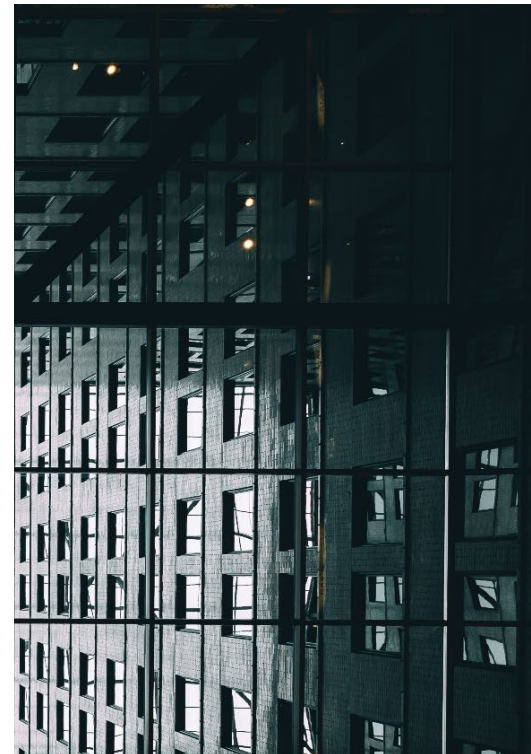


# The foundation of your SAP S/4HANA journey

## Driving a business- led target picture





# The target picture for S/4HANA transformations must be aligned with the organisation

PwC has supported numerous organisations in developing their S/4HANA business transformation programmes. We always emphasize what we see as the key success factors for S/4HANA business transformations, based on our experience and understanding of each company's situation.

One of the greatest challenges of any business transformation programme is to ensure that the new solution is fit for purpose and that it meets the key requirements of the various parts of the business, **even when they have very different operating models.**

At the heart of this challenge is the target picture, which should be identified and driven by the business based on a **framework of design principles** to ensure a future-proof S/4HANA platform that supports agile and simplified business processes.

## What can be learned from similar programmes and target pictures from industry peers?

**Industry references** can be taken as a starting point for developing a company's S/4HANA target picture. For example, should the target picture be based on a set of overarching central functions with separate divisional functions sitting below, or are there synergies to be gained from greater cross-divisional harmonisation? Which central functions should be considered, and what is the optimal approach for reporting and analytics?

## What is right for your organisation?

Over the following pages, we will share an initial hypothesis to answer these questions and further consider what might be the most relevant design principles for the target vision in certain situations. In particular, we will examine the drivers and bene-fits of taking a **multiple-ERP system strategy for your target picture.** Additionally, we will reemphasise the importance of selecting the **right transformation approach** to create business buy-in and realize tangible benefits.

## Companies need a partner with a proven approach to address the opportunities and challenges they are facing

When it comes to the expectations of the board, companies need to drive achievement of benefits at the earliest possible point with an S/4HANA business transformation. To do this, they need to learn a new way of working – **which means they need both a challenger and coach.** On top of that, today's successful S/4HANA transformations are business-led and technology powered, and therefore need to leverage **industry best practices and reference systems.** The best way to achieve all of this is to work with a partner who is a leader in S/4HANA transformation and who combines all of these aspects into a proven approach to get the most out of the project.

# A framework of design principles is used to focus the target picture for S/4HANA transformations

Design principles help focus the transformation target picture on key objectives including simplification, standardisation and innovation



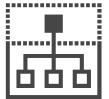
## Strategy

- **Platform for growth:** build a platform to support growth and future revenue streams
- **Enablement for further digitalisation:** lay the foundation for a future digital business model; enhance existing capabilities with emerging technologies
- **Design to save money and increase agility:** drive design decisions based on costs savings and agility

- **Standardise business processes to increase efficiency and resilience:** simplify and standardise group and corporate processes
- **Differentiation where competitiveness is key:** differentiation to tailor processes closely to the business needs allowing flexibility to fulfil specific, differentiated business requirements which enable the business to stay competitive
- **Commit to a standardised framework:** define clear standardisation and harmonisation rules for finance, commercial, sales and logistics processes (global vs. local vs. divisional)
- **Fully leverage the potential of automation:** identify process areas with high potential for automation and automate them by applying intelligent automation



