ISG Momentum®

Chemical Companies

Avoid the Pitfalls in S4/HANA Implementation with OCM

Strategic Perspectives



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About Strategic Perspectives

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The research and analysis presented in this report includes research from the ISG Momentum Reports™ program, ongoing ISG Research programs, interviews with ISG advisors, briefings with services providers and analysis of publicly available market information from multiple sources.

We continue to focus on investigating digital influences and our industry-focused advisors provide insights on how newer technologies, business strategies and sourcing models are being accepted and pursued in different markets. We provide strategic thinking and actionable advice on topical issues, to achieve IT-enabled performance breakthroughs.

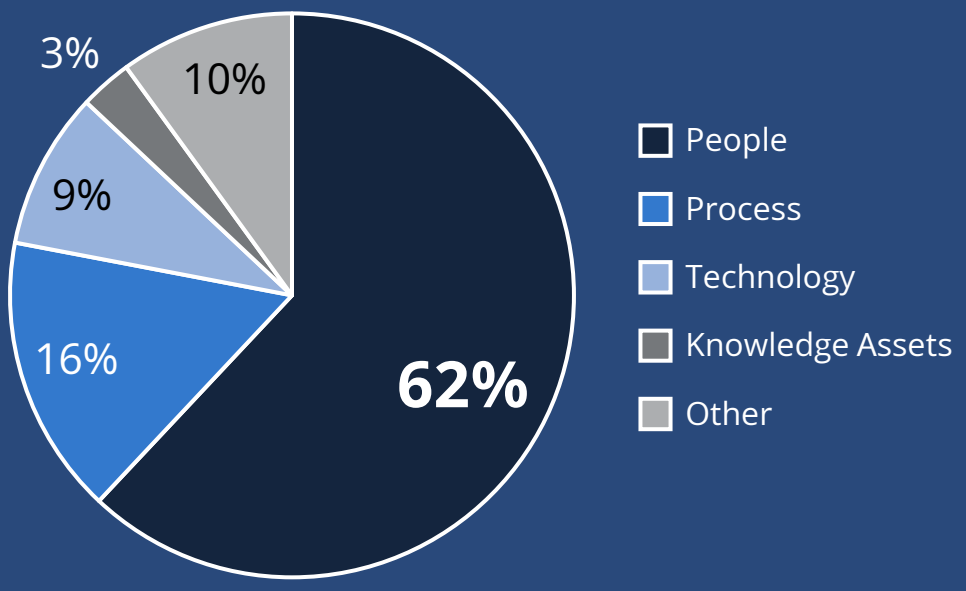
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Why OCM is needed with S/4HANA

There are no small and easy ERP projects. Implementations, additions and upgrades are all complex, and converting from SAP ECC 6 to S/4HANA holds special challenges because it frequently involves introducing new ways of working. While experience has taught us that S/4HANA can be highly beneficial, it has also taught us that people resist it. Meanwhile, data shows us that 70 percent of change initiatives that require an organization to change the way they work fail to achieve their ROI. In our experience, most of these problems are preventable. For those reasons, if you want to have S/4HANA functioning on all cylinders, you must have an organizational change management (OCM) program to accompany it.

This ISG thought paper explains how OCM programs can help chemical companies avoid or mitigate some of the most common challenges they face when converting to SAP S/4HANA, and why organizational change management increases the return on investment in S/4HANA by reducing the time-to-value.

S/4HANA has capabilities that were not available in any previous SAP offering, but there is no guarantee that enterprises will get better results from S/4HANA than they did with ECC or any other version. S/4HANA has a new database structure and natively supports intelligent technologies like analytics, artificial intelligence (AI) and the Internet of Things (IoT). With these capabilities, S/4HANA enables and requires process changes. If enterprise users are not prepared to change how they work, they will gain limited value, if any, and much may be lost. For example, one chemical producer came to ISG for help after a $40 million order backlog developed because users were not fully adopting the new S/4HANA system. They had reverted to their previous processes where possible, which caused slowdowns throughout the enterprise and supply chain. Results like this are not uncommon – in their causes or their consequences.



