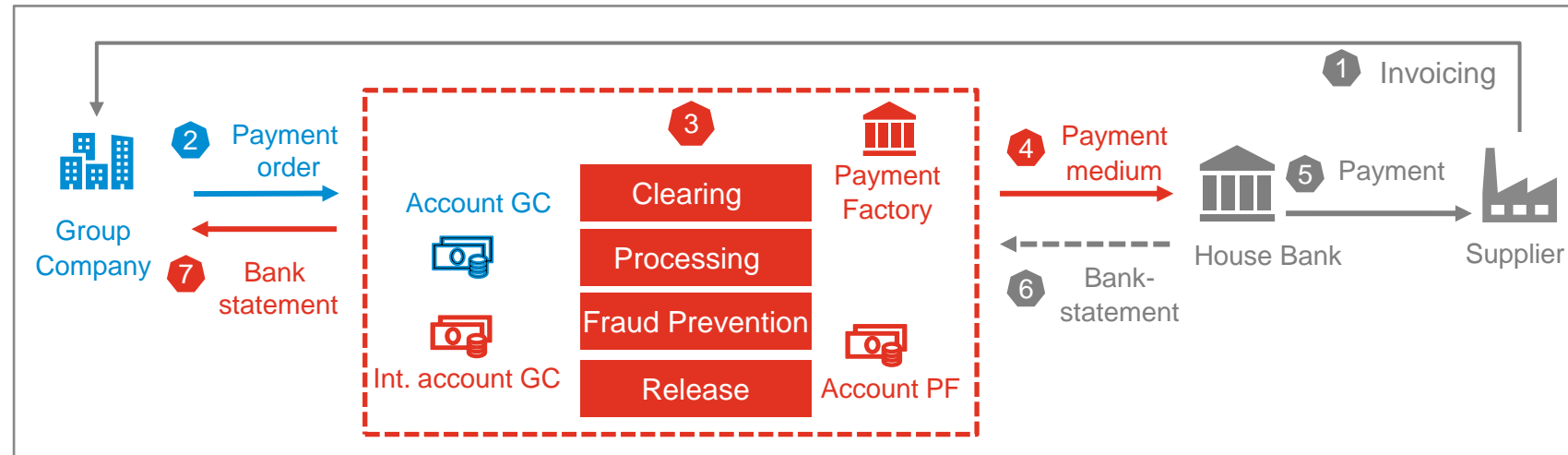
Accounting local	Standardized payment transactions Central	
Conditions / payment terms	Internal bank accounts	Bank Account Management
Payment run incl. release	Intercompany payments	Exception Handling
Supplier Management	Format conversions	IT Security
Local ERP / Accounting	Central execution of payments	Interface with banks

Introduction & Status Quo

Target model

Project Approach

Interpretation of the SAP standard

Attachment

otto group
HOLDING

Payment
Factory

Für sichersten Zahlungsverkehr

PROJECT ORGANISATION
EMBEDDED IN THE HOLDING STRUCTURES OF THE OTTO GROUP

The project setting makes it possible to underpin the introduction of the Payment Factory with a profound internal understanding of Otto processes and governance as well as an external understanding of market standards.

The cross-functional team is highly motivated and forward-thinking, which contributes to an agile project process.

The project is closely connected with the Group companies involved (depending on the phase)

Steering Commitee

Project Lead	Techn. Implementer	Project Office
Subproject IT	Subproject Processe	Subproject Banking

Sounding Board
(MD's resp. Representative, Internal Audit)

GC GC GC GC GC Int. Aud.

