

Consumer in practice

A consumer products and retail playbook series

**Issue 1: Three ways to create value
in technology migrations**



How tech investments can enhance value for CP&R

Given the rising cost of capital, growing shareholder scrutiny and economic volatility, organizations across industries need to prioritize productive investment in new technologies. By selecting tech investments based on their tangible business impact, executives can drive process and organizational efficiencies, fuel incremental revenues and support competitive advantages. For consumer packaged goods and retail (CP&R) companies, there is a significant opportunity to advance capabilities, such as end-to-end customer profitability and revenue management, as well as demand planning and revenue forecasting, through the use of an enterprise resource planning (ERP) system and

complementary data tools. With the right KPIs and an appropriate investment timeline, CP&R companies can unlock enterprise-wide results, delivering value for the business. Companies that don't take this approach often see an underwhelming performance and an inefficient transformation journey.

For retailers and brands that have already begun transitioning to the cloud in anticipation of looming SAP transformation deadlines, these improved capabilities are especially relevant. A value-led approach enables more transparent pricing, speedy shipping, and other key components of robust customer and

consumer service, all of which are tangible value levers that CP&R leaders need to highlight in making the investment case for ERP. In this repositioned investment context, companies need to understand and articulate the full scope of ERP-driven value levers and complementary solutions while also explaining how they can drive future cash flows and enterprise value. But because the tech transformation agenda often competes for investment with other capital allocation initiatives, CP&R executives need to take a fresh look at technology investment cases that treat enterprise value as their north star.

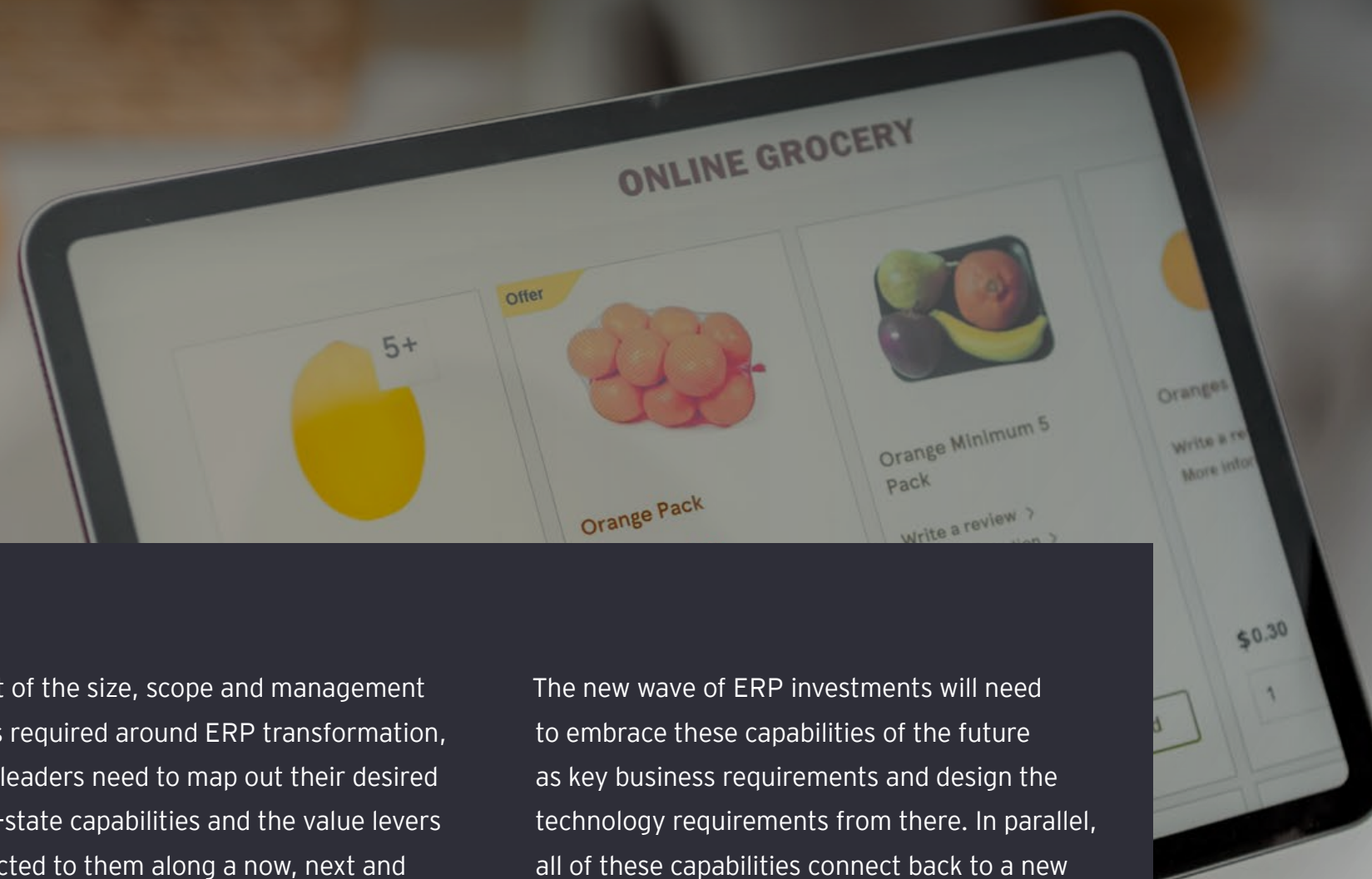
THE CHALLENGE

Tech and value creation

ERP-related investments present CP&R companies with unique opportunities to transform their value creation engine, and it's important to communicate this value proposition widely across the organization. The impact of not investing in ERP-driven technology – and, more importantly, of missing the opportunity to structure tech investments with value creation at the center – can be considerable. As such, company leaders need to elevate ERP transformation on the C-suite agenda as a strategic investment rather than merely a compulsory IT capital expenditure.

