

**BENCHMARK REPORT**  
by Mark Vigoroso **October 2023**

# CIO'S 2023 TRANSFORMATION REPORT CARD



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## Insider Perspective

**“We prefer to change process to match standard functionality over the opposite. When we migrated to SAP S/4HANA, we eliminated about 55% of our total customization. This year, we are removing another 10% to 15% of customizations and implementing warehouse management out-of-the-box with little customization.”**

**– MARTY MENARD, CIO,  
PACIFIC COAST COMPANIES**

**OVER 50%** of tech leaders are prioritizing two transformation initiatives: business process automation, standardization, or redesign, and transitioning to SAP S/4HANA. This is according to SAPinsider’s CIO 2023 Transformation Report Card and represents a considerable growth compared to last year, with 17 and 22 percentage point increases (**Figure 1**).

SAPinsider surveyed and interviewed 156 members of its member community between June and September 2023 to gather leadership and strategy insights from IT leaders involved in SAP transformation initiatives on the progress and performance of their 2023 transformation initiatives. The survey findings revealed that most companies have focused their SAP S/4HANA transformation efforts on processes such as accounts payable/receivable, material planning, quality control, data management, customer experience, order management, labor management, security/risk management, and warehouse management.

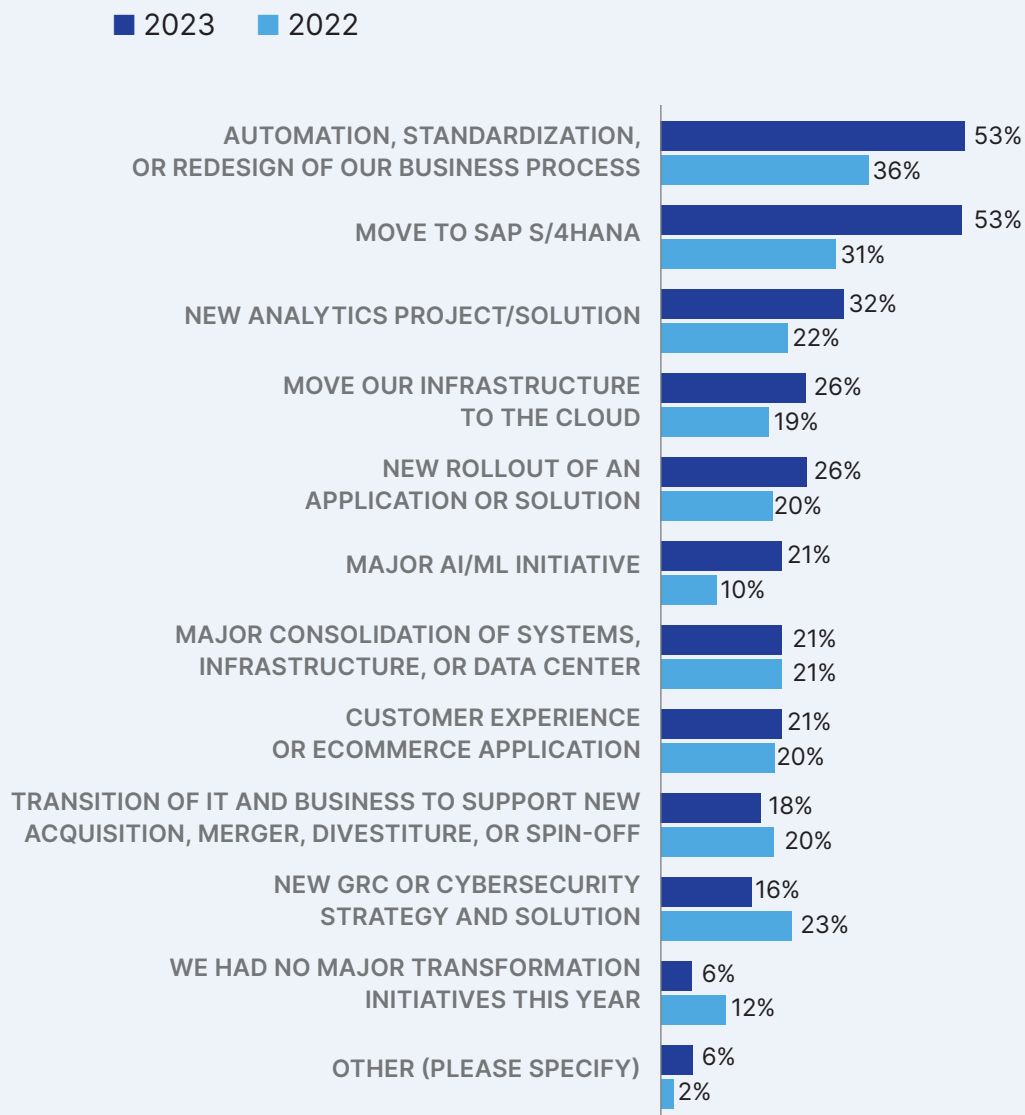
The results were compared with the previous year’s research on the same agenda. Respondents were asked to rate the progress or outcomes of their transformation projects on a scale of 1-10 (1 signifying not meeting expectations, and 10 representing exceeding expectations). The rating this year stood at 6.91, a slight dip from the previous year’s 7.14. Among the multitude of factors influencing this dip, one factor was overestimating third-party contributors’ capabilities.

