

COVID-19: SAP Consulting perspective

Impact of the COVID-19 crisis on S/4 Transformation



The COVID-19 crisis, and what it can teach businesses

Businesses are facing a unprecedented crisis

The COVID-19 pandemic demonstrated to companies how enormous challenges can emerge rapidly and unexpectedly. While ever increasing globalization is counted on to drive growth and efficiency in today's economy, it is now more clear than ever that it also makes our world ever more vulnerable to the rapid spread of local epidemics to other countries and continents. The resulting external and internal challenges – ranging from social uncertainty and economic instability to interruption of supply chains – have made crisis management a top priority now for nearly all companies worldwide.

However, most companies are not sure where to start. Such crises impact companies without warning, leaving little time to take protective measures. On one hand, near term issues must immediately be addressed, evaluating a chain reaction already in progress across areas customer demand, delivery logistics, liquidity and supplier network sustainability. On the other hand, a longer term view must be taken considering the uncertainty and unpredictability of the long-term economic development in the global context.



Constraints and Opportunities

In order to best position their business to address these challenges, PwC observes a few key aspects that leaders should emphasize:

- **Operations must consider workforce bandwidth constraints.** Seamless and smooth business processes running independently of virtual or short staff working modes will require practical and flexible approaches to ways of working.
- **Business partner network disruptions should be minimized.** Measures should be taken to sustain the existing supplier network and strengthen customer relations, while also identifying alternative channels and markets.
- **Consolidated insights to the business are required to optimize mitigation measures.** For example, qualitative and real-time data availability dramatically improves decision-making to reduce costs and secure liquidity.
- **Detected deficits should be eliminated on a short- and mid-term horizon.** Acceleration of priority solutions will maximize the opportunity to improve competitive position in the near-term and also mitigate risk in the future.

Focus and accelerate – adjusting the S/4 approach

What does this mean for my S/4 Transformation?

Pre-COVID-19, many companies were already underway with their SAP S/4HANA driven business transformation program, or considering when to start. Some companies will now consider putting off or delaying these programs until the economic situation has stabilized. However, PwC SAP Consulting believes the ideal approach is rather to make specific adjustments to optimize and accelerate the transformation, focusing on areas to most effectively position the company to come out of this period and also be better prepared for future crises.

It can be seen that there are potential recurring savings through the optimized system landscape and process improvements that are realized with an modernized ERP system. Targeting the right efficiencies up front can provide relatively rapid returns, reduce TCO and increased confidence with key stakeholders in times of uncertainty.

Additionally, a modern IT landscape is required as the future-proof platform for the business to leverage emerging technologies, which have the potential to bring cost savings and new business channels.

Focus and accelerate the approach

Despite these clear opportunities to achieve competitive advantage, many companies will encounter the dilemma that there is a lower scope for investments. For that reason, a focused and accelerated transformation strategy is required, with an approach for a fast S/4HANA implementation. In the following pages, we will look at 4 key recommendations that can taken in the Prepare phase to put the right approach in place:

- Identify high potential value levers
- Perform risk & disruption analysis
- Define design principles reflecting an accelerated approach and need for process flexibility
- Assess fit-to-conversion to select the right migration strategy

Adjusting the S/4HANA Transformation approach

An optimized approach should consider opportunities and constraints highlighted by the COVID-19 crisis



Lessons Learned from COVID-19 Crisis

- Consider workforce bandwidth constraints
- Minimize business partner network disruptions
- Optimize measures based on consolidated business insights
- Address gaps in an accelerated way and focus on rapid returns within budget constraints



ERP Perspective

- Target big ticket process efficiencies and IT TCO
- Leverage emerging technologies to achieve cost savings and new business channels
- Improve data quality
- Design processes and system to ensure agility



Key Adjustments in Prepare Phase

- Identify high potential value levers
- Perform risk & disruption analysis
- Define design principles reflecting an accelerated approach
- Fit-to-conversion approach to select the right migration strategy

Identify big ticket sources of value in the Prepare phase

Success is where opportunity and preparation meet

The Prepare phase is crucial for defining the strategic direction by identifying high potential value levers, creating design principles and selecting the right migration strategy for the subsequent explore phase to maximize the total investments. The starting point for the company's S/4 transformation is a profound analysis of business value and end-to-end opportunities in a structured way through harmonization, simplification/standardization via S/4 and innovation via technology:

- For **process harmonization**, it is important to define the degree of harmonization and (plant-specific) process variations.
- For **Standardization via S/4**, it is recommended to conduct an assessment including customer specific definition of standard, e.g. using SAP Model Company, Industry Solutions, Best Practices, Enhancements, Add-Ons.
- For **Innovation** opportunities, an assessment should be performed of specific emerging and advanced technologies.