In light of the size, scope and management efforts required around ERP transformation, CP&R leaders need to map out their desired future-state capabilities and the value levers connected to them along a now, next and beyond timeline. In both the front and back offices, CP&R companies are embracing new capabilities, including direct-to-consumer sales and marketing, marketplace features, fintech methods, dynamic pricing and real-time supply chain management.

The new wave of ERP investments will need to embrace these capabilities of the future as key business requirements and design the technology requirements from there. In parallel, all of these capabilities connect back to a new map of value levers, such as working capital, pricing, cost to serve, and trade and promotion optimization, which should serve as the foundation of the ERP investment case.



1

Here are **three key actions** for CP&R industry leaders who seek to accelerate their ERP-related investments or leverage SAP cloud transformation to drive meaningful value creation.

Embracing an investor lens when evaluating and executing technology implementations

- ▶ Approach technology investment decisions with a cash flow statement logic, targeting maximizing total shareholder return and return on invested capital.
- ▶ Develop a tailored map of desired future capabilities to be enabled by tech investment with an eye toward competing and winning in the market in the next three to five years.
- ▶ Create a sound investment case for your tech roadmap (e.g., where and how much to invest) based on potential impacts on cash flows and enterprise value.
- ▶ Beyond value identification and KPI tracking, focus on value realization by developing governance frameworks to support technology use by executives, deploy new skills, and embrace new processes that can drive actual KPIs and financial statement impact.

TAKE ACTION

2

Identifying and activating enhanced value levers that help define the investment case for tech

- ▶ Reimagine potential value levers related to tech transformation and consider the full range of value leakages that can be eliminated through tech investments.
- ▶ Build these value levers into the technology investment case and calculate the potential tangible benefits around closing gaps with the help of internal and external benchmarks.
- ▶ Take a bottom-up approach to estimate benefits by evaluating actual figures and metrics, and identify the baseline and the potential leakages with the necessary level of granularity.
- ▶ Establish the connection between specific value levers and their objective impact on the company's cash flow, and use these insights to inform tech deployment time frames.
- ▶ Mobilize executives to support and commit to advancing the identified value levers by making the value realization part of executives' goals/targets and potentially a component of their compensation.

Primary and secondary value levers are the foundations of a strong business case

1 Primary value levers

Working capital

1. AR (days sales outstanding – DSO)
2. AP (days payable outstanding – DPO)
3. Inventory (days inventory outstanding – DIO)
4. Nontrade WC

Tax

1. Tax incentives
2. Tax planning
3. Compliance simplification

Commercial optimization

1. Pricing
2. SKU profitability
3. Marketing costs optimization

Supply chain optimization

1. Cost to serve
2. Inventory optimization
3. Asset efficiency/throughput

2 Secondary value levers

Organizational agility

1. Spans and layers
2. Shared services
3. Automation
4. Procurement optimization

IT cost reduction

1. Application rationalization
2. Outsourced provider arrangements
3. Infrastructure/cloud optimization

3

Activating value before and during tech implementation

- ▶ Create visibility into tech investment KPIs, the potential size of cost savings or revenue growth, and the executive commitments that will enable value realization during the tech transformation journey.
- ▶ Define use cases around KPIs and expected tangible benefits, with key value realization components at the center: process optimization, employee skill sets, data and technology activation.
- ▶ Mobilize cross-functional teams to implement use cases for proposed tech investments while committing to value realization.
- ▶ Identify C-suite executives to work cross-functionally, and own and oversee the company's tech transformation efforts, as they are responsible for specific value levers and value realization along the journey.

CFO As leading financial stewards of the organization, CFOs should leverage data-driven insights to determine the appropriate technology investments for the organization, clearly outlining the long-term value for the business across a range of functions. To that end, today's CFOs must help innovate the company's new reality instead of digitalizing its old reality. They need to team with peers across the business and help manage the value case throughout the tech implementation journey while improving business performance by reimagining the finance function.

CIO Technology decisions and implications are quite complex, particularly for enterprise resource planning. Identifying a willing partner in the business, such as the CFO, during the planning phase can enable leadership to coalesce around value levers to align technology with the business agenda, enabling the CIO to map value realization against investment timelines, creating joint goals across the business and technology.

IN PRACTICE

A global food company hired the EY organization to help it understand how its ERP migration could serve as a value-added program rather than applying a mandatory mindset to accepting needed upgrades. A comprehensive business case, prioritizing key value levers was created in close collaboration with business leaders to connect all functions and lines of the business and secure necessary signoff and commitment. This differentiated approach motivated leadership to think strategically about tech investments, set new value levers and create clarity around the intended outcomes.

A global CP&R company needed to modernize its aging IT infrastructure to support growth and business priorities in a changing marketplace. An EY team was engaged to lead the SAP S/4 Fashion Management implementation to transform the global IT landscape to achieve targeted growth strategies. Cross-functional teams of EY professionals and client executives took a phased approach to identify critical outcomes and key objectives integral to the investment. This resulted in a 40% reduction in finance costs, the automation of more than 50% of their invoice volume, reduced SG&A expenses and globally integrated synergies across three brands.

As competition grows and technology advances ever more rapidly, CP&R leaders must apply a strategic lens to their ERP investments and SAP cloud transformation efforts.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2023 EYGM Limited.
All Rights Reserved.

EYG no. 008102-23Gbl
2303-4204072
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com