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Building your SAP S/4HANA Cloud business case
What you need to know

Foreword

S/4HANA Cloud has been through an interesting journey in recent years. Customer uptake was positive and in fact S/4HANA Cloud sales grew 300% in 2019 versus 20% on premise sales growth. Success stories emerged quickly but so did challenges, and SAP to their credit have been quick to adapt and learn.[1]

While the shift towards Cloud-based ERP solutions was met with enthusiasm, the relative differences and benefits between SAP's offerings caused confusion in the marketplace. Customers and consultants alike were not always clear on use cases for each offering. Put simply, they were not distinct enough from each other.

Heeding to market sentiment, in 2020 SAP emerged with a clear message. The positioning, industry focus and use cases for S/4HANA Cloud have been clarified. SAP's sales team and partner organisations are now in a position to confidently guide customers through cloud discussions. The response to this has been very positive. Gartner's recent Magic Quadrant report in February 2020 highlighted that SAP have

improved both in vision and execution over the last year.[2] Simplifying customer discussions allows both SAP and consultants to focus on addressing business challenges and delivering business outcomes rather than pushing specific technologies.

At face value, S/4HANA Cloud is a great investment. The financial benefits of a simplified digital core, standard processes, harmonised data model are made all the more attractive when combined with the SaaS qualities and rapid innovation cycles of the product. Our experiences have given Deloitte rich insights into how organisations can realise the value that S/4HANA Cloud promises.

This begins with a robust business case, and in this paper we offer a point of view on how to build a robust business case for your S/4HANA Cloud investment decision.

Conrad Troy
Partner, Consulting

1. Deloitte Kinetic Enterprise Go to Market Analysis
2. Gartner Magic Quadrant for Core Cloud Financial Management Suites, 2020.
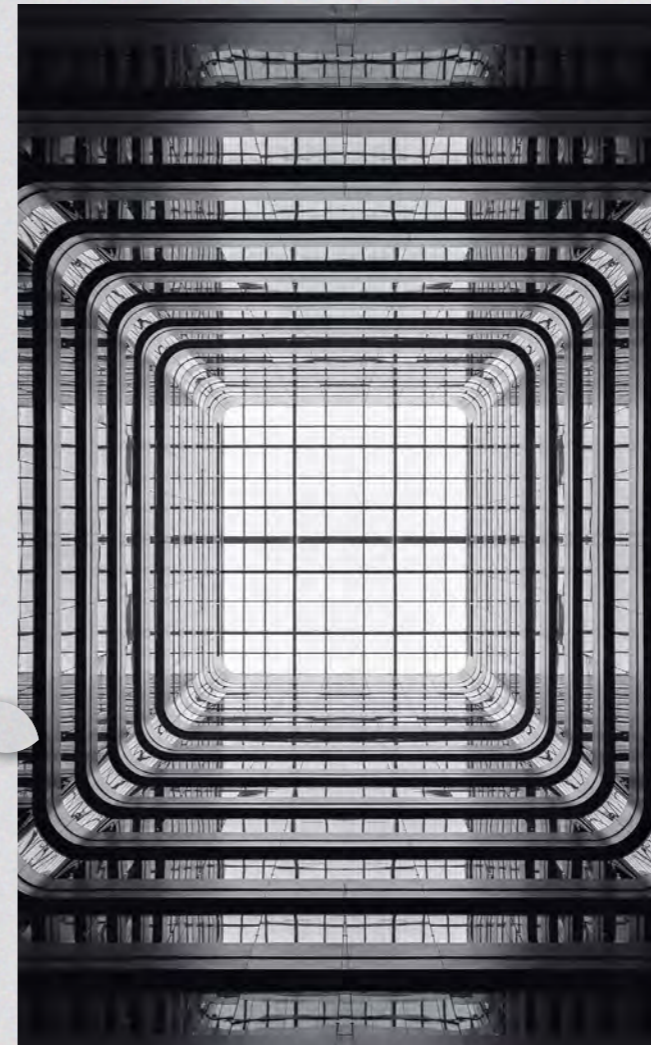
Introduction

S/4HANA Cloud has all the ingredients to be a game changer for organisations, combining the traditional strengths of ERP with the value proposition of Cloud. But articulating the tangible value of this investment can be tough for those business leaders tasked with developing the case for it.

In this paper we draw on real client experiences, and our own, to explore how the business case for a potential S/4HANA Cloud investment should be approached, where to look for value and how to assess whether the business case truly stacks up.

The move to Cloud

Cloud as a broad concept has evolved. From low-level technology cost arbitrage lever, it has been seen as a means for delivery model optimisation and is, today, considered to be a key driver of business transformation.

