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SAPinsider Benchmark Report

Central Finance and Improving the Financial Close

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October 2020

Research Partner





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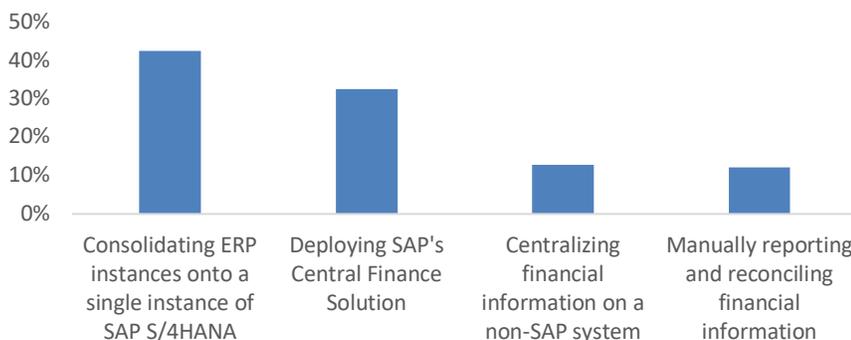
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Executive Summary

Financial close management increases in complexity as organizations increase in size along with the number and variety of ERP instances. To centralize or consolidate the financial information from multiple ERP instances, SAPinsider community members can manually report and reconcile the information, centralize information on a non-SAP system, deploy SAP S/4HANA for central finance foundation (also known as SAP's Central Finance Solution), or plan a consolidation of ERP instances onto a single instance of SAP S/4HANA. SAP does not sell Central Finance as a product, but instead presents it as an implementation option that empowers users to centralize financial data from multiple ERP systems.

In Q3 and Q4 of 2020, SAPinsider surveyed 222 members of our community to understand their needs in central finance and the financial close. We found that respondents' organizations run an average of 6 ERP instances, and only 12.5% of respondents run 100% of their financial activities on SAP systems. In the long term, 42% of respondents plan to consolidate all of their ERP instances onto a single instance of SAP S/4HANA, 33% plan to deploy SAP's Central Finance Solution, 13% plan to centralize financial information on a non-SAP system, and 12% plan to manually report and reconcile financial information (see Figure 1).

Figure 1. Long-term strategy for centralizing finance



Source: SAPinsider, October 2020



PERSPECTIVE

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We have separate instances of SAP ERP by geography with partitions by legal entity. We've developed an internal system that aggregates all this financial information and delivers it into SAP's Central Finance solution. It has worked out amazingly well. We had some hiccoughs four to five years ago, but today, things work very smoothly.

”

~ Senior Director,
American Multinational
Conglomerate

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In addition to the ERP systems and their implementation options, many of SAP's technology partners offer solutions to improve reporting and the financial close. Of those partners, Blackline has the highest market share among survey respondents, with 21% using BlackLine solutions. Only 10% of respondents use Workiva, but those 10% had the highest customer satisfaction rates, with 75% saying their financial close solutions effectively address their reporting needs, compared to 60% overall.

The survey results revealed several other trends for central finance and the financial close in the SAPinsider Community:

- No more than 3% of survey respondents are using solutions from any SAP technology partner other than BlackLine, Workiva, and Magnitude (11%).
- Respondents' organizations take 8 days on average to complete the monthly financial close period, including management adjustments.
- Only 12.5% of respondents run 100% of their financial activities on SAP systems, but 64% run at least 60% of their financial activities on SAP ERP systems.
- The most popular ERP systems in active use included SAP ECC 6.0 (55% of respondents have at least one live instance), SAP S/4HANA (37%), SAP Business Suite (13%), SAP ECC 5.0 or earlier (10%), Oracle ERP Cloud (10%), Microsoft Dynamics 365 (9%), Workday (9%), and JD Edwards EnterpriseOne (7%). All other systems had less than 5% market share among respondents.

Required Actions

Financial managers and architects must consider taking the following actions to ensure success:

- **Build a long-term strategy for consolidating financials on SAP S/4HANA or a Central Finance solution to improve the efficiency of financial close processes.** Most respondents (75%) said their organizations' long-term plans included



Many customers share the long-term vision of potentially consolidating onto a single SAP S/4HANA instance, but realistically, bringing together 6 or more ERP systems is extremely difficult. More likely, these companies will run SAP's Central Finance Solution at least in the short and medium term. Customers use Central Finance as an approach for consolidation because they cannot simply and easily decommission all of their existing ERP instances without major risk and disruption.



