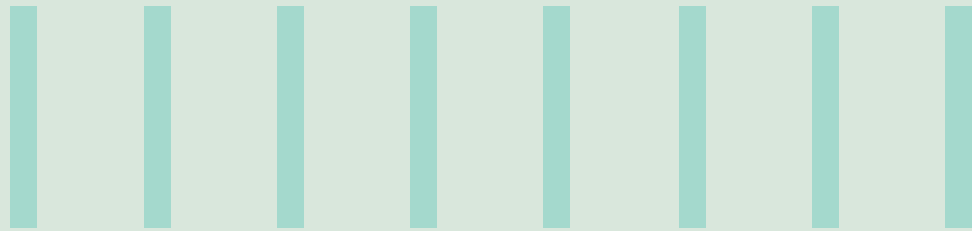




CREATE A COMPELLING BUSINESS CASE FOR FINANCE TRANSFORMATION WITH INNOVATIONS IN S/4HANA ENTERPRISE MANAGEMENT (EM) 1610

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Abstract

SAP S/4HANA Finance solution has revolutionized the way finance functions are performed in an organization while addressing today's business trends and setting a new trend towards simplification. However, most organizations find it difficult to create a rock-solid business case for finance transformation with the adoption of S/4HANA Finance, based on quantifiable financial outcomes, key performance indicators (KPIs), and value drivers. One of the key reasons for this is the lack of complete understanding of the innovations in S/4HANA Finance with their benefits translated into key business outcomes. This paper highlights key innovations and business benefits for financial organizations using S/4HANA Enterprise Management 1610 along with quantifiable financial metrics which can help organizations to create a compelling business case. The paper also highlights key considerations which organizations should keep in mind while leveraging each of these financial innovations.

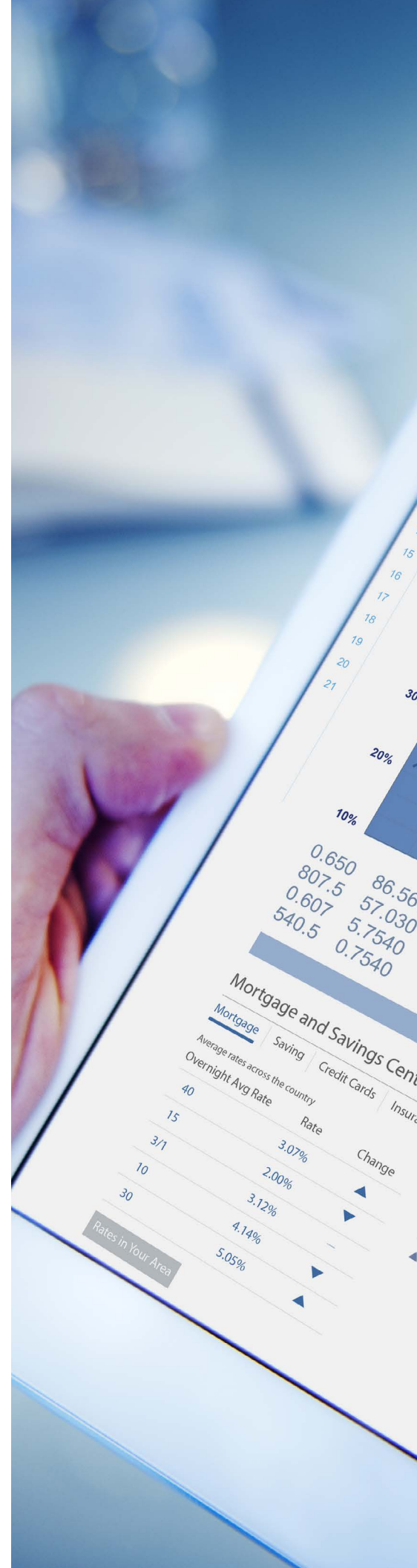
While the core functionality and end-to-end integration provided by SAP Financials have proved themselves for more than two decades, there is an inherent complexity in the financial landscape of most enterprises due to the dynamic nature of business, growth, and complex business situations, making the finance function and business inefficient and difficult to operate. As per an industry survey, the high cost of financial operations as a percent of revenue, proliferation of business reports, and a high number of systems supporting finance are some other key challenges faced by most finance departments / functions across the world.

