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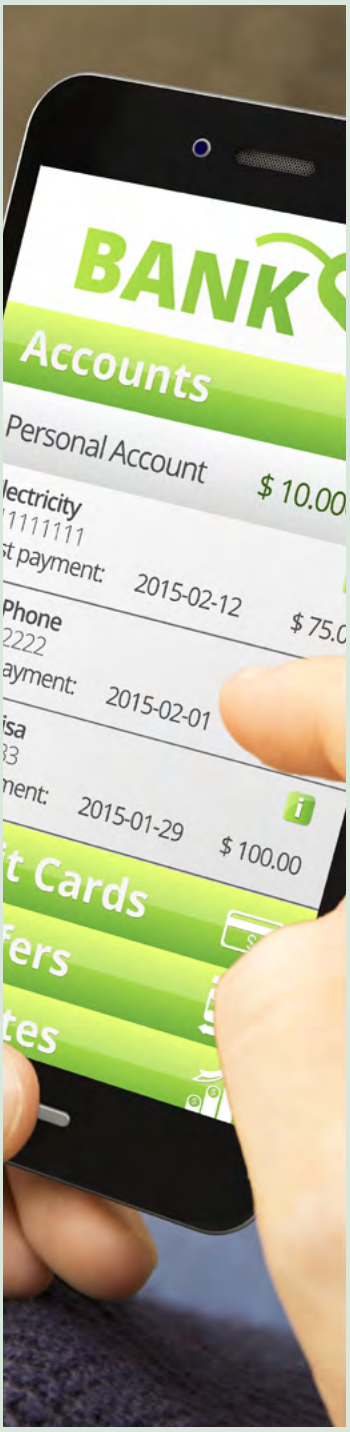

TRANSFORM TO A SHARED SERVICES MODEL FOR FINANCE WITH SAP S/4HANA CENTRAL FINANCE

Abstract

Faced with stiff competition and pressure to reduce margins, large enterprises are looking to improve efficiency and optimize finance service cost through lean and agile finance. While implementing an efficient finance shared services model with harmonized data, processes and IT systems can achieve this, minimizing business disruption is a key concern for large enterprises with heterogeneous IT landscapes spread across multiple business functions, geographies and lines of business. This paper describes how SAP S/4HANA Central Finance Foundation (CFIN) solution helps organizations transform to a shared services model for finance. It also provides insights into how companies with fragmented IT can accelerate their adoption through a phased roadmap for Central Finance implementation in order to maximize RoI and minimize business disruption.

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Introduction

The IT landscape of most large enterprises consists of complex and distributed systems, multiple SAP and non-SAP financial solutions, and disparate systems for different business functions, geographies and lines of business. This poses severe challenges in minimzing disruption when transforming finance into a lean and agile function at lower service cost.

SAP has designed a solution called the SAP S/4HANA Central Finance Foundation (CFIN) that helps organizations plan the implementation roadmap for migrating to a shared services model. The solution enhances efficiency while harmonizing and standardizing data and processes with minimal disruption, thereby reducing the overall cost of finance.

For more details on how companies can choose the right S/4HANA deployment option for finance, download the whitepaper on 'Accelerate your finance transformation by choosing the right S/4HANA finance product and deployment option'.

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Solution overview

S/4HANA Central Finance is a deployment option that does not interfere with existing SAP and non-SAP instances. Instead, financial postings like FI/CO documents in the existing instances are replicated in real-time using the System Landscape Transformation Replication Server (SLT-R) into a separate S/4HANA instance called the Central Finance instance as shown in Fig 1.

For a detailed view on the configuration of this solution, refer the Central Finance Adminstators Guide in the SAP Help portal.