S/4HANA driven business transformation promises recurring savings in terms of operational, support and IT costs, including:

- ✓ Decommissioning of legacy systems, simplifying and reducing customization and reducing maintenance and support
- ✓ Improved business processes
- ✓ Increased asset effectiveness
- ✓ New business models that are enabling increased market share, profit and new customer and sales channels
- ✓ Automation of labor intensive business processes
- ✓ Real-time available data to enhance decision-making

To leverage these potentials under the investment constraints faced as a result of the COVID-19 crisis, strategic adjustments especially in the Prepare phase of the S/4 transformation project need to be reflected.

Value Lever Analysis to identify high potential opportunities

Value levers vary by end-to-end process and typically are addressed in a structured way through harmonization, standard and innovation

Business Value	E2E Opportunity	Process Harmonization	Simplify/Standardize via S/4	Innovate via Technology
Transparency & Decision speed	Master Data	• Data standard setting • Single source	• Simplify process steps • Transparency	
	Book to Report	• Legally defined • Regional derivations low	• Simplify process steps • Advanced analytics	
Cost & Spend	Procure to Pay	• Contract optimization • Spent transparency	• Reduction of variants • Fiori dashboards	
	Engineering & Maintenance	• Operational efficiency • Seek for synergies	• Advanced functionality • Transparency	
Asset effectiveness	Planning	• Integrated Supply Chain • Supply Optimization	• Real Time visibility • Advanced integration	
	Market to Order	• Marketing Effectiveness • Sales/Deal Transparency	• Diverted software market • Integration Reality	
Customer Satisfaction	Order to Cash	• Best Customer Service • Response Time /Quality	• Reduction of variants • Fiori Dashboards	
	Logistics/ Manufacturing	• Best Site Fit • Operational Efficiency	• Advanced functionality • Integration	
QUOTIF (Quality on time in full)	Transport Management	• Regional Synergies • Cost Optimization	• Advanced functionality • Transparency	
	R&D	• Research Intelligence • Product/Service Specifics	• Diverted software market • Integration reality	
Time to Market				

Potential **High** ↑ ↗ ⇌ ↓ Low

Taking the right migration approach is more important than ever

Defining Design Principles and Priorities

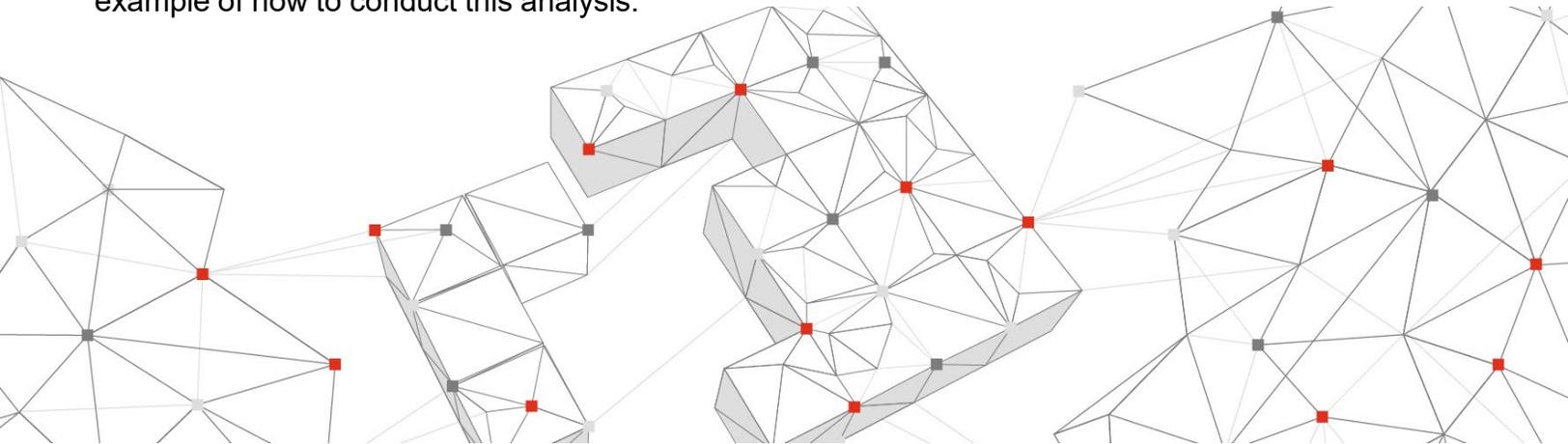
Based on the results of the value lever analysis, priorities for an accelerated and cost efficient S/4 transformation are identified to reduce time-to-value and costs in a short/mid-term horizon.

Design principles can now be defined for the derived priorities and typically cover aspects such as the master data concept, the target modularity of the solution, governance of the core, proportion of standard solutions and customization, as well as the differentiation factors.

For an accelerated S/4 transformation, a strong governance model will also need to be in place. An empowered change advisory board can monitor and control the compliance of the defined principles, time and cost, in the context of the current business realities.

Risk & Disruption Analysis

A key adjustment for defining design principles and governance as a learning from COVID-19 is to include a risk & disruption analysis that reflects scenarios like pandemics or trade restrictions. This allows a company to evaluate its business processes and process steps, master data set-up and functionalities to react flexibly to any kind of business disruption. On page 6, we share a more detailed example of how to conduct this analysis.



