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Whitepaper

How to Use SAP Central Finance as a Stepping Stone to SAP S/4HANA

HOWARD A. LA KIER, Finance Transformation Go To Market Leader
MATTHEW MONTES, SAP Financials Managing Consultant
GILBERTO PEREZ, SAP Financials Senior Managing Consultant

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Background – What is SAP Central Finance?

In this whitepaper, we explore SAP Central Finance as a stepping stone to SAP S/4HANA and how it can be done. We'll begin with a quick explanation of SAP Central Finance.

SAP Central Finance is a product and solution for a Finance First approach to SAP S/4HANA, in which the financial and management accounting data from SAP and non-SAP systems are brought into SAP S/4HANA via an SAP Landscape Transformation (SLT) replication server. In simple terms, SAP Central Finance serves as a “technical bridge” that facilitates the replication of transactional data from ERP systems into a singular SAP S/4HANA instance.

Due to the architecture of the solution (e.g., the “technical bridge”), an SAP Central Finance deployment is minimally disruptive to current ERP systems while, at the same time, allows clients to capitalize on a Finance First approach to SAP S/4HANA. For a high-level illustration of what a typical SAP Central Finance architecture looks like, see the diagram below (Figure 1). For more information on SAP Central Finance, see “Additional Information” at the end of this whitepaper.