## Processes

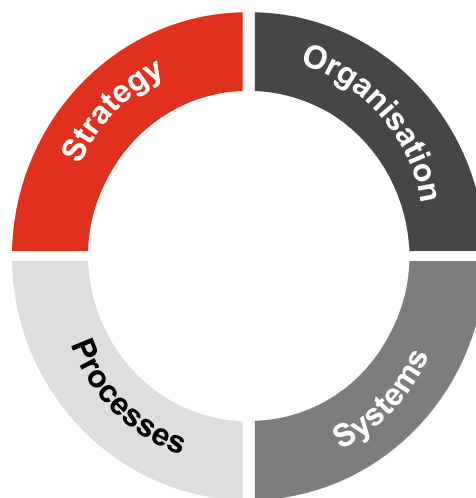


## Organisation

- **Value first:** place customer value in the centre; tailor the organisation and systems to enable and support.
- **Change now:** motivate and get buy-in for the vision, mission and objectives by experts and anchor them in the incentive system
- **Lean back office:** drive back office and non-differentiating activities decisions centrally
- **Central S/4HANA governance:** establish a central governance organisation to ensure the objectives of the SAP S/4HANA design project

- **Transformation approach:** strike a balance between newly designed processes and optimised existing processes.
- **Target architecture:** focus usage of SAP S/4HANA in the core vs non-core best of breed applications
- **Single source of truth:** architect the target picture to allow full transparency, consistency and integrity of operational data and management views
- **S/4HANA out of the box:** transform business processes and use "vanilla" S/4HANA wherever possible; no deviations for finance
- **Cloud:** target cloud applications to optimise operational costs and drive standardisation
- **Satellites:** use satellite systems for tailored processes and individual divisions

## Systems



# What have similar transformation programmes taught us about defining the target picture?

## Illustrative learnings from large global S/4HANA business transformations

| Client                    | Client 1  | Client 2   | Client 3   | Client 4  |
|---------------------------|---|--|--|---|
| <b>Project objectives</b> | <ul style="list-style-type: none"> <li>One-template SAP system developed across divisions and geographies</li> <li>Staggered S/4HANA conversion of components</li> </ul>                            | <ul style="list-style-type: none"> <li>Centralised SAP system with high level of automation</li> <li>Focus on centralising applications during the S/4HANA transformation such as finance and procurement</li> </ul> | <ul style="list-style-type: none"> <li>One S/4HANA template across divisions and territories</li> <li>High level of standardisation, with big-bang deployment to main production locations followed by global rollout</li> </ul>     | <ul style="list-style-type: none"> <li>Centralised SAP instances for divisions</li> <li>Optimising the split between instances in the S/4HANA target architecture</li> </ul>    |
| <b>Architecture</b>       | <ul style="list-style-type: none"> <li>Multiple tier architecture moved into one SAP instance</li> <li>Central master data governance with regional ERP landscapes</li> </ul>                       | <ul style="list-style-type: none"> <li>Centralised applications</li> <li>Integration layer and techniques to integrate instances</li> </ul>  | <ul style="list-style-type: none"> <li>One core model template and S/4HANA instance, connected with value chain oriented landscape</li> </ul>  | <ul style="list-style-type: none"> <li>Overarching central functions with separate divisional functions sitting below</li> </ul>  |
| <b>Master data</b>        | <ul style="list-style-type: none"> <li>Central master data governance with global and regional layers of responsibility</li> <li>Stringent master data creation and distribution process</li> </ul> | <ul style="list-style-type: none"> <li>Data as a strategic asset with global standardisation and right level governance</li> </ul>   | <ul style="list-style-type: none"> <li>Central governance at process level</li> <li>Master data consolidated into single view for analytics and ops insights</li> </ul>  | <ul style="list-style-type: none"> <li>Harmonised master data across divisions to feed all operations</li> </ul>  |
| <b>Analytics</b>          | <ul style="list-style-type: none"> <li>Central analytics following a strict KPI framework and clear rules for deriving KPIs</li> <li>Flexible local reporting tools</li> </ul>                      | <ul style="list-style-type: none"> <li>Analytics layer on SAP Analytics Cloud (SAC) based on a new SAP BW4 data warehouse</li> <li>Central Finance (CFIN) data fed into SAC reporting layer</li> </ul>               | <ul style="list-style-type: none"> <li>S/4 embedded analytics developed with template for real-time reporting</li> <li>Data fed to business intelligence applications (SAC, SAP Business Warehouse, 3<sup>rd</sup> party)</li> </ul> | <ul style="list-style-type: none"> <li>Flexible and dynamic access to views of finance and sales data</li> <li>Clear data model, structures, KPI framework and rules</li> </ul> |
| <b>Central Finance</b>    | <ul style="list-style-type: none"> <li>Finance functions centralised in regional SAP systems</li> <li>Group consolidation with central business intelligence</li> </ul>                             | <ul style="list-style-type: none"> <li>CFIN core with standard data and processes connected to the underlying ERP systems in real time</li> </ul>  | <ul style="list-style-type: none"> <li>Core finance consolidation, reporting and compliance at group level</li> <li>Existing CFIN solution extended across divisions</li> </ul>  | <ul style="list-style-type: none"> <li>Unified data layer to allow financial consolidation and reporting from different ERP systems</li> </ul>                                  |
| <b>Commercial</b>         | <ul style="list-style-type: none"> <li>Commercial operations harmonised in processes and using one common platform</li> <li>Local differentiation in contract and pricing handling</li> </ul>       | <ul style="list-style-type: none"> <li>One common data model to facilitate uniform reporting of commercial operations across different divisions</li> </ul>  | <ul style="list-style-type: none"> <li>Standard template, harmonised commercial processes across global operations</li> <li>Local differentiation in contracts and pricing</li> </ul>  | <ul style="list-style-type: none"> <li>Commercial operations and functionality differ according to the needs of the different divisions</li> </ul>                              |