Global software spend is predicted to reach c.$350bn in 2020, with Cloud accounting for half of it (50%). By 2023, Cloud is expected to represent over 62% of the total software spend of c. $470bn.[3]

By 2024, 70% of all new midsize core financial management application projects, and 35% of large and global ones, will be public cloud (SaaS) implementations.
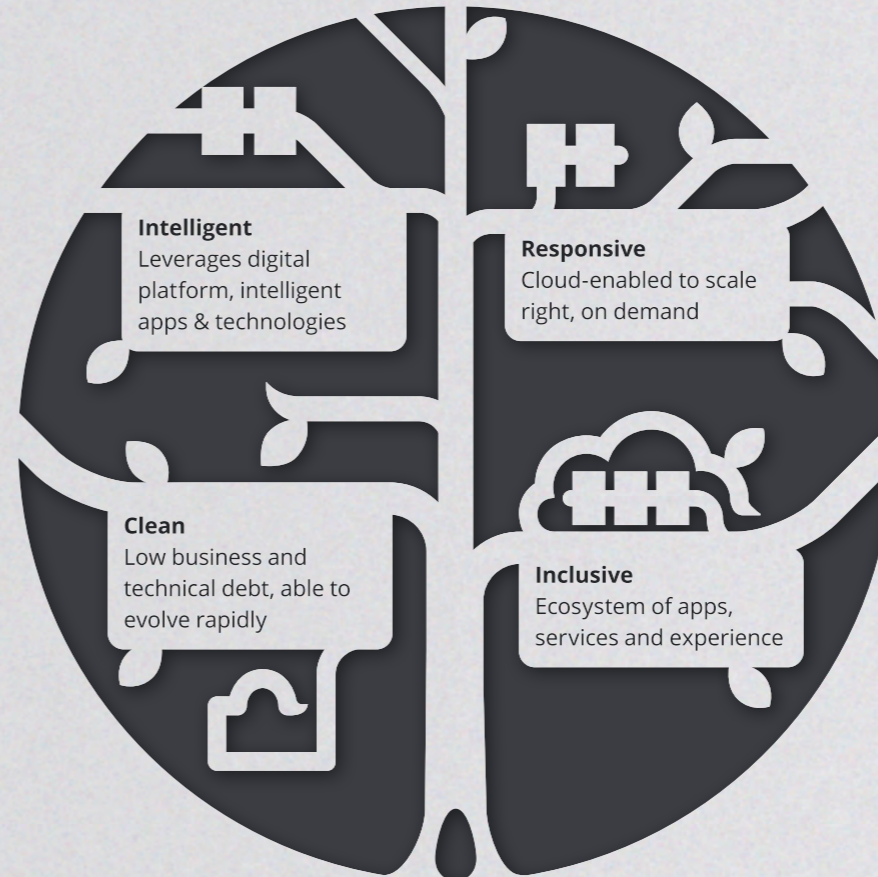
This is part of a broader trend towards cloud – Gartner predicts that $1.3tn of IT spending will shift to the cloud in coming years.[4]

Cloud is increasingly the foundation upon which innovation is built. A decade ago, many companies could achieve a competitive advantage by embracing innovations and trends that were already underway. Today, this reactive approach does not suffice. To stay ahead of the game, let alone survive, companies must work methodically to sense future innovations and possibilities, define their ambitions for tomorrow, and map out their journey beyond the digital frontier.[5]

At Deloitte we refer to this as the Kinetic Enterprise – one that is built to evolve.

3. Deloitte Tech Trends 2019.
4. Gartner Magic Quadrant for Core Cloud Financial Management Suites, 2020.
5. Deloitte Tech Trends 2019. Annual report published on Deloitte external website.

The new enterprise – built to evolve
4 key principles

Intelligent
Leverages digital platform, intelligent apps & technologies

Responsive
Cloud-enabled to scale right, on demand

Clean
Low business and technical debt, able to evolve rapidly

Inclusive
Ecosystem of apps, services and experience

The move to Cloud

We believe operating on the bleeding edge is only possible by having a strong foundation – a robust "digital core".

The opportunity for businesses

Delivered as a SaaS solution, S/4HANA Cloud aims to create this modern digital core that blends the benefits of the Cloud with the strength of the SAP S/4HANA in-memory platform. SAP says this will offer the opportunity to streamline IT, to lower total cost of ownership, scale infrastructure as needs evolve, and access the latest SAP applications on demand. SAP wants S/4HANA Cloud to be seen as a strategic platform for evolving business needs.[6]

The move towards Cloud

SAP has declared an aggressive drive towards cloud solutions. SAP customers will often hear from Sales Executives that cloud solutions will receive the lion's share of investment dollars over coming years. This has a significant impact on customer buying decisions. Although the economics of S/4HANA Cloud seem compelling at first glance, we advise against buying decisions based purely on subscription price because this underestimates the volume of effort to successfully "fit to standard".

Approaching the business case

Our experience on S/4HANA Cloud engagements has given us valuable lessons in both what it takes to implement the solution as well as what it takes to operate it successfully. We strongly advocate developing a thorough business case for S/4HANA Cloud and have seen first-hand how compelling the business case can be when all facts are considered.