SAP S/4HANA Finance solution addresses most of these challenges and sets a new trend towards simplification. With features like real-time reporting, single source of truth,

highest granularity, dynamic and predictive planning, and accelerated financial closing, it provides financial organizations a future-proofed solution with consumer-grade user experience.

However, with most of the S/4HANA adoption programs being IT driven, organizations find it difficult to create a compelling business case based on quantifiable financial business outcomes and value drivers for the adoption of S/4HANA Finance. One of the key reasons for this is a lack of complete understanding of the innovations in S/4HANA Finance with their benefits translated into key business outcomes. Also, it is equally important to keep in mind some key limitations or pre-requisites while implementing these simplifications in finance with S/4HANA.

In my white paper titled '[Accelerate your finance transformation by choosing the right S/4HANA Finance product and deployment option](#),' I had explained the key criteria to decide the right S/4HANA product and deployment option for S/4HANA Finance. In this paper, I will explain the key finance simplifications and innovations in S/4HANA EM 1610 with their business benefits and impact along with key considerations. This knowledge is essential for the creation of a rock-solid business case in finance as well as for process capability assessment and value discovery to create the right finance transformation roadmap with S/4HANA.





S/4HANA EM 1610 - Key innovations and business benefits

SAP S/4HANA EM 1610, the third major and latest on-premise release of SAP S/4HANA, includes all features and innovations of S/4HANA Finance solution. Let us look at some of the key innovations and simplifications with S/4HANA EM 1610 in the below key areas of finance along with their business benefits and key aspects to be considered by organizations while implementing these innovations.

- Profitability analysis and reporting
- General ledger accounting
- Accounts receivables
- Planning and financial consolidation
- Cash management
- Period end closing and reporting

Also, I have tried to map these benefits to some key representative financial business metrics and outcomes which can facilitate the creation of a compelling business case in finance for S/4HANA transformation. Although the actual business case creation would need to be contextualized to an organization's pain points, this can provide a high-level guidance and framework for organizations embarking on the S/4HANA Finance transformation journey.

I. Profitability analysis and reporting

S/4HANA simplifications	Business benefits	Finance KPIs for business case
<ul style="list-style-type: none"> Real-time derivation of market segments and profitability characteristics for income statement items not assigned to profitability segment Cost of goods sold (COGS) split into multiple general ledgers (GL) accounts at the cost component level Production variances split into multiple GL accounts 	<ul style="list-style-type: none"> Improved profit margins and decision making based on real-time profitability reporting with the account-based controlling and profitability analysis (AB CO-PA) in the Universal Journal. No need to wait till the next day for the load to business intelligence (BI) or other reporting systems Faster period end closing with no COPA assessment or allocations required at period end since the profitability characteristics can be derived real time even for postings with no assignment to profitability segments Enhanced granular reporting with drill down on derived profitability segment characteristics from trial balance and balance sheet 	<ul style="list-style-type: none"> XX% reduced spending on strategic management Improved profit margins by XX% Reduction in business and operations analysis reporting costs by XX% Reduced IT support and finance operational cost by XX% for period end close with faster close by XX days Reduction in number of reports per \$B revenue Reduction in IT support and operational costs for load to BW based reporting systems by XX%

Key considerations:

- Account-based COPA (AB COPA) in Universal Journal is not mandatory in S/4HANA Finance and customers can continue to use their existing costing-based COPA solution. However, all Fiori-based profitability reporting in S/4HANA is based on profitability analysis in Universal Journal (AB COPA) and not costing-based COPA. Hence, it is recommended to go live in S/4HANA Finance along with account-based COPA in Universal Journal. Also, account-based COPA can be activated at any time in S/4HANA Finance after Go Live.
- Costing-based COPA continues to be supported in S/4HANA, but no enhancements are planned in future. Also, customers can run account-based profitability analysis (AB COPA) in Universal Journal in parallel with their existing costing-based COPA solution (if any). The parallel usage of both the solutions enables customers to build up historical data for comparison and to smoothly adopt the new profitability analysis solution. There is no out-of-box SAP solution for migration of historical data in costing-based COPA to account-based COPA in Universal Journal. This means that after Go Live in S/4HANA Finance, the historical data will not be available in account-based COPA for corresponding Fiori-based reports.
- Standard programs are available for migration of profitability segments from account-based COPA to profitability analysis in Universal Journal table ACDOCA.
- Cost of goods sold (COGS) split will only work if COGS is posted during goods issue and not during billing.
- COGS and price difference accounts need to be maintained as cost elements for profitability segments to be considered as real account assignments.