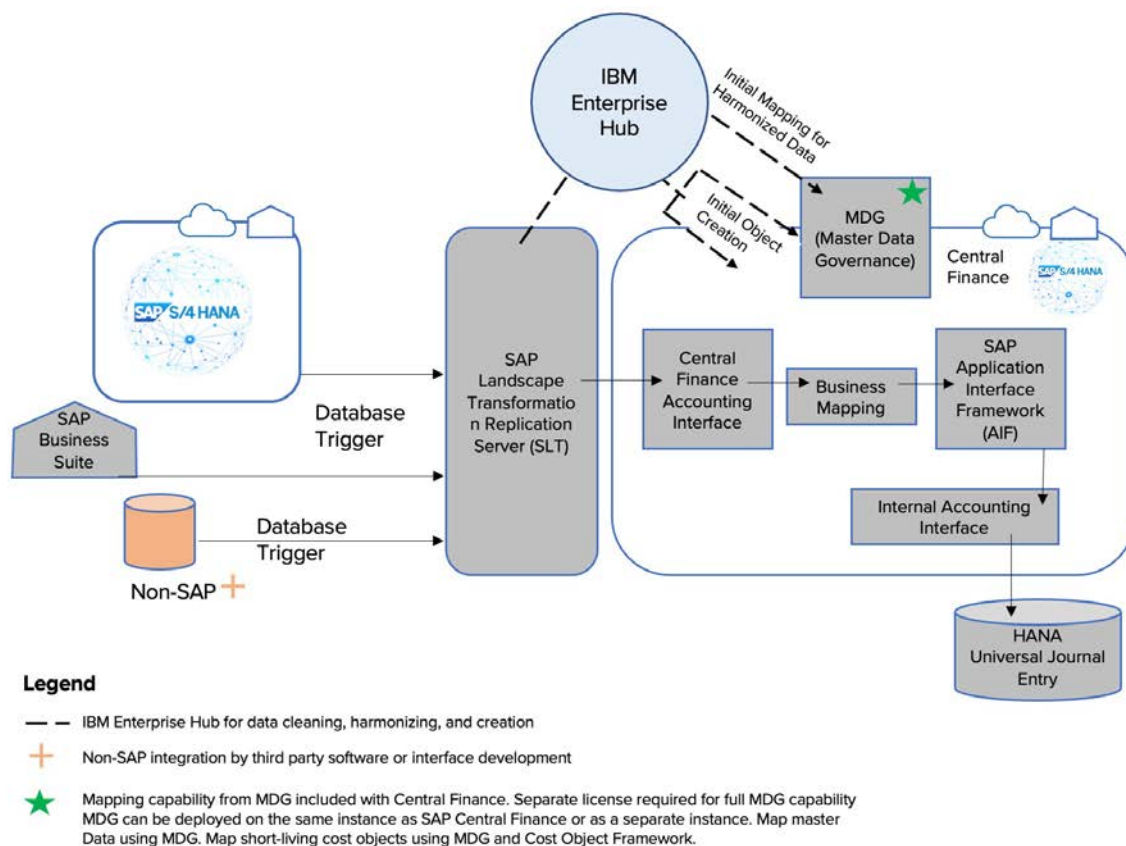


Figure 1. Illustrative SAP Central Finance System Landscape

Stepping Stone Framework

01

Align on an Approach to SAP S/4HANA

Clients opting for SAP enabled transformation must first choose how to approach SAP S/4HANA. This answer is highly dependent on circumstances, such as ERP system landscape, degree to which transformation is required, amount of change the organization can adopt, business value of transformation and amount the organization can invest.

With its introduction over 6 years ago, SAP Central Finance stands out as a best fit approach to SAP S/4HANA for clients desiring SAP based transformation with multi-ERP landscapes and clients whose growth strategies focus on Mergers and Acquisition (M&A) that want a non-disruptive, lower risk approach to SAP S/4HANA that can expand over time. The majority of SAP Central Finance implementations have been net new SAP S/4HANA systems with clients' adopting current leading practices. That being said, SAP Central Finance is a flexible SAP S/4HANA adoption approach that could leverage a net new SAP S/4HANA system or an existing system (Figure 2). For more information on approaches to SAP S/4HANA, see "Additional Information" at the end of this whitepaper.