As Jason Anthony, Head of SAP Capability at SA Power Networks, explains, “A lesson for me was to put the SI to work on what their strengths are. Spend time upfront looking at what they bring to the table and then consider what you bring to the table. We have got really strong technical skills in-house and probably should have carried more of that load.”

Other factors responsible for the dip in the score include unforeseen gaps in newly installed software products, project delays due to behavioral and organizational change, inability to move quickly and take more risk, inadequate departmental buy-in, and lack of a clear strategy for attacking the largest improvement opportunities.

Sam Ishak, CIO at Langan Engineering & Environmental Services, Inc. was among the 53% of respondents who prioritized business process automation, standardization, or redesign. The

**Figure 1: Top 2023 Transformation Projects**



time sheets process was one of the areas Ishak and his team targeted for improvement. “One of the BTP projects required us to build time capture interfaces that were more robust than what SAP S4/HANA offered out-of-the-box, so that we could enforce validation and try to correct errant behaviors and improve processes on the front-end for more efficiency at the back-end,” said Ishak.

With the impending end of ECC maintenance in 2027, it is no surprise that 53% of tech leaders consider the move to SAP S/4HANA as a top transformation project. To accomplish this task, companies like Alliance Healthcare, have engaged seasoned leaders who have successfully led such migrations at previous companies.

Yaman Acar, IT Director at Alliance Healthcare, joined the company in March 2023 after spending five years at SHV Energy where he led an SAP S/4HANA migration. Now, he is facing an environment of 80 different warehouses and 20 branches, each with its own application and database server. “It is a green-

field migration because we are not trying to migrate data from our existing systems or manage our existing processes. We really would like to rebuild all our business processes based on SAP best practices,” states Acar.

Companies like Pacific Coast Companies are using SAP S/4HANA migration to drive process standardization. “We prefer to change process to match standard functionality over the opposite. What we are trying to do is take things out-of-the-box. When we migrated to SAP S/4HANA, we eliminated about 55% of our total customization. This year, we are removing another 10% to 15% of customizations and implementing warehouse management out-of-the-box with little customization,” says Marty Menard, CIO at Pacific Coast Companies.

Among the transformation projects ranking, Artificial Intelligence/Machine Learning (AI/ML) saw a marked year-over-year increase. This year, 21% of respondents had a major AI/ML project underway, up from 10% last year, and 30% identified a new analytics project or solution, an option not included in last year’s survey. Given the pace and magnitude of advancements happening in the AI/ML space, we should expect to see another jump in 2024. Companies like Ecobat are taking a pragmatic approach to AI, expecting to drive the next level of efficiency in certain business processes. “It should be a step change in areas like accounts payable, accounts receivable, accounting, material planning, and quality control. Business processes exhibit patterns and the computer knows what the pattern should be. Understanding patterns behind employee attrition and trying to slow that is another AI proving ground and statistical forecast accuracy might be next,” said Jamie Lee, CIO at Ecobat.

## DRIVERS AND METRICS

Tech leaders identified two main drivers of digital transformation. Nearly 50% of respondents cited the business need for greater flexibility and innovation as the top driver of transformation, 17 points higher than last year (**Figure 2**). Over a third of respondents noted the upcoming end of maintenance for ECC, 18 points higher than last year. This highlights the limitations of relying on outdated legacy systems. As Yaman Acar, IT Director at Alliance Healthcare, says, “When you use such old systems and solutions, maybe 80% of your effort goes to maintaining them and to keep the lights on basically. Therefore, you have no room for flexibility or innovation.”