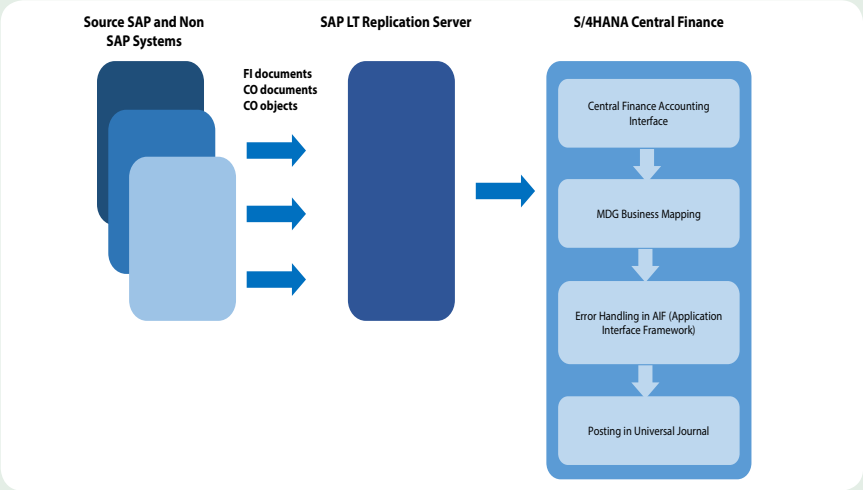

Fig 1: SAP S/4HANA Central Finance Foundation Solution Overview

Accelerate transformation with Central Finance

Initially, the business cases for the Central Finance solution were targeted at centralized financial management reporting across segment, entity and group levels in addition to quick and non-disruptive integration of mergers and acquisitions (M&As) for financial reporting. However, latest upgrades such as S/4HANA 1610 EM and S/4HANA 1709 EM have introduced new product features that support scalable execution of central processes and centralized reporting. The tables below outline an enterprise's key finance shared service functions and their support in Central Finance solution with S/4HANA 1709 EM along with key business benefits and key considerations. These tables can help large enterprises plan a clear roadmap for finance shared services transformation using the Central Finance solution.

Process Category I: Accounts Receivable

Shared service function	Key scenarios supported in CFIN with S/4HANA 1709 EM	Business benefits/KPIs	Key considerations
Central payments	• Accounting of incoming payments (direct debit, manual etc.) in CFIN system for open customer items/ invoices replicated from source systems • Bank statement upload, cash application and clearing in CFIN system for open items replicated from source systems • Integration with in-house cash in CFIN system	• Reduced cost of payments processing with centralized knowledge • Higher efficiency with centralized monitoring of bank communications and transactions • Better working capital management	• Period end closing, balance sheet and P&L reporting should be done in the CFIN system • VAT and withholding tax reporting should be done in the CFIN system while considering reporting restrictions mentioned in CFIN adminstrators guide • Down payments and down payment requests in CFIN system cannot be linked to sales orders in source systems
Central receivables processing and monitoring	• Central dunning in CFIN system for open items replicated from source systems • Central credit management in CFIN system for sales orders and open items created in source systems • Central collections and dispute management in CFIN system • Central customer reporting from CFIN system	• Reduced cost in managing receivables • Reduced days sales outstanding (DSO)	• While open items in source systems are cleared during replication to the CFIN system, the real status of open items can only be tracked in the CFIN system • Processes in source systems that depend on the clearing status of open items (reversals or cancellations of AR invoices) can create inconsistencies between source and the Central Finance systems

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Process Category II: Accounts Payable

Shared service function	Key scenarios supported in CFIN	Business benefits/KPIs	Key considerations
Central payments	• Acccounting of outgoing payments (direct debit, SEPA credit transfer, manual etc.) in CFIN system for open vendor items/invoices replicated from source systems • Bank statement upload, cash application and clearing in CFIN system for open items replicated from source systems • Centralized payments integrated with in-house cash and BCM in CFIN system	• Reduced cost of payments processing with centralized knowledge • Higher efficiency through centralized monitoring of bank communications and transactions • Better working capital management • Bundling of external payments and savings of charges on cross-border payments	• Period end closing, balance sheet and P&L reporting activities should be done in the CFIN system • VAT and withholding tax reporting should be done in the CFIN system while considering reporting restrictions mentioned in the CFIN Administrators Guide • Down payments and down payment requests in the CFIN system cannot be linked to purchase orders in source systems
Central payables reporting and monitoring	• Centralized spend analysis and payables reporting in CFIN system for open items replicated from source systems	• Reduced cost of managing payables • Reduced days payables outstanding (DPO) • Better utilization of cash discounts for improved working capital management	• While open items in source systems are cleared on replication to the CFIN system, the real status of open items can only be tracked in the CFIN system • Processes in source systems that depend on clearing status of open items (reversals or cancellations of AP invoices) can create inconsistencies between the source and the Central Finance system • Since purchase order and goods receipt information is not transferred to CFIN system, central invoicing for PO/GR in source systems is not supported in the CFIN system

Process Category III: Cash and Bank Management

Shared service function	Key scenarios supported in CFIN	Business benefits/KPIs	Key considerations
Central cash management	After replicating documents from various source systems, the following processes are supported: • Daily cash position analysis and reporting • Cash flow reporting • Cash planning • Liquidity planning and forecasting	• Reduced cost for treasury functions • Better working capital management at lower cost	Since information like purchase order, sales order, etc., is not replicated to the CFIN system, all cash management functions are based only on AR and AP financial accounting (FICO) documents
Central bank account management	• Centralized maintenance of bank keys and house banks with hierarchies in CFIN instance • Centralized cash pooling and concentration in CFIN instance • Integration with SAP in-house cash module to support intercompany netting while using a shared services center to support standardized in-house bank processes	• Reduced number of external bank accounts resulting in lower bank account maintenance and transaction costs • Release of clustered cash from subsidiaries for better fund management by HQ • Better interest rates on treasury deals with banks due to high volumes	• For payments to be done locally from source systems, the house bank and bank keys need to be maintained in source systems • Requires cash management on HANA and SAP in-house cash licenses in the Central Finance system

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Process Category iV: Management and Statutory Reporting