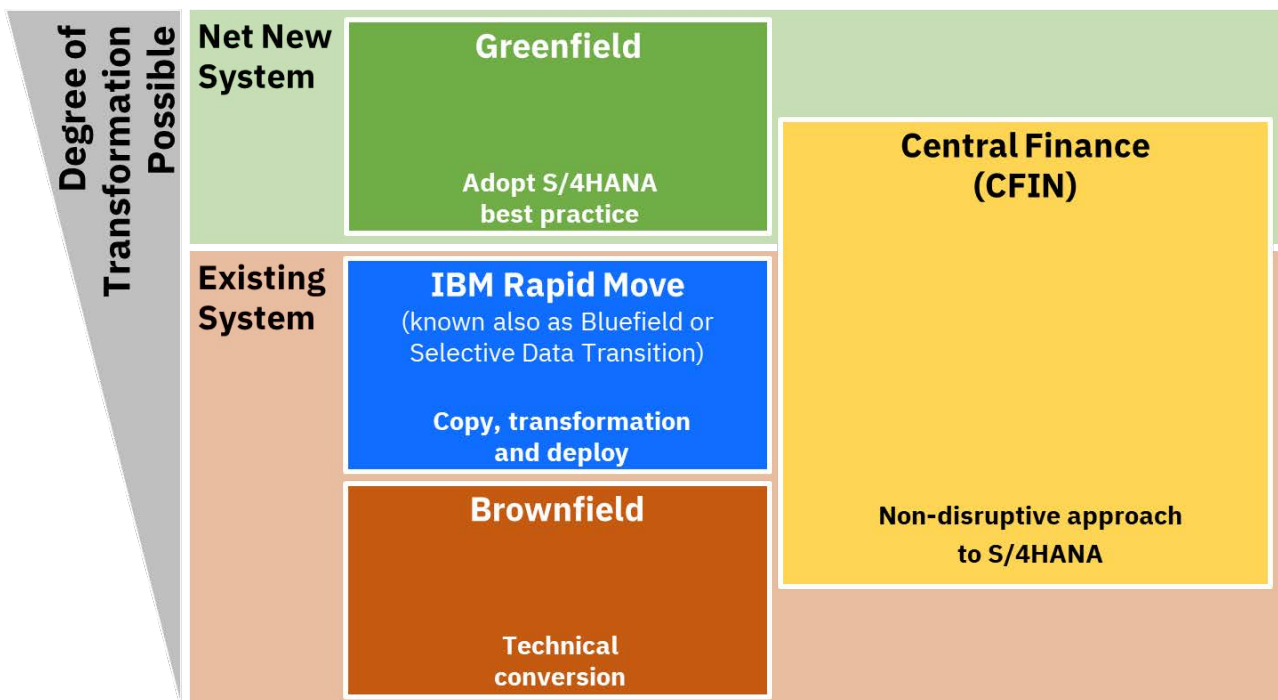


Figure 2. Illustrative Approaches to SAP S/4HANA

In the case of SAP based transformation with net new systems, SAP Central Finance is also a Finance First stepping stone approach to a fully integrated SAP S/4HANA system and is the focus of this whitepaper.

Stepping Stone Framework

Identify What Building Blocks to Adopt

Clients must identify what business oriented “Building Blocks” are pertinent to architecting a fully integrated SAP S/4HANA system. Examples such as Central AR/AP, Fixed Assets, Banking and Treasury, and Central Procurement are all “Building Blocks” with respective business processes that might need to be considered (Figure 3). The critical component here is not to bite off everything at once, but instead lay the foundation for how the value drivers of the solution can be adopted in phases.