The term "business case" here refers to both the quantitative benefits of moving to S/4HANA Cloud as well as the strategic/qualitative drivers for this transformation. In some organisations, this business case is described as a "case for change", "benefits case" or other similar terms.

This paper therefore provides snippets of the business value we have worked with customers to identify on S/4HANA Cloud projects, and also an overview of how to develop a robust business case.

This paper is not about IT Total Cost of Ownership, which is already examined in several SAP published papers – it focuses on the business value of S/4HANA Cloud. It assumes a basic understanding of S/4HANA broadly and S/4HANA Cloud specifically, and is aimed at business leaders and project managers rather than IT professionals.

The underlying theme of this paper is – the value proposition for S/4HANA Cloud seems desirable, but are you clear on how it will deliver business value for your organisation, and whether the steps required to achieve this value are realistic?

In other words, does the business case for S/4HANA Cloud stack up?

6. Accelerating Business Transformation in the Public Cloud. White paper published on Deloitte external website.
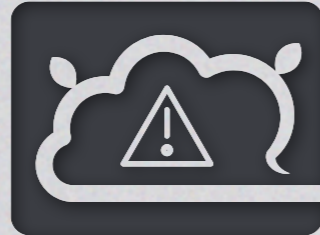
Separating myths from facts

For many leaders, separating Cloud myths from the facts can prove daunting. In a March 2018 paper on S/4HANA Cloud, our Deloitte US colleagues highlighted five cloud myths that were explored in some detail:

Myth No. 1
Moving to the Cloud is too costly.

Myth No. 2
The benefits of the Cloud aren't substantial enough.

Myth No. 3
Cloud is too risky.

Myth No. 4
Cloud computing is still an immature technology.

Myth No. 5
Moving to the Cloud will be easy.[7]

While some of these myths are just that, mis-held beliefs, our client interactions reveal they are still very prevalent. In our experience across Europe, by far the single biggest myth we observe is that moving to the Cloud will be cheap – which is a real juxtaposition to myth 1. SAP's marketing efforts have a role to play in this, and indeed the technical change from current systems to S/4HANA Cloud can be cheap.

Delivering the business transformation required to ensure adoption of S/4HANA Cloud can often be complex and expensive, though. Whilst expensive this is usually where business benefits come from, so it's something that we champion on our S/4HANA Cloud programmes.

Myth no. 2 is also very interesting because our experience of building S/4HANA Cloud business cases often unveils significant benefits. Going through the business case development process can often be an eye-opener for customers, even those who have a background in SAP. The business case is also a great way to understand the risk profile – myth no. 3 – as well as deep dive into the specific functionality and processes that S/4HANA Cloud can deliver today – myth no. 4.

Moving to the cloud can be easy, but this requires careful planning and strong decision-making before the organisation commences their implementation programme. A good business case coupled with clear scoping and deployment planning can go a long way towards enabling this. At Deloitte we often refer to this package of work as a Phase Zero.

7. Cloud computing: separating myth from reality. White paper published on Deloitte external website.

What early adopters have showed us

At Deloitte we know first-hand what challenges, risks and competing priorities are involved with S/4HANA Cloud projects, having implemented the solution ourselves for over 7,500 employees.

We also have a depth of experience from successful S/4HANA Cloud go-lives for over ten clients across EMEA and 22 clients globally in recent times – with a further ten projects in flight across the world. This has given us numerous learning opportunities which feature throughout this paper.

S/4HANA Cloud adoption patterns in the UK and mainland Europe have been quite different. Being able to operate across both markets has provided us with some great insights specific to the UK. Over the last 24 months, we have worked with three UK customers to significantly shape their journey to S/4HANA Cloud.

The first significant business case we developed in the UK, for a fast-growing technology organisation, was a great lesson in both how to build the business case but also where to find business value.

Here we share some insights:

Case study ▶

Building your own S/4HANA Cloud business case

So what are the crucial building blocks to create a solid S/4HANA Cloud business case?

Our approach takes into account that S/4HANA Cloud implementations must follow SAP's Activate Methodology. This is mandated by SAP and monitoring by their governance processes throughout the project lifecycle. Our Enterprise Value Delivery (EVD) methodology is consistent with SAP Activate and in fact enhances SAP Activate in certain areas. This is particularly true of the transformational elements of such programmes – for example business change or readiness and adoption. To deliver optimal business value from it, we recommend working through the following considerations:

1. When to develop your business case

The business case for S/4HANA Cloud is typically developed during the Discovery phase. SAP's Discovery Assessment is a fantastic tool to understand high level scope, processes, level of "fit", integration API's and solution landscape. These are key data points for the business case. On Deloitte engagements we typically conduct Discovery Assessements as part of a holistic "Phase Zero" that helps organisations understand the solution, define their strategy, build their roadmap and establish their business case.

In addition, our experience shows that further refreshing the business case after Explore phase is highly beneficial. At this point, a number of high level assumptions made during Discovery will either be proven or disproved. This is a short investment of time – potentially just 3 to 4 days if done efficiently – which could support key decisions such as short-term funding allocations for Realise phase and long term financial planning.