# The target picture must be driven by the company's business model and strategic vision

## How can the right target picture be best applied – both centrally and across different operating models within a business?

An optimised target picture can be developed by taking aspects of reference target operating models (examples shown on the previous page) into account, together with relevant organisational aspects and design principles, including the following:

### Unified data layer to allow **financial consolidation and reporting from different ERP systems** (old ECC, legacy and future S/4HANA)

- Can be achieved with various setups in a separate HQ/global finance system or with S/4HANA Central Finance technology
- Needs to follow clear rules and guidelines concerning legal reporting requirements and consistency

### Flexible and dynamic access to **various views of finance and sales data**

- Clear data model, structures, KPI framework and rules for deriving data
- Clear differentiation between internal and external reporting

- Possible setups can be driven by various data strategies, e.g., data lakes
- Business operations with similar operating models or other historical cooperation factors can be **clustered according to level of harmonisation and past proximity**

### Harmonisation of master data

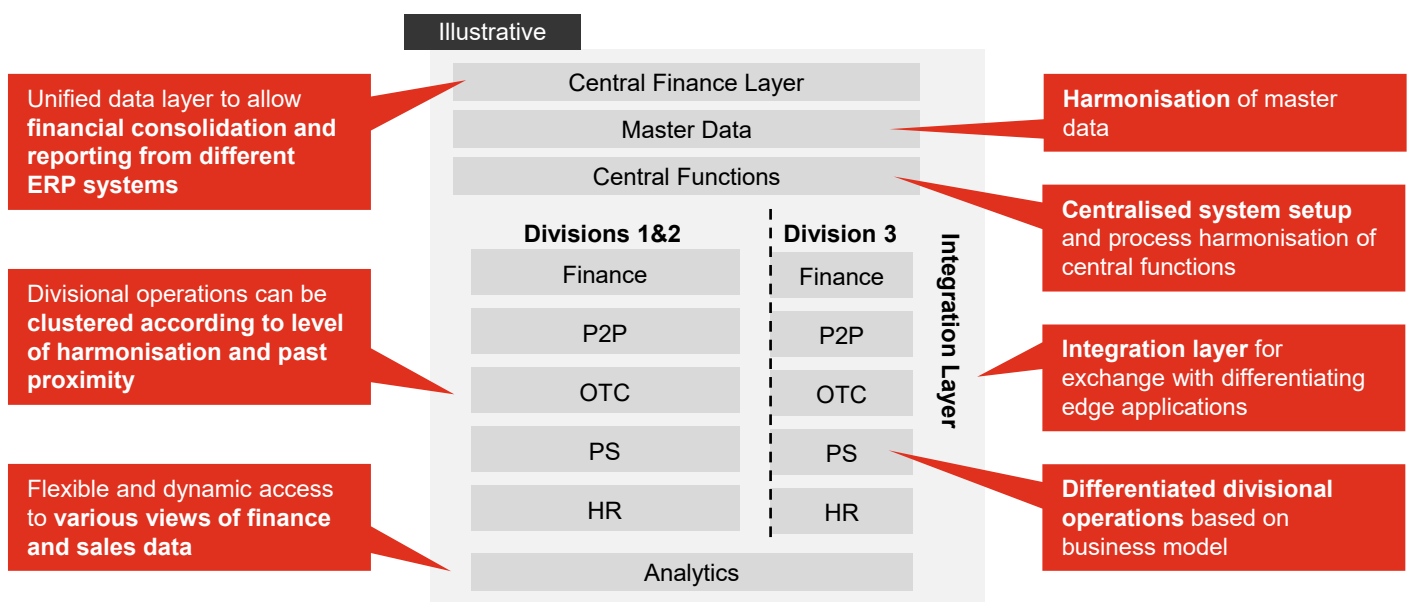
- Will feed all operations with same data, recipes and product documentation
- Fast and central approval for master data, creation and maintenance by needed workflows and master data governance