Source: ISG

Figure 1 – Issues Organizations Face during a New Technology Implementation

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Why OCM is needed with S/4HANA (continued)

People-related issues – such as resistance to change, lack of adoption or insufficient training – are the leading reasons why S/4HANA implementations do not produce the expected value. In ISG's experience from hundreds of SAP and OCM engagements and our review of relevant research, 70 percent of all change initiatives (not just SAP) that require an organization to change the way it works fail to achieve their return on investment (ROI). More than 60 percent of change failures are because of people issues (see Figure 1). It is much easier to get S/4HANA to do what it is supposed to than it is to get people to use it, and to use it properly. Organizational change management addresses the leading obstacles to S/4HANA adoption and productivity and can swing the odds of project success in your favor.

> The way you plan and execute the SAP S/4HANA program will substantially influence your ability to adopt next-generation business processes and use the new capabilities of the SAP product.
>
> – SAP, Mapping Your Journey to SAP S/4HANA.

It is common for enterprises to address employee concerns about change by offering to compromise, which takes the form of customizing the SAP implementation to accommodate longstanding work processes and preferences. ISG strongly advises against customizing S/4HANA or other SAP implementations, for reasons that will be detailed later.

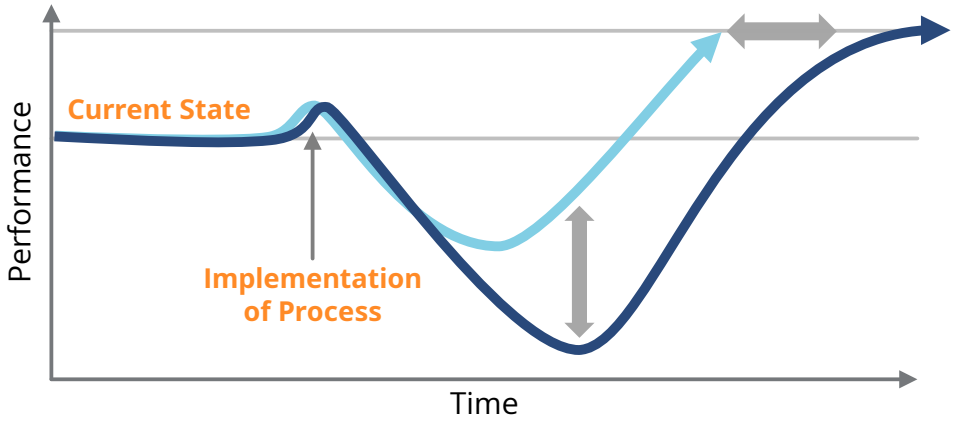


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Considerations for Chemical Companies

OCM is especially important for S/4HANA projects because of their huge costs and consequences. The overall ROI for S/4HANA depends heavily on how quickly and how widely the new capabilities, features (e.g., real-time analytics and related financial reporting) and functionalities are adopted. SAP's heritage began in the chemicals industry, and it has developed S/4HANA features and best practices specifically for chemical companies. There is great value in taking advantages of these developments – and in avoiding customizing S/4HANA to align to current processes. For chemical companies, S/4HANA will work well if people will be flexible enough to adapt. However, many users don't believe in the need to change or see how the new S/4HANA capabilities will directly benefit them, which leads to resistance, low utilization and workarounds. Effective OCM is proven to reduce the time-to-value for major technology implementations, including for S/4HANA.

Following the implementation of any new system or process, there is an immediate drop in performance based on resistance and inertia. You can minimize the **duration** and **depth** of that performance drop by anticipating the change, planning for it and **proactively managing** it.



