The Case for Change

Setting SAP S/4HANA® programs up to deliver long-term value

EY
Shape the future with confidence

SAP
Global Partner

In the rapidly evolving landscape of the industrial sector, organizations are facing a multitude of challenges that are shaping their priorities and strategies. From geopolitical instability to the need for enhanced operational efficiency, the call for transformation has never been more urgent.

As companies navigate these complexities, building the case for change and leveraging investments in technology, particularly those on burning platforms like SAP ECC, becomes essential for driving growth and building business resilience.

Many companies build strong business cases but fail to deliver the expected value, as digital platforms go underused. So how can you build a case for change which can be maintained over the time it takes to deliver the program? How can you put the right framework in place so that the transformational changes are adopted and value realized?

While you are working on the case for change, it is important to start thinking about the roadmap, including making early progress on no-regrets activities such as data cleansing and legal entity rationalization. Doing this well will minimise disruption, accelerate time to value, and mature your plan for wider technology change. Consideration should also be given into the required interim states to realise the value.

Key issues shaping the industrial sector

Understanding the key issues shaping the industrial sector and how your peers are performing is crucial for organizations to effectively build their transformation strategies. This foundational knowledge enables organizations to create targeted solutions that leverage technology and innovation to drive change.

The priorities of the industrial sector are being influenced by several critical issues:

1. **Strategic realignment:** With rising costs of capital[1], companies are increasingly evaluating their international portfolios and assets to achieve higher margins through focusing on generating higher growth and lowering operational costs.

2. **Supply chain resilience:** Geopolitical tensions and material shortages are increasing pressure on supply chains, prompting organizations to evaluate and enhance their supply chain resiliency, considering localising operations to mitigate risks associated with increasingly frequent global disruptions. Tariff uncertainty and the war in Ukraine have highlighted the need for robust supply chain strategies post COVID-19.

3. **Technological advancements:** Many organizations are using outdated systems and processes which are no longer suitable for a digital-centric economy. Driven by the need for new or changed business capabilities to drive productivity and growth or improve operational costs, 68% of CEOs from major global industrial companies are increasing their digital and technology investments.[2]AI and other technological advancements open the way to new ways to drive innovation and operational efficiency. For example, predictive analytics using AI algorithms and IoT data can help manufacturers anticipate demand fluctuations, allowing for more responsive production schedules.[3]

4. **Energy transition:** The shift towards sustainable energy practices is reshaping operational strategies across the sector. Organizations are recognizing the importance of aligning their operations with sustainability principles to meet increased regulatory requirements and consumer expectations.

