SAP Organizational Hierarchy

1. Introduction

1.1 Scope and Objective of the Document

The Scope of this document is to describe the organizational structure elements of as designed by the Business Process Project Team for the SAP system.

Organizational structure elements describe how the company is structured and organized within the SAP system. They are shared by most of the processes and they are used or shared by multiple functional areas. Therefore, it is critical to have a good understanding of these elements in order to have a global view of the SAP system.

The first section of the document provides an overview of the Organizational Structure in SAP and the relationship between the main elements.

The next section provides a detailed description of each element. The elements are grouped by SAP functional area (Finance, Controlling, Material Management, etc.) and are described regardless of the business processes.

2. Finance

2.1 Chart of Accounts

SAP Definition

The Operating Chart of Accounts (CoA) is an organized list of all general ledger master records (natural accounts) that are required for one or more Company Codes. It defines the highest level structure of the SAP Finance module. Each Company Code must/can be assigned to only one CoA. It is possible to have multiple CoA per SAP client.

Company Code assignment to a CoA does not necessarily mean that every account in the CoA is required to be “extended” to the said Company Code. Not all accounts defined within the CoA must be used by every assigned Company Code. It is possible for only a subset of the general ledger accounts within the CoA be available for posting. The CoA may also be maintained in different languages in order to meet country local language requirements.

A Country Chart of Accounts may also be established to provide/meet country local statutory reporting requirements. The Country CoA represents the account structure prescribed under national (local) regulations. The usage is optional and only necessary where the country's numbering convention differs from that used in the Operational CoA. Direct postings using this numbering convention cannot be made…the number can be described as more of an alias for the Operating GL account and is only available for reporting purposes.

Note: the operating chart of accounts is most often referred to as simply the ‘Chart of Accounts’.

Integration Points

The Chart of Accounts (and the GL accounts contained within it) is an integration point with virtually every module in SAP. It is the single point at which all financial transactions are posted and accumulated. In addition, CO primary cost elements, by definition, must exist also as GL accounts in the chart of accounts. Secondary cost elements, in order for allocations to be reflected in FI, must also “point” to accounts in FI. Primary and Secondary Cost elements in CO have a one to one relationship with SAP Operating Accounts.

The Chart of Accounts contains a listing of GL accounts, defined at the Chart of Accounts (Enterprise) level. To use a GL account within a company code, the account would have to be extended to the said company code, i.e. the account would have to be created at the Company Code level (i.e. every Company Code may not need to define or use of the accounts defined at the chart level).

2.2 Group Chart of Account

SAP Definition

The Group Chart of Accounts is used for consolidation purposes; it is typically a summarized corporate version of the operating chart of accounts (e.g. one account called ‘Cash’ vs. multitude of individual cash accounts as found in the operating chart). The use of a Group CoA for consolidation requires that all of the general ledger accounts in the Operating CoA must be mapped to a group account within the Group CoA. This assignment is made in the GL account master record within the FI module. Each time an entry is posted in the GL, the generated line items are also updated (tagged) with the Group account.

Integration Points

The Group CoA integrates with the FI module via the Group Account assignment on the General Ledger account at the CoA level.
2.3 Company Code

SAP Definition

A Company Code is an independent organizational unit representing a legal or logical entity that is required by law to prepare a balance sheet and profit and loss statement. It contains the primary set of balanced (accounting) books.

A Company Code normally represents a legal entity. The Company Code is the lowest organizational level where legally required balance sheets and P&L statements can be created. All Company Codes must be assigned to a Chart of Accounts, and also to a Controlling Area should management accounting be required.

Integration Points

Financial transactions in modules must be associated, either directly or indirectly, with a Company Code. GL Account, Vendor, Material, Customer Master Data records, although created centrally, must be further maintained to “extend” these records to Company Codes.’s Company Code design decisions will be defined in the master data design documentation.

Inter-company financial transactions as much as possible should flow through the Customer and Vendor sub-ledgers to take advantage of SAP’s reconciliation functionality. Customer and Vendor Master Records should be created to represent company codes. The naming convention for these master records should be "Cxxxx," for intercompany customers and "Vxxxx" for Vendors, where “xxxx” is the SAP Company Code number. Additionally Customer and Vendor Master Records should then be linked for netting purposes.