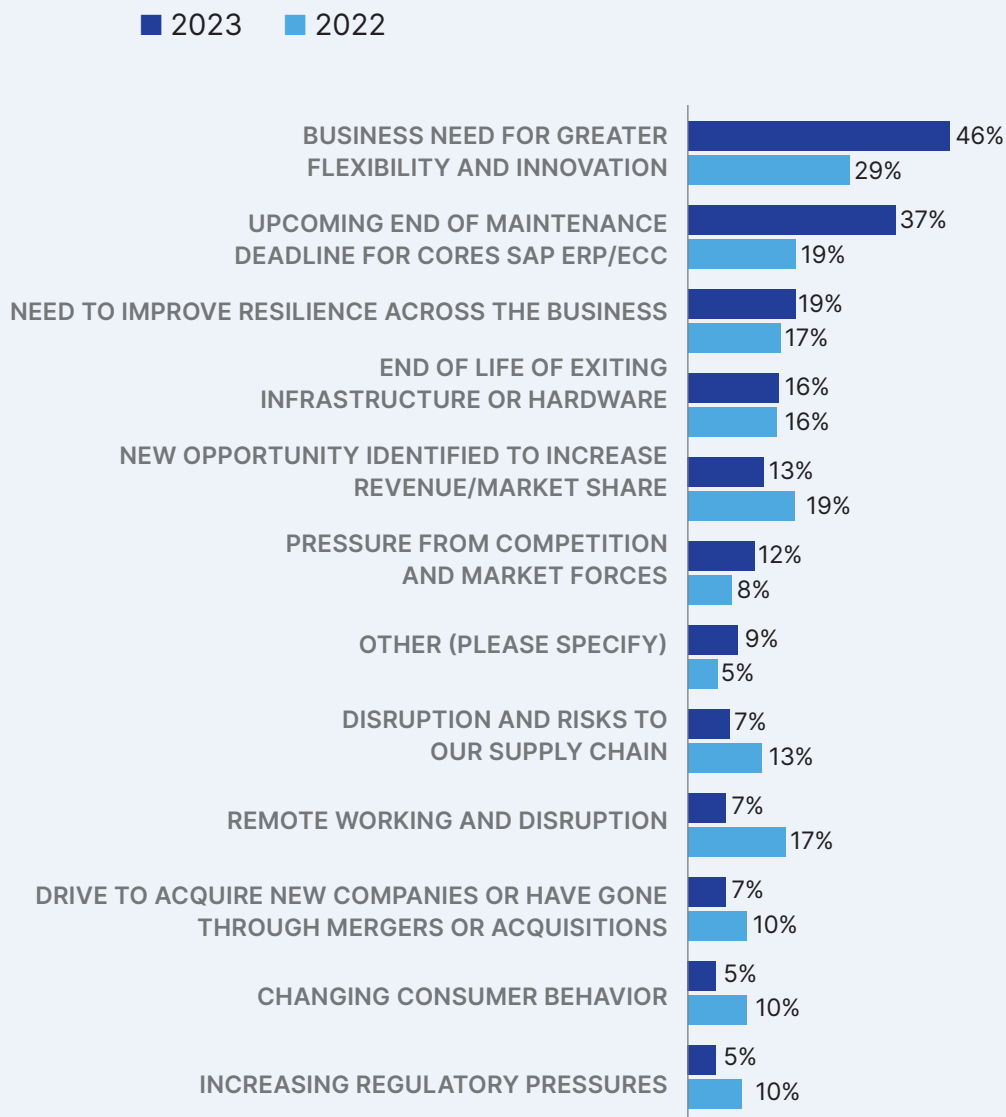
The need for greater flexibility often comes from expanding and evolving customer bases, especially when traditional manufacturing, industrial, or engineering companies enter digital services. This is precisely what’s happening at Langan Engineering & Environmental Services, Inc., and it’s tough for them to pivot and adapt to changing customer needs if they remain in a rigid environment.