Transformation / Agiles Framework
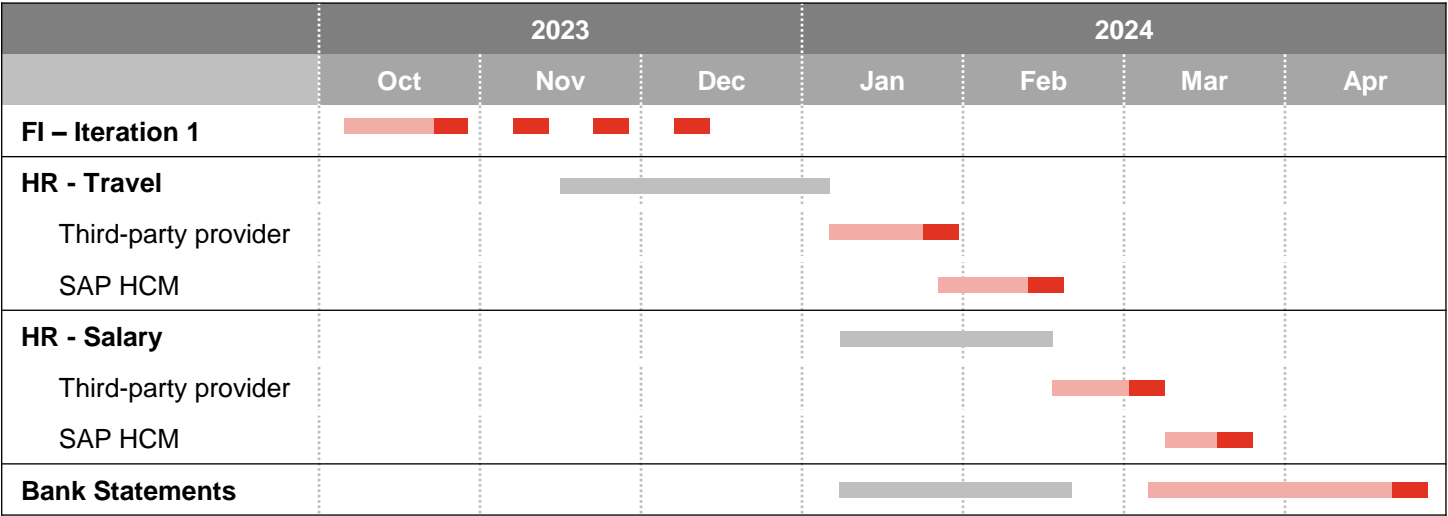
The current Go-Live of Wave A / expansion stage 1 is carried out in an iterative approach. This entails the phased introduction of both group entities and essential functionalities.

The implementation of the next stage depends on the successful completion of the preceding quality gate.

The first go-live iteration includes only payments from the accounting systems, followed by HR payments and bank statement processing in a separate iteration. Thus, we followed an MVP approach to gather experience with the system.

We are on the way to successively implementing company codes and functionalities as part of the go-live process

Payment Factory
Für sichersten Zahlungsverkehr

	2023			2024			
	Oct	Nov	Dec	Jan	Feb	Mar	Apr
FI – Iteration 1							
HR - Travel							
Third-party provider							
SAP HCM							
HR - Salary							
Third-party provider							
SAP HCM							
Bank Statements							