These challenges require a fundamental rethink of the technology needed to support the business, which must be able to cater for: organizational restructuring including possible M&A activity, volatility in supply and pricing, the emergence of new competitors and technology, and provide insight into sustainability- as well as cost- drivers.
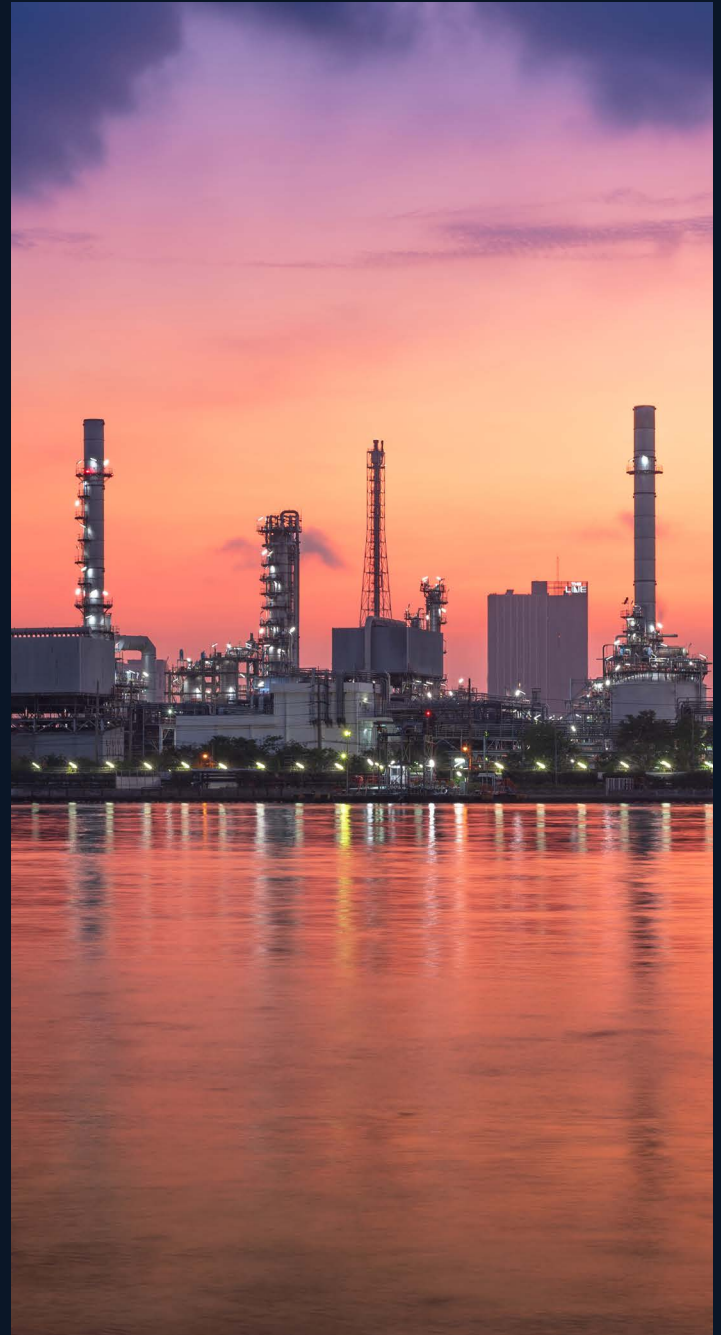
Building a value-centric program

For organizations operating on legacy systems like SAP ECC, the implementation of SAP S/4HANA®, data solutions (e.g. SAP Business Data Cloud), and new AI capabilities (e.g. SAP Business AI) can be a key enabler for driving change. While the migration can be disruptive, companies can use a SAP S/4HANA® migration as an opportunity to build the capability and capacity they require.

Organizations must have the necessary capacity to navigate the complexities of the transition period. Some of this capacity can be sourced from a Business Integration partner, which helps prevent the creation of excess capacity that may not be required over the longer term. However, capability is even more critical. Effective leadership, a clear vision, stringent scope control, and strong process ownership are essential for managing the program as a transformation opportunity. This approach ensures that the program is driven by collective success, rather than allowing individual functions or business units to pursue their own local goals.

To set organizations up for success, we frequently facilitate High Performing Teams events, conduct executive leadership one-on-one coaching, and provide Global Process Owner (GPO) development programs. These initiatives help empower GPOs to articulate pain points, define problem statements, establish a benefits case for each initiative, prioritise scope, manage ongoing changes, and support business engagement, adoption, and continuous improvement.

As new entrants with more agile operating models and advanced technology tailored for the digital economy intensify competition in the market, most organizations recognise the necessity of undertaking a transformational program to maintain their leadership position within the sector. Therefore, the risk to the business for a failed transformation program is high, to mitigate this sufficient focus and attention needs to be placed on the value golden thread to ensure expected benefits are realized.

A focus on value involves identifying the case for change, designing solutions that unlock value, and prioritizing value realization even as project scope evolves. This requires:

- **Mindset, skillset and toolset:** A shared responsibility among stakeholders to keep value at the forefront of the transformation journey and drive the expected benefits identified during the creation of the business case through to design, build and deployment. The best way to do this is by having value as a golden thread of the delivery method – as the EY Value Management Framework does. This is exemplified by the experience of one client's engineering division, which harmonized and improved processes to create a single SAP ERP system, resulting in a 30% improvement in operational equipment efficiency (OEE) and significant increase in operating profit.

- **Executive alignment:** Preparing and aligning executives and key stakeholders is crucial for fostering buy-in and commitment to the value of the program. Engaging stakeholders early in the process helps to build a strong foundation for the transformation. Consider leveraging EY Benchmark to assess where the organization stands amongst peers, the EY STEER tool to gain stakeholder insights and visualise their SAP technology-enabled transformation appetite within minutes, and an immersive approach like EY wavepsace to facilitate alignment across departments.