II. General ledger accounting

With S/4HANA Finance, Universal Journal is available as a single repository of journal entries across multiple FICO applications like GL, AP, AR, CO, COPA, and AA etc. Some of the key simplifications and benefits with S/4HANA 1610 are captured below:

S/4HANA simplifications	Business benefits	Finance KPIs for business case
<ul style="list-style-type: none"> Up to 10 parallel currencies per ledger and company code can be maintained in Universal Journal with real-time conversion Support for transfer pricing and parallel valuation with flexibility of separate ledgers for each valuation or a single ledger with separate amount columns for each valuation Subsequent activation of a parallel ledger for a new accounting principle along with opening balances, open items, and historical documents in a system conversion project Unified maintenance of GL accounts and cost elements. Master Data Governance (MDG) solution available out of box in S/4HANA EM 1610 for finance master data maintenance 	<ul style="list-style-type: none"> More flexibility in multi-currency reporting to meet legal and management reporting requirements Improved compliance with automation of multi-GAAP accounting and reporting requirements Better transparency in transfer pricing and reporting of profitability based on group and individual entity view for multinational groups Unified, harmonized, and optimized finance master data maintenance leveraging Master Data Governance (MDG) for faster consolidation and improved analytics 	<ul style="list-style-type: none"> Reduced general ledger costs by XX% with elimination of manual processes and reduction in full-time equivalents (FTEs) Reduced risk and potential savings in audit costs and legal penalties by XX% with elimination of manual processes Reduction of supply chain costs by XX% due to better transparency on transfer pricing Reduction of master data maintenance efforts and costs by XX%



Key considerations:

- New currencies cannot be introduced with the conversion from ECC to S/4HANA. It is a separate project which requires SAP System Landscape Optimization (SLO) service.
- From asset accounting and material ledger perspective, only three currencies are available as before in ERP Central Component (ECC). Similarly, for controlling, only two currencies are available as in ECC.
- It is not possible to implement an additional ledger in the same fiscal year of system conversion to S/4HANA. Also, the additional ledger defined must have the same sets of currencies, currency types, and fiscal year variants as the source ledger.

III. Accounts receivables

S/4HANA simplifications	Business benefits	Finance KPIs for business case
<ul style="list-style-type: none">• SAP Revenue Accounting and Reporting (RAR) mandatory as revenue recognition solution in S/4HANA• Credit Management (FI-AR-CR) replaced with SAP Credit Management (FIN-FSCM-CR)• Simplified and standardized centralized master data maintenance for customers and vendors with business partners• Fiori Analytical and KPI- based reports for receivables monitoring	<ul style="list-style-type: none">• Improved GAAP (generally accepted accounting principles) compliance as SAP RAR supports new IFRS 15/ASC 606 for revenue recognition• Optimized receivables and reduced days of sales outstanding (DSO) with SAP Credit Management (FIN-FSCM-CR) and Fiori based KPI reports	<ul style="list-style-type: none">• XX% reduction in days of sales outstanding (DSO)• XX% reduction in accounts receivable management costs• Xx% reduction in bad debts• XX% reduction in customer master data management costs with centralized business partners



Key considerations:

- ERP SD Revenue recognition is not available in S/4HANA. Evaluation is to be done by customers before conversion to S/4HANA if migration to SAP RAR is feasible for business.
- Prior to conversion to S/4HANA, all open sales orders and contracts processes by SD Revenue recognition need to be migrated to SAP RAR.

