WHITEPAPER

ERP Migration Strategies

Migrating Your Payments and Bank Connectivity to SAP S/4HANA

A CLOSER LOOK AT PAYMENTS PROCESSES IN THE CONTEXT OF MIGRATION

During an ERP migration, organizations can see how complex the technology supporting their business processes really is. Often, they will discover workarounds that were put in place by individuals whose names they do not even recognize. Institutional knowledge that was critical to the establishing process may be lost. It can feel like being in a perpetual state of scope discovery; with the ERP project team constantly uncover new technical topics to be considered in the migration.

The more critical the business process, the more this holds true. This is because they are typically the ones that have financial implications. These processes need to be executed in accordance with stringent standards and security protocols that are dictated by the powers that regulate them. By nature, these are very specific and, from an ERP business process and technology prospective, usually require highly specialized knowledge to support them. Terms like "specialized" and "specific" are essentially synonyms for "scarce" when used in the context of describing IT project resource and knowledge requirements. This, in turn, makes these processes difficult to address during any ERP migration.

Additionally, critical process cannot be paused and restarted once they have been fully built and tested in S/4HANA. They require full process continuity during the entirety of the project, or the organization risks serious business consequences. Electronic payments and bank statement collection processes are good examples.

A disruption in the payment process means a break in the crucial exchange of funds for goods and services. This can affect the company's suppliers, employees, contractors and even its customers!

Critical business processes can be brought to a halt. Likewise, a disruption in the bank statement collection process could mean delays in reconciling and recording banking transactions, meaning an incomplete or inaccurate record of the company's financial activities. Critical processes, therefore, need the right "specialized" resources to address these topics during migration, or even better before migration has even started.

Getting the bank connectivity up-and-running and developing the bank formats needed to transact in the countries where one does business can take years. Expanding companies must also add new banks and banking formats on a regular basis. Because it takes so long to get the processes to work as envisioned, most companies avoid changes in major banking relationships or to reopen the project for any reason. However, now that the time has come to migrate to S/4HANA, it is imperative that these processes migrate as well.

THE STAKES ARE HIGH FOR EVERY STAKEHOLDER

To decide on the right strategy to migrate these activities to S/4HANA, a good project manager should define the expectations and requirements of all the stakeholders in the project.

Treasurer · Chief Financial Officer · Accounting Controller · IT Project Manager · Compliance Officer

THE TREASURER

Oversight · Control · Standardization

The Treasurer is the gatekeeper of the company's most important asset – its cash. Therefore, a Treasurer's role is highly focused on establishing processes to execute the company's financial transactions with as little risk as possible. However, with thousands of transactions moving across an organization each day this is easier said than done. It would be impossible for the treasury team to personally scrutinize every detail of every transaction that enters their world.

So, what do Treasurers do instead? They utilize a combination of technology, standardization of processes, and financial controls to govern these processes for them. By doing so, a Treasurer removes the process variability and human error aspects that can make proper oversight of a vast financial process nearly impossible. Instead, the Treasurer simply needs to ensure that the system is working as designed to gain confidence that the underlying processes are under control. Any disruption to this system represents inefficiency and risk to a Treasurer, and few activities introduce disruption to this process as much as an ERP migration. Therefore, for the Treasurer it is not only crucial to establish these same systems in S/4HANA but also to identify a strategy to minimize the disruption to these systems during the migration.

THE CHIEF FINANCIAL OFFICER

Efficiency · Accurate Reports

If managed well, the ERP migration activities will be hardly visible to the C-level. However, careful execution of the migration plan is important as the CFO will be expecting a noticeable improvement in process efficiency, risk management, and reporting as a result of the technology investment. In addition, during the migration the CFO will also expect to receive the same level of organizational reporting that they rely on to oversee the finance functions at a high level. This includes the detailed cash flow forecasts that Treasury produces. Treasury, in turn, relies on the automated prior and intra-day statement collection processes in place with the banks to produce these reports.

Any break in this connectivity could force Treasury to resort to pulling balance and transaction activity manually, meaning a longer than normal turnaround time for producing these reports for the CFO and less accuracy. When the CFO asks why the reporting is delayed, the Treasurer will cite the breaks in normal process due to the ERP migration. The CFO will then pick up the phone and ask the CIO why a software application upgrade is causing issues for the organization in maintaining oversight of its cash flow. On the other hand, if the project team is overwhelmed with trying to maintain process continuity for bank connectivity during the migration, they risk not being able to give enough attention to the overall ERP implementation. As a result, the configurations and processes may not be fully contemplated to a degree that facilitates the organizational improvements that the CFO is looking for. Both scenarios are something that all involved will want to avoid, so careful orchestration of these aspects during the migration is crucial.