Costs of delivery, in particular business resource costs, will be more clearly understood in the Explore phase. The significance of change to the target operating model, roles, headcount and skills should be identified at this point. The extent of change required in the application ecosystem to adopt the S/4HANA Cloud data model and API's should have been captured. The functional solution gaps in the business backlog should have been impact assessed at this point. Even the impacts to the IT function and the IT operating model should be better known.

As an example – we have recently engaged with a mid-sized European high tech organisation that is working with another firm to deliver their S/4HANA Cloud solution. Initial assumptions made in the Discovery phase for billing and currency requirements provided to be insufficient, and the required S/4HANA Cloud functionality would only be available in the release just before cutover. Our discussions with this organisation highlighted the risk premium that should now be attached to the original business case.

Refreshing the business case after the Explore phase can be accelerated because so much input information is known at this point. We have found this a very valuable exercise, and would strongly recommend taking this step even if delivery timeframes are tight. The long term rewards far outweigh the short term impact to schedule.

Building your own S/4HANA Cloud business case

2. Our recommended contributors

Client Sponsor
This is the person who champions the solution and the business case. They will set direction, align the team, provides leadership and manage escalations. They should also be the Product Owner.

Project Controller
Their insights into business plans is so valuable. Aligning the business case to long range financial plans, departmental budgets and competing priorities from day one helps a lot.

Project PMO
The PMO is the glue that holds everything together. The PMO will support data gathering activities, open doors to key stakeholders, align the business case to delivery plans and own monitoring of performance.

Cloud Solution Experts
Understanding the functional and technical solution is key because it is markedly different from on premise. The upgrade roadmap is also a crucial factor into the timing of specific benefit realisation.

Client Business Process Leads
These are functional experts who understand current business processes, current challenges and future opportunities that cloud unlocks. Their ownership of the business case is essential.

Client IT Leads
They can share valuable intel on the current technical / architectural challenges and opportunity areas. Their estimation of the change to other applications in the ecosystem, or links to external vendors and customers, is essential.

External SMEs
The presence of outside experts to challenge and validate the business case can be great for providing perspective and realism. Their experience, data points and benchmarks provide a good frame of reference.

We strongly believe in a business case that is customer-led and Deloitte-supported. The ownership, sponsorship and support this can create amongst decision makers is absolutely crucial for eventual success.

Building your own S/4HANA Cloud business case

3. What to include in the business case

This is a story of two parts. There are certain elements we would advocate including in every SAP business case, regardless of whether the solution is on premise or cloud, and other elements that are specific to the Cloud product.

The following should feature in every S/4HANA business case:

Investment acceptance criteria
Clear guidelines on the expected Net Present Value (NPV), Internal Rate of Return (IRR) and payback period – using a realistic cost of capital. Where relevant, an opportunity cost or risk premium as well.

Costs of the programme
Typical cost categories would include:

• Any one off fees or charges

• Project resources

• Consultancy or external resources

• Legacy application decommissioning

Benefits of the programme
We strongly advocate using a methodology that starts with holistic programme objectives, translates this into benefit drivers, then quantifies the benefit. Where useful, benchmark data can support benefits thinking. Tools such as SAP Value Lifecycle Manager (VLM) or our own business case framework are great accelerators in this regard.

Timing of costs and benefits realisation
This not only provides an accurate view of cash flows, but also illustrates a good understanding of how quickly or slowly the programme will actually transform the business.

Building your own S/4HANA Cloud business case

4. Additional considerations for S/4HANA Cloud

The volume of business change required to embed S/4HANA Cloud into the organisation can have a big impact on initial benefits. Benefits realisation should be pegged to the pace of business change rather than the pace of technology delivery. The cloud platform provides the capability to go fast, but the organisation can only go at the speed at which it can absorb change. Therefore it cannot be assumed that a company will be ready-to-go as soon as the technology is installed.

Further, Cloud is a long term investment creating a platform for future growth and innovation – which outweighs any initial benefit. We have seen at least two instances in the UK and Europe where the deciding factor for S/4HANA Cloud was unquantifiable – mitigation of audit risk, innovation opportunities in the cloud platform, or a better fit to the organisational culture.

Additional cost considerations for S/4HANA Cloud:

• Recurring S/4HANA Cloud subscription fees

• Product Owner and business backfill resources for those onboarded to the programme full time

• Business resources for data cleansing, extraction and transformation

• Specialist expertise (e.g. Indirect Tax, Treasury)

• Integration and orchestration of multiple cloud platforms for seamless UX

• SAP Cloud Platform development skills for side by side extensions

• Non-SAP development resources for connected applications / middleware

• Re-training or upskilling of the IT function

For IT, S/4HANA Cloud opens up significant opportunities for TCO reduction by delivering:

• Elimination of in-house SAP infrastructure

• Reduction of technical resources (Basis and Development resources)

• Reduced application support effort

For the business, S/4HANA Cloud is often the vehicle for digital transformation:

• Removal of process complexity or failures from customisations

• Access to automation and standardisation, powered by clean data

• Standardisation of the data model at source

• Ability to capitalise on innovations such as AI, Machine Learning and RPA

• Access to new functionality with every release

Quantifying this digital transformation is the essence of the Cloud business case.