Realize
Deploy
Run

Introduction & Status Quo

Target model

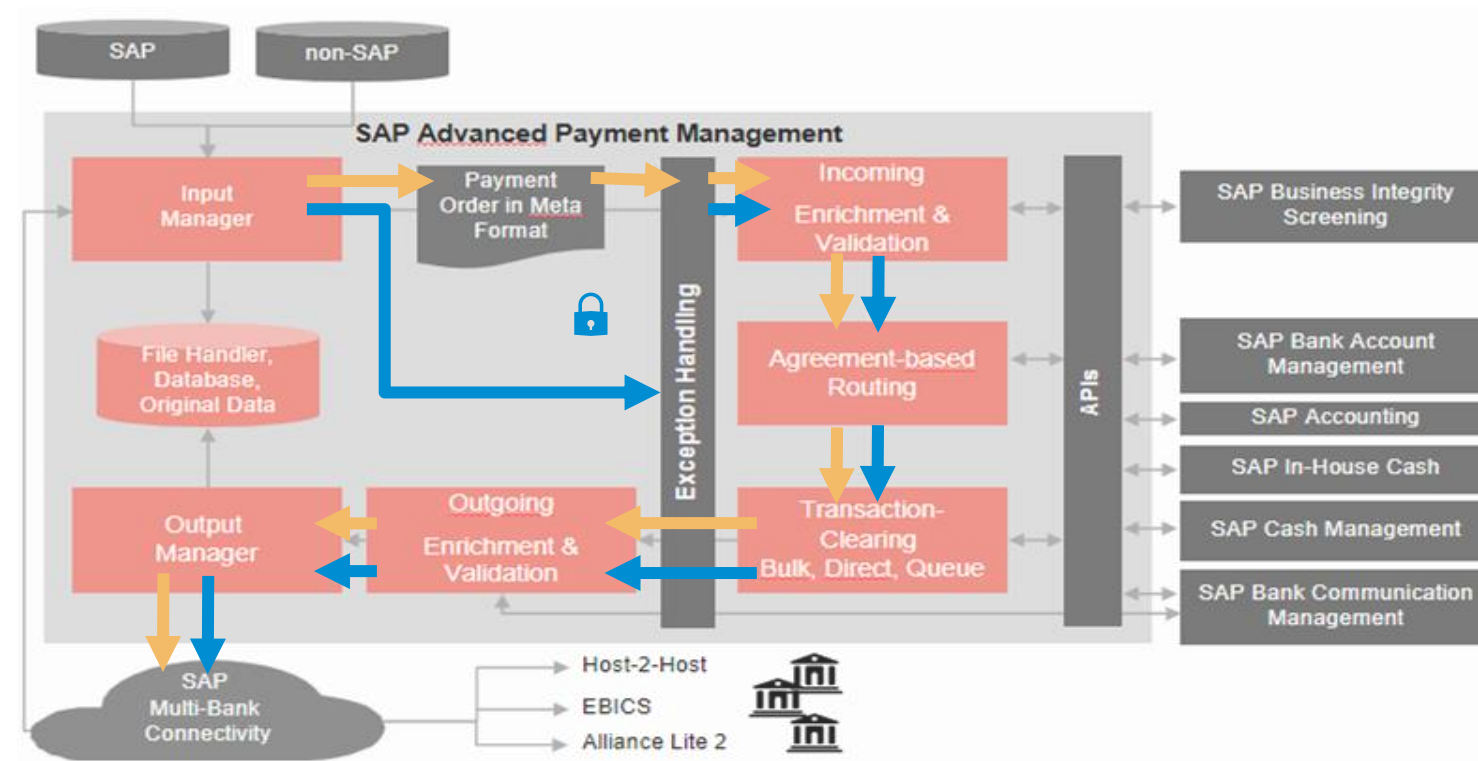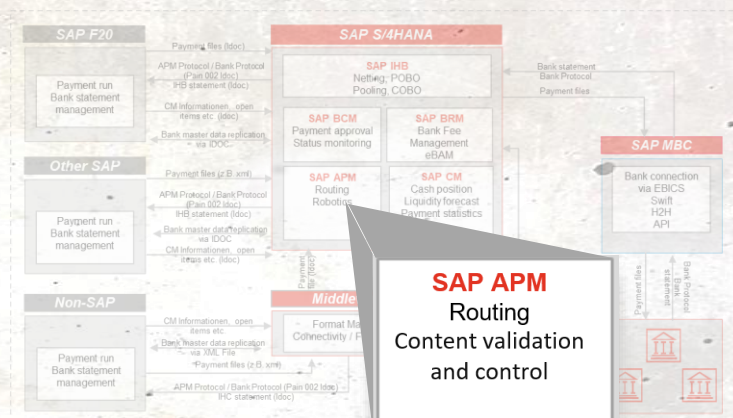**Project Approach**

Interpretation of the SAP standard

Attachment

The Advanced Payment Management (APM) is the core of the payment factory

SAP APM
FORWARDING VS. CONVERSION

SAP APM
Routing
Content validation and control

Option 1: Same Format Forwarding

Option 2: Forwarding with conversions

SAP Bank Communication Management (BCM) offers a wide variety of release workflows