## Insider Perspective

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– JAMIE LEE, CIO, ECOBAT

**Figure 2: Drivers of Transformation**



Similarly, SHV Energy expanded its B2B business selling gas cylinders from a network of dealers to a B2C business selling directly to end customers. This required the company to implement ordering and loyalty platforms as they morphed into a customer-centric organization, which would have been impossible in a rigid environment.

To monitor transformation progress, 61% of respondents have clear KPIs in place, down from 67% in 2022. “My biggest metric is ROI. Whatever you are investing today may look like a huge number, but you always have to create a chart where you see the initial investment, followed by the savings expected after three, four, five years,” says Chanda Verma, Senior SAP Consultant at Perigee.

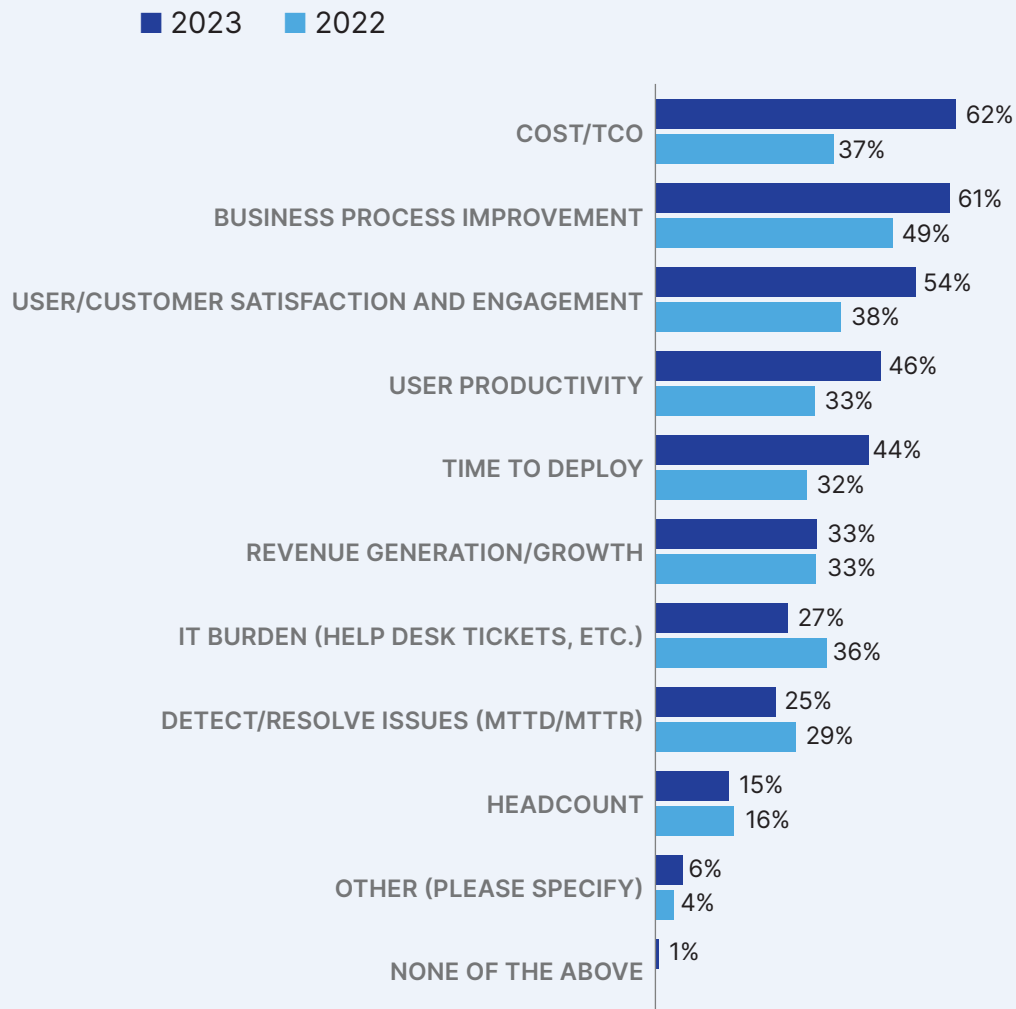
Interestingly, CIOs also reported that while they tracked project completion, user adoption, and sentiment metrics, their company’s CFOs were tracking the concrete digital transformation outcome metrics. The most used KPI for transformation projects was cost/total cost of ownership (TCO), selected by 62%

of respondents, significantly up from 37% last year (**Figure 3**). This was followed by business process improvement (61%) and user/customer satisfaction and engagement (54%).