2.5 Business Area

SAP Definition

Business Area is an organizational unit within financial accounting, which represents a separate area of operations, or responsibilities within an organization. It provides an alternative view of the Enterprise, and can span/cross multiple Company Codes and will provide a level of detail below Company Code. Internal balance sheets and income statements can be created at the business area level.

Should Business Areas be utilized, all financial transactions must be assigned to a Business Area. It is important to determine whether the organization will utilize Business Areas early in the project, since Business Areas will impact other modules (i.e. SD and MM). Any combination of Company Code and Business Area is generally valid at the document level unless otherwise configured.

2.6 Functional Area

SAP Definition

Functional Area is an organizational unit within the accounting coding block which structures the business organization according to the requirements of Cost-of-Sales accounting. Functional Areas allow a higher level of summarization of cost and operating expenses in reporting. Substitutions for automatic derivation of characteristics for these areas must be created. Cost Center categories are used to derive to Functional Area. Additionally, Functional Areas may be directly assigned to Cost Centers and General Ledger accounts, thereby hard coding them to a function.

2.7 Credit Control Area

SAP Definition

The Credit Control Area is an organizational unit that represents an area responsible for granting and monitoring the Enterprise’s customers’ credit. Configuration of this element is a requirement for enabling the credit management functionality within SAP.

A Company Code may have one Credit Control Area assigned to it. Multiple Company Codes may also be assigned to a single Credit Control Area. However, in order to do so, the Company Codes must share a common functional currency (credit limits must be in the same currency) and must use similar credit management business processes.

Customer Master would have to be extended. A new currency would have to be defined if the credit control is performed based on region.

Integration Points

The Credit Control Area is determined at Sales Order creation time and is stored on the A/R line item. It can be determined four different ways:

- Company Code-Default
- Sales Area
- Customer Master (Payer)
- User exit

3. Controlling
3.1 Operating Concern

SAP Definition

An Operating Concern is the highest organizational unit within the Profitability analysis module (CO-PA). The operating concern is modeled after the business organization for the purposes of profitability analysis and uses characteristics (for example, customer, product, territory, sales office, sales employee, product hierarchy, etc.) and value fields (for example, revenues, sales deductions, costs, quantities, etc.) to measure profitability.

Integration Points

CO-PA profitability segments may be updated by:

- SD (sales billing documents, accruals for trade spending payments and marketing credits)
- CCA (cost of goods sold, operating expenses, variances, internal orders)

3.2 Controlling Area

SAP Definition

The Controlling Area is the highest reporting level under Cost Center Accounting across which information can be shared and viewed within the controlling module. The Controlling Area is an organizational unit within a corporation in which comprehensive independent management accounting can be performed. Profit Centers, Cost Centers, and Internal Orders are associated with a Controlling Area. The Controlling Area links the financial accounting module (FI) to the management accounting module (CO) in SAP. Multiple Company Codes may be attached to a single controlling area; this allows grouping of companies from a cost accounting viewpoint. Cross-controlling posting is not possible, for example, it is not possible to perform allocations between controlling areas or to combine Controlling Areas for standard reporting or analysis (this would require's ledgers). Normally a single controlling area is used to manage and report on all similarly structured management entities. A Controlling Area must be assigned to one, and only one Chart of Accounts and a controlling area must be managed in a single currency (multiple Company Code and/or transaction currencies will be translated into the controlling area currency as transactions are posted).

Integration Points

CO is heavily integrated with SAP FI and with Production Planning (PP). With the New G/L functionality, CO (Controlling Area) reconciles in real-time with FI.

3.3 Profit Center

SAP Definition

The Profit Center is a subdivision of a business organization that is set up for internal management control purposes. Profit Centers are used to categorize revenue and expense by responsibility within the organization. These areas of responsibility (Profit Centers) could be based upon regions, functions, or products. Profit Centers are activated by Company Codes; however, they are linked to only one Controlling Area. Profit Centers can be grouped in a standard hierarchy so that they roll into a user-defined management structure (all Profit Centers must be assigned to the standard hierarchy). It is possible to maintain an unlimited number of additional Profit Center hierarchies (Profit Center groups) so that more than one roll-up view is possible. Profit Centers support both actual and planned data.