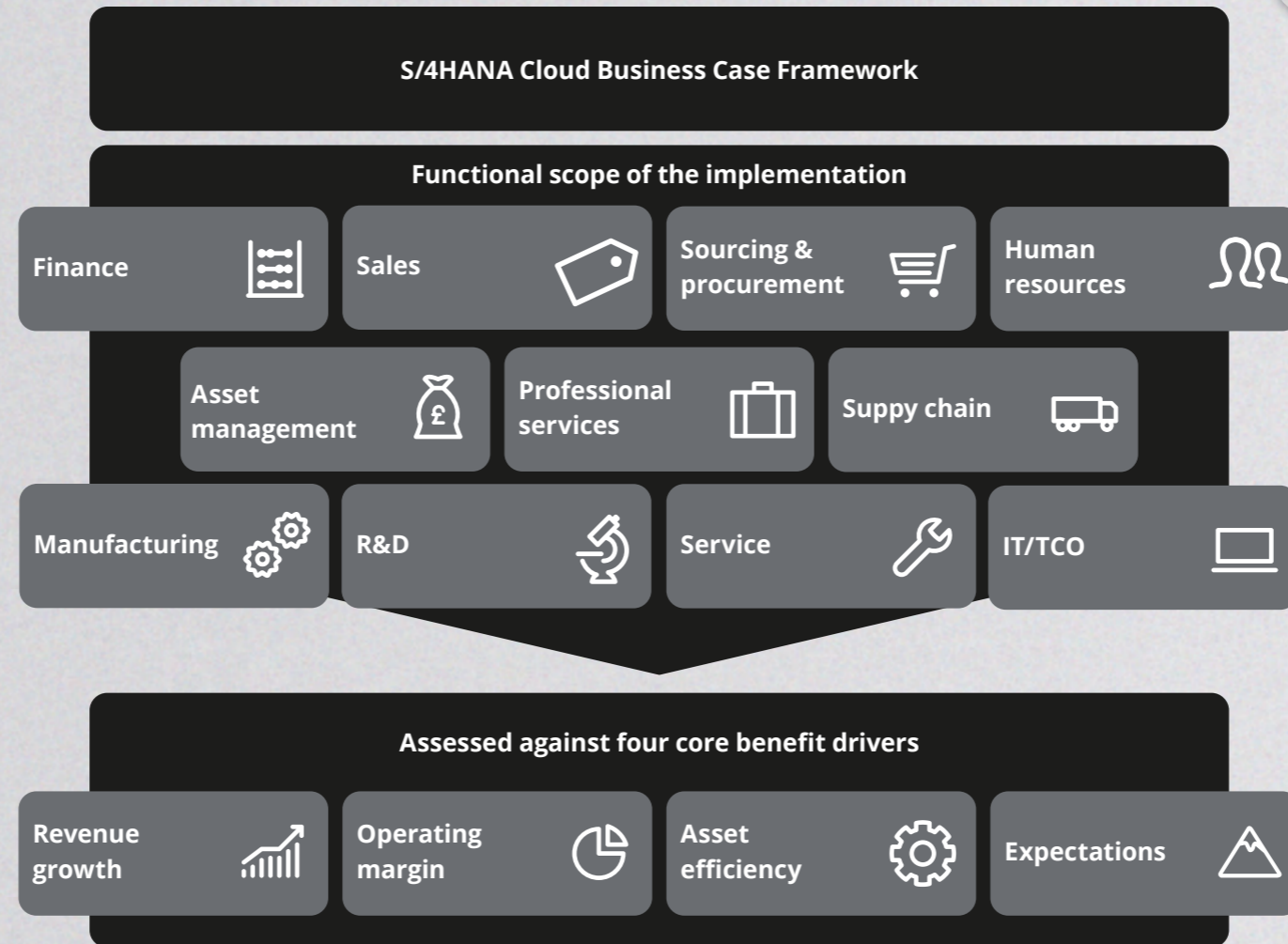# Putting the benefits of S/4HANA Cloud into context

At Deloitte, we use our S/4HANA Cloud business case framework business cases in a structured, consistent manner.

Our approach enables clients to outline their key business outcomes, understand their benefit drivers, what the art of the possible is, and what benefits their specific implementation should target.

This model is based on the functional scope of the implementation, the associated business change it will drive, the transformation of the target operating model and simplification of the applications ecosystem. It is a unique framework that shows how shareholder value is generated and what companies can do to improve it.