Lack of OCM results in:

- Lowered morale
- Help desk calls
- System workarounds
- High transaction errors
- Lack of collaboration
- Operational silos

Source: ISG

Figure 2 – Optimize Time-to-Value by Making OCM a Key Part of Transformational Strategy

Not an Update, it's much more than Software Changes

Many chemical companies have years of experience running SAP and have successfully installed version updates. However, that experience is not necessarily relevant for S/4HANA implementations because of significant differences from previous versions. S/4HANA should not be looked at as a version upgrade. It introduces new ways of working, and it frequently involves IT architecture changes and the introduction of new technologies, including robotic process automation (RPA). SAP designed S/4HANA to allow more self-service, but that requires new training.

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Considerations for Chemical Companies (continued)

The following two quotes add some perspective on why implementing S/4HANA shouldn't be treated like a typical upgrade. The first comes from SAP itself, in its 85-page strategy guide for S/4HANA adoption; the second comes from a CIO.com article.

> "SAP S/4HANA provides companies with breakthrough technology and brings a new software architecture that exploits this technology to the utmost degree. However, this is of little benefit if a company uses a 2020 system to run its business processes in the same fashion as the 1990s[1]."

> "Migration' vastly underestimates the level and scope of transformation involved in adopting SAP S/4HANA. This is not a straightforward movement of your existing data and processes from one location to another. It's more like relocating from the house you've lived in for the past 20 years to a more modern city apartment. In the transition, you'll certainly need to rationalize some of your belongings, streamline your daily tasks to suit your new environment, and maybe even decide to move some of your assets to 'public storage[2]."

These observations both speak to an important takeaway for an S/4HANA implementation: Your software is not the only thing that is going to change. What will change are the architecture, processes, the IT team and business users – these will all be affected to some degree.



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Considerations for Chemical Companies (continued)

Configuration vs. Customization

Because even the most straightforward S/4HANA implementation involves significant change, ISG strongly advises enterprises to avoid the temptation of customizing the software. Customization limits the value of the overall investment by depriving enterprises of some of the functionalities and best practices that have been developed, while increasing system complexity and making maintenance harder over time.

One caveat: "customization" should not be confused with "configuration". S/4HANA is configurable and enterprises are advised to take advantage of that flexibility to configure S/4HANA to suit their specific requirements.

We've seen examples where chemical companies went into an S/4HANA project thinking they would need to customize most if not all of the environment because they had customized ECC. Once these companies learned more about S/4HANA's native capabilities, they decided customization wasn't needed. SAP has developed S/4HANA best practices and features specifically for chemical companies. For example, it has embedded sample management processes that produce required safety and quality documentation. SAP has also released a road map[3] for S/4HANA for chemical companies that calls for developing a recipe development process that accounts for real-time ingredient pricing and compliance considerations, a new dangerous goods management process, and more.

SAP offers best practices packages for S/4HANA that have proven their value for some organizations. ISG has seen excellent results at chemical companies we've worked with. However, because SAP best practices may replace SAP customizations that enterprises have already developed, the new way of working might lead to resistance.

If you save on training, what will it cost?

Enterprises typically allocate 5 percent of the budget for a major technology upgrade or implementation to user training and other OCM-related activity, even though 15 percent is the generally recommended level. Investing at the recommended level is money well spent. One SAP-sponsored study found customers that ranked in the top quartile for the business benefits they received from S/4HANA had provided 50 percent more training hours than customers ranked in the bottom quartile.

Did the additional training matter? Evidence suggests it did. The top companies averaged 136 percent greater performance improvement than the bottom quartile and generated 20 percent fewer monthly support calls.

Research into ISG's client base found that enterprises that used our advisory and OCM services averaged 30 percent savings on their S/4HANA implementations and operations. Think of your spending on training and organizational change management as insurance to protect your investment in S/4HANA.

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Considerations for Chemical Companies (continued)

> "SAP has been designed to enable integration of business processes within the system. Through configuration, SAP is aligned to a company's specific organization, business processes and data."