### Centralised system setup and integration layer

- Central functions will drive synergies and process harmonisation e.g., in procurement
- Centralisation can be achieved in HQ/global system setup
- Integration layer to exchange with SAP and non-SAP application landscape

**Differentiated operations** for other organisational components of the business based on the operating model

## Typical aspects of an optimised S/4HANA target picture



# The ideal ERP system strategy is derived with a clear view of the business-led target architecture

Ongoing market challenges and business needs define how companies decide on ERP system strategies today.

In the past, the **principle of one system** for R/3 and ECC implementations was driven primarily by harmonisation and template contingency aspects. Today's technologies, however, often achieve greater benefits with split ERP system strategies.

**ERP system strategy and target architecture should be selected to fit the business needs**

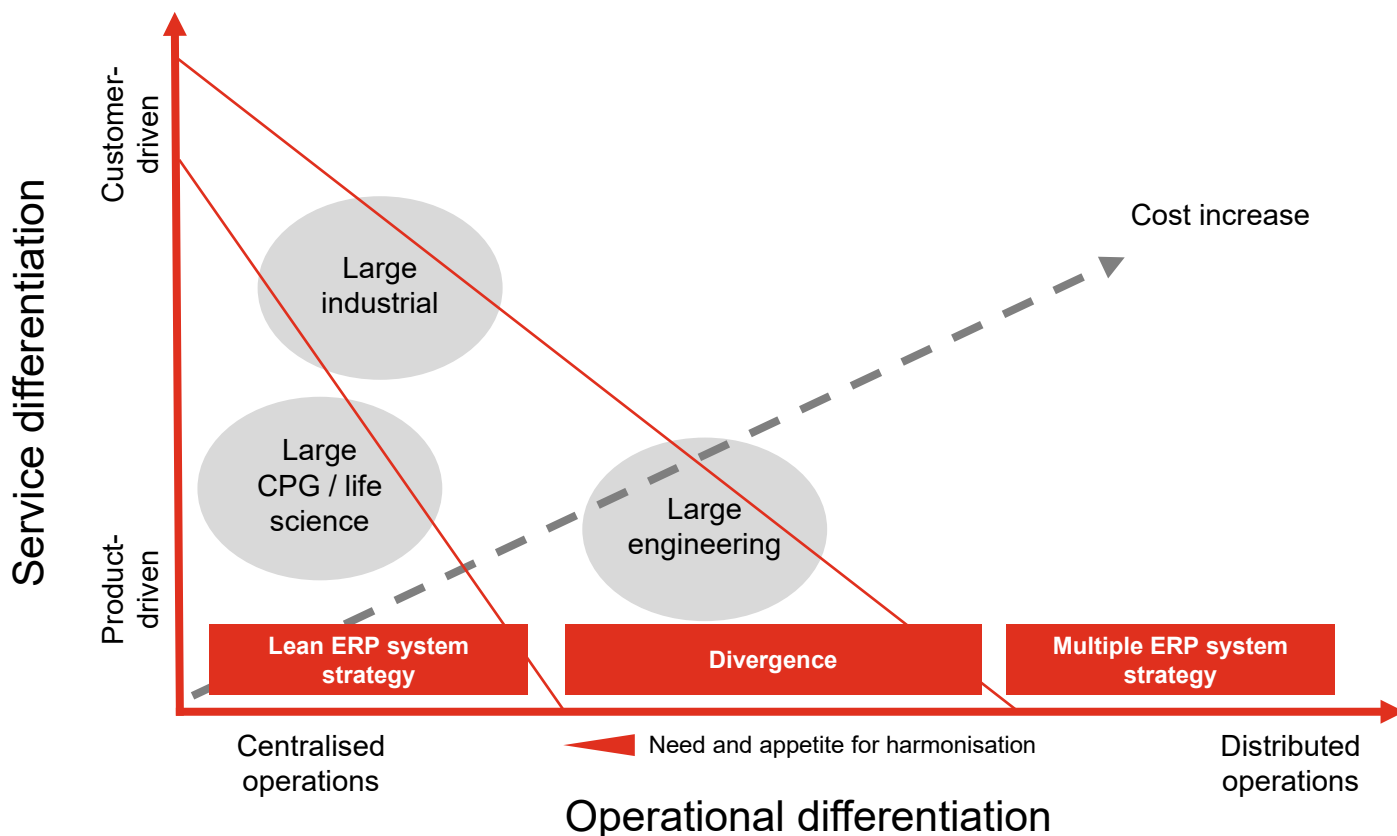
The **divergence from the one ERP system principle** needs to be well balanced against hardware and infrastructure aspects, as well as maintenance and operational costs.

