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Enabling Finance in a Digital Enterprise to Plan, Monitor, and Predict

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Adapted from *Millennials and Mobility: SAP Launches New Business Suite — SAP S/4HANA, by* Larry Carvalho, Christopher Chute, Christine Dover, and Henry D. Morris, IDC # 254242

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Introduction

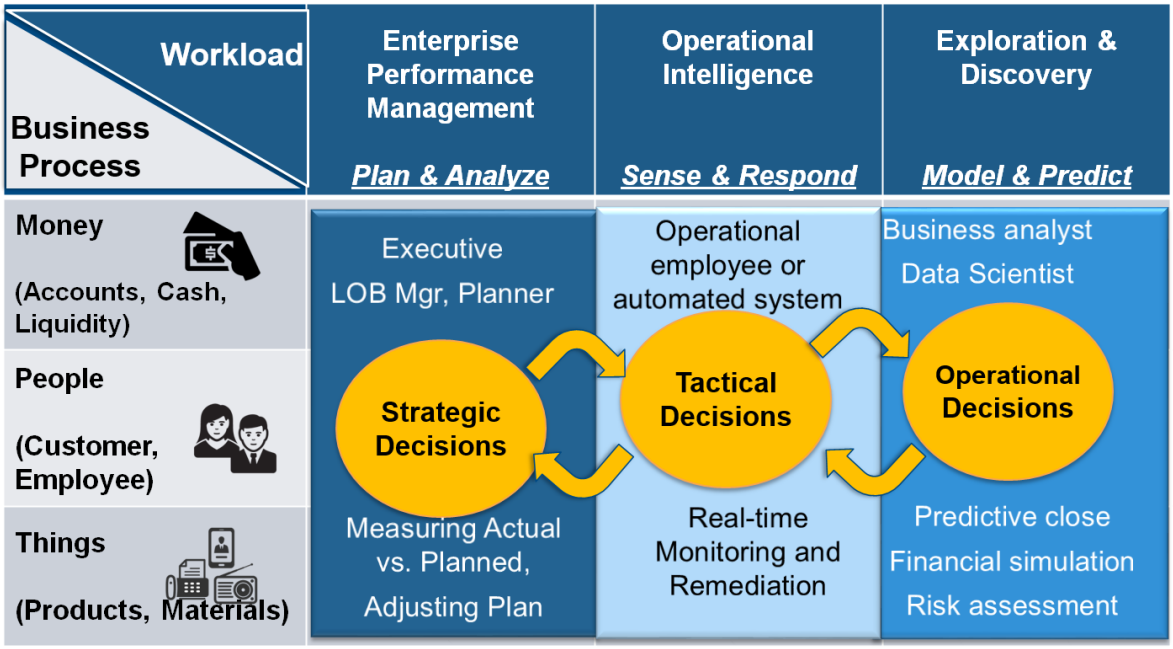
Information is the catalyst for transformation in today's increasingly online business environment. Today it is possible to state that:

- *Every industry is now an information industry* whether the product or service itself is data (e.g. financial services or telecommunications) or whether the product is physical but yields data that can be instantly tracked, measured, and optimized (e.g. oil and gas, manufacturing, or logistics).
- *Every role is now an information role*. From finance to sales and marketing to operations, roles are being redefined to set priorities, evaluate alternatives, make decisions, and take action in response to the latest information.

Supporting the needs of information workers requires the delivery of the latest, relevant information at the point of decision. Figure 1 illustrates the range of strategic, tactical, or operational decisions that typically take place across major business processes and the key roles responsible for them.

Figure 1

Connected Decisions Across the Organization



Source:IDC, 2015

Consider the roles and decisions shown in Figure 1 from a finance perspective and the change required for increasingly online businesses. Starting from the left of the diagram ("Enterprise Performance Management"), let's examine planning and consolidation:

- Traditionally, planning is an annual process directed by finance and involving operations managers across lines of business and resulting in targets to be tracked throughout the year. In a real-time business, a cycle of planning, monitoring results, taking corrective actions, and re-planning can occur throughout the year at various levels of the business, responding to fast-breaking trends and results.
- Consolidation is a monthly or quarterly process that rolls up financial information across business units, with reconciliations applied to develop a unified view for closing the books and reporting results. In a real-time business, consolidation is a process that can be done repeatedly during the financial period. The soft close or virtual close provides visibility to financial results even before the end of the period, enabling corrective action that can modify the likely result before the end of the period. An ideal system can drive a single, unified view that can drive both statutory reporting, as well as management reporting affecting strategic decisions on products and people in the business.

Now let's consider the center panel in Figure 1, "Monitoring and Operational Intelligence." A traditional finance operation relies on periodic reports on major financial systems, such as accounts receivable and accounts payable. Financial operations and control managers rely on these reports to spot anomalies and then research their causes. In a real-time business, monitoring financial transactions as soon or shortly after they happen can help to identify unusual activity that might be a sign of fraud, impending cash shortfalls, or a probable loss of a key customer or supplier. This can provide advanced intelligence on the critical factors that impact financial and operational risk. The key

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is to provide access to information as soon as it's captured, with the ability to drill into as much detail as is required (e.g., large overdue accounts or a major contingent-labor expense).