We used this method to help a European manufacturing organisation identify significant improvement ranges from their S/4HANA Cloud implementation. The structured method allowed them to think through what the project objectives were, where the benefit was likely to come from, and what financial value it had within each functional area in scope.

S/4HANA Cloud Business Case Framework

Functional scope of the implementation

Finance	Sales	Sourcing & procurement	Human resources

Asset management	Professional services	Suppy chain

Manufacturing	R&D	Service	IT/TCO

Assessed against four core benefit drivers

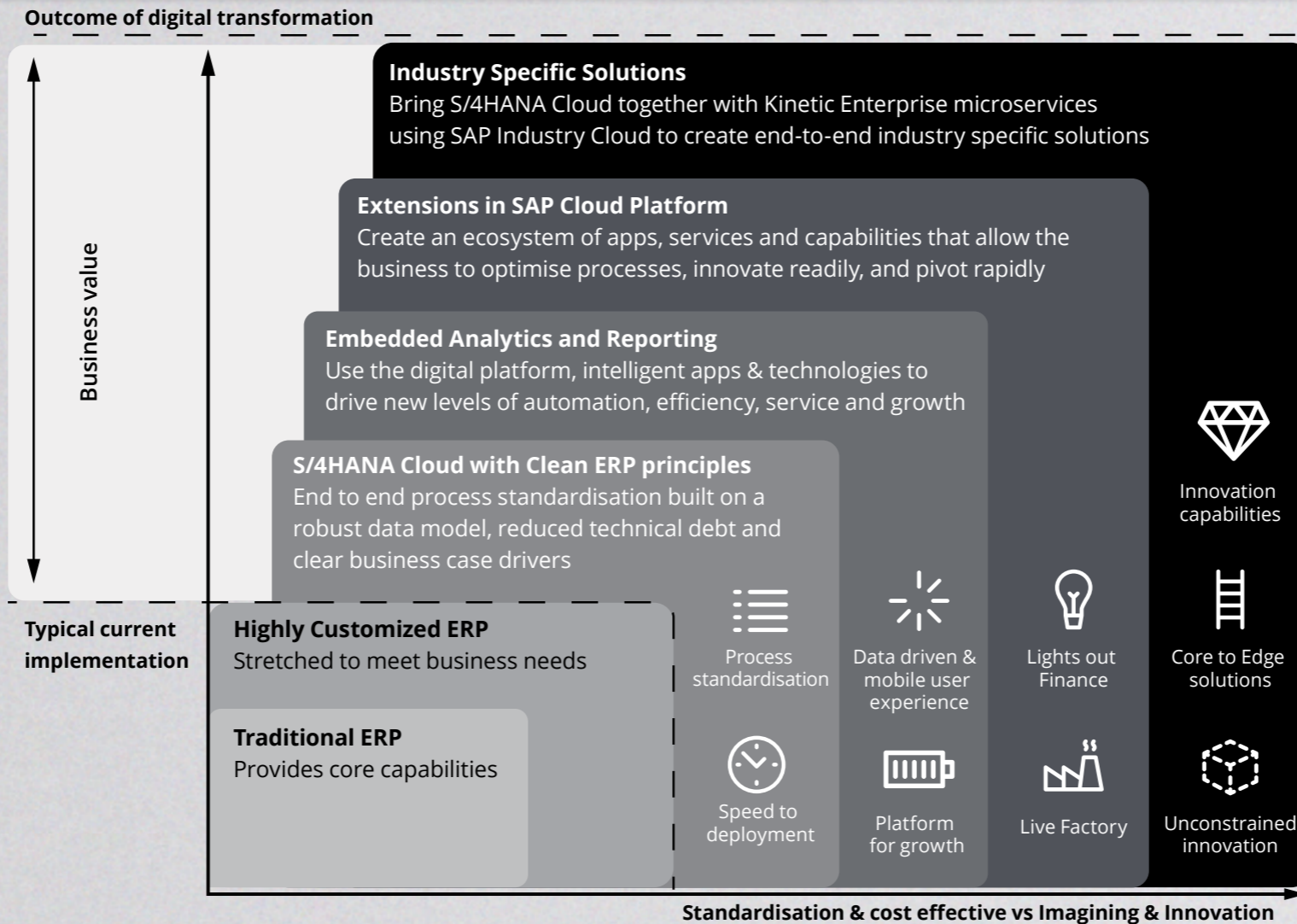| Revenue growth	Operating margin	Asset efficiency	Expectations

Putting the benefits of S/4HANA Cloud into context

Our method also helps organisations set and manage realistic expectations around business cases.

The volume of business change, data cleansing and integration effort can sometimes outweigh benefits during the time period defined in the business case – but that doesn't mean the strategic benefits of delivering a platform for growth and innovation should be ignored.

The Cloud solution is developing so rapidly, and so much innovation is being built around it, that the unquantifiable strategic benefit of S/4HANA Cloud should not be underestimated. Implemented right, it can be a platform for future business growth and scale. As organisations move from "Traditional ERP" to S/4HANA Cloud and beyond, the opportunities for digital value creation can grow exponentially.