~ Carsten Hilker,
SAP Central Finance
Global Solution Owner,
SAP

either consolidating ERP instances onto one instance of SAP S/4HANA or deploying SAP's Central Finance Solution. Either of these strategies can help eliminate a significant amount of reconciliation work each month. Even if organizations decide to consolidate onto one instance of SAP S/4HANA in the long-term, SAP's Central Finance Solution can still help improve the efficiency of the financial close in the short to medium term.

- **Consider implementing automation solutions for financial close processes.** To make the most of automation, many organizations first must optimize and standardize the processes themselves, and 74% of respondents ranked automated and standardized closing processes and alerts as important or very important.
- **Evaluate group reporting solutions.** A majority (82%) of respondents have at least started evaluating a group reporting solution, and one respondent explained how group reporting solutions not only improve compliance but also help managers build business strategies with more data-driven decisions.
- **Look to a potential combination of SAP solutions, SAP Solution Extensions, SAP Endorsed Apps, and other integrated solutions to centralize financial data and improve the financial close.** In addition to SAP's own solutions and their functionality, SAP's technology partners provide a wide range of integrated solutions for automating financial close processes, connected reporting, transaction replication for central finance, and more. These solutions can add value and extra functionality such as intercompany balance sheet reconciliation and automation or transaction replication for central finance with subledger details.

SAP EXPERTS PERSPECTIVE



SAP originally promoted Central Finance as a temporary solution. If you weren't ready to consolidate all your ERP instances in SAP S/4HANA, you could use Central Finance to get data into SAP S/4HANA for reporting but still use the systems in parallel. I think there's value in looking at it as temporary. The long-term objective should be consolidating in SAP S/4HANA. Businesses can't even see 3 months out in our current economic climate. If there are organizational changes, use Central Finance to deal with the landscape transformation. You'll still be using systems in parallel while planning long-term consolidation in SAP S/4HANA.



~ Paul Ovigele,
Founder and CEO,
ERPfixers

Chapter One: Central Finance and Financial Close Overview

Most members of the SAPinsider Community want to either consolidate financial activities onto a single instance of SAP S/4HANA or use Central Finance to integrate and harmonize multiple financial systems and ERP instances. Additionally, they see the importance of improving group reporting and automation capabilities to stay compliant and improve the financial close.

Best Practices Model - DART™

SAPinsider grounds all of its research insights in its proprietary DART model. This research model provides practical insights that connect business **Drivers** and **Actions** to supporting **Requirements** and **Technologies**. Drivers represent internal and external pressures that shape organizational direction. Organizations take Actions to address those Drivers. They need certain people, processes, and capabilities as Requirements for those strategies to succeed. Finally, they need enabling Technologies to fulfill their Requirements.

Respondents' answers to our survey and interview questions revealed clear trends. To support the business drivers of the opportunity that SAP S/4HANA presents to consolidate financial activities and the need to integrate and harmonize multiple financial systems, respondents have started improving the efficiency of the financial close, automating financial closing processes, consolidating operations onto SAP S/4HANA, and creating a single source of financial truth. To complete these actions, respondents require group reporting, automated and standardized closing processes, real-time harmonized master data, harmonized financial reporting, self-service analytics, automated adjustments and balance sheet reconciliation, and minimized management adjustments. Respondents use or plan to use a wide range of tools to fulfill all the requirements.

These trends are summarized in **Table 1**.

Table 1: DART model framework for central finance and the financial close

| Drivers | Actions | Requirements | Technologies |
|---|--|--|---|
| <ul style="list-style-type: none"> The move to SAP S/4HANA presents an opportunity to consolidate financial activities (47%) Multiple financial systems and ERP instances require integration and harmonization (43%) | <ul style="list-style-type: none"> Improving the efficiency of the financial close (54%) Automating financial closing processes (47%) Consolidating financial operations onto a single instance of SAP S/4HANA (39%) Creating or managing a single source of financial truth (38%) | <ul style="list-style-type: none"> Group accounting and management reporting (74%) Automated and standardized closing processes and alerts (74%) Real-time harmonized and integrated master data (73%) Harmonized financial reporting in a single system (72%) Self-service reporting and analytics (65.5%) Automated adjustments and balance sheet reconciliation (64%) Minimized management adjustments (63%) | <ul style="list-style-type: none"> Group reporting solution (82%) Financial close automation solution (80%) Master data integration solution (78%) Intercompany balance sheet reconciliation and automation solution (76%) SAP's Central Finance Solution (73%) Cloud-based financial close solutions (67%) Universal Journal (67%) RPA for data extraction and posting to subledgers (65%) |