Moving to the "Exploration and Discovery," let's consider data exploration and the use of prediction and simulation. A traditional finance operation relies on cumbersome data extraction to spreadsheets to understand the impact of organizational change. In a real-time business, analysts use predictive analytics and simulations from a unified, always-current data store on an ongoing basis to model the financial impact of a projected action such as an organizational restructuring or a contemplated merger or acquisition.

The ability to access the latest information to get ahead of fast-breaking changes is necessary to support enterprises that increasingly depend on real-time online activities. Organizations need to assess how well their enterprise applications can support this requirement.

Financials in an Integrated Enterprise Application System

Most information systems are either transactional (recording information on business activity) or analytical (reporting and analyzing information to gain perspective about the business). Traditionally, transactional data is offloaded into a dedicated analytical system where reports are run and user queries are directed. This is done in order to protect the performance of the transactional system. Of course, the data in the analytical system is only as current as the last time the data transfer was made. This limitation can work against the goal of staying ahead of financial changes in a volatile business environment.

If you look inside a financial application suite, you realize that it has both transactional and analytical elements. Its job is to capture transactions about charges or expenses and apply it to the correct account. In addition, summary tables are updated in order to support financial reporting across lines of business — most importantly, financial consolidation driven by the general ledger.

This mix of base and summary tables is complex to manage and access. There are tables to support transactions (e.g., revenue coming in, expenses being paid) and tables to support summary calculations. Then there are update procedures for adjustments and reconciliations (across divisions or lines of business) to the base and summary tables in order to build enterprise-wide financial information.

All of this activity takes time and works against the ability to see the current, up-to-the-minute, financial position of the firm. The result is an adjustment and consolidation process that can take days or even weeks after the close of the period. By that time, the information is no longer current. As a rule of thumb, for any type of analytically-oriented project, 70% of the effort is expended on preparing information. The resulting information latency and delay is unacceptable to a real-time business that must make decisions and catch errors based on the latest information.

By contrast, modern enterprise applications are built from the ground up to support analytics inside. However, this must be achieved without the overhead of maintaining reporting tables that are updated every time a transaction is applied. An enterprise application suite with a unified data model can support transactional and analytical needs used for intelligent decision-making across major business functions. Financial information is at the core, linked to information reflecting the operations of major business functions. If this linkage is done via a unified data model, there is less data processing work to be done after the fact to support both transactions and related analysis.

The key requirements of such a modern application suite are:

- A unified data model supporting both transactions and analysis, minimizing data redundancy, and making transparent the financial impact of operational decisions across the business

- Systems built to support an online business, and minimize batch processing that delays access to financial data
- Systems easy to configure and modify as business requirements change

Considering SAP Simple Finance and SAP S/4HANA

SAP recently announced its SAP S/4HANA product, a new suite, that follows the principles noted above. SAP S/4HANA is built on SAP HANA, SAP's in-memory platform. SAP Simple Finance marked the first step in SAP S/4HANA.

A key design principle of the new business suite is to support information-centric enterprises seeking direct access to the latest data, providing the ability to model and predict the impact of contemplated changes. Key attributes include:

- A unified data model, eliminating the overhead of maintaining complex indices and summary tables (aggregates)
- Direct access to the latest financial transactions in a unified enterprise ledger, enabling a soft close that can be run and rerun off of actuals
- An improved user experience, built on SAP's Fiori paradigm
- Predictive financial model and simulation capabilities for examining the impact of contemplated changes, via access to the unified data model
- New configuration manager used both to set up the initial system, and to implement changes in organizational and account structures
- On-premises or cloud deployment

An example of the improved user experience and direct access to financial data is shown in Figure 2. The CFO dashboard is a good example of how SAP Simple Finance improves visibility into financial data across the organization, enabling drill down into the latest transaction detail as needed. Being able to go from the summary financial picture to the current detail forms a connection point between finance and line-of-business (LOB) management on the financial impact of decisions and strategies.