Typical SAP Central Finance Client Adoption

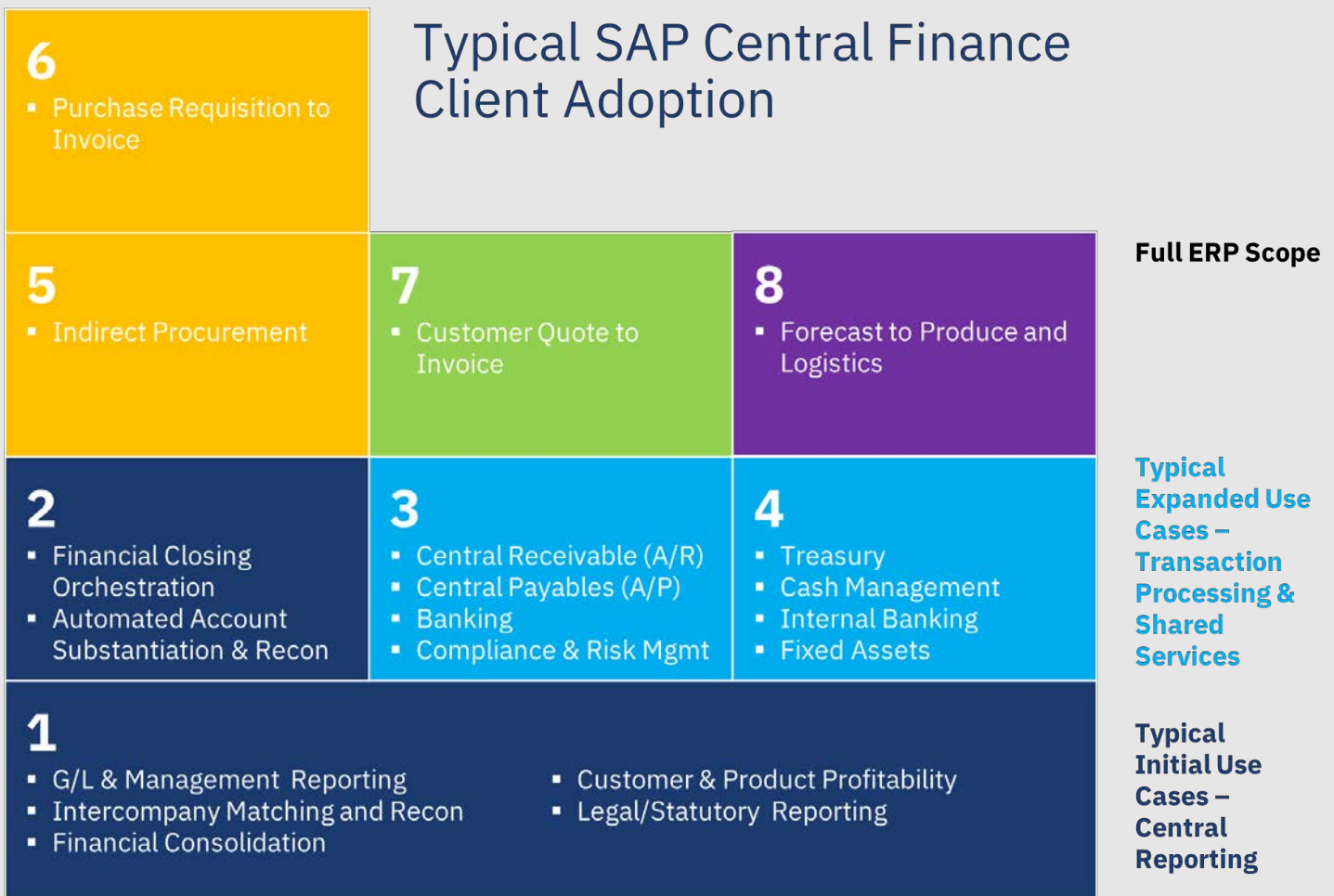


Figure 3. Typical SAP Central Finance Client Adoption

Stepping Stone Framework

03

Don't Design in a Vacuum

Upon laying the Building Blocks of the SAP Central Finance implementation, “Key Design Decisions that have a fundamental impact must be layered into the plan, such as currency, ledgers, tax harmonization, and finance master data must be at the forefront of the conversation. Considerations should include:

- **Currency:** What global currencies are needed for reporting? What currencies are being used today?
- **Ledgers:** Are Tax, Management, and Local ledgers needed?
- **Tax Harmonization:** How is each legal entity addressing Tax Reporting?
- **Finance Master Data:** Is the Finance Master Data structure in alignment with future state business process and financial statement reporting?

While each client engagement is different; the criticality of these Key Design Decisions stretch across multiple aspects of the ERP system and influence more than just the finance focused (FI/CO) portion of an SAP Central Finance deployment.

Each of these decisions come with detailed nuances that need to be discussed and evaluated.



Stepping Stone Framework

04

Assemble the Building Blocks

Each of these building blocks or the order they are deployed will vary from client to client; however, once they are established the strategy for how to assemble them can start to be mapped out and the Key Design Decisions can be layered in.



Stepping Stone Framework Illustrative Walkthrough:

Relevant Building Blocks

- For this client, a Central Reporting use case (Block 1 and 2 of Figure 3) provides the most initial value, followed by Central Transaction Processing & Shared Services (Block 3 and 4 of Figure 3)



Key Design Decision: Currency

- The client wants to report Group Currency based on source system configuration, as well as report using a freely defined Global USD currency in SAP Central Finance

Assembling the Building Blocks

Once the foundation for the currency design is architected then the downstream aspects/building blocks can start to be incorporated as a unique deployment within the SAP Central Finance system

- How does the decision to retain Group Currency and introduce a freely defined Global USD currency effect the Ledger and Currency setup in Financial Accounting (FI)?
- Does anything need to be considered as it relates to the Controlling area currency in Management Accounting (CO)?
- What currencies are going to be pertinent for AR/AP/Banking & Treasury?
- What should the valuation currency be for Fixed Assets and Inventory Management?

Why Some Believe that SAP Central Finance as a Stepping Stone Can't be Accomplished?

As mentioned previously, SAP Central Finance is one of several approaches to SAP S/4HANA. It's a perfect fit for many clients in a variety of situations, including clients with multi-ERP landscapes or even single ERP landscapes.