SAP BCM
REPLACEMENT OF PAPER-BASED PROCESSES

SAP BCM
Payment approval
Status monitoring

	BCM		
Subsystem Payment Order Type	**First Approver**	**Later Approver**	
Vendor payment	First Approval_VP	Second Approval_VP	4-eye-appoval
Treasury Payment	First Approval_TR	Second Approval_TR, Third Approval_TR	6-eye-appoval
HR- Payment	First Approval_HR	Second Approval_HR, Third Approval_HR, Fourth Approval_HR	8-eye-appoval
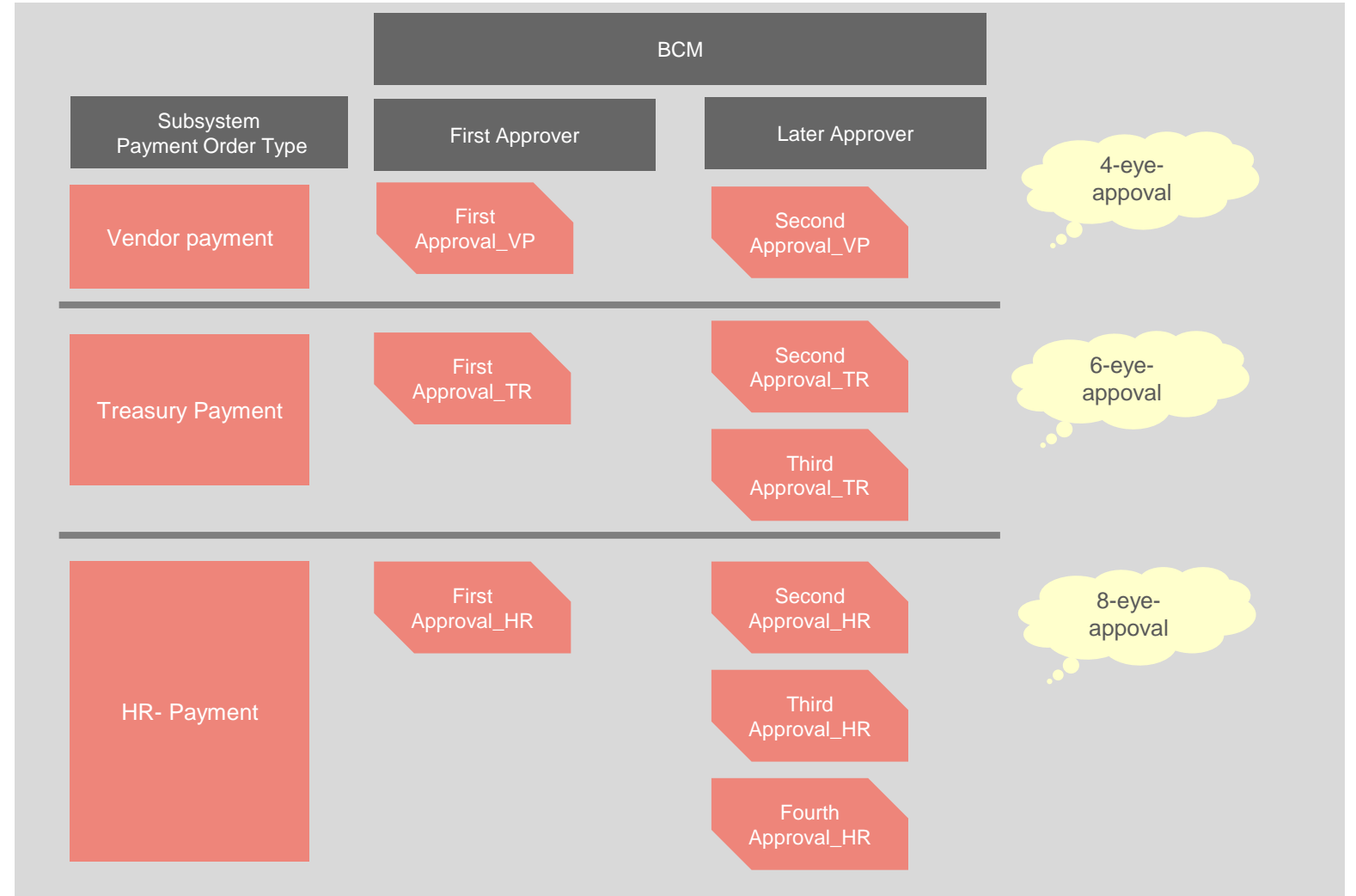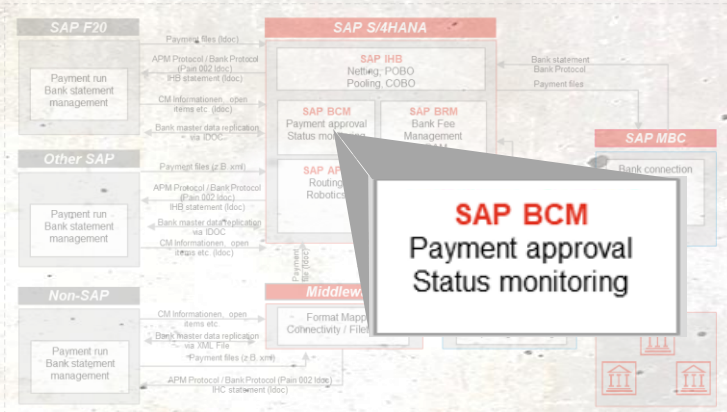
Business Integrity Screening (BIS) improves the security for outgoing payments