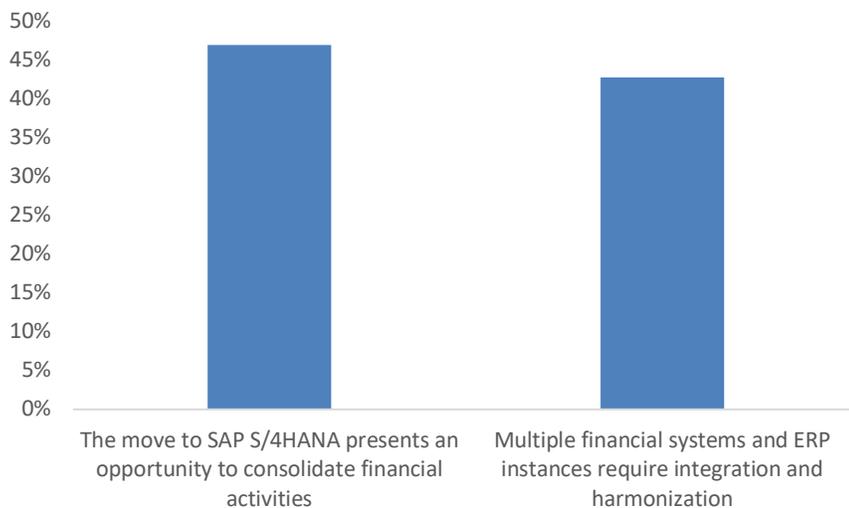
Source: SAPinsider, October 2020

See **Appendix A** for more Information on DART™.

What Drives A Customer's Approach to Central Finance and Financial Close?

Drilling into the data, we found that 47% of survey respondents see the move to SAP S/4HANA as a key opportunity to consolidate financial activities, and 43% said that multiple financial systems and ERP instances require integration and harmonization (see **Figure 2**).

Figure 2. Top drivers for central finance and the financial close



Source: SAPinsider, October 2020

In interviews, survey respondents spoke of a wide variety of ERP landscapes and architectures designed to centralize financial data from multiple types of ERP instances. The average respondent organization runs six ERP instances. Currently, 42% manually reconcile the financial information from these different instances, and 33% centralize the information on a non-SAP ERP system.

This will shift as 42% said that in the long-term, they will consolidate all ERP instances onto a single instance of SAP S/4HANA, an additional 19% said they will reduce the number of ERP instances and deploy SAP S/4HANA for Central Finance, and a further 14% said they will deploy Central Finance without reducing the number of ERP instances. Consolidating six or



PERSPECTIVE



We have an SAP landscape with a corporate instance of SAP S/4HANA for Central Finance in the United Kingdom. We have an instance of SAP ECC in North America integrated with our corporate SAP S/4HANA instance as well as industry specific billing systems in the UK integrated with SAP S/4HANA. Those systems send their financial information directly to Central Finance. We also have Workday and an in-house system for trading and billing integrated with SAP S/4HANA. We do not use a third-party solution to integrate with the non-SAP systems but have built our own connectors.



~ Internal SAP Finance Consultant,
British Multinational Energy and Services Company

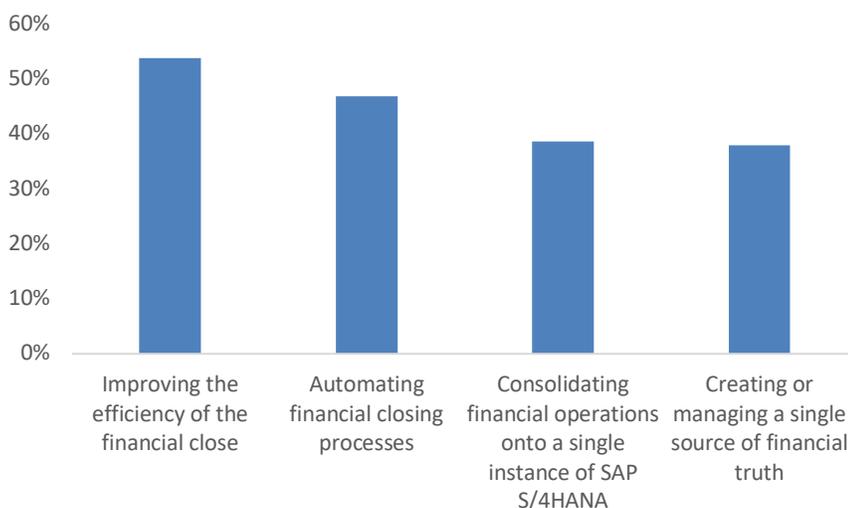
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more ERP instances represents a very complex project. Several respondents said they have or will implement Central Finance as a short or medium-term solution with the long-term goal of consolidation.