“There is mounting profit pressure, but there’s also been a shift in GAAP and IFRS, whereby you can’t capitalize investments in the cloud,” said Jamie Lee, CIO at Ecobat. “So, it is a shift from capex to opex and we’re getting pinched by cloud costs.”



**Figure 3: Transformation Project KPIs**



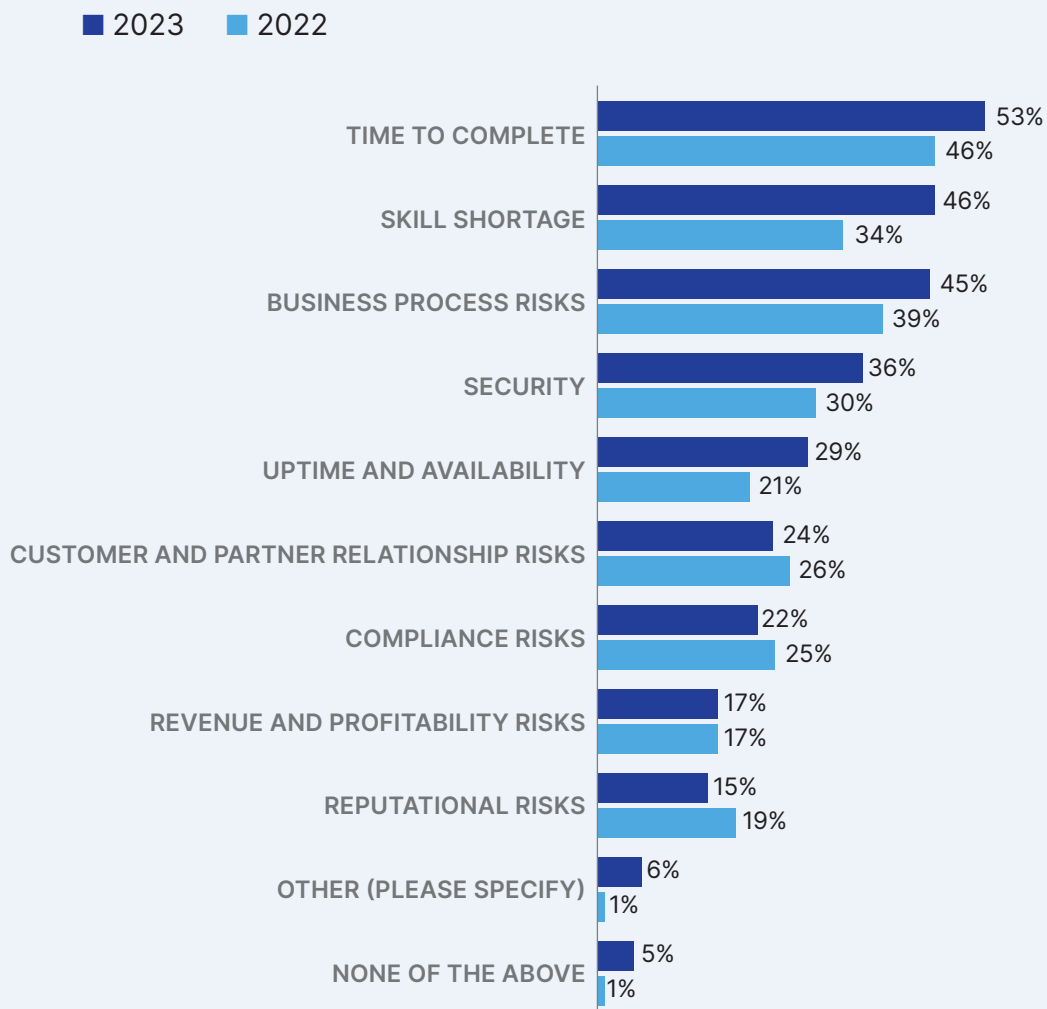
## RISKS AND CHALLENGES

Top risks to digital transformation projects noted by respondents were time to complete (53%), skills shortage (46%), and business process risks (45%) **(Figure 4)**. The biggest year-over-year mover on this list was skills shortage, which was up from 34% last year. SAP S/4HANA was the top area where companies were looking to add talent, with nearly 50% of the responding companies acquiring skills in SAP S/4HANA, up by 18 percentage points over last year.