- **A solution design team:** A dedicated team that understands the pain points, value drivers, and key performance indicators (KPIs) essential for reviewing processes and determining whether to convert, improve, or transform. Working in partnership with global process owners from the business to prioritise scope based on value, this team should be equipped to assess the impact of various migration approaches, including greenfield and hybrid strategies. Engaging this team early sets them up to run an effective Value-based design phase once the project has been initiated.

- **A business change team:** Engaging the business through effective communication about the case for change and how to realise value is vital for driving adoption, this may result in reverting back to more standardized or harmonized processes and new operating models. For example, one automotive client's implementation of a new operating model needed to communicate impact to processes across its global operations.

The outcome is a value-centric vision that enables business transformation through technology, including migration to SAP S/4HANA®. This vision is based on a common understanding of the goals the business needs to achieve, controlled and supported by ways of working and governance that foster a culture of value realization.
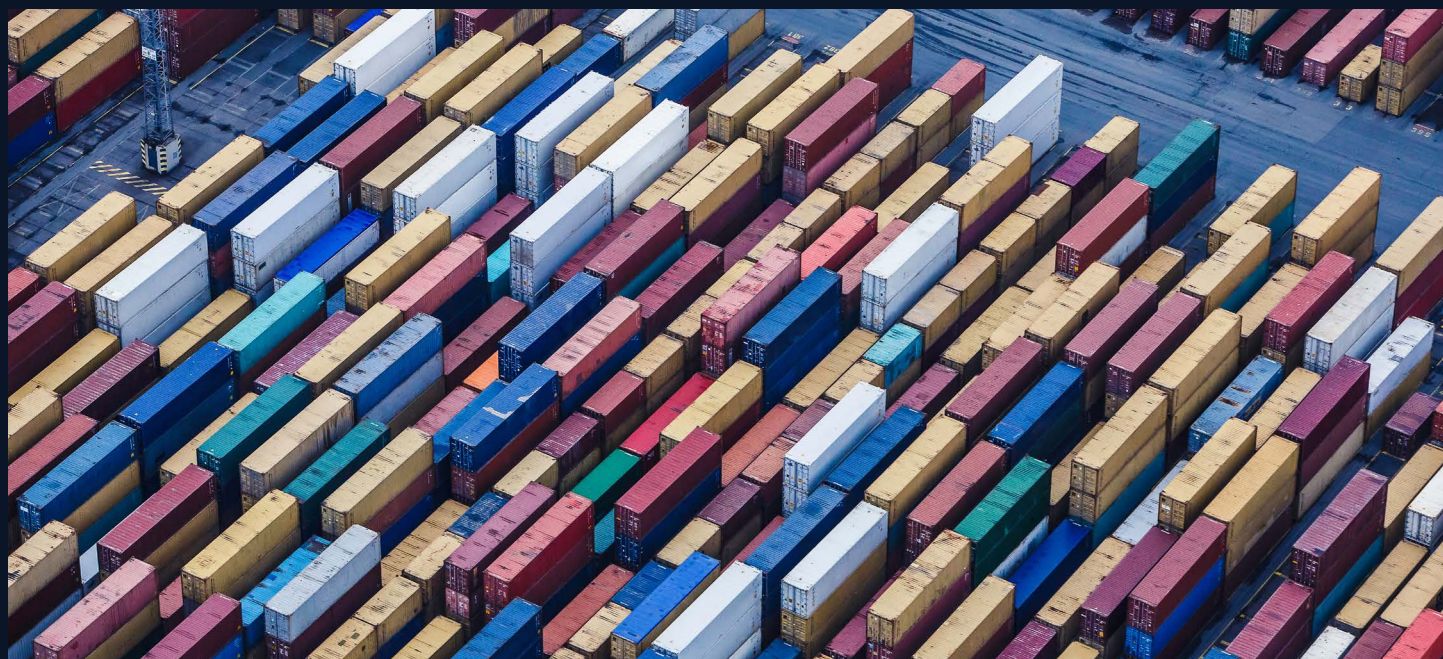
The best migration approach to realise value

Landing on the appropriate migration approach is central to delivering program value because getting it right brings benefits forward, and getting it wrong introduces critical risks which can undermine program value or even cause projects to be abandoned.