In all instances, the idea of SAP Central Finance is as a non-disruptive, lower risk Finance First approach to SAP S/4HANA that can also be a stepping stone to a full scope S/4HANA system by further building out the system. The stepping stone approach is possible because SAP Central Finance is a business function activated within SAP S/4HANA and therefore a full scope SAP S/4HANA system. A simplified approach for SAP Central Finance as a stepping stone to a full scope SAP S/4HANA system involves deploying SAP Central Finance and replication from source systems, which may involve multiple phases or releases from central reporting to central processing, and expanding the SAP Central Finance system by building out the system for Supply Chain and Order to Cash capabilities (Figure 4).

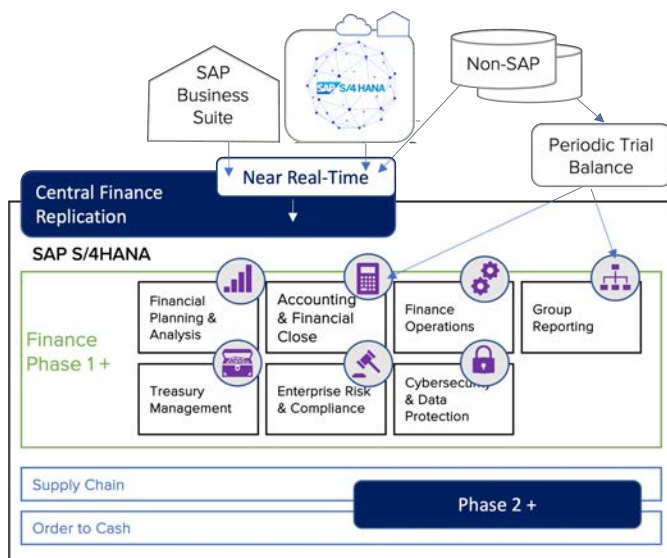


Figure 4. Illustrative approach for SAP Central Finance as a stepping stone to a Full Scope SAP S/4HANA System

Just as there is confusion on what SAP Central Finance is (for more information, see “Additional Information” at the end of this whitepaper), there is an equal amount of confusion and disagreement on SAP Central Finance as a stepping stone to S/4HANA. The disbelief is driven by a number of factors and sources that can be boiled down, in many cases, to the following themes:

- Lack of understanding or experience with SAP Central Finance and how it works
- Concerns around building yourself into a corner
- Poorly worded advice or inaccurate interpretation of the same
- Points of view motivated by self interest

At IBM, we have implemented SAP ERP systems in a Finance First approach for decades. As a Finance First approach to deploying S/4HANA, an SAP Central Finance system can be expanded to a full scope ERP with the right experience and planning, just as SAP ERPs before S/4HANA could be.

TruQua/IBM's Position on SAP Central Finance as a Stepping Stone to SAP S/4HANA

IBM's Long History as an SAP Systems Integrator and Partner

IBM has a longer relationship, more Global Partner Program certifications and more S/4HANA Certified Consultants than any other SAP partner. We are a global company with consultants where our clients operate that has enabled us to implement SAP for the largest, most complex, global companies to medium sized companies with footprints that span one country and even a single state. IBM co-develops tailor made implementation approaches with our clients based on a client's unique priorities to realize value using a robust and proven Garage method. This method is steeped in enterprise design thinking and successfully utilized in person and in virtual workshops. We develop business cases to fit a client's desired transformation outcomes that meet necessary financial models. Whether our clients favor Capital Expense (CapEx) or Operating Expense (OpEx), IBM has the means to assist.

Approaches to System Deployment Enabled Transformation

While there are a myriad of permutations to deploy systems to enable transformation, the fundamental components are Process (Function First) and Organizational units (typically Geographic) (Figure 5). A typical company may deploy an ERP by geography and develop interfaces to connect back to legacy systems. For reasons we cover in this whitepaper, taking a Finance First approach can be a best fit option.