Tactical Configuration – Business Excellence Group

- **Definition –** Using standard functions available in SAP, the system is synced to the business processes and data requirements.
- **Who performs the work? –** This work is typically owned within the business function by resources with a deep knowledge of the SAP standard business processes and the way the business operates.
- **Examples –** Tuck in, greenfield location, running scripts in test environment to make sure new plants work, organizational structures (e.g., new plants), approval processes.
- **Benefits –** Scalability of the system, leveraging standard SAP process integration, reduced cost and complexity for SAP upgrades.
- **Drawbacks –** Business processes will need to conform to SAP's business processes, which may not meet 100% of the business requirements. Business processes may need to change to match SAP best practice.

Design Configuration and Customization – Information Technology

- **Definition –** Addition of new features, which are not part of SAP standard processes to enable a particular business requirement.
- **Who performs the work? –** Design Configuration: Advanced configuration to design business processes within SAP.Customization – This work requires IT developers to write code, which is outside of standard SAP functionality (known as ABAP developers).
- **Examples –** Design Configuration: Different document types and what processes they trigger, business rules about how processes are executed, parameters (e.g., negative inventory), settings, data ranges.Customization – Writing code to customize a process differently than the standard SAP process, customizing an interface to make it more user-friendly, etc.
- **Benefits –** SAP can be customized to meet specific business requirements.
- **Drawbacks –** Customization of SAP requires IT development resources, extensive testing to ensure the code works correctly and future upgrades will be more costly and risky.

Source: ISG

Figure 3 – SAP Configuration vs. Customization

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Considerations for Chemical Companies (continued)

Common Pitfalls

The following list represents the most common non-technical challenges that our clients reported in their S/4HANA projects prior to engaging ISG for consulting, OCM and other guidance.

- Compelling reason for change not consistent across the organization
- Lack of alignment, conflicting messages/priorities
- Lack of visibility to project decisions/impact
- Program credibility challenges
- Lack of collaboration across functions
- Trouble sustaining change in the long term
- Lack of clarity around processes, roles and handoffs (answering, e.g., What does it mean to me?)
- Lack of understanding of interaction with new enterprise-wide teams
- Disconnect of how the "new" relates to today
- Difficulty achieving standardization
- Users are required to learn new system transactions associated with new roles and level of access
- Disconnect of how system functionality relates to operational tasks
- Lack of timely data governance adoption
- Gap in understanding between "old reports" and new system

The common theme of these obstacles is resistance to change – employees don't see the need for it or don't feel compelled to follow through with it, and may actively undermine it. Employees also often do not see how the change is good for them, so the enterprise needs to clearly answer "What's in it for me?" SAP-focused organizational change management can create buy-in among business users and IT teams for the value of adopting S/4HANA processes and capabilities, and by doing so increase the value of the S/4HANA investment itself.