The reason that a shared value-centric vision is so important is because selecting the right migration approach requires key questions to be answered and widely understood at the outset:

▪ What are the organization's transformation and value ambitions?

▪ Which processes should be lifted and shifted, harmonized, improved or transformed?

▪ Is the optimum SAP target state SAP Cloud ERP Private or SAP Cloud ERP Public?

▪ What wider technology architecture and bill of materials is required and in what sequence?
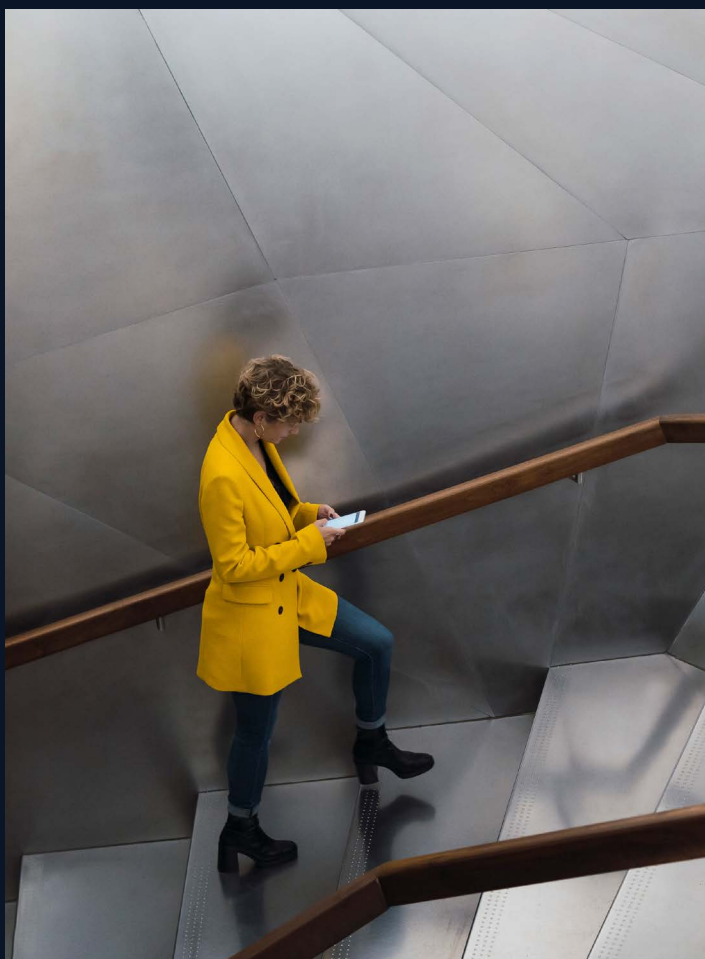
These decisions inform what, and how quickly, value can be realized and allow the selection of a greenfield, brownfield or hybrid approach to migration.

Organizations must carefully consider their migration strategy. Recent data indicates that a majority of organizations are opting for greenfield or hybrid strategies, allowing for comprehensive process transformation while minimizing customization costs.

In our experience, different functions within organizations exhibit varying tendencies regarding migration approaches:

▪ **Finance and procurement:** This area tends to undergo more transformative changes, with approximately 60% of organizations opting for greenfield transformations. This approach allows for a complete overhaul of processes, enabling finance and procurement teams to adopt best practices and leverage new and improved advanced capabilities offered by SAP S/4HANA®.

▪ **Manufacturing and asset management:** In contrast, functions like these show more conservative migration strategies, with a higher percentage of organizations choosing brownfield conversions. This approach allows for a more streamlined upgrade path, minimizing disruption while still modernizing existing systems.

▪ **Customer experience and sales:** This area reflects the most diverse approaches among organizations. Companies are exploring a mix of migration strategies based on their specific needs and objectives. This flexibility enables organizations to tailor their customer engagement processes to better meet evolving market demands.