SAP BIS
COUNTLESS POSSIBILITIES OF FRAUD PREVENTION
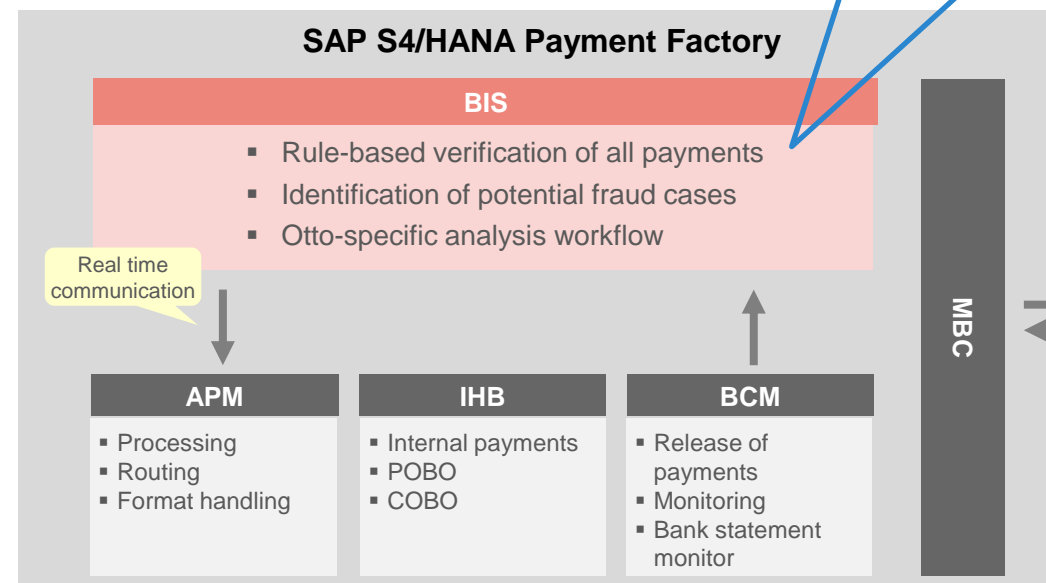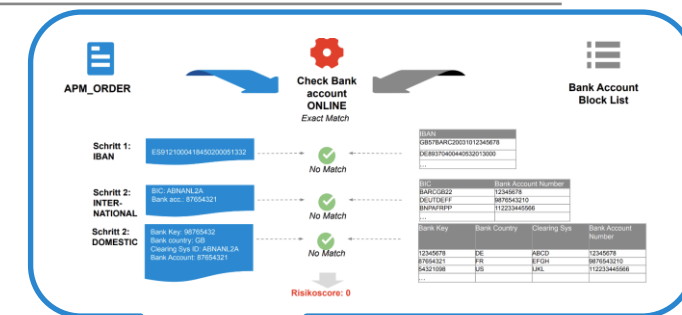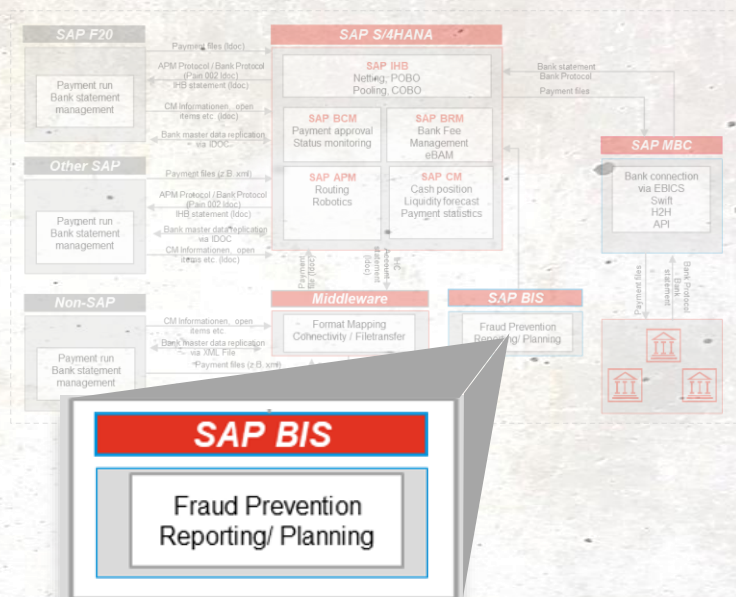
SAP S4/HANA Payment Factory