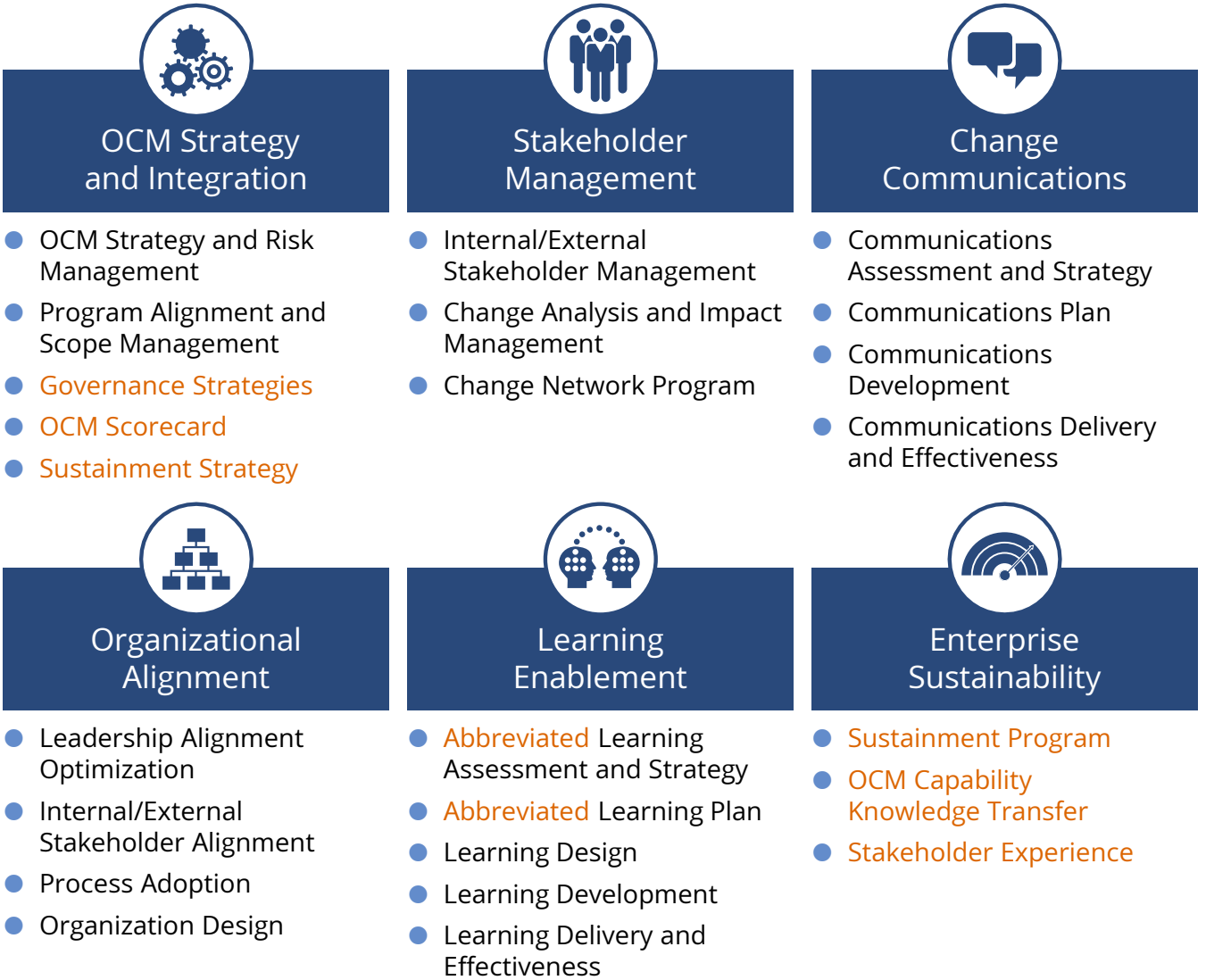


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How OCM can help with S/4HANA

The key to organizational change management is to explain the reason for change in a way that will resonate with users. That sounds simple, but it is far from easy. There is a lot of science and the entire discipline of OCM dedicated to finding the best ways to get people to change behaviors in a productive way. For example, ISG has 162 separate deliverable accelerators in our OCM Toolkit, plus 74 courses on different SAP processes and roles in our SAP Enable Now Content Library. That is more material than any individual could or should absorb, and there are many more articles, blogs, guides and other content about S/4HANA readily available from other sources. That is why it is extremely important to take a structured approach to OCM for S/4HANA.

ISG has identified six key components for organizing OCM efforts. The components and highlights of their scope are presented in Figure 4.



Source: ISG

Figure 4 – Organizational Change Management Services – Key Components

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How OCM can help with S/4HANA (continued)

These components are not sequential and should not be confused with project phases. For accelerated S/4HANA adoption, ISG recommends a build-up approach that begins with introductory communication that change is coming and culminates in specific role-based, transactional training, with some self-paced e-learning options. ISG has a specific accelerated methodology that aligns with SAP's Activate Methodology.