Profit Centers are determined by the businesses, and can be changed or added any time. However, the impact on previously reported data must be considered. Existing Profit Centers may be blocked for future posting at any time.

Integration Points

A Profit Center is linked to a single Controlling Area. Profit Center postings may be made through:

- SD (sales billing documents, accruals for trade spending payments and marketing credits)
- MM (inventory valuation, purchase invoices)
- CCA (cost of goods sold, operating expenses, internal orders)
- FI (direct postings)

3.4 Profit Center Hierarchy

SAP Definition

The Standard Hierarchy is a tree structure that displays the organization of all the Profit Centers in one Controlling Area. The structural elements in the standard hierarchy are the Profit Center Groups. The Profit Center Group area is an end point in the tree structure with Profit Centers assigned to it. Profit Centers can be grouped in a standard hierarchy so that they roll into a user-defined management entity (all Profit Centers must be assigned to the standard hierarchy). It is possible to maintain an unlimited number of additional Profit Center hierarchies (Profit Center groups) so that more than one roll-up view is possible.
Profit Center hierarchies may be added or changed at any time. However, any change will impact reporting structures and prior reported data. Note, there is no time-dependency on the Profit Center Hierarchy. That is, the Hierarchy only depicts the current structure with no reference to the prior.

### 3.5 Cost Center

**SAP Definition**

A Cost Center is an organizational unit representing a clearly defined location where costs are incurred. Cost Centers are linked to a single Controlling Area, a single Profit Center, and to a single Company Code. Both planned and actual costs can be measured in a Cost Center. Cost Centers are organized into hierarchies; the primary one being the ‘Standard Cost Center Hierarchy’ where all cost centers must be assigned. Additional hierarchies (Cost Center groups) may be created for any number of internal reporting and allocation requirements. The Cost Center object represents the lowest level within an organization where costs are collected.

The creation of a Cost Center needs to be limited to a genuine new business need or reporting requirement (e.g. new acquisition) in order to minimize issues related to system performance and master data maintenance.

- Existing Cost Centers may be blocked from future posting at any time.
- Any change to the Cost Center structure will have an impact on the historical reporting figures.
- New Cost Centers will need to be created when new locations are enrolled into SAP as part of the phased rollout.
- Cost Center Master Records will be maintained by a ‘Centralized’ Master Data Maintenance Organization (SAP Competency Center).

**Integration Points**

All transactions originating outside FI and posted to GL accounts associated with a Cost Center represent integration points. This will include transactions from:

- SD (Samples, Free delivery, etc.)
- MM (Purchase order, freight, etc.)
- PP (Process Order, etc.)
- FI (direct posting)

### 3.6 Cost Center Hierarchy

**SAP Definition**

The primary hierarchy is the standard cost center hierarchy, which represents a geographical, and facility view of a corporation’s organizational structure. All cost centers must be assigned to the standard hierarchy. Additional hierarchies (cost center groups) may be created for managerial reporting and allocations. The standard Hierarchy is directly assigned to the Controlling Area through configuration.

**Integration Points**

The facility level of the Cost Center Hierarchy is consistent with the Cost Center coding rule.

### 4. Material Management

#### 4.1 Plant

**SAP Definition**

A Plant is an organizational Unit within a company that typically represents a distribution center or manufacturing location where materials are produced, purchased, stored, inventoried, shipped, received, valued, or from which services are provided or used. Multiple plants can be defined within a company, but each plant can only be assigned to a single Company Code. The Plant is the only level where Material Cost can be defined. Major processes where the Plant is involved include:

- Material costing and valuation
- Inventory Management
- MRP/Forecasting
- Maintenance Planning
- Transactions involving Materials (e.g. production orders, purchase orders, sales orders, etc.)

A Plant cannot be changed after transactions have been posted against it without a significant impact on the system. An example of such a
change might be if a Plant was reassigned from one Company Code to another. Major areas that will be impacted include:

- Master Data definition (e.g. Material, BOM, Material Costing, etc.)
- Historical reporting (e.g. by Division, by Sales Organization, etc.)
- Inventory

Eliminating obsolete Plants will destroy the continuity of historical reporting. Therefore obsolete Plants will not be deleted from the customizing.

*Integration Points*

Plants are assigned to Purchasing Organizations to enable procurement activities.