To acquire technical skillsets for emerging technologies like AI, some companies are reaching into the younger generations learning data science in the college classroom. “We recruited a group of college interns in computer science studying Python and R, and had them prove out several models,” said Brenda Ward, Director of Applications and Analytics at Pacific Coast Companies. “To retain young talent, we do that with our culture, with keeping them engaged and giving them opportunities to learn and to innovate.”

To mitigate digital transformation risks, companies are also facing a fair share of challenges. Forty-one percent of respondents cited legacy customization and technical debt as the key challenges to

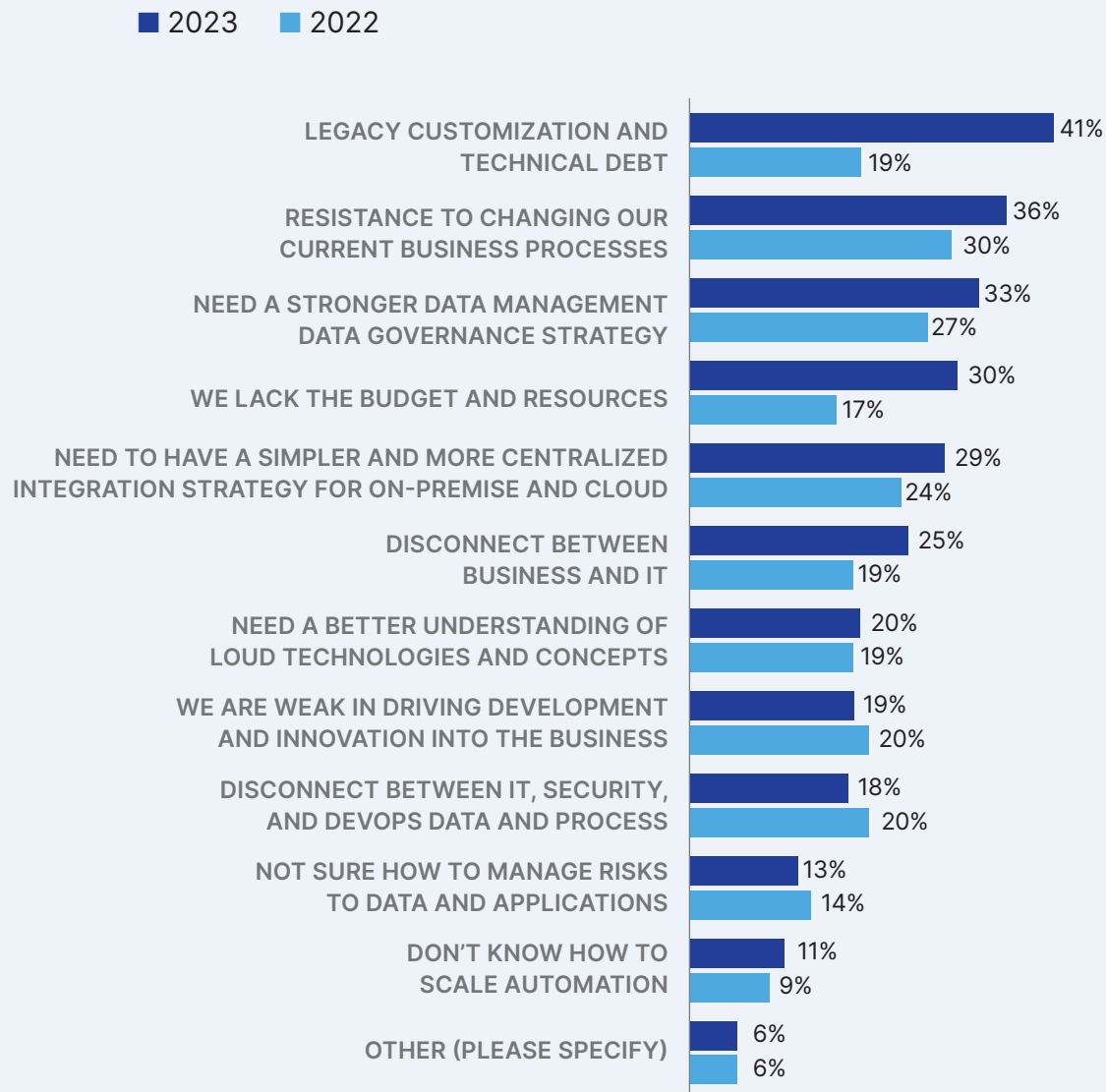
**Figure 4: Risks to Transformation Projects**



transformation, more than double the number from last year (**Figure 5**). Several companies also reported legacy ERP systems patchworks from different vendors, deployed across multiple geographies, running custom code or their own application servers and database servers. The task at hand for these companies is to migrate to one global ERP template, eliminate custom code, and redesign business processes to adhere to global standards.