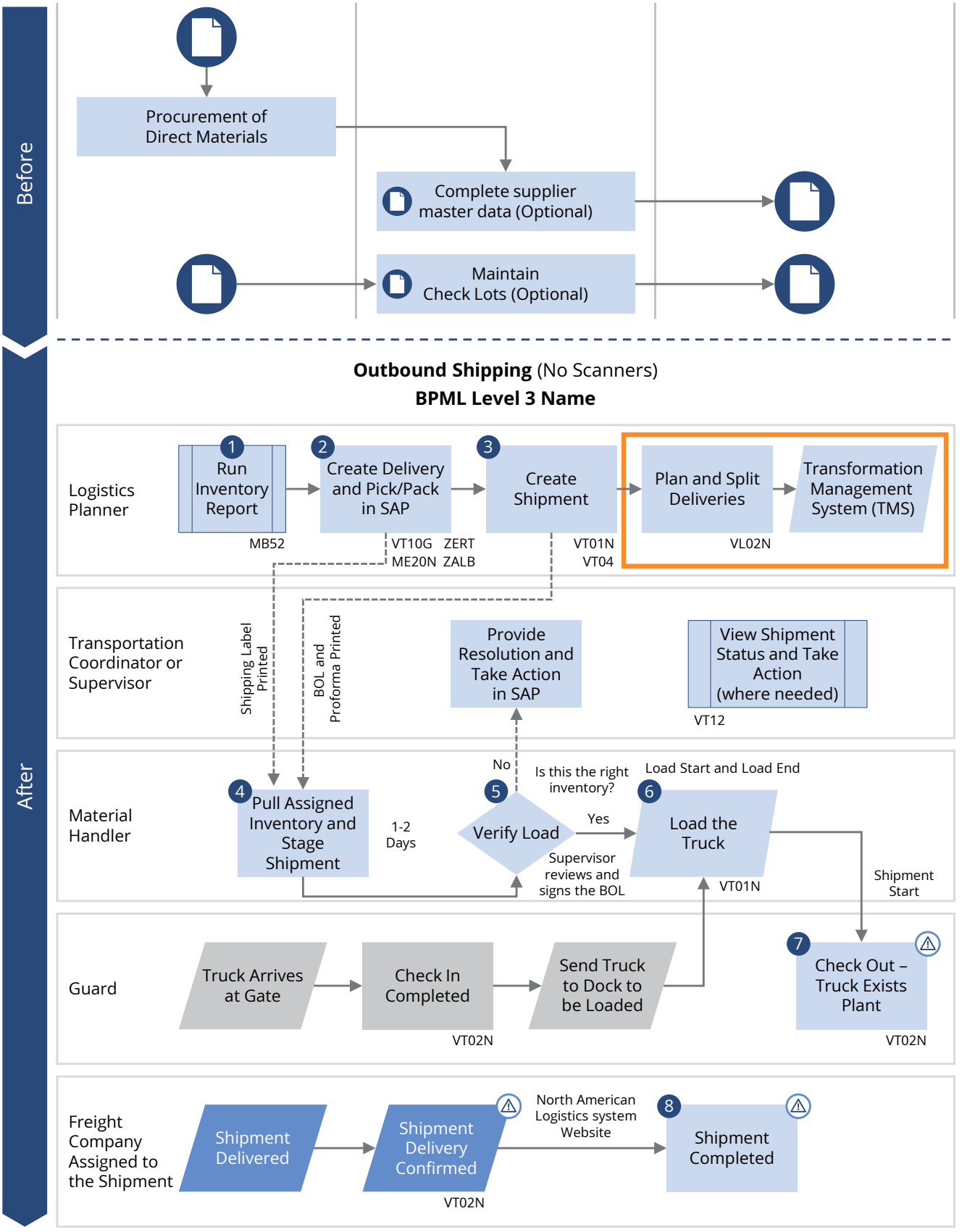
Successful OCM for SAP systems involves developing a user understanding of different roles and processes and where they fit. Building this understanding helps employees take ownership, which is essential for success. It is challenging to get employees to easily see their role and value in S/4HANA processes because of the terminology the software uses. Thus, one of the routine tasks in S/4HANA OCM is to convert the native S/4HANA roles and process terms to more user-friendly ones that business users can intuitively understand. Another helpful step is to visually map native S/4HANA processes into more detailed versions that reflect users' real-world working conditions. The graphics below show an example of an S/4HANA outbound shipping process that ISG mapped to a more user-friendly version for process training in an actual OCM engagement.