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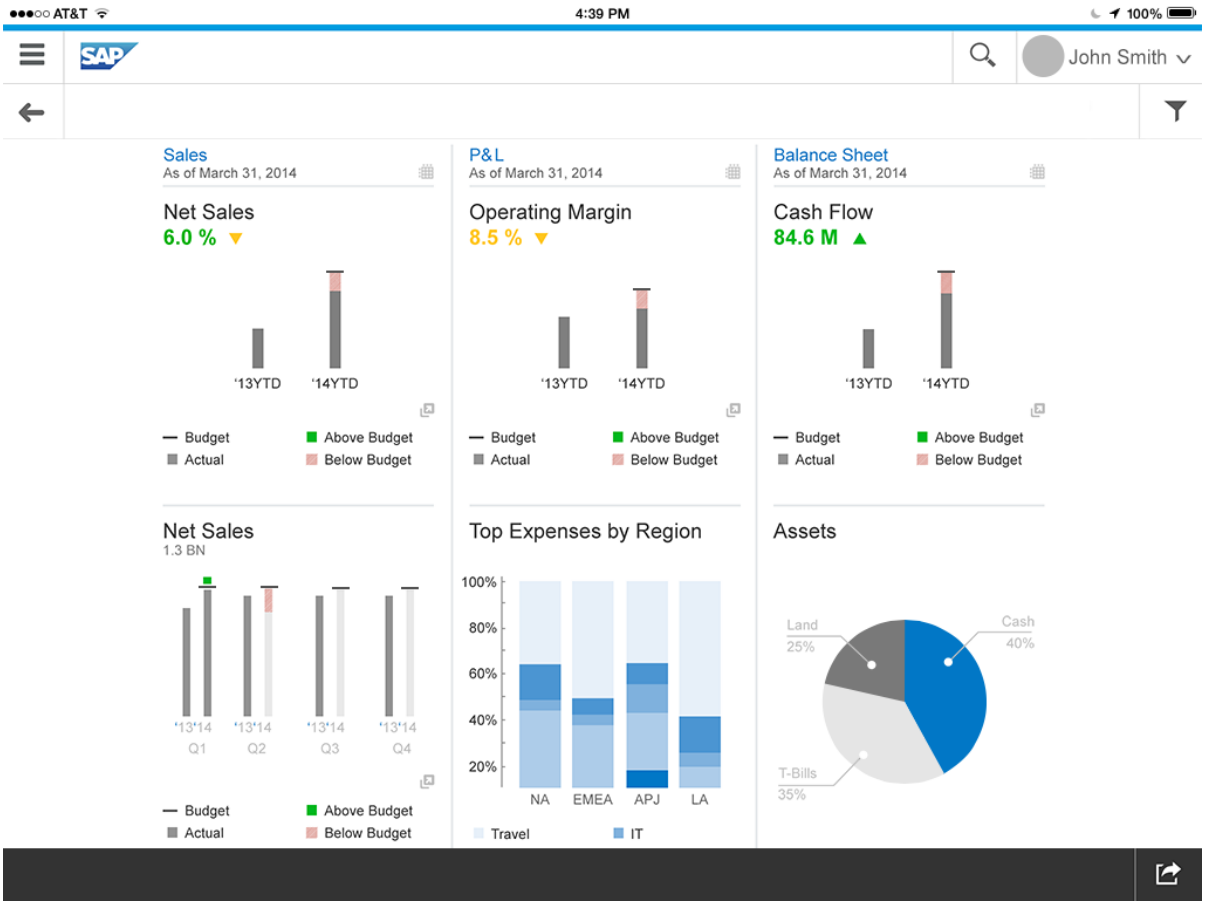
Figure 2

CFO Dashboard



Source: SAP, 2015

Opportunities

It has been several decades since a thorough re-architecting of SAP's Business Suite has appeared. Starting this process with the finance LOB gets to the core of the new suite, since financial information is the common measure across all modules. Upgrading finance capabilities has maximum impact and provides an opportunity for SAP to make a value case that's key to transitioning its large existing customer base to the new suite.

At the same time, SAP needs a revamped suite in order to sell to new accounts looking for core ERP. The new user experience, the unified data model, and the enhanced reporting, monitoring, and predictive capabilities will help SAP compete for new accounts, a key to continued growth.

Challenges

Simple Finance, and, indeed, SAP S/4HANA overall, runs only on SAP HANA. This means that SAP must make a strong value case to its customers to justify an application and database change. Initially, SAP promoted the value of SAP HANA by praising its in-memory technology. But ERP decision-makers are typically on the business side of the house and they must see business value.

With SAP Simple Finance, SAP is now in a better position to make the case in terms of application value to a modern business.

SAP must reassure existing customers about what is involved in a transition to SAP S/4HANA, and stress that existing investments will be preserved. Customers could be concerned that the new data model impacts the existing integrations they've built to the Business Suite and the numerous reports they have built. To this point, it's important to note that the former pre-calculated summary tables in the Business Suite are now set up as views. Thus inter-application procedures that referenced these tables can still work, providing compatibility to existing investments made to the SAP Business Suite.

Conclusion

Information is driving change across industries and across roles in an organization. Enterprise applications need to place a premium on getting the latest information at the point of a decision to drive effective actions. Enterprise applications must be recast to support these requirements in an increasingly on-line and real-time business environment.

SAP S/4HANA is being designed with these priorities in mind. SAP Simple Finance begins the rollout of SAP's new enterprise applications suite. It marks a fresh approach to accessing and presenting the latest financial information, leveraging a unified data model, in-memory real-time processing, and visualization. Assuming SAP can address the challenges described above, its solution should appeal not just to finance professionals, but to line-of-business operations managers across the enterprise who rely on financial information.

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Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc.com

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