How Do SAP Customers Meet Their Business Drivers?

More than half (54%) of respondents said that they were improving the efficiency of the financial close as a key strategy (as seen in **Figure 3**). Due to the key driver of multiple financial systems and ERP instances that require integration and harmonization, many organizations struggle every month to go through their financial close processes in an efficient manner. When they try to go faster, it can result in errors they need to correct via management adjustments. Improving the efficiency means a faster and more accurate close. Done right, centralized finance should move some tasks from monthly to ongoing activities. Users can perform data quality checks on an ongoing basis and orchestrate the closing processes more swiftly and accurately at month end.

Figure 3. Top strategies prioritized to address the top drivers of change



Source: SAPinsider, October 2020



PERSPECTIVE



We believe that Central Finance can move tasks currently performed at month end to ongoing activities. Similarly, data quality checks can be performed on an ongoing basis. Longer term, we hope to also use the financial close orchestration capabilities of Central Finance.



~ **Innovation Lead – Central Finance and SAP BPC, Multinational Tobacco Company**

Additionally, 47% of respondents said they have a strategy to automate financial closing processes. Fortunately, many solutions exist to automate journal entries, intercompany balance sheet reconciliation, transaction replication, and data extraction and posting to subledgers. One respondent claimed to have almost reached “the nirvana stage,” having automated almost everything except last minute entries to revenue.

Respondents identified consolidating financial operations onto a single instance of SAP S/4HANA as the third key action (39%). This clearly supports the top driver and can align with the top strategy of improving financial close efficiency by standardizing processes on a single system.

Finally, 38% chose creating or managing a single source of financial truth. With multiple ERP instances, many organizations lack a centralized view of operational reporting. Gaining this centralized view could support transformational change in many organizations and most will either consolidate on SAP S/4HANA or deploy SAP’s Central Finance Solution as part of this strategy.

Key Takeaways

Based on our research with respect to drivers and strategies for central finance and the financial close, we recommend that organizations consider the following advice:

- **Whether via consolidation of ERP instances or Central Finance, use the move to SAP S/4HANA to integrate and harmonize financial data from multiple systems.** Creating this single source of financial truth should help improve data quality, visibility into overall financial performance, and a faster and more consistently accurate financial close.
- **Move to a ‘soft’ financial close.** This simply means performing more financial close activities on an ongoing basis rather than all at month end. Centralized finance should make this possible, and in turn, this should improve the efficiency of month-end closing processes.

- **Evaluate automation options for the financial close.** Automating the financial close may require more specialized automation solutions than most processes, but these solutions do exist. While some processes will likely remain manual for the foreseeable future, nearly half (47%) of respondents plan to automate financial closing processes as a key strategy.
- **Use the single source of financial truth as a platform for further transformation.** No matter how it is performed, creating a single source of financial truth should make it easier to standardize processes and then implement more intelligent automation, simulation solutions, financial planning and analysis (FP&A) solutions, and other transformative technologies.

Chapter Two: How Do Customers Approach Central Finance and the Financial Close?

For finance departments to improve the efficiency of their financial close and elevate the function to play a more strategic role in the enterprise, finance professionals need a single source of financial truth with a certain level of automation. This section explores how organizations prioritize the different requirements and capabilities they need for a successful central finance and financial close strategy and the tools they have used or plan to use to meet those requirements.

