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Whitepaper

C-Suite Questions on Digital Strategy with SAP S/4HANA

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Go Digital or Be Disrupted

Digital Transformation is at the core of every business, and the decision to embrace an Intelligent Enterprise is no longer a matter of debate. While the Chief Executive Officer (CEO) drives corporate strategies to increase revenue, and the Chief Operating Officer (COO) is focused on operational excellence. The Chief Financial Officer (CFO), Chief Digital Officer (CDO), Chief Information Officer (CIO) are the ones who drive decisions related to digital transformations. The CIOs/ CDOs are under pressure to constantly deliver innovation, reduce TCO, and help increase productivity. The CFO is always pushing for rapid and accurate decisions, reduce risks, and ensure compliance. Employees need digitally-empowered tools to ensure higher customer engagement and deliver better service.

However, contemporary enterprise application capabilities cannot support the above mandate of the modern business. It calls for a review of existing business technology platforms for executing a meaningful Digital Transformation Strategy centered by a modern

1. Why change existing ERP?

The answer is clear if you are on an ERP system that was designed ten or more years ago. The ERP will be functional and seem to be in a steady state, however it is missing capabilities that are new, embedded and digital, for scaling business process automation that now leverages Machine Learning and Artificial Intelligence. Older ERP platforms are also a bottleneck for seamless integration with modern cloud platforms and third-party business partners such as suppliers. The longer you wait for making the move to S/4HANA Cloud, the farther you will fall behind leaders that are innovating incrementally with this modern ERP as a digital core to accelerate their digital transformation. The cell phone of 1990s cannot compete with the 2020s smartphones.

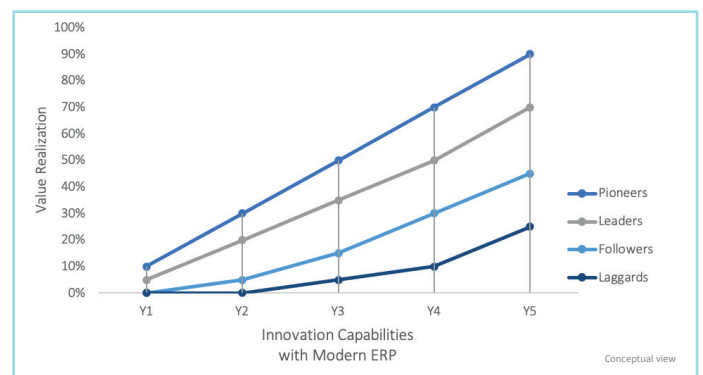
94% Leaders Improve competitive advantage with Next Gen Processes
- Forrester *

Companies are looking for ways to deliver value to their customers via digital channels providing personalized products and services in the quickest possible way. This applies to all sectors from consumer products to industrial products and services. Digital factory is not a concept anymore and many organizations have embarked on



ERP such as SAP S/4HANA. Often, the senior leadership team led by the CEO/Head of Business Unit, make the final decision on whether to uplift an existing ERP or replace it with a new modern ERP. Either decision is not easy, and the process is time consuming in medium and large sized organizations. There are five key questions that senior leaders need answered to make decisions based on why choose S/4HANA:

initiatives for connected manufacturing, predictive maintenance, and service integration. Predictive Material Requirements Planning (pMRP) with infinite simulations, a new capability in S/4HANA will significantly improve material availability, supply chain planning accuracy and superior inventory management. Predicting late deliveries will help retain customers, thus saving revenue loss. Likewise Automatic reconciliation of payables and receivables, advanced Availability to Promise (aATP) are among many innovation capabilities. As of March 2020, about 28% of current SAP customers have undertaken the move to S/4HANA Cloud with 4200 having gone live and 7100 on-going projects across industries.



* High ranking across the board on Innovation in strategy, technology, people, process, and culture among 147 discrete manufacturers. Forrester 2018

2. Where is the Value?

Value with a modern ERP must be viewed from both a strategic positioning of the digital core as well as in quantified capability improvements.

Determining the business impact of addressing the strategic needs that prevents achieving the strategic driver will lead to realizing maximum value. The business case for S/4HANA cloud becomes obvious looking at the growth in upgrades and new implementations. Common benchmark improvements we have seen are - 10-15% reduction in logistics costs, 40-50% reduction of time spent on period end close, 60-70% reduction in total vendor invoice processing time, 50% reduction in IT total cost of ownership (TCO), 80% faster access to reports, 48% improvement in Days Sales Outstanding (DSO), and 10-20% increase in revenue from new offerings. Value drivers and improvements are identified for each industry sector and are specific to a company.