Selecting the right migration strategy

As a next step, the overall accelerated S/4 transformation program approach and migration strategy should be assessed in a fit-to-conversion approach check. In such an assessment, the primary underlying parameters determining the selection of a suitable program approach are:

- Time and investment constraints due to Covid-19 / economic uncertainty
- Design principles resulting from the design potential and lever analysis such as harmonization, standardization and innovation
- Technical assessment and SAP readiness check of the existing SAP environment

Taking into account the outcomes of this check, a detailed program set up and migration strategy can be defined. In many cases, a brownfield approach will provide the optimal speed of implementation and time horizon of investment, while safeguarding existing competitive advantage. However, there are also legitimate cases for a greenfield (or bluefield) approach, for example where a company is not already running SAP on a broad scale or is looking to bring disparate business organizations together on a single standard.

Deep Dive Risk and Disruption Analysis for SCM / Manufacturing

Risk and Disruption Analysis – walking through a Manufacturing example

A powerful approach for deriving SAP measures is to structure the company's business by products/product families and functional areas (sales, manufacturing, supply, etc.). In the case of major business disruptions, e.g. caused by a pandemic, the root cause is analyzed. The analysis itself is conducted in a structured way including the consideration of all possible disruptions.

The results of the root cause analysis is consolidated in a heatmap to provide a comprehensive overview of all affected product-area combinations with their degrees of severity. This heatmap is then the basis for effective decision making to set focus areas for operational measures.

Derived SAP Measures

Based on the analyzed root causes from the emerged and identified business disruption scenarios and their impact on overall business, company-specific operational measures in SAP are derived. The identified potential business disruptions are translated into system requirements, which will then be reflected in the Design phase.

For example, in the scenario of decreasing demand caused by order cancelations, the review of planning strategies, e.g. switch from make-to-stock to assemble-to-order, or the activation of demand-driven replenishment can be initiated (in both cases based on a short-term ABC/XYZ analysis to categorize products).

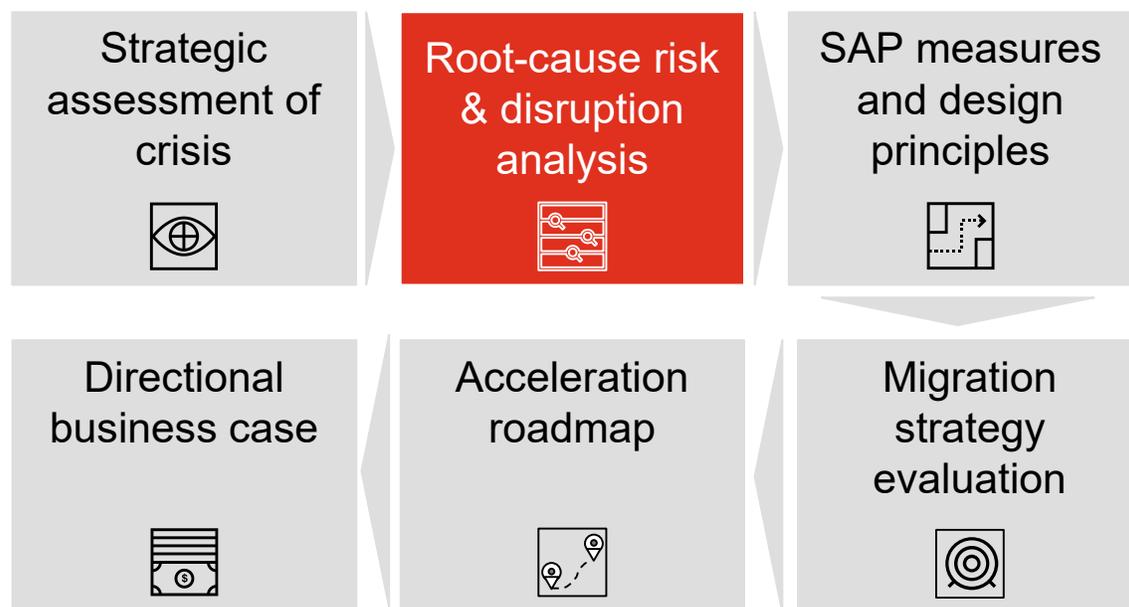
Similarly, in the scenario of supply cancelations or massive supply delays whereby the production down time or production order backlog is increasing, an alternative bill of materials or/with alternative items can be activated and the sourcing strategy can be switched from external procurement to in-house production in case master data is set-up accordingly.



Using the analysis to shape design principles and transformation approach

As seen previously, the results of the risk and disruption analysis are key inputs for defining design principles, governance framework and the overall transformation approach and migration strategy to be followed. In our example here, the assessment highlights necessary action points and SAP measures in terms of master data management, integration, customization and configuration.

Ensure your transformation is on track during the crisis, starting with our PwC S/4HANA risk & disruption analysis



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