The **needs for differentiation of service and/or operations** drive different business models and divisional structures in companies. These differences shape the steering model that a company selects to operate as efficiently and effectively as possible.

Understanding and defining those needs for differentiation to drive better customer satisfaction and better optimisation of operations often leads to **diverging ERP system strategies** for better IT operational management, as well as geographical spread and contingency.

This trend is being further accelerated by the increasing adoption of cloud technologies and current increased focus on application strategies to differentiate core from non-core applications.

## Business needs and operating models drive different ERP system strategies



# Transformation to achieve a business-led target picture strikes a balance between top-down and bottom-up approaches

Achieving a common target picture as described on the previous page will require business buy-in. This must start with strong support from executive management, while getting the business on board with the right transformation approach.

## What is important in selecting the right transformation approach?

Many organisations take a **top-down approach** in their S/4HANA business transformations. Such an approach works well when the company operates a homogeneous business model and is most focused on achieving cost savings.

Other companies have found success taking more of a **bottom-up approach**, with the primary

advantages there being flexibility and speed. By allowing individual business units to tailor solutions that best fit their needs, they are better enabled to innovate and thrive in highly dynamic business environments.

However, we believe most programmes can be most effective as **business-led programmes**, taking aspects of both top-down and bottom-up, with leadership representation from the different parts of the organisation considered in developing the target picture. Such an approach is especially appropriate for an organisation that is looking to leverage cost benefits while also allowing flexibility to enable (new) business differentiation in individual markets.

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## Comparison of typical S/4HANA business transformation approaches

### Enforced top-down

#### Typical company profile:

- Companies with **homogeneous business models** across all entities in **highly competitive** and **commoditised markets**; cost reduction is key.
- **Financial and standard IT processes** are typical areas of application; regulation and technological evolution only allow limited potential for differentiation.

**Example:** global commodity, furniture and hardware store company

#### Description:

- Target setting for **standardisation and harmonisation across the company** is set **from the top down by senior leadership**.
- Refinement of processes and development of IT solution by **a few appointed leaders/leading region/leading business unit**.
- Solutions and cost targets are **expected to be accepted** by all business leaders and financed by all business units.

### Business-led

#### Typical company profile:

- Companies with **similar business models** and a **consistent company culture** but operating in different **business environments**.
- **Leveraging cost benefits** but allowing **flexibility** to enable (new) **business differentiation** in individual markets is key to business success.

**Example:** global technology holding company operating in several business segments

#### Description:

- Commitment to target setting for **standardisation and harmonisation by all stakeholders**.
- Harmonisation is **mandated**, deviations from standards are **only allowed selectively** and if **necessitated by business needs**. However, alignment of business on new processes is strong.
- Extra **costs for deviations** are typically financed by business units from the **business benefits** enabled by adapted solutions.

### Tailored bottom-up

#### Typical company profile:

- Companies with **heterogeneous product portfolios** and **business models**, with **diverse organisational cultures** operating in highly **dynamic environments**.
- **Flexibility and speed** are key to business success – cost synergies play a **subordinate role**.