THE ACCOUNTING CONTROLLER

Information · Uninterrupted Flow of Data

The accounting team is the counterpoint to Treasury in terms of ensuring financial control at the conclusion of the transaction. Treasurers are keeping financial transactions under control at execution, while the Accounting Controller must keep an overview of all the company's financial dealings. The accounting team must design their processes around the choices of other departments to extract the information they need to maintain accurate accounting. Therefore, any change to the payment and bank statement collection processes has a ripple effect in terms of how accounting receives the information that they need. Accordingly, it is crucial that accounting has a transition plan that allows for the uninterrupted flow of this data en-route to a full migration of these processes.

THE IT PROJECT MANAGER

Smooth Rollout · Functionality

The IT project manager is one of the busiest individuals in the organization during an ERP migration. There are constant meetings to orchestrate department migration activities, ERP technical functionality, and to brief the key executive stakeholders on the projects progress. Throughout the project, the effectiveness of the project manager is assessed based on both the quality of the software functionality being delivered and the adherence to the project timeline. In this light, it is easy to see why there is nothing the IT project managers fears more than unplanned items coming up during the migration.

For many organizations, this is exactly where the bank connectivity and file testing activities end up falling. Even for those who have contemplated these activities during the migration, they often become more complex and time consuming than initially considered due to new connectivity or file format protocols that need to be addressed, or unexpected bank delays. These complexities put key project deadlines at risk. In most organizations, cutover dates and plans for the segment of the business being migrated pertain to all departments that support that line of the business collectively.

For these reasons, project delays of the "readiness" of one department are something the IT project manager cannot accommodate as they impact the ability to migrate all departments. As a result, the IT project manager will be looking to avoid these migration surprises and stay as closely aligned with the project migration and rollout plan as possible.

THE COMPLIANCE OFFICER

Risk Management · Fraud Prevention

The Compliance Officer is not commonly considered during an ERP migration. However, if the process continuity plans necessitate workarounds that yield excess risk for the organization, the Compliance Officer comes into the forefront of the conversation. Commonly ERP migrations necessitate disruptions in bank connectivity that force an organization to temporarily abandon standardized straight-through-processing and resort to manual workarounds to keep pace with the day-to-day.

However, with these breaks in process comes increased risk and the opportunity for fraud to affect the organization. An organization's supply chain processes typically require that partners be fully vetted before they can be put into the purchasing and AP systems. As a result, the Compliance Officer can be confident that payments generated from the ERP are directed to fully compliant partners.

In addition, the Compliance Officer knows that the Treasury's straight-through-processing is assuring that there is no opportunity to manipulate the payment files from the time they leave the ERP to the time they reach the bank. Once this process is disrupted, there are multiple points of entry where normal compliance processes begin to break down or fraud can be introduced. As a result, the Compliance Officer needs to be very mindful of how business continuity plans are impacting these established compliance check points during the migration.

PITFALLS OF TYPICAL MIGRATION PLANS

Typical migration plans consist of major challenges that endanger maintaining the promised process continuity and meeting the roll-out deadline:

- response times for banks to assign implementation teams for testing can vary by several weeks
- capabilities for banks to test electronic statement transmissions can be inconsistent from bank-to-bank, which can result in a lack of comfort in whether downstream processes in the ERP have been adequately tested
- long list of security items to address such as connectivity protocols, encryption, and authentication methods
- inconsistent payment testing procedures from bank to bank, making the processes difficult to manage and ensure adequate testing of all payment scenarios
- unpredictable testing durations between banks that can vary by several weeks
- identification of outdated payment formats that used in the old ERP system and development of new formats that meet the latest ISO 20022 standards
- lack of internal knowledge in creating XML based payment formats and need to utilize external consultants for development
- different banks, in different regions, utilized by different legal entities are all progressing towards completion at drastically different paces

Orchestrating anything approaching a controlled, legal entity phased rollout might be looking nearly impossible. The amount of effort being put into the bank connectivity project alone is putting the entire migration project at jeopardy to miss key milestones.

What was supposed to be a controlled rollout might look more like an elegant crash-landing; the pieces need to be picked up over the following months.

A SMARTER WAY OF MIGRATION

The preceding section may have given heart palpitations to anyone who has been through this type of ERP migration before. However, it is important to point out the pitfalls of this type of approach to gain a full appreciation of the alternatives available. The path to success in ERP migration lies in decoupling the bank connectivity piece from the migration entirely.