Top Requirements for Financial Close Strategies

Respondents selected group accounting and automated and standardized closing processes as the most important requirements, with 74% indicating each was important or very important to the success of their central finance and financial close strategies. Large enterprises must perform consolidated group reporting at least every quarter. This involves intercompany profit elimination, adjustments, and reconciliation between vertically integrated groups and geographies selling parts and inventory to each other, all of which results in time-consuming manual work. Automated and standardized closing processes and automated adjustments and balance sheet reconciliation (64%) could potentially help improve the efficiency of the group reporting process. Improved group accounting and management reporting should make it easier to fulfill regulatory requirements. When combined with self-service reporting and analytics (66%) for product, channel, or customer-related data

SAPEXPERTS PERSPECTIVE

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If you have Central Finance only bringing over summary data, you'll be missing some of the functionality in SAP S/4HANA for non-financial data.

Predictability and a soft close considers financial and non-financial data. One example might the number of sales orders that haven't yet been billed. Central Finance wouldn't normally bring that over, but you can use that to predict the financial situation in months to come with SAP S/4HANA predictive accounting. That predictability is only as strong as the data in it.

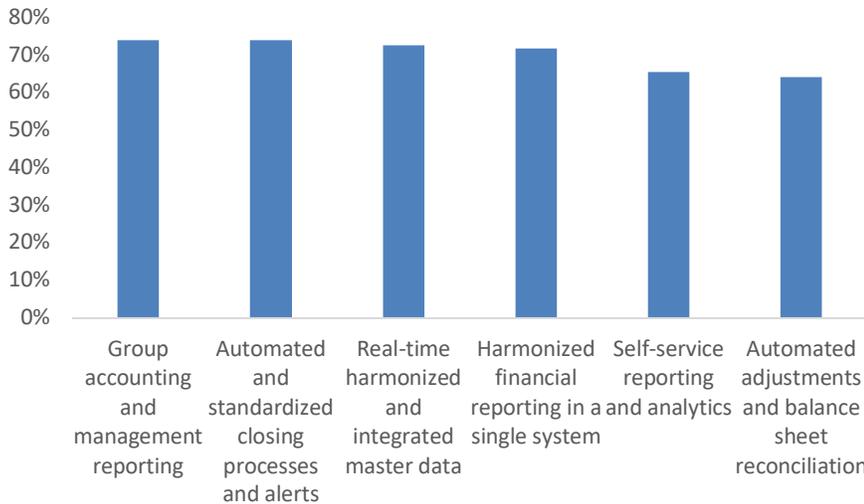
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~ Paul Ovigele,
Founder and CEO,
ERPfixers

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dimensions, it should also help provide data to drive business strategy (see **Figure 4**).

Figure 4. Top requirements for central finance and financial close strategies



Source: SAPinsider, October 2020

Other top requirements included real-time harmonized and integrated master data (73%) and harmonized financial reporting in a single system (72%). These requirements support the actions of consolidating financial operations onto SAP S/4HANA and creating or managing a single source of financial truth.

Which Tools do Respondents Use to Support Their Financial Close Strategies?

Group reporting solutions, master data integration solutions, and intercompany balance sheet reconciliation and automation solutions represent the most used technologies today, with at least 18% of respondents already using each (see



PERSPECTIVE



A key building block to our digital strategy is going to be the underlying data and having a single source of truth we can use for many different aspects of our decision-making process. We need group accounting and management reporting, real-time management information systems, and seamless integration of data to drive efficiencies and effectiveness in the reporting cycle. Currently, our architecture is quite disjointed and group accounting and reporting represents an opportunity to optimize this going forward.