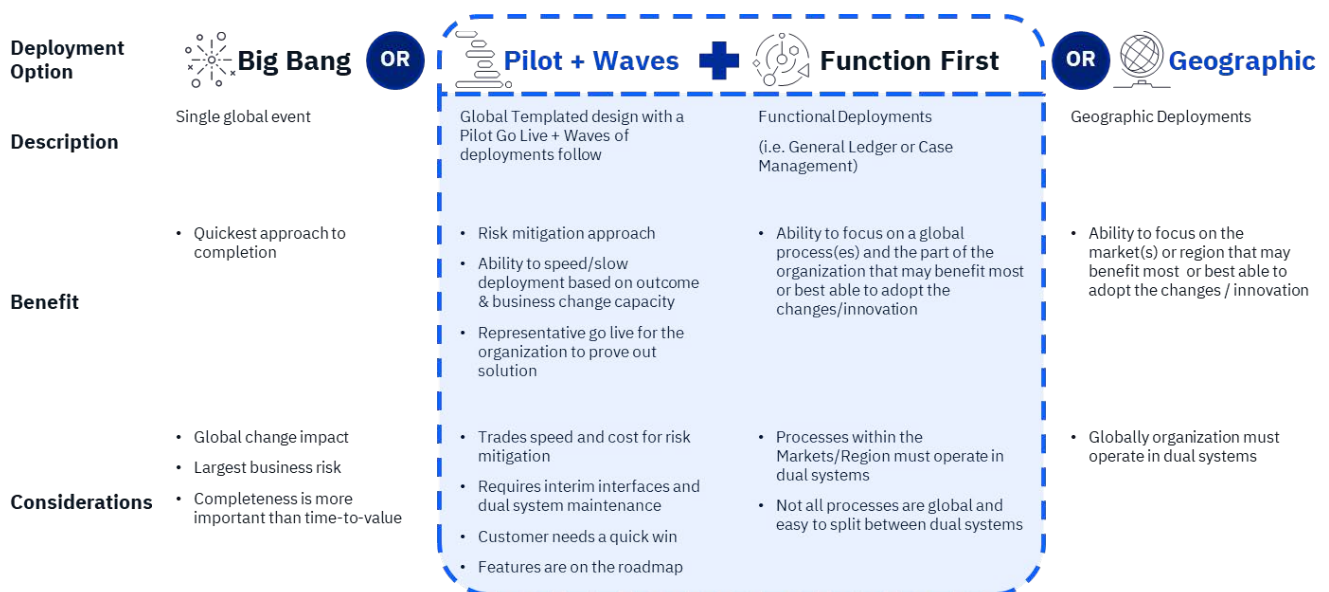


Figure 5. Approaches to System Deployment

TruQua/IBM's Position on SAP Central Finance as a Stepping Stone to SAP S/4HANA

For decades IBM has implemented SAP ERP in a Finance First approach, well before SAP released SAP Central Finance to facilitate a transformation in that fashion. Furthermore, we have expanded these Finance First ERP footprints to full scope, operational end to end systems to include Order to Cash, Procure to Pay, Forecast to Produce & Logistics, and Record to Report.

A recent example is a large, privately held High Tech Electronics enterprise that was born from a divestiture, grown organically and through acquisitions of its own that needed clear, unbiased financial reporting to gauge overall, global financial performance to support going public. The scope expanded to include Central Receivables and Central Payables and piloting full operational scope.

Another large Business Technology and Payments enterprise experienced constrained growth due to lack of integration across its over 50 acquisitions, each with its own ERP. Our client embarked on a complete transformation program to modernizing their business processes and restructure into 4 new business segments. Starting with a Finance First approach to provide transparency and report to the street with new financial consolidation capabilities, the system was soon expanded to Central Payables and Central Receivables, Fixed Assets, and Profitability, as well as subsequently to Order to Cash, Procure to Pay, and Forecast to Produce and Logistics.