BIS
- Rule-based verification of all payments
- Identification of potential fraud cases
- Otto-specific analysis workflow

SAP

Non-SAP

Real time communication

MBC

APM	IHB	BCM
• Processing • Routing • Format handling	• Internal payments • POBO • COBO	• Release of payments • Monitoring • Bank statement monitor
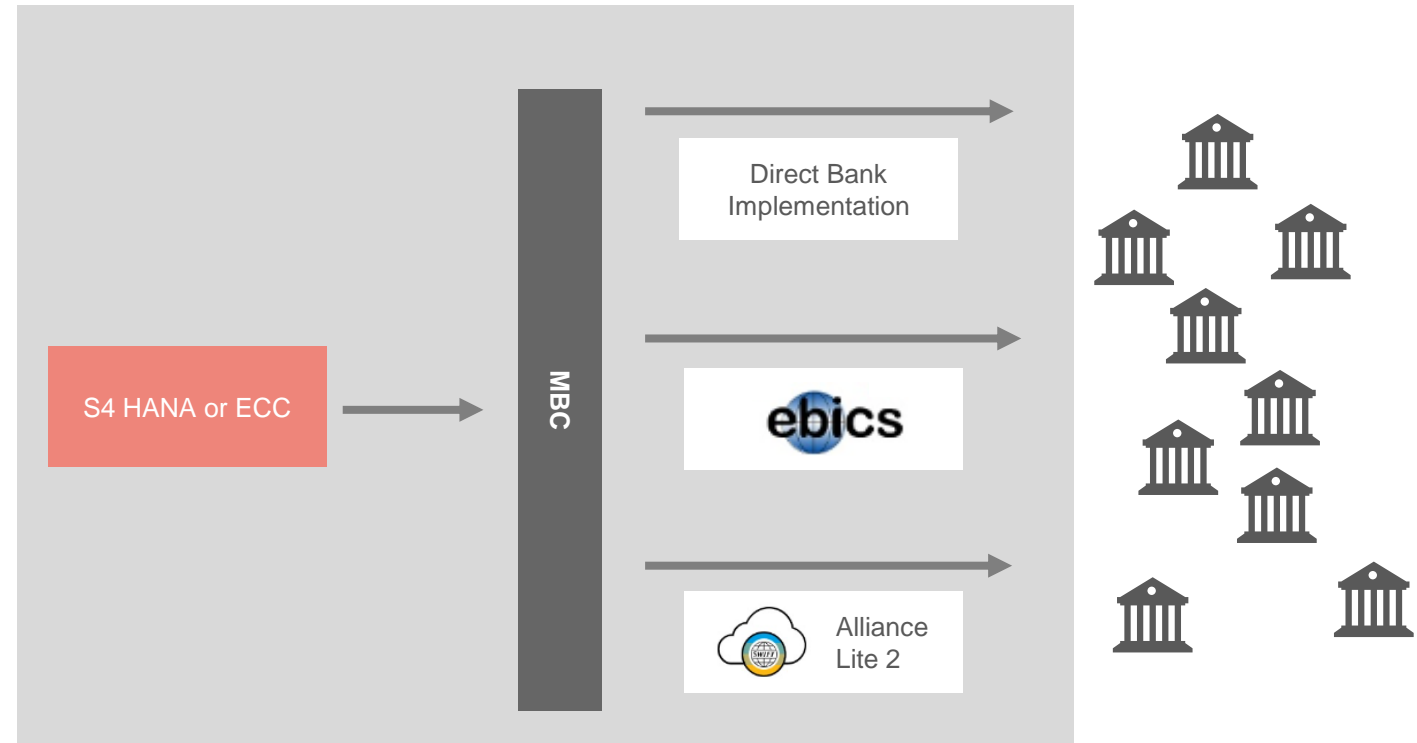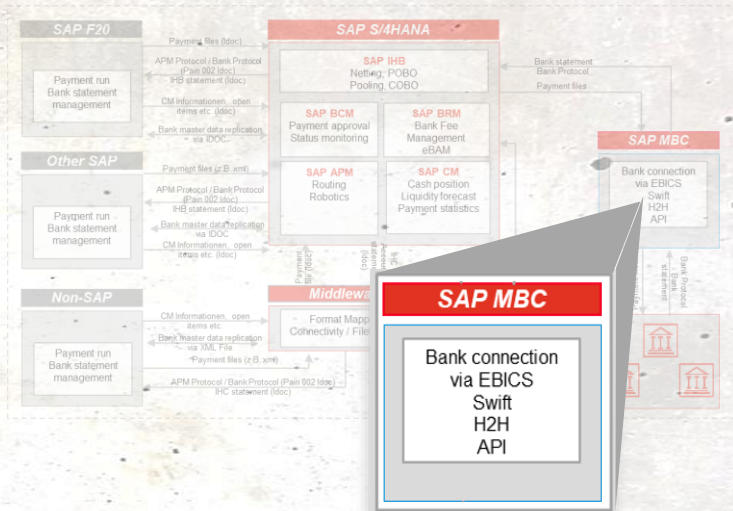
THANK YOU FOR YOUR ATTENTION!