Shared service function	Key scenarios supported in CFIN	Business benefits/KPIs	Key considerations
Management reporting	• Centralized, unified, real-time, and granular balance sheet and P&L reporting • Advanced segment, entity and group reporting • Real-time revenue, profitability and margins reporting with account-based COPA in the universal journal • Central projects (WBS) reporting • Central profit center reporting • Central reporting on commitments from procurement	• Reduced spend on strategic management • Reduced data footprint for management reporting in BI-based systems • Improved profitability and margins with real-time analysis • Reduction in business and operations analysis reporting costs	• Most of the reports are available out-of-the-box in the S/4HANA-based CFIN instance with smart business analytical and Fiori-based apps • Documents posted with costing-based COPA in source systems can be replicated to account-based COPA in the universal journal in CFIN instance • Project settlement, planning, budgeting, etc., can only take place in source systems, not in CFIN • Commitment reporting is only supported for procurement in CFIN
Statutory reporting	• VAT and other tax relevant reporting • Country-specific legal reporting leveraging S/4HANA Advanced Compliance Reporting (ACR) solution in CFIN	• Improved legal compliance and auditability • Reduced risk of fines and penalties • Reduced cost and effort for statutory report generation and submission	• Activating the central payments functionality in CFIN makes it mandatory to execute tax reporting from the CFIN instance • Refer to SAP Note 2509047 for restrictions on centralized tax reporting from CFIN instance • Tax reporting for the period of the initial load in the CFIN system can be done only from the source systems

Process Category V: Period End Closing

Shared service function	Key scenarios supported in CFIN	Business benefits/KPIs	Key considerations
Intercompany reconciliation	• Real-time intercompany GL, AP and AR reconciliation leveraging the Fiori dashboard-based ICR tool in CFIN system	• Lesser effort and resources required to perform reconciliation during period end • Better settlement of disputes over mismatch	• The three-step reconciliation process with ICR tool in ECC has been reduced to a one-step process in S/4HANA with transaction FBICR3
Close execution and monitoring	• Real-time monitoring from CFIN instance of closing tasks in multiple source systems and CFIN system, which is possible with financial closing cockpit functionality embedded in S/4HANA EM 1709 and relevant Fiori apps • Most of the Finance (FI)closing processes like foreign currency revaluation, period open/close, accruals posting, etc., that do not depend on logistics objects can be executed from the CFIN system	• Faster entity and group closing with real-time insights into closing status • Centralized monitoring by HQ of closing of all entities/subsidiaries • Improved governance and compliance	• Separate license required for S/4HANA financial closing cockpit in the CFIN instance • Controlling (CO) based closing processes like production order settlement, variance calculation, WIP calculation, activity price calculation, etc., that depend on logistics objects/processes can only be executed in the source systems • Costing-based COPA processes like COPA assessment, COPA settlement, etc., must be performed in the source systems due to their dependency on logistics objects • As central asset accounting is not supported in CFIN, all fixed asset-related closing processes (depreciation) must be performed only in the source systems

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Implementation roadmap

One of the key challenges in adopting Central Finance for finance shared service transformation is maximizing RoI while ensuring minimal business disruption. Addressing this requires a carefully-planned roadmap that can be rolled out in stages for various Central Finance functionalities. When defining such a roadmap, companies must consider factors such as existing finance challenges, business and IT priorities, and the SAP product roadmap for Central Finance comprising planned innovations and future growth.

Based on our extensive experience in implementing the SAP product roadmap for large enterprises with heterogeneous landscapes, Infosys has devised a phased adoption approach for Central Finance with a short-term, medium-term and long-term views as shown in Fig 2.

Fig 2: Infosys approach for Central Finance adoption

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Conclusion

SAP S/4HANA Central Finance Foundation solution enables large enterprises with distributed heterogeneous landscapes to accelerate their finance shared services set-up with minimal business disruption. Since central execution of all finance processes is not supported in the CFIN solution in S/4HANA 1709 EM, it is important for enterprises to create a phased adoption roadmap that aligns with the SAP product roadmap for CFIN as well as business and IT priorities. Using the Central Finance solution for finance shared services transformation improves efficiency, reduces cost of finance services and enables automation of transactional and scalable judgment-based activities by leveraging new technologies like AI and machine learning.

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About the Author

Kedar Muzumdar
Principal Consultant, SAP Practice, Infosys

Kedar Muzumdar is a finance expert with more than 16 years of consulting experience. He currently leads the S/4HANA Finance function in the Infosys Transformation CoE and is responsible for European region. His key responsibilities include providing consultations to digitize the core business operations of enterprises through S/4HANA Finance, build internal capabilities, and develop new Infosys tools and differentiators. Consequently, he works closely with clients to identify and quantify value drivers while creating business cases and project roadmaps with S/4HANA. Kedar is also a certified consultant for SAP S/4HANA Finance and has authored many whitepapers in external forums including SAP Insider and SAP Financials Expert from Wellesley Publications.

For more information, contact askus@infosys.com

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