~ **Finance Business Partner,**
Multinational Metals and Mining Corporation

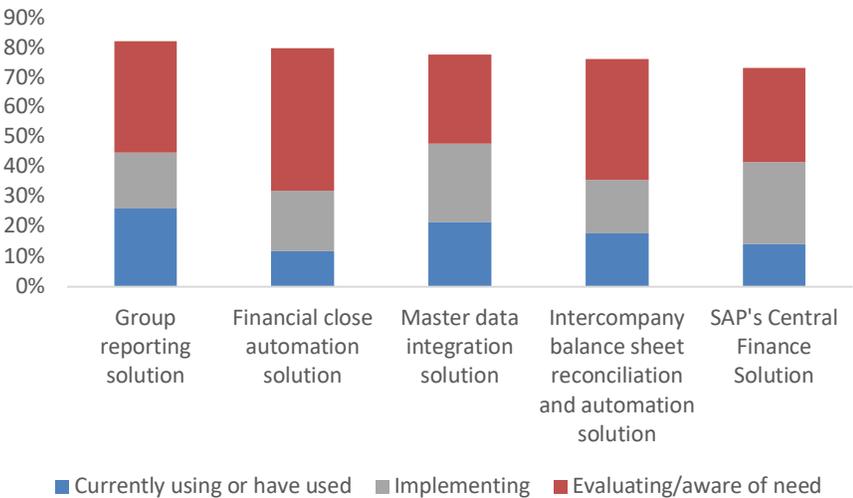
“ We’ve activated SAP Master Data Governance (MDG) for finance. It’s not just for Central Finance, but the whole suite of SAP MDG helps create and maintain master data. Before that, we used a solution from another vendor, which involved an elaborate process of creating requests in the solution, someone else approving them, and then sending them to offshore operations. If something goes wrong, you must repeat the entire process. If it goes wrong at month end, you don’t have time to correct the master data. We went with SAP MDG to eliminate many of the spreadsheets and different applications.

”
~Internal SAP Finance Consultant,
British Multinational Energy and Services Company

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Figure 5). Group reporting solutions help support the requirement for group accounting and management reporting and address both regulatory and strategic needs. Master data integration solutions empower users to centrally govern maintenance of financial data independent of different ERP systems. They can match changes in source ERP systems and post to Central Finance. This should help eliminate a significant amount of manual spreadsheet work and improve the accuracy of master data at month end. Intercompany balance sheet reconciliation and automation solutions provide automated workflows and integrated documentation to prepare each close for audit while also bypassing spreadsheets.

Figure 5. Popular technologies to support central finance and the financial close



Source: SAPinsider, October 2020

Most respondents will at least consider implementing financial close automation solutions, SAP’s Central Finance Solution, and intercompany balance sheet reconciliation and automation solutions. Financial close automation solutions include automated journal entries and closing tasks and clearly supports the action for automating financial closing processes. Although only 33% of respondents identified deploying SAP’s Central Finance Solution as their long-term strategy, 73% of respondents have at least started evaluating Central Finance with 14%

currently using it, and an additional 28% in the process of implementation. This shows that at least 42% of respondents will use Central Finance as a short to medium term solution, and some may continue to use Central Finance as a temporary fix whenever they acquire a new company or go through another type of organizational change. Intercompany balance sheet reconciliation and automation solutions not only have significant adoption already but will see significant growth in adoption.

Key Takeaways

Based on our research, we recommend community members consider the following:

- **Address group reporting and management reporting requirements with a group reporting solution.** With 74% of respondents citing the importance of group reporting and 82% saying they use or plan to use a group reporting solution, this represents the biggest requirement and technology trend among survey takers. Group reporting should help improve efficiencies in reporting.
- **Standardize financial close processes, then automate them.** Attempting to automate and maintain the automation of uniquely customized or undocumented financial close processes in different parts of the business may take more time than it saves. Standardizing financial close processes across the enterprise will make it easier to scale automation solutions, which emerged as the second most popular technology.
- **Streamline master data integration processes.** Master data integration solutions should streamline the processes for creating and maintaining master data so that master data stays accurate and harmonized.
- **Whether through a consolidated instance of SAP S/4HANA or Central Finance, maintain a unified system for harmonized financial reporting.** Even for those that plan to consolidate on one SAP S/4HANA instance in the long-term, Central Finance can help meet the requirement for

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harmonized financial reporting in a single system in the short and medium term. This explains why 73% of respondents have at least started evaluating SAP's Central Finance Solution.

Chapter Three: Required Actions

Group reporting solutions, master data integration solutions, and intercompany balance sheet reconciliation and automation solutions all have relatively significant adoption among survey takers with at least 18% of respondents already using each. Additionally, most respondents will at least evaluate other financial close automation solutions and SAP's Central Finance Solution.

Together, these tools support the requirements for group accounting and management reporting, automated and standardized closing processes, real-time harmonized and integrated master data, and harmonized financial reporting in a single system.

Survey respondents pursue strategies of improving the efficiency of the financial close, automating financial closing processes, consolidating financial operations onto a single instance of SAP S/4HANA, and creating a single source of financial truth to address the top two drivers of taking advantage of the opportunity to consolidate financial activities on SAP S/4HANA and multiple financial systems that require integration and harmonization.