The decision regarding the migration approach presents a multi-dimensional challenge that requires careful consideration of various constraints. It is often influenced by whether the emphasis is on a technical upgrade or the adoption of best practices and new capabilities. Timing and sequencing are also crucial factors. This is why maintaining a clear focus on value is essential; it provides the vision and key performance indicators (KPIs) needed to evaluate the available options. A strong value focus enables program leadership to cut through the noise and concentrate on what truly matters.

Critical success factors for transformation

In addition to laying the foundations for value realization, and deciding on the technical migration approach, it is necessary to focus on how the organization will be migrated to its new state.

To set the program up for success, organizations should focus on eight critical success factors:

1. **Alignment of vision and approach:** Ensuring that all stakeholders share a common vision for the transformation.

2. **Value-centric focus:** Constantly keeping a watch on value as the key metric of program success.

3. **Clear delivery and governance framework:** Implementing a robust governance structure to guide the transformation and deliver the value.

4. **Humans at centre approach:** Recognizing that people are at the centre of any change initiative. Without their adoption of the solution(s) there will be no value realization.

5. **One team:** Fostering a collaborative environment where the success of the program is the most important thing.

6. **Right commercials:** Support the one-team focus by establishing incentives for all parties aligned with program value.

7. **Architectural integrity:** Getting control of the architecture to support agility in design with interim states planned for and managed.

8. **Change management:** Effectively managing the scope of the transformation to avoid mission creep.

These factors are crucial as organizations navigate the complexities of digital transformation, particularly in light of the increasing competition and evolving customer expectations in the industrial sector.

How we reinforce the Critical Success Factors

At the outset of the program we define the roadmap, agree the case for change, get alignment, produce the business case and identify KPIs using a range of powerful tools. EY Phase 0 offers a foundational assessment that helps define the transformation vision and align stakeholder expectations from the outset. EY wavespace™ creates an immersive collaboration environment that fosters innovation and co-creation, supporting teams to develop and refine their strategies effectively. Additionally, EY STEER provides insights into stakeholder engagement and readiness, facilitating alignment and commitment throughout the journey. EY standards allows organizations to compare their performance against industry standards, identifying areas for improvement and leading practices. EY Value Architecture helps articulate the value proposition, facilitating that all initiatives are aligned with providing measurable benefits. The EY Value Management Framework helps ensure that Value is a golden thread throughout the program. Finally, Data 2 Insights transforms raw data into actionable insights, supporting informed decision-making and improving the overall effectiveness of the transformation program. These offerings are designed to reinforce the critical success factors, equipping organizations to navigate their transformation journeys successfully.
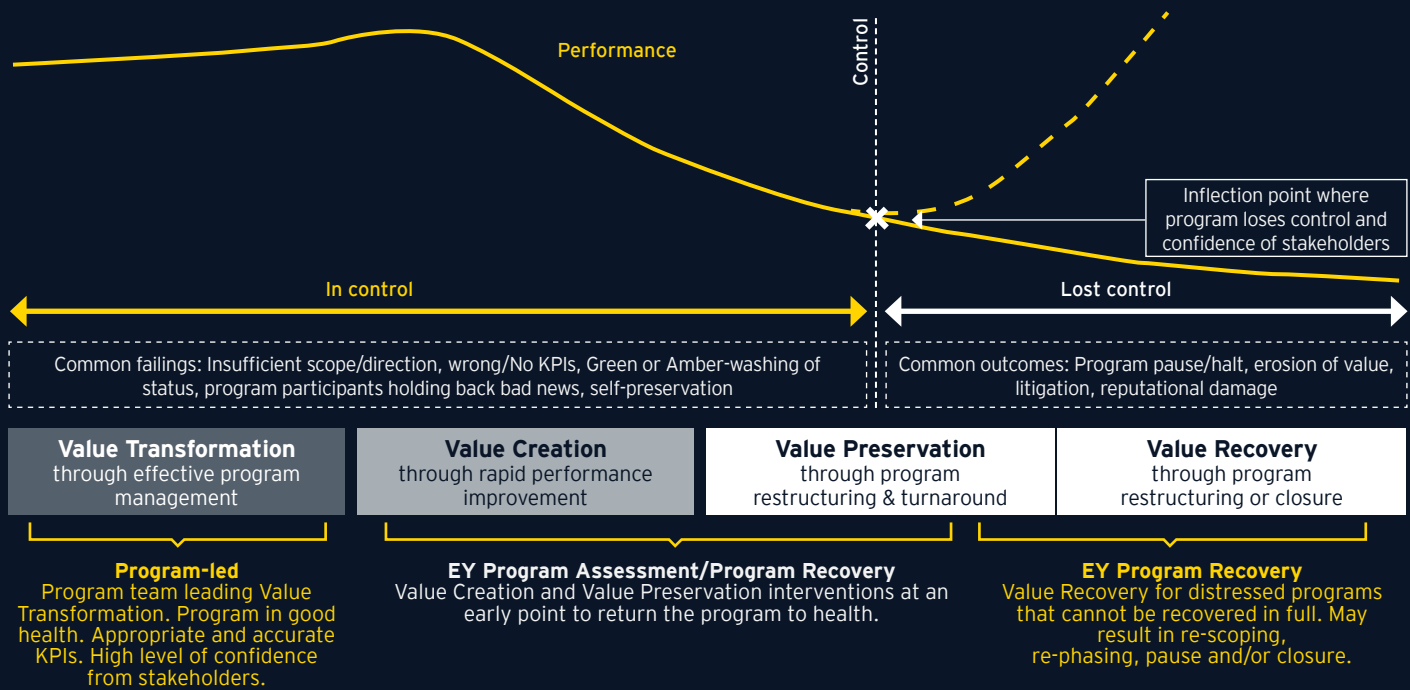
Responding to challenges