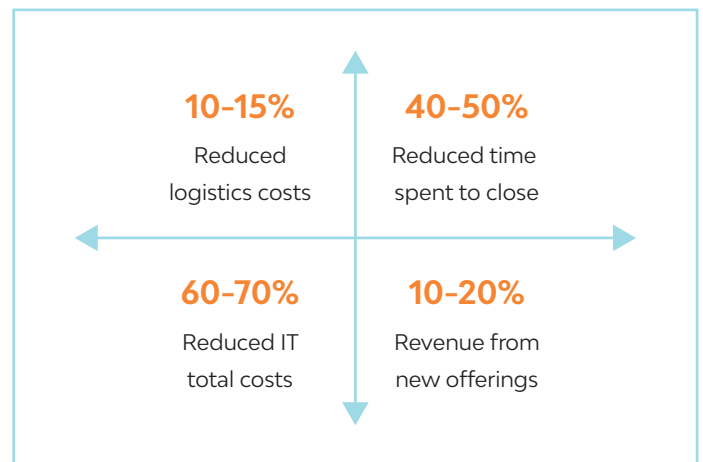
The strategic value of modern ERP, as part of the digital strategy, becomes critical for a sustainable future. Without an Intelligent core, the ability to realize value with siloed RPA projects and technical upgrades of peripheral business applications will be marginal. Most of the 10 year or older ERPs have been customized, have duplicate or bad master data, and operate with batch processes. End-to-end integrated business processes such as connected supply chain will be sub-optimal with patch-worked, older design ERP with no capabilities of embedded business process automation.

Since all business decisions center around winning and keeping customers, the enterprises must establish capabilities to get a 360° view of the customer's buying patterns, volume & profitability, tendency to buy again, etc. This requires back-office ERP tightly integrated with front-office customer facing applications with shared, predictable information in real-time. New capabilities such as advanced ATP will help with product allocations based on sales priorities while processing sales orders. Prioritization of orders based on algorithmic based backorder processing and integrated demand planning- production planning-detailed scheduling will increase reliability of order fulfillment. Similarly, real-time view of characteristics of outstanding sales orders for confirmations and tracking, a necessity, is also available in S/4HANA. These capabilities alone can help increase 10-20% revenue and improve 10-20% customer satisfaction. With these customer capabilities, new business models are feasible with mass customization of products and services to give customers exactly what they need. This also includes performance-based contracts with connected devices and predictive services.

Imagine a fully automated receivables process with machine learning. This will be a leap forward from manual process, partial automation or a Robotics Process Automation (RPA) giving real-time DSO for action.

Soft benefit value is the ability to better collaborate across business functions, data-based decision making with real-time analytics, and enhanced user experience.

Once an assessment of current state complexity and capabilities is done with a business case, proceed with pilot studies of select business scenarios to prove out the likelihood of deriving value from S/4HANA capabilities.



3. What are my options for moving to S/4HANA?

The best path to move to S/4HANA must be based on a well-defined success criterion. These would be described in the roadmap with dependencies on in-flight budgeted projects, availability of resources, business capability needs, propriety functionality, and realizable value. Other criteria such as scope, risk and cost will drive the implementation plan.

There are multiple ways to move to S/4HANA including:

Consolidate legacy ERPs and then move - Companies with multiple ERP systems should look to consolidate on a common platform and simplify the current state architecture with reduced general ledgers, reduced inter-system transaction processing and reconciliation. This approach allows reduction and clean-up of master data and reduced integration complexity when transitioning to S/4HANA. It also drives down total IT costs.

System conversion or Brownfield – Companies that have significant Intellectual Propriety (IP) that was customized over the years to sustain competitive edge, need to consider system conversion that gives a new database and the S/4HANA application that can be deployed over the cloud as well. Companies can deploy new capabilities over the existing design at the pace of business. This can also be an asset replacement strategy where depreciation has been fully realized and potentially the hardware and add-on software will run out of maintenance.

Transformation or Greenfield – Companies use the opportunity of modern ERP to implement newly designed business processes optimal to present and future business needs. This gives an opportunity to stick within the standard SAP business processes and move to the cloud-based S/4HANA which gives flexibility at low risk to implement new capabilities and advanced features on a continual basis (4 times a year). With this option, companies can implement value-driven innovation capabilities to realize higher value and lead the marketplace.

In technical terms, there are hybrid variations of system conversion and transformation options wherein design from older ERP can be selectively brought into S/4HANA. Data security and access controls should not be a concern if a company decides to move to the cloud. There are robust capabilities that meet the regulatory standards.