**Examples:** global high-tech B2B company, bespoke fashion company

#### Description:

- Harmonisation is aspired to **but not mandated**.
- Processes and IT solutions are designed and validated **from the bottom up and individually** by each business unit.
- Each unit **finances** its own transformation and decides **individually** on whether to use tailored solutions or benefit from standardised solutions.

**Our recommendation for most large S/4 transformations**

# How does partnering with PwC help to drive business buy-in and value realisation?

Our proposed approach to achieve a business-led target picture strongly leverages business capabilities analysis and other learnings – for example, in-flight proof-of-concept developments – to avoid lengthy rehashing of business topics and maintain momentum.

## Business capabilities analysis supports an agile target architecture

Our experts work with best-in-class tools to evaluate existing and target IT architecture and business capabilities. The development of a business-led harmonised view will help to derive business capability maps at the corporate, divisional and functional / geographical level.

Business capability analysis will in turn support the creation of the target picture with a clear depiction of capabilities residing in an S/4HANA lean core and those in differentiated edge applications.

## Decisions driven through Design Authority

As outlined in our previous paper on the importance of a **Design Authority**, solution governance that

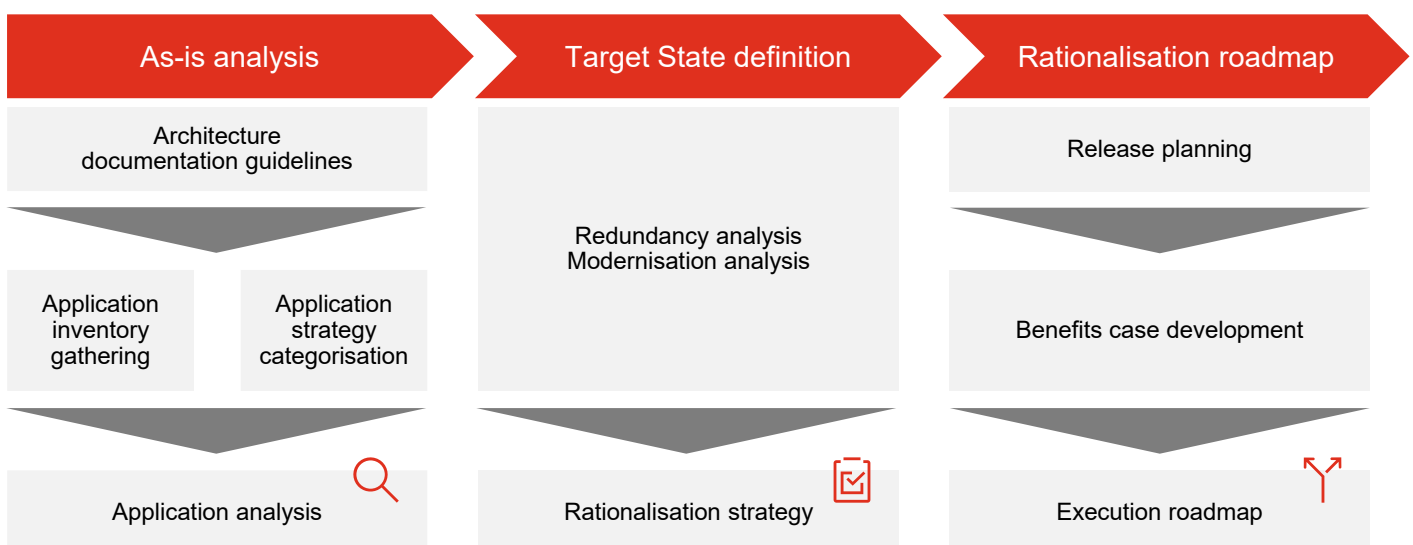
emphasizes orchestration and fast, early decision making is key to the success of an S/4HANA business transformation project. Critical factors include: senior sponsorship; central closely intertwined and co-located core team; and a Design Authority consisting of Business Process Owners with clear ultimate responsibility.

## The value lens is always in place

With our **Smart Greenfield** approach and PwC Industry Edge, our world class S/4HANA reference system, we offer a practical and agile approach for prototyping based on SAP standards and industry best practices.

To ensure a value lens is always in place, we simulate transformation roadmaps at appropriate milestones, optimising scope, approach and early realisation of benefits. Maintaining open channels of data-supported communication and transparency to stakeholders is a proven way to achieve buy-in and ensure user adoption – and ultimately to get the most out of an S/4HANA business transformation.

## Business capability analysis: the modular foundation for defining the target picture







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