To tackle this challenge, SA Power Networks took advantage of tools offered by SAP that located custom code in their existing 20-year-old ERP environment 6 to 8 months before SAP S/4HANA brown-field migration. “During the program, we got deep down in cleaning up the amount of legacy code we could. We have still got some legacy code that’s hanging around, and we will look to clean up where we can. And that is why I refer to it as being a cleaner core because we’ll never get to a point where it’s completely clean,” said Jason Anthony, Head of SAP Capability.

**Figure 5: Top Challenges to Transformation**





## SAP S/4HANA STATUS UPDATE

The end of ECC maintenance in 2027 is serving as a forcing function for digital transformation at many companies. Fifty-five percent of respondents have either already implemented SAP S/4HANA or are doing so, up slightly from the 50% from last year (**Figure 6**). Companies typically choose a greenfield approach (without taking over existing system structures) or a brownfield approach (migrate existing SAP workflows and systems) for SAP S/4HANA migration. Further, some companies are taking advantage of the opportunity and are bundling additional systems into their SAP S/4HANA migrations, such as CRM, Success Factors, and Extended Warehouse Management (EWM).

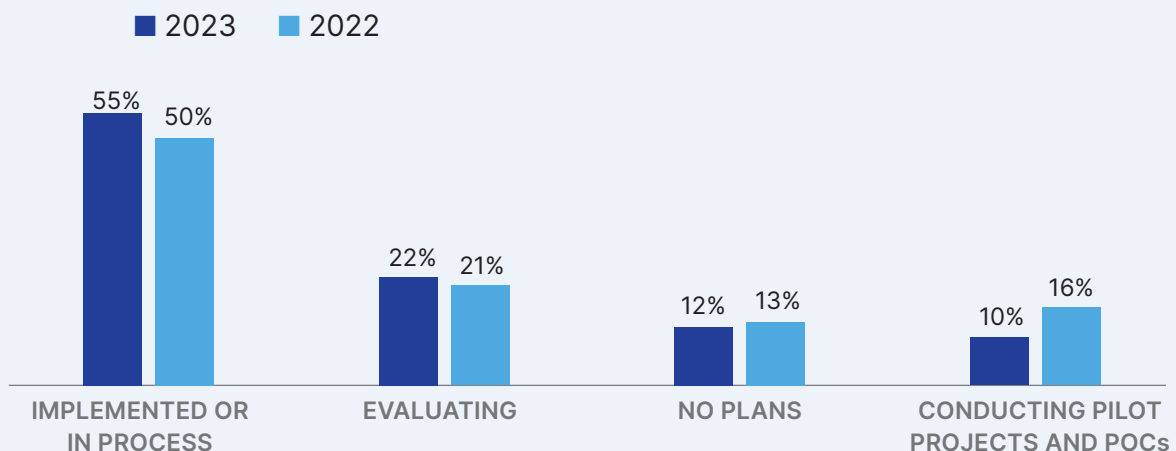
Pacific Coast Companies successfully migrated to SAP S/4HANA in October 2020 during the pandemic and is planning for their first upgrade in June 2024. The migration went very smoothly, especially considering it happened during the pandemic. CIO Marty Menard attributes the success to the teamwork demonstrated by the relevant stakeholders who participated in face-to-face workshops to define the scope before the pandemic. The team executed on the complete migration scope, with only three exceptions, and were on time and under budget.

The most preferred SAP S/4HANA deployment approach is a hyperscaler partnership, like Microsoft Azure, Google Cloud, or AWS, with 34% of respondents selecting this option, although two percentage points down from last year. Hyperscalers offer Infrastructure-as-a-Service (IaaS) in the public cloud that provides virtual servers, networks, storage, and systems software designed to augment or replace data centers or individually networked computers. Technology drivers that make hyperscalers the most preferred cloud option are on-demand elasticity, infinite scalability, operational automation, global presence, and security and compliance.