The following Master Data is maintained at Plant level: Material Master, Purchasing Info-record, Routing, and Bills of Material. Resources, Standard Costs and Inventory Valuation are calculated at Plant level.

All orders (process orders, maintenance orders, transfer orders, sales orders) are linked to a plant.

### 4.2 Storage Location

*SAP Definition*

The Storage Location is the place where stocks of Raw Materials, Semi-Finished Goods, Finished Goods, POS Materials, parts, etc., are physically stored within a Plant. Storage Locations are Plant specific and define the global level of Material locations within a Plant.

A Storage Location is required for Plants that receive items into their inventory. Many Storage Locations may be defined for a Plant but a minimum of one is required. As a best practice, the number of Storage Locations should be kept to a minimum.

The Storage Location is the lowest level of detail to identify the location of inventory within SAP without using the Warehouse Management system and Handling Unit management. A Stock Overview can be displayed by Storage Location to view the quantity of a given Material in the Storage Location.

The Storage Location is utilized to determine the Warehouse Management movement type for all Inventory Management postings based on the data defined in the Material Master.

A physical address is linked to each Storage Location. The Plant address may be set as the default.

*Integration Points*

A Storage Location is directly linked to one Plant and may be excluded from MRP consideration.

### 4.3 Purchasing Group

*SAP Definition*

A Purchasing Group represents a person or a group of people responsible for certain purchasing activities. You create a new purchasing group when a new or another colleague takes over purchasing activities.

### 4.4 Purchasing Organization

*SAP Definition*

A Purchasing Organization is an organizational unit responsible for procuring Materials and Services and negotiating prices and terms of delivery with vendors/suppliers for one or more Plants. A Purchasing Organization must be assigned to either a single Company Code or to one or multiple Plants. A Purchasing Organization may be assigned to Plants in different Company Codes.

A Purchasing Organization is required when any type of procurement document is created in the system (e.g. purchase requisition, purchase order, outline agreement, etc.).

*Integration Points*

The Purchasing Organization only impacts Purchasing transactions. Since there is only one Purchasing Organization per geography, the Procurement Master Data is simplified.

The Purchasing Organization will be Regional and linked to the Operational plants.

Since Regional Purchasing Organizations procure for multiple Companies, they will not be linked to any Company in SAP.
5. Sales & Distribution

5.1 Sales Organization

SAP Definition

The Sales Organization defines the selling unit in the legal sense, and is the highest organizational unit within the Sales and Distribution application.

The Sales Organization generally represents a group of sales people, or an organization led by a high level sales executive within the company. It identifies the selling unit responsible for the sale, often comprised of the order, delivery, and billing documents. The Sales Organization can also be used to differentiate between certain business operations and functions, such as:

- Order entry (which orders can be used)
- Pricing (pricing procedure determination, pricing conditions)
- Output
- G/L accounting (for account determination)
- Controlling (where Sales Organization is a characteristic in profitability analysis)

Each Sales Organization is assigned to exactly one Company Code (Legal Entity) to which sales must be posted. A Sales Organization can be combined with several Distribution Channels, which determines the channels through which the Sales Organization can distribute materials and services. Several product divisions can be assigned to a Sales Organization. The Sales Organization is then responsible for distributing materials or services for that division.

Integration Points

Company Codes and Sales Organizations

In a Company Code several sales organizations can be enter business transactions for accounting purposes.

Each sales organization should be assigned to only one Company Code for relevant business transactions.

Sales Organizations and Distribution Chains

Distribution chain is assign between a sales organization and a distribution channel where the sales organization distributes materials. A sales organization can be assign to multiple distribution channel for distributing materials and services. A sales organization can be links to only one distribution channel.

Sales Organizations and Sales Areas

Sales area defined as combination of Sales organization, Division and Distribution channel.

Sales Organizations and Master Data

Master data is defined within a Sales Organization. Each Sales Organization has its own customer and material master data views, its own conditions and its own pricing policy. Since a Sales Organization cannot share master data with other Sales Organizations, master data must be extended separately for each Sales Organization.

5.2 Distribution Channel

SAP Definition

The Distribution Channel determines how materials or services are sold and how they are distributed to customers, for example wholesale, retail, internet sales, etc. Reporting requirements alone do not justify setting up Distribution Channels.