Wrap Up – SAP Central Finance as a Finance First Approach

In some cases, the Finance First approaches referenced were driven by long term goals and a desire to ease mergers and acquisitions that were the heart of the company's growth strategy or because the CFO saw the benefit and urgency for transformation at a time when his/her C-Suite colleagues were not ready. This contrasts with years past when a Finance First approach may have been due to software or hardware limitations, which is less often today due to hardware and software improvements, including the introduction of the HANA database and S/4HANA code rewrites.

SAP Central Finance is a valid stepping stone approach to S/4HANA based on our experience. We see this approach as a culmination of everything we've done to date. The urgent need for Finance Transformation is even more important in an age when early insight into business performance is an outsized competitive advantage when supply chains are strained and margins are very slim. We know expanding SAP Central Finance to a full scope, operational ERP has some pitfalls. It's for that reason that addressing Key Design Decisions, the "must get right topics," early are critical. With a clear upfront vision and careful planning, we have successfully navigated clients on their Finance First journeys.



Additional Information

IBM Video

[Approaches to S/4HANA](#) and click “Learn about IBM Rapid Move”

TruQua Blog Post

[Top 10 Things to Know About SAP Central Finance](#)

LinkedIn Article

[Demystifying SAP Central Finance in 400 Words or Less](#)

SAP Press Book

[Central Finance and SAP S/4HANA](#)

Additional Whitepapers in this SAP Central Finance Whitepaper Series

SAP Central Finance Key Design Decisions for Reporting Deployments (**coming soon!**)

SAP Central Finance Key Benefits and Deployment Strategies (**coming soon!**)

Next Steps

Interested in learning more on what your organization can achieve with SAP Central Finance? [Contact us today](#) for a complimentary 60 minute discovery session to explore what type of value your organization can realize with an SAP Central Finance deployment.

Phone: 312.525.8787

Email: truqua@us.ibm.com

About the Authors



HOWARD A. LA KIER

Finance Transformation Go To Market Leader, TruQua, an IBM Company

Howard A. La Kier assists clients in their digital transformations with SAP S/4HANA as the Finance Transformation Go To Market Leader at TruQua, an IBM Company. Howard has more than 25 years of experience focusing on financial and upstream processes and the technologies that enable them. He has worked with some of IBM's largest clients and implementation projects globally, including as a Program Manager, Global Integration Lead, and Global Budget to Report Lead, with SAP products such as SAP ERP from R/3 to S/4HANA, Central Finance, S/4HANA Public Cloud, Concur, Schedule Manager, and Advanced Financial Closing.



MATTHEW MONTES

SAP Financials Managing Consultant, TruQua, an IBM Company

Matt Montes is a Finance and Data driven professional currently working as an SAP Financials Managing Consultant for TruQua, an IBM Company. His professional experience is comprised of Finance Transformation engagements which includes accounting, business process design, financial planning & analysis, data analytics, training, and change management. Matt Montes has 6.5 years of financial consulting experience utilizing SAP Central Finance, SAP S/4HANA, SAP ERP, SAP Fiori, SAP Analytics Cloud, SAP Group Reporting, and SAP Business Planning and Consolidation. In addition to 4 full lifecycle implementations, product development, and 6 POC's, Matt Montes also works as a trainer, content developer, and international speaker.



GILBERTO PEREZ

SAP Financials Senior Managing Consultant, TruQua, an IBM Company

Gilberto Perez is a skilled SAP Consultant and Project Manager with over 20 years of project experience, delivering SAP solutions for a wide variety of industries. He has completed global projects with multisite execution in the U.S, Mexico, Brazil and Peru. Gil is well known for a high level of customer satisfaction guarding scope and delivering on time. Gil has been actively engaged on SAP Central Finance projects for the past 4+ years working in the area of finance transformation.