Outcome of digital transformation

Business value

Industry Specific Solutions
Bring S/4HANA Cloud together with Kinetic Enterprise microservices using SAP Industry Cloud to create end-to-end industry specific solutions

Extensions in SAP Cloud Platform
Create an ecosystem of apps, services and capabilities that allow the business to optimise processes, innovate readily, and pivot rapidly

Embedded Analytics and Reporting
Use the digital platform, intelligent apps & technologies to drive new levels of automation, efficiency, service and growth

S/4HANA Cloud with Clean ERP principles
End to end process standardisation built on a robust data model, reduced technical debt and clear business case drivers

Typical current implementation

Highly Customized ERP
Stretched to meet business needs

Traditional ERP
Provides core capabilities

Process standardisation

Data driven & mobile user experience

Lights out Finance

Innovation capabilities

Core to Edge solutions

Speed to deployment

Platform for growth

Live Factory

Unconstrained innovation

Standardisation & cost effective vs Imagining & Innovation

Conclusion

Across industries, leading organisations are leveraging cloud technology to realise tangible benefits and sharpen their competitive edge. Deloitte strongly believes in the power of Cloud. We also understand how difficult it can be to realise real business value from Cloud investments, which makes the business case such an essential factor in eventual success.

Moving forward with the Cloud requires a vision of your "desired" state–your destination – as well as a strategy. By separating myth from reality, and charting a course for tangible, measurable value, Deloitte can help unlock the real potential of your S/4HANA Cloud implementation.

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Case study

Client challenge

The client had developed a high-level business case before signing their S/4HANA Cloud agreement with SAP, but this was rushed and based on crucial but unachievable assumptions:

> Only included cost of S/4HANA Cloud licenses and subscription payments, not all costs to deliver the project.

> Assumed aggressive revenue growth (>50% over 5 years) as the basis for modelling future benefits.

> Did not consider the time value of money or the opportunity cost of foregoing other relevant investments.

During the implementation, it became apparent that delivery timeframes had been underestimated, data challenges had been under-sized and integration effort had not been considered. The volume of business change had also not been thought through at the time, despite a Digital Discovery assessment. The ever rising complexity came to a head at the Explore phase stage gate, where the project sponsor realised that the original business case just wasn't valid anymore.

Deloitte was asked to build a brand new business case, in a single week, to allow the project to enter Realise phase and keep to the ambitious implementation timeline outlined by SAP. What followed was an intense week where a number of the traditional ways of building a business case were discarded.

Deloitte approach »

Return to 'What have early adopters showed us' ↺

Case study

Deloitte approach

Based on client site to work quickly and transparently, we used day one to walk through the Deloitte methodology and tool for building S/4HANA Cloud business cases. This tool rapidly outlined exactly which project cost components were already known, as well as those that needed further investigating. For instance, the client had documented no cost for business resource backfill – which proved to be a very material cost component – nor cost for customising integrated applications to align to the S/4HANA Cloud integration method and data model.

While the Project Manager focused on completing the view of costs, the PMO Lead worked with us to develop the benefits side of the equation. Through a series of highly-facilitated interviews of functional and technical leads over 2 days, the initial modelling of business benefit was carried out.

The use of our structured and proven method helped greatly in identifying benefit opportunities that had never been considered or quantified in previous iterations of the business case. This brought significant upside to the benefits profile.

Having senior client sponsorship and a senior PMO Lead was absolutely crucial for getting immediate access to the right business stakeholders with no delay.

Using our tool and drawing on our experience of building business cases, we were able to temper assumptions or estimates against benchmark data, and show the client exactly how S/4HANA Cloud could unlock this benefit. Day 4 was a "challenge" session to confirm that costs were not understated and benefits not overstated, and at the end of this day the business case became clear.

Results

Client challenge

Case study

Results

Even with significantly higher cost than the original business case, we showcased that the S/4HANA Cloud project would pay back its cost in 18 months and deliver a conservative net present value of £3m over 5 years. This represented 5% of total revenues at the time, so was very material.
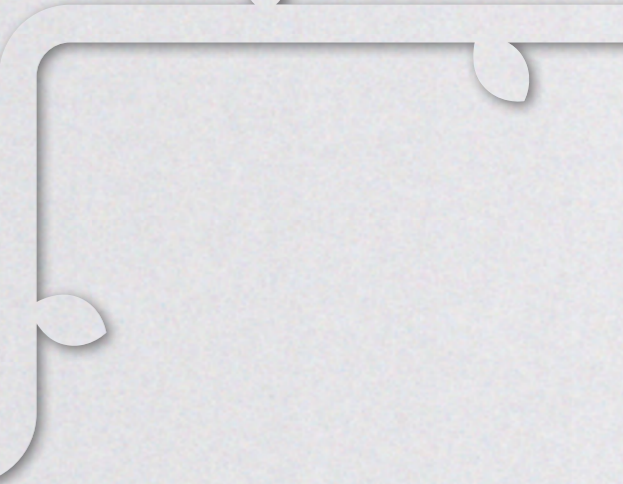
More significantly, we evidenced that S/4HANA Cloud could help the business grow at the steep rate it needed to in order to achieve the business plan. The business case showed clearly that S/4HANA Cloud could help the firm unlock revenue opportunities in the region of £100m over 5 years. In contrast the legacy platform would in fact constrain growth and increase audit risk materially.