Process training is one step in a comprehensive OCM program. When you consider how many times such mapping efforts and other training tasks need to be repeated for various S/4HANA processes and user roles, you begin to get an appreciation for the scope of the OCM task and the value of a proven, organized approach.



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How OCM can help with S/4HANA (continued)



Source: ISG

Figure 5 – Example of Process Mapping to Help User Understanding and Training

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Conclusion

With its in-memory database and built-in support for intelligent technologies like analytics, artificial intelligence and the Internet of Things, S/4HANA is unlike any ERP release SAP has ever made. Even for experienced SAP users, implementing S/4HANA is much more than just another software update. The technical considerations go beyond learning how to handle an in-memory database, and the changes to user processes can be significant. Using S/4HANA will be unlike anything many enterprise users have worked with before because of the way AI and other intelligent technologies are infused into processes. The technology, user interface and processes may all change, which creates a strong need for organizational change management.

OCM helps make the change to S/4HANA a profitable one. As noted, ISG clients averaged 30 percent savings on their S/4HANA implementations and operations. Other research found a direct correlation between the amount of training and support provided and the ROI for the entire S/4HANA investment, not just for the OCM component. OCM helps enterprises unlock the full value of their S/4HANA investment while reducing the risk, which is why it is critical to make OCM part of your S/4HANA implementation, today.

If you save on training, what will it cost?

Based on the state of the S/4HANA market, which is marked by cautious enterprise spending and widescale reluctance to commit to the new ERP backbone, ISG has identified a few competitive requirements for service providers and offers several suggestions, which are summarized below.



Proactively make clients aware of the change management that needs to occur to make S/4HANA implementations successful, and don't undersell the effort.



Help clients carefully consider whether they should attempt to customize S/4HANA. This involves educating them about the new industry- and process-specific features and best practices that are currently available and are being developed for chemical companies, and how they can be used to replace previous customizations.



Develop the resources to make the implementation as smooth as possible, especially for brownfield (existing SAP users) and bluefield (cloud-based S/4HANA adopters) clients. Service providers in the S/4HANA market are competing heavily on their tooling, including their frameworks for migrations or new implementations. Many also promote their industry-specific solution enhancements. Convincing customers to implement S/4HANA and then to choose you over other service providers is not easy, so having differentiated, value-added offerings to support the implementation is very helpful.



Form partnerships up and down the SAP ecosystem so implementation programs can be tailored to customer needs. This could involve working with SAP to co-develop specific functionality, earning partnership and certification status with hyperscale cloud providers to meet demand for cloud-hosted ERP, and partnering with niche specialists that have a solution add-on or expertise in a specific process or technology.

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Meet the Team



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Dale has been with ISG for over fourteen years and has significant experience in leading engagements both in the technical and financial areas. Dale offers ISGs clients comprehensive negotiations experience and proven expertise in accounting operations, corporate finance, technical operations, and strategic planning, Dale has extensive sourcing expertise encompassing all aspects of IT including ADM, mainframe, data centers, midrange (servers), managed network services, end user computing, and help desk. He has a high level of expertise in developing competitive and market intelligence insights related to the IT industry including market profiles and identification of strategic service providers.



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Paul Reynolds

Provider Services Practice Lead

Paul leads the ISG Provider Services group, which offers a variety of subscription-based research and project-based consulting services to the outsourcing service provider community. ISG Provider Services provides research and strategy guidance as well as helps service providers better target, win and retain clients.

Acknowledgements

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