Distribution Channels can be used to segment markets, for example, to separate sales activities for market segments where pricing may be different, or calculated differently.

Integration Points

Distribution Channels and Sales Organizations

A distribution channel is assigned to a Sales Organization. The combination of Sales Organization and Distribution Channel define a Distribution Chain, through which a Sales Organization distributes or sells materials.

Distribution Channels and Sales Areas

The combination of Sales Organization, Distribution Channel, and Division defines a Sales Area. A Distribution Channel can be linked to multiple Sales Organizations and multiple Divisions.
Distribution Channels and Plants

You assign one or more plants to a Sales Organization through a Distribution Channel, which is done by using the distribution chain. A Plant is assigned to a Distribution Chain, enabling the sale of materials from that Plant.

Distribution Channels and Master Data

Each Distribution Channel has its own customer and material master data, its own conditions and its own pricing policy. Since a distribution cannot share master data with other Distribution Channels, master data must be created separately for each Distribution Channel.

5.3 Division

SAP Definition

Division is an organization unit to organize material and services for multiple product and lines. Product Division is responsible for profit from material and services. Product Division is linked to sales and distribution for each business transaction. It can be derived from either:

- The combination of customer and Sales Area
- The material master

Different sets of master data can be defined for each Product Division, such as customer master data, pricing, or conditions (but not material). Some reasons to define different Product Divisions may be:

- Processes which are carried out differently, such as order entry
- Differences in master data (customer, material, or price)
- Pricing
- Business area account assignment
- Authorizations
- Reporting Requirements
- Product-oriented sales reporting, such as sales or profit margins
- Stock reporting, such as quantities, volumes, or values

When more than one Product Division is used, a Reference Division can be used to reduce the amount of master data maintenance. The Reference Division enables reporting by each Product Division while eliminating the need to extend the customer master data and conditions into each Product Division.

Integration Points

Materials and Divisions

A division can bear responsibility for profits from several materials.

A material may be assigned to exactly one division.

Sales Organizations and Divisions

A sales organization can sell materials from different divisions. Assignment of divisions and sales organizations takes place in Customizing.

Divisions and Sales Areas

The combination of Sales Organization, Distribution Channel, and Division defines a Sales Area. A Division can be linked to multiple Sales Organizations and Distribution Channels. Master data for customers requires maintenance of information for each Sales Area selling to the Customer.

5.4 Shipping Point

SAP Definition

The Shipping Point is the top level in the organization for shipping. A Shipping Point is a physical location within a Plant from which an item is shipped (e.g. a warehouse or collection of loading ramps). All deliveries must start from a single Shipping Point. A shipping point has an address.

Integration Points

The Shipping Point is assigned to a Plant. The Shipping Point may be proposed automatically during order processing depending on the configuration of the Plant, Loading Group (from material master), and Shipping Condition (from customer master). A delivery is always initiated from exactly one Shipping Point. Thus, all items of a delivery belong to one Shipping Point.

5.5 Transportation Planning Point
SAP Definition

Transportation Planning Point is used to carry out transportation planning. Basically, the transportation planning point consists of a group of employees responsible for organizing transportation activities. Each shipment is assigned to a transportation planning point for transportation planning and shipment completion. An organizational unit can be defined according to the company’s needs, for example, according to geographical location or mode of transport. The transportation planning point is assigned to a company code, but is otherwise independent of other organizational units.

The Transportation Planning Point is a required organizational structure element if Transportation is in scope.

Integration Points

The Transportation Planning Point is assigned to a Company Code.

5.6 Sales Office

SAP Definition

A Sales Office is usually considered a subsidiary or branch office. A Sales Office establishes contact between the company and the local market. Sales Offices are assigned to one or more Sales Areas. A Sales Office can further be broken down into Sales Groups.

The Sales Office is an optional organizational element.

Customer master maintenance is required for re-assigning customers to sales offices during reorganization or re-alignment. New sales offices can be defined as required, and customers could then be assigned to the new sales offices.

5.7 Sales Group

SAP Definition

The Sales Group is assigned to a Sales Office, and can be used in a hierarchical structure and can be used for reporting.

The Sales Group can be used as an organizational element that is relevant for pricing. The Sales Group is an optional organizational element.

If new sales offices are established for the future they will have to be assigned to the Sales groups.

Reference:

www.help.sap