The functional view of the business case was also interesting. While there was significant benefit to the Finance function (as expected), the value to R&D and Engineering surprised the client. Annual Net cash flows of over £1m from reduced administration effort, better visibility of projects spend and better information to base project investment decisions on was welcome.

The end result of this intense week was a business case that senior client leaders believed in, a project team that took ownership of their benefits, and a decision to progress into the Realise phase.

Deloitte approach

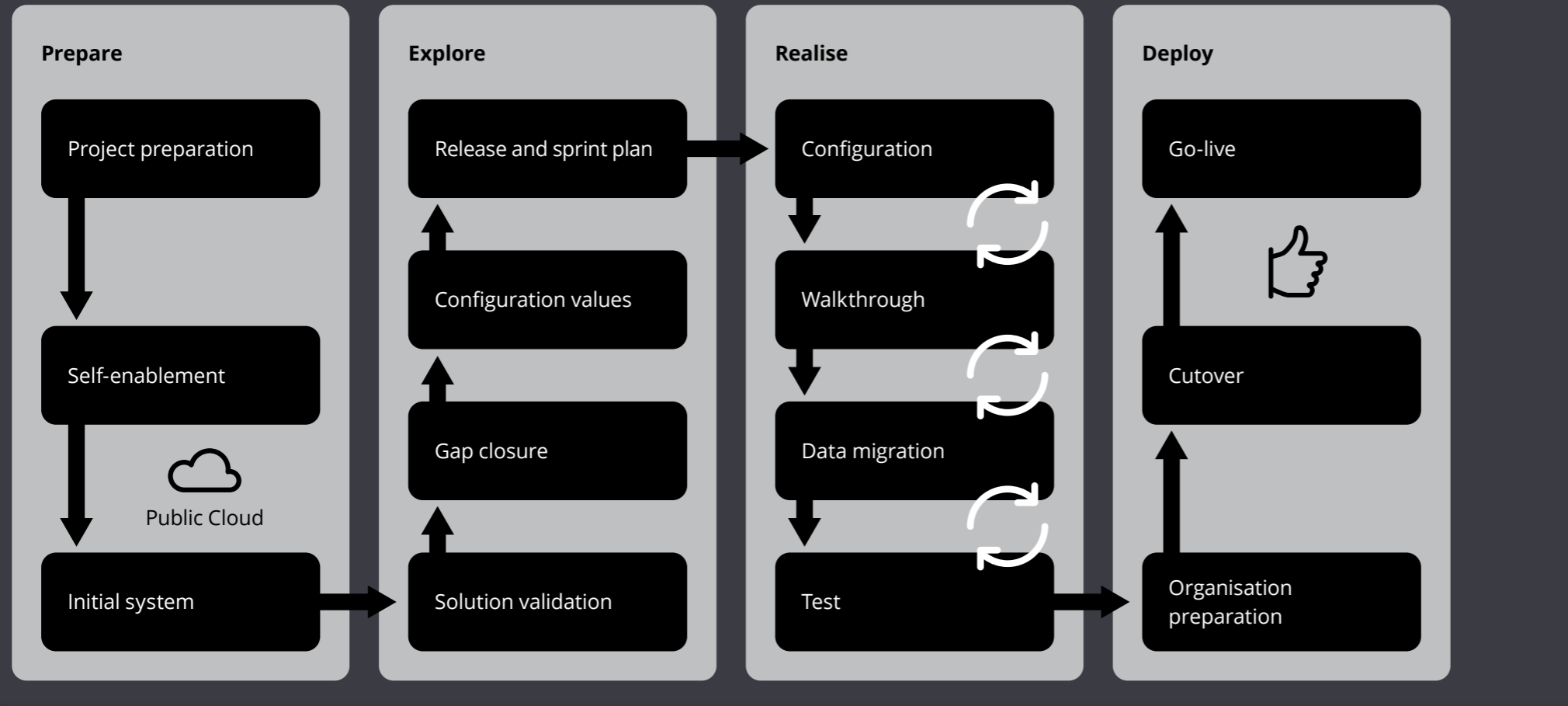**Return to 'What have early adopters showed us'**

SAP Activate Methodology

SAP Activate Methodology

Prepare

Project preparation

Self-enablement

Public Cloud

Initial system

Explore

Release and sprint plan

Configuration values

Gap closure

Solution validation

Realise

Configuration

Walkthrough

Data migration

Test

Deploy

Go-live

Cutover

Organisation preparation

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