The choice of Cloud or on-premise application is an IT preference based on ability to handle frequent updates (two to four times a year), as well as level of customizations in the solution. The lesser the customization complexity, companies are better off going with the cloud option. The future of business technology platforms will be cloud first and hyperscalers such as Microsoft Azure, Amazon Web Services, and Google Cloud Platform are a standard for Cloud Infrastructure. All roads lead to modern ERP.

4. How big is the business disruption?

The success or failure of any of the options above rests on how business disruption will be handled. A robust change management strategy will be inevitable to avoid the mistake of treating the move to S/4HANA as a technical project. Cutting corners on making the right resource available for design and impact decisions will lead to lower value realization.

Expect the business disruption to be significant with any option but manageable. The complexity will further increase if less people

are involved in testing and training before the deployment of the solution.

While communications, stakeholder management, training and support will need to be implemented with a plan, there are a few best practices that will help mitigate the business disruption:

- Understand current business process limitations and bottlenecks to create high impact opportunities of automation, improved efficiencies and compliance. Define business processes that are consistent and optimal by aligning with SAP standard processes.
- Keep the foundational ERP design clean, with ability to extend and integrate applications in a flexible way. It means reduce the number of peripheral and redundant applications, reduce level of customizations and use SAP's Cloud Process Integration (CPI) that is future proof.
- Clean master data and establish governance prior to the move to S/4HANA. Archive legacy data and retire legacy systems. This will help bring the data clean and keep the data clean, thereby reducing complex integrations and reconciliations, and less efforts during testing and deployment.

5. Can we move to S/4HANA at a low cost?

Most projects become costly due to lack of a good strategy, not following best practices, and poor decisions. There are multiple cost drivers to consider and key decisions made to optimize the overall cost that forms the business case:

- **Hardware cost** – Retire legacy systems and archive data where possible. Consider cloud-based infrastructure as an alternative for ERP applications to reduce capital costs.
- **Software cost** – Consolidate a small set of platforms with all redundant applications established for a specific business unit. This simplifies the overall architecture prior to moving to a S/4HANA solution.
- **Support cost** – Leverage the global delivery support with value, volume and performance-based contracts with support providers. Include future support providers as business partners during the S/4HANA implementation to reduce the post go-live issues, resolution time and keep the users happy.

- **Implementation cost** – This is an upfront cost, when wisely spent, can reduce the overall TCO. Consider budgeting for pre-S/4HANA discovery assessment projects, proof-of-concepts, pilot, ad-hoc services, and multi-phased rollouts across countries or plants where necessary.

Tool-based assessments are less costly and can give you a quick snapshot of the current state solution complexity and inventory of business capabilities mapped to S/4HANA capabilities. Blueprint or design phase can be significantly reduced with an agile (show and tell) technical build phase and include smart business subject matter experts (SME) to make design decisions and approve the build components of the solution. Lead the testing efforts with in-house resources and automated testing factory. Future support providers such as LTI help with low risk rapid assessments, agile delivery and automated testing factory.

- **Scope management** – Empowered design authority with business representatives will prevent scope creep before it outweighs the feasibility of the program. Ensuring best practices are the first choice in decisions will reduce out of control customizations and complex integrations.



- **Move now vs. Move later** – Moving to S/4HANA is not a choice for current SAP customers staying on this platform. It is a question of when and not if. The cost of implementation will increase due to demand-supply. More importantly the value realization will be reduced and blunt the impact of being an early adopter for competitive advantage.

Key Takeaways

- **Go Digital or Be Disrupted:** Prioritize technology investments towards digital transformation innovations.
- **Determine value-based capabilities** to enable seamless connected Finance, Customer service, Supply chain and Procurement.
- **Lead initiatives with a top down change management approach** with senior executive support commitments and employee re-skilling. Identify business requirements with high impact value.
- **Implement a strategic Intelligent core** with a modern ERP foundation such as S/4HANA cloud to maximize data value and accelerate digital transformation.
- **Begin with a rapid current state ERP assessment** to identify opportunities for consolidation and capability improvement opportunities that align with strategic drivers.

About the authors



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Surya leads the SAP Consulting services at LTI and specializes in Digital Transformation with SAP S/4HANA strategy & assessment and implementation, data analytics, and value realization for addressing challenges of the modern business. He has 7 years of Industrial sales and supply chain background followed by 23 years of consulting experience around the globe. Surya is a trusted advisor having successfully served many consumer, manufacturing, utility, and service companies.



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Vineet has 30+ years of experience including 20+ years in SAP and Cloud apps. Vineet has specialization in OTC and Supply Chain process and his industry expertise cuts across CPG, wholesale & distribution, manufacturing and utilities. In his role, Vineet's focus is to drive digital transformation and innovations. A key aspect of this is to help organizations transform their businesses through adoption of new technologies, architectures and operating models.

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