The complexity of technology-enabled transformation programs means that challenges are inevitable along the way. It is crucial to resist the natural urge to avoid acknowledging challenges and simply press on by reducing scope or extending timelines without considering the impact on the value case.

By acknowledging that not everything will proceed as planned, program leadership should promote an environment of openness and accountability and remain vigilant for early warning signs. This can be achieved by employing the right program metrics that provide leading, rather than lagging, indicators.

Timely recognition of issues allows for the recovery of the program and the business case before it is too late. Failing to act results in a loss of control over the program, meaning that the opportunity for value preservation is lost, and value recovery becomes the only option.

Reshaping Results of your Program:
Early problem identification and program recovery reduces value erosion

Performance

Control

Inflection point where program loses control and confidence of stakeholders

In control

Lost control

Common failings: Insufficient scope/direction, wrong/No KPIs, Green or Amber-washing of status, program participants holding back bad news, self-preservation

Common outcomes: Program pause/halt, erosion of value, litigation, reputational damage

| Value Transformation through effective program management | Value Creation through rapid performance improvement | Value Preservation through program restructuring & turnaround | Value Recovery through program restructuring or closure |

Program-led
Program team leading Value Transformation. Program in good health. Appropriate and accurate KPIs. High level of confidence from stakeholders.

EY Program Assessment/Program Recovery
Value Creation and Value Preservation interventions at an early point to return the program to health.

EY Program Recovery
Value Recovery for distressed programs that cannot be recovered in full. May result in re-scoping, re-phasing, pause and/or closure.

By monitoring the project with the appropriate metrics, program leadership can ensure a balanced focus on both preparing the solution for the business and preparing the business for the solution. Knowing when to pivot the focus from solution readiness to business readiness is critical in driving adoption and ultimately achieving value realization.

Conclusion

Organizations in the industrial sector face significant challenges in maintaining a steady state even before they begin to address their transformational ambitions for future success. To achieve successful transformation outcomes, organizations require an aligned vision, a clear business case, and a value-centric culture and practices. Additionally, anticipating potential obstacles and fostering transparency will enhance the effectiveness of program recovery.

If you have yet to embark on your journey, if your program has encountered difficulties, or if it has lost sight of the original value case, then the EY organization can assist. With a proven track record in value case definition and value realization, we can help you establish a foundation for success and create sustainable value management for ongoing transformational agility.

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