What exactly do we mean by "decouple"? The bank connectivity piece can be managed in such a way that, once it has been fully established, it becomes IT application agnostic.

Therefore, regardless of how the ERP system landscape evolves over time the bank connectivity piece will never enter the scope of the project. It will, however, become highly flexible in its ability to support underlying business processes – before, during, and after the migration.

This may sound utopian, but it is because specialized providers are focusing on helping businesses manage these complex processes with intelligent solutions. Furthermore, it is becoming a best-practice and welcome alternative to an otherwise unpleasant "can of worms" ERP migration strategy.

By partnering with specialized connectivity providers, organizations now have the option to essentially "hand-off" the management of nearly all components of their bank connectivity. This includes everything from hosting the connections, transmitting the payment and statement files, and even providing the bank/country specific payment file formats. On a macro level, many organizations find the benefits to be enormous in simply taking a complex process off the plates of their internal organizational resources. From an ERP migration standpoint, this is a game changer.

After implementing a specialized connectivity strategy, the ERP system no longer plays a critical role in supporting the bank connectivity or any bank specific file protocols. Therefore, decommissioning a legacy ERP system has no impact on bank connectivity. Likewise, migrating to a new ERP system does not require the establishment or testing of anything banking related. The specialized connectivity platform is fully siloed and decoupled from internal IT applications. The only piece there is to contemplate is how the ERP landscape is integrating with this connectivity platform to access the bank connections. However, technology providers are making this integration increasingly easy to accomplish through APIs.

In fact, the integration aspect is becoming so easy to accomplish that it can be considered an asset to the migration. Since the bank connectivity piece is already separately established, all that is left to specify are which entities are utilizing which ERP during the migration. From here, the connectivity platform to expect payment files are simply directed and statement files sent to the corresponding ERP. As the organization progresses through the migration, the ERP integration connectors are continuously adjusted to reflect the entities that have been migrated to the new ERP and those that remain on the legacy ERP. As a result, organizations can utilize this strategy to achieve the controlled entity or region level rollouts they had envisioned during the project planning phase. At the migration conclusion, the legacy ERP system connector is removed, and the project is complete without ever needing to establish or test bank connectivity.

By employing this strategy, organizations are also able to realize true business process continuity during the ERP migration. Since the ERP integration with the connectivity platform is the only variable to manager, the overall payment and statement collection processes remain consistent regardless of the ERP system in use. The only variable is which ERP is in play for delivering payment files or receiving statements files depending on the position in the rollout schedule.

As can be seen, much is at stake when these critical processes are disrupted. The effects can ripple far beyond Treasury. This level of process continuity is crucial in satisfying the concerns of all impacted parties during the migration.

DIFFERENT USE CASES, SAME OUTCOME

Although this article focuses heavily on the migration of bank connectivity, this strategy works just as well for organizations looking to establish bank connectivity for the first time alongside their S/4HANA migration. Many organizations are evaluating their finance processes holistically as they look to leverage the capabilities of S/4HANA and it is common to see full finance transformation initiatives being undertaken as part of the migration. In these cases, the principles still hold true for leveraging a specialized connectivity provider to establish a siloed and decoupled solution to facilitate success in these situations. With finance transformation initiatives, there is a large process component that requires a great deal of thought and attention for organizations to implement correctly. As a result, removing the connectivity piece from the project scope allows organizations to remain focused on the finance process transformation rather than getting overwhelmed with extensive work involved with establishing bank connectivity and building bank specific payment formats.

FINAL REMARKS

At the very top level, utilizing a strategy like the one discussed accomplishes one very important thing for the ERP migration team – it allows them to stay focused on the S/4HANA migration itself without getting sidetracked on what would normally be an entirely separate and very complex project. IT resources are strained across all organizations, and it is easy for an ERP migration project to fall off track if the project scope meanders into territory that was not originally contemplated.

A migration to S/4HANA does not need to involve an ever-growing project scope list alongside a painful attempt at synchronization of activities to reach something resembling a controlled rollout. Solutions exist through technology providers that can simplify this scope for organizations considerably. These are providers who specialize in their fields and have developed solution specifically tailored around real industry problems. As the technology market continues to progress in this way to better serve the business end users, it only makes sense to leverage this specialized knowledge instead of trying to do things in-house with resources not equipped to tackle the tasks at hand. The overall impact on the migration timeline, budget, and morale of the project team will be easily distinguishable.

ABOUT TIS

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