Steps to Success

Our research reveals that SAP customers should apply the following key steps to execute their central finance and financial close strategies:

- **Build a long-term plan for consolidation or at least managing centralization of financial information for a single source of financial truth.** Three quarters of survey respondents have long-term plans to either consolidate onto a single instance of SAP S/4HANA or run SAP's Central Finance Solution. In the short to medium term, 73% of respondents have at least started evaluating Central Finance. Many will use Central Finance to create

their single source of financial truth as a temporary solution while they decommission ERP instances or go through organizational change with the long-term plan of consolidating on SAP S/4HANA.

- **Standardize closing processes with the goal of automating them to improve efficiency.** Survey respondents selected improving the efficiency of the financial close and automating financial close processes as the top two strategies. They ranked automated and standardized closing processes and alerts as the second most important requirement. Standardized closing processes will make it easier to scale automation to improve efficiency.
- **Combine a group reporting solution with self-service analytics to make data-driven business strategy decisions.** Group reporting solutions improve the efficiency of reporting, and self-service analytics then empower financial planning and analysis professionals to track key performance indicators (KPIs) and build more accurate forecasts to build more data-driven business strategies. This elevates their roles in the business from reporters to strategic partners.
- **Identify processes that require manual oversight or intervention and automate the rest.** Some processes, such as last-minute entries to revenue, may require manual oversight or intervention indefinitely, but companies can automate journal entries, intercompany balance sheet reconciliation for a more efficient financial close.

Participants Profile

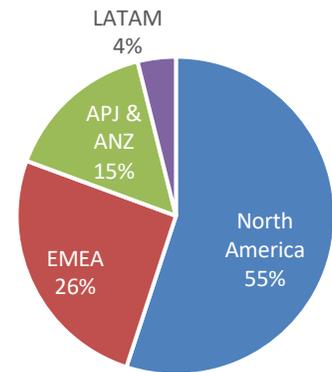
In Q3 and Q4 of 2020, SAPinsider examined the experiences of business and technology professionals related to their central finance and financial close strategies. Our survey was taken by 222 members of the SAPinsider Community and generated responses across a wide range of geographies, industries, and company sizes. Respondents completed an online survey and provided feedback in customer interviews that questioned them on topics such as:

- What are the top drivers for central finance and the financial close in your organization?
- What actions are your organization taking to address your organization's drivers?
- Which technologies and tools does your organization use or plan to use to support supply chain planning and operations?
- Which vendor's solutions does your organization use for financial close or data integration for central finance?
- Which best describes your organization's long-term strategy for consolidating, centralizing, or collecting financial information?
- How many ERP instances does your organization currently run?
- Which ERP system(s) or vendors does your organization currently use?

Demographic information on the respondents included the following:

- **Job function:** Functional areas reported by respondents include: Information Technology (59%), Finance (34%), and Other (7%).

PARTICIPANTS PROFILE



- **Sector:** The survey respondents came from every major economic sector, including: Industrial (41%), Software & Technology (27%), Financial Services & Insurance (9%), Public Sector (9%), Retail, Distribution, & CPG (5%), Media & Entertainment (5%), and Hospitality, Transportation, & Travel (5%).
- **Geography:** Of our survey respondents, 55% were from North America, 26% were from Europe, The Middle East, or Africa, 15% were from Asia-Pacific, Japan, and Australia, and 4% were from Latin America.

Appendix A: The DART™ Methodology

SAPinsider has rewritten the rules of research to provide actionable deliverables from its fact-based approach. The DART methodology serves as the very foundation on which SAPinsider educates end users to act, creates market awareness, drives demand, empowers sales forces, and validates return on investments. It's no wonder that organizations worldwide turn to SAPinsider for research with results.

The DART methodology provides practical insights, including:

- **Drivers:** These are macro-level events that are affecting an organization. They can be both external and internal and require the implementation of strategic plans, people, processes, and systems.
- **Actions:** These are strategies that companies can implement to address the effects of drivers on the business. These are the integration of people, processes, and technology. These should be business-based actions first, but they should fully leverage technology-enabled solutions to be relevant for our focus.
- **Requirements:** These are business and process-level requirements that support the strategies. These tend to be end-to-end for a business process.
- **Technology:** These are technology and systems-related requirements that enable the business requirements and support the company's overall strategies. The requirements must consider the current technology architecture and provide for the adoption of new and innovative technology-enabled capabilities.

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