IV. Planning and financial consolidation

S/4HANA simplifications	Business benefits	Finance KPIs for business case
<ul style="list-style-type: none"> Real-time financial consolidation with embedded Business Planning and Consolidation (BPC) in S/4HANA based on actuals data of Universal Journal at line item level Currency translation can be run either in SAP S/4HANA or in Embedded BPC Real-time Financial planning with pre-defined templates in Embedded BPC Unified master and transactional data for actuals, plan, and budget 	<ul style="list-style-type: none"> Improved efficiency and adherence to group consolidation schedule with faster consolidation Improvements in data collection and processing & analysis with the elimination of time-consuming roll-up / file transfer processes for consolidation Improved accuracy and agility for dynamic planning for improved decision making Better decisions for improved profitability through end-to-end planning simulation capabilities 	<ul style="list-style-type: none"> XX% reduction in planning and budgeting costs with XX% shorter planning cycles Improved profit margins by XX% with improved revenue and expense planning XX% reduction in integration costs for file transfer/roll-up to separate consolidation systems Reduced license and infrastructure costs of maintaining separate consolidation and planning systems XX% reduced audit and group closing efforts with real-time consolidation



Key considerations:

- Embedded BPC has a separate license cost and is not included as a part of S/4HANA EM 1610. Also, its benefits can primarily be leveraged by customers with a single instance landscape or those looking for consolidation of their existing landscapes. For a distributed landscape, it needs to be implemented with Central Finance along with a chart of accounts (COA) and master data harmonization
- Even if Embedded BPC is not used for consolidation, other consolidation tools like Hyperion, SEM-BCS, EC-CS etc. can still continue to work along with S/4HANA by extracting data from ACDOCA table
- SAP Business Planning and Consolidation can also write-back the consolidated results to the SAP S/4HANA consolidation journal (table ACDOCC).

V. Cash management

S/4HANA simplifications	Business benefits	Finance KPIs for business case
<ul style="list-style-type: none">• Centralized workflow-based bank account management as a user transaction instead of configuration activity• New Fiori apps actual cash flow and cash flow detail analysis for liquidity planning• New Fiori apps liquidity forecast and liquidity forecast detail	<ul style="list-style-type: none">• Harmonization of bank accounts for better integration with BCM and in-house cash functionalities for improved working capital management• Overview of cash flow status to management for easy identification of extraordinary and abnormal cash flows• Overview of medium-term and short-term liquidity for efficient working capital management and improved decision making	<ul style="list-style-type: none">• XX% reduction in treasury and cash management costs with improved working capital management• XX% reduction in days of sales outstanding• Reduced IT support and maintenance cost of bank accounts by XX%

Key considerations:

- Classic Cash Management and Liquidity Planner are no longer supported in S/4HANA. So customers using these functionalities in ECC need to mandatorily switch to New Cash Management in S/4HANA which requires additional license.
- Customers who do not want to use cash management and liquidity planning functionality can use Bank Account Management (Lite) version available along with S/4HANA 1610 EM license without any additional license for Cash Management in S/4HANA. In the BAM lite version, there is no workflow-based bank account process.
- All transactions can be accessed only through apps from Fiori Launchpad.