Introduction & Status Quo

Target model

Project Approach

Interpretation of the SAP standard

Attachment

otto group

HOLDING

The Payment Factory solution provides various efficiency, control, and security potentials.

Payment Factory
Für sichersten Zahlungsverkehr

POTENTIAL BENEFITS

The Payment Factory offers benefits such as increased efficiency and cost reduction through the centralization of payment processes. It enhances risk management, promotes standardization, and enables automation, leading to improved cash management and increased transparency.

Cost reduction

Transfer of manual, time-consuming tasks such as the administration and maintenance of electronic banking solutions (including the elimination of annual maintenance fees) as well as the format handling of payment and statement files to the Payment Factory.

Increased automation

Standardization and automation of processes, audit mechanisms, and format handling through a direct interface to the Payment Factory.

Enhanced fraud detection

Reduction of fraud risks through the use of an additional central and automated fraud pattern detection. Standardized review and approval workflows assist in monitoring unusual payment outflows.

Compliance with regulations

Compliance with regulatory requirements related to sanctions and embargoes is supported through additional central checks at the payment initiation point.

Elevated IT security level

Elimination of required investments in relation to dynamically evolving IT minimum standards (e.g., replacing encrypted end-to-end processes with file transfers, protecting payment application against hacker attacks, implementing multi-factor authentication login procedures, maintaining testing environments, etc.).

Reduction of banking fees

Account management and transaction fees are reduced by minimizing external bank accounts, utilizing the in-house bank, and opting for SEPA payments instead of international transfers..

Improved liquidity management

Improved transparency of internal and external cash flows within the Otto Group enables active management of liquidity outflows and enhanced working capital management by avoiding prepayments. Elimination of recurring disposition notifications.

Any other potentials?

otto group
HOLDING

The implementation takes place in two expansion stages - and offers prospects for further features

FUNCTIONALITY
Solution with prospects

With the completion of expansion stage 2, the core processes of payment transactions have been fully transferred to the Payment Factory.

On this basis, further process optimizations are conceivable in addition to the inclusion of incoming payments, for example

- Collections on Behalf of (COBO)
- Predictive analytics
- Electronic Bank Account Management (eBAM)
- Robotics solutions in the interfaces to adjacent systems
- Further automation

	Expansion stage 1	Expansion stage 2
	Offering the first centralized payment transaction services	**Process integration into the CM system and Expansion of central payment services**
Functionality	• Bank connection of all participating GC • Payment runs centrally via the Payment Factory • The content of transferred payment files is not changed	• PF provides participating GC with internal bank accounts for Payments on Behalf (POBO) payments. • Central Bank Account Management (BAM) by the PF • Internal payment between the GCs becomes possible Reporting on Power BI basis
Processes	• PINO by using local accounts • Extended central fraud protection • Centralized technical bank connection • Central processing of electronic account statement files • Exception and format handling for payments transferred to the payment factory • Execution of manual payments possible	• POBO by using a central account • Group-wide optimization of bank charges • Central Bank Account Management - replication of bank master data from Payment Factory • Use of SWIFT Forwarding becomes possible • Evaluations / reports are provided centrally

Payment Factory
Für sichersten Zahlungsverkehr

otto group
HOLDING