VI. Period end closing and reporting

S/4HANA simplifications	Business benefits	Finance KPIs for business case
<ul style="list-style-type: none"> • HANA Optimized transactions for period end close • SAP Smart Business for Financial Close cockpit with Fiori apps to track Financial close progress • Enhanced Intercompany Reconciliation Tool (ICR) for automated matching of open items on the fly with elimination of the three-step approach to single step for reconciliation • Material Ledger mandatory as basis for material inventory valuation • Embedded BW leveraging CDS views for operational analytics and reporting within S/4HANA • Production Cost Analysis App displays overall and detailed production costs for orders. Cost comparison is based on budgeted and actual costs • Tax Declaration Reconciliation App checks tax-relevant postings that are to be declared in a VAT declaration • Tax Reconciliation Account Balance App to assess tax relevant postings • Statutory Reporting Framework localized for countries 	<ul style="list-style-type: none"> • Faster period end close with elimination of closing tasks like FI, CO, COPA, Intercompany reconciliations, periodic asset postings • Better transparency on inventory values as per multiple currencies and multiple GAAP requirements with material ledger • Embedded Analytics integrates analytical engine into business processes empowering business to move from instant insights to action in real time. • Production Cost Analysis report supports tracking of variances to control production costs • Tax Declaration and Reconciliation apps facilitate improved legal and statutory compliance • Statutory Reporting Framework provides a unified user experience with audit trail and enhancement for custom needs. It also provides support for online submission of reports to tax authorities for improved compliance 	<ul style="list-style-type: none"> • Reduced IT support and finance operational cost by XX% for period end close with faster close by XX days • Reduced inventory costs by XX% with better transparency through material ledger • Reduction IT support and finance operational costs for management reporting with Embedded Analytics • Reduction in IT support and finance operational costs by XX% for statutory reporting by reduction in FTEs by XX% with Statutory Reporting Framework • Reduced risk and potential savings in audit costs and legal penalties by XX% with elimination of manual processes for statutory reporting • Reduction of data warehousing systems costs by XX%

Key considerations:

- SAP Financial Closing Cockpit 2.0 (FCC) add-on requires a separate license and is not available with S/4HANA license.
- For a distributed system, landscape improvements in Intercompany Reconciliation (ICR) tool cannot be leveraged as the three-step approach for reconciliation would continue to be followed.
- Customers who are not using a material ledger in their current ECC system should evaluate implementing a material ledger as a separate project before a system conversion to S/4HANA.
- Actual costing is optional with a material ledger and can be activated at any time after conversion for selected valuation areas.
- Embedded BW in S/4HANA can be evaluated primarily as a replacement for operational reports in existing SAP BI/BW based reporting systems. However, for analytical reporting and data warehousing functions, customers would still need to use SAP BW on HANA or BW4HANA solutions.



Conclusion

A strong finance business case based on quantified and prioritized value drivers is key to an organization for the successful adoption of S/4HANA Finance enabled digital transformation, with a buy-in from all key business and IT stakeholders. S/4HANA EM 1610 includes all innovations and simplifications in finance in areas of general ledger, accounts receivable, period end close, reporting, profitability analysis, cash management etc. Organizations can leverage these innovations to simplify, reinvent, and optimize their finance processes to achieve reduction in finance operational, IT support, and maintenance costs for a higher ROI. Also, an understanding of some of the key considerations with S/4HANA EM 1610 while adopting these innovations can help organizations take the right decisions and make the right choices. For a detailed understanding of the key criteria to decide the right S/4HANA product and deployment option for S/4HANA Finance, please read the white paper titled ['Accelerate your finance transformation by choosing the right S/4HANA Finance product and deployment option.'](#)

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Kedar Muzumdar is a finance expert with more than 13 years of consulting experience. He currently leads the S/4HANA Finance function in the Infosys Transformation center of expertise (CoE). His key responsibilities include providing consultations to digitize the core business operations of enterprises through S/4HANA Finance, build internal capabilities, and develop new Infosys tools and differentiators. Consequently, he works closely with clients to identify and quantify value drivers while creating business cases and project roadmaps with S/4HANA Finance. At the same time, his other responsibilities include creating scenario-based proof of concepts to engage with clients better, demonstrate new functionalities with S/4HANA, and provide expert guidance to ongoing Infosys projects in S/4HANA Finance. In the past, he has collaborated with SAP product development experts for co-innovation of new solutions with S/4HANA.

Kedar is a certified consultant for SAP S/4HANA Finance and FICO with strong accounting, costing, finance, and taxation expertise. Having worked in multiple finance transformation programs for global corporations, he is passionate about building innovative solutions that amplify the effectiveness of business processes. His primary areas of expertise in SAP FICO include new general ledger (GL), account receivables (AR), account payables (AP), banking, fixed assets, profitability analysis, product costing, and material ledger. Over the years, he has lead geographically distributed teams in finance implementation, support, rollout, and upgrade assignments. What's more, he has also authored four white papers in SAP Financials Expert from Wellesley Publications.

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