Microsoft Azure is the most preferred platform for SAP transformation, selected by 34% of respondents. Azure offers SAP customers scalability, performance, security, integration, hybrid capabilities, cost management, high availability, AI and analytics, SAP-certified infrastructure, support and partnership. Microsoft and SAP have a strong partnership, resulting in joint support and co-engineered solutions to enhance the SAP experience.

It is also interesting to note that a majority of respondents are still deciding on RISE with SAP, with just 17% already deciding to use RISE or in the process of deploying RISE. Forty percent are either currently evaluating or plan to evaluate RISE. And a full 22% have no plans to evaluate RISE. For some, going

**Figure 6: SAP S/4HANA Status**

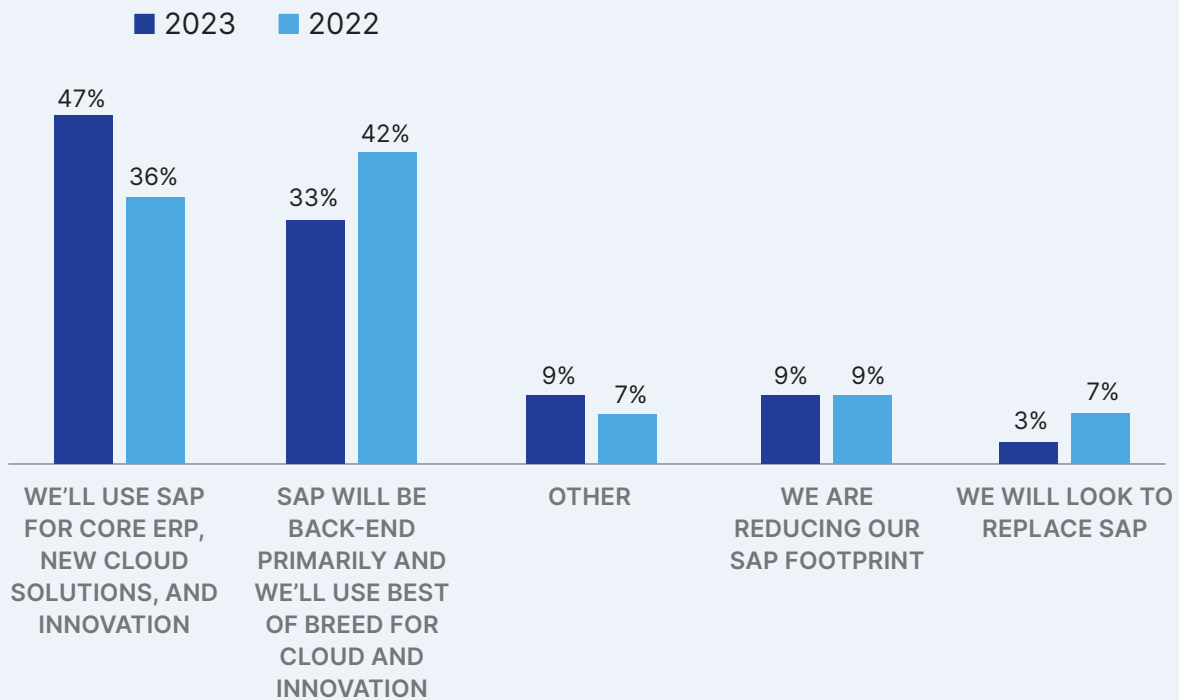


with RISE was made easier by a streamlined contract structure. “SAP simplified the contract and put a team around me to assure my success,” said Jamie Lee, CIO at Ecobat. For others, the timing is not right. “We don’t have a compelling reason to move out of our hyperscaler today. Will SAP soften their position on who is authorized to host RISE? We might reevaluate down the line,” said Brenda Ward, Director of Applications and Analytics at Pacific Coast Companies.

## SAP’S ROLE AND THE ROAD AHEAD

Regarding SAP’s role, a shift in perception has been observed over the past 12 months. This year, 47% reported using SAP for core ERP, new cloud solutions and innovation, 11 points higher than last year, and 33% reported SAP would be back-end primarily while best-of-breed would provide cloud and innovation, down 9 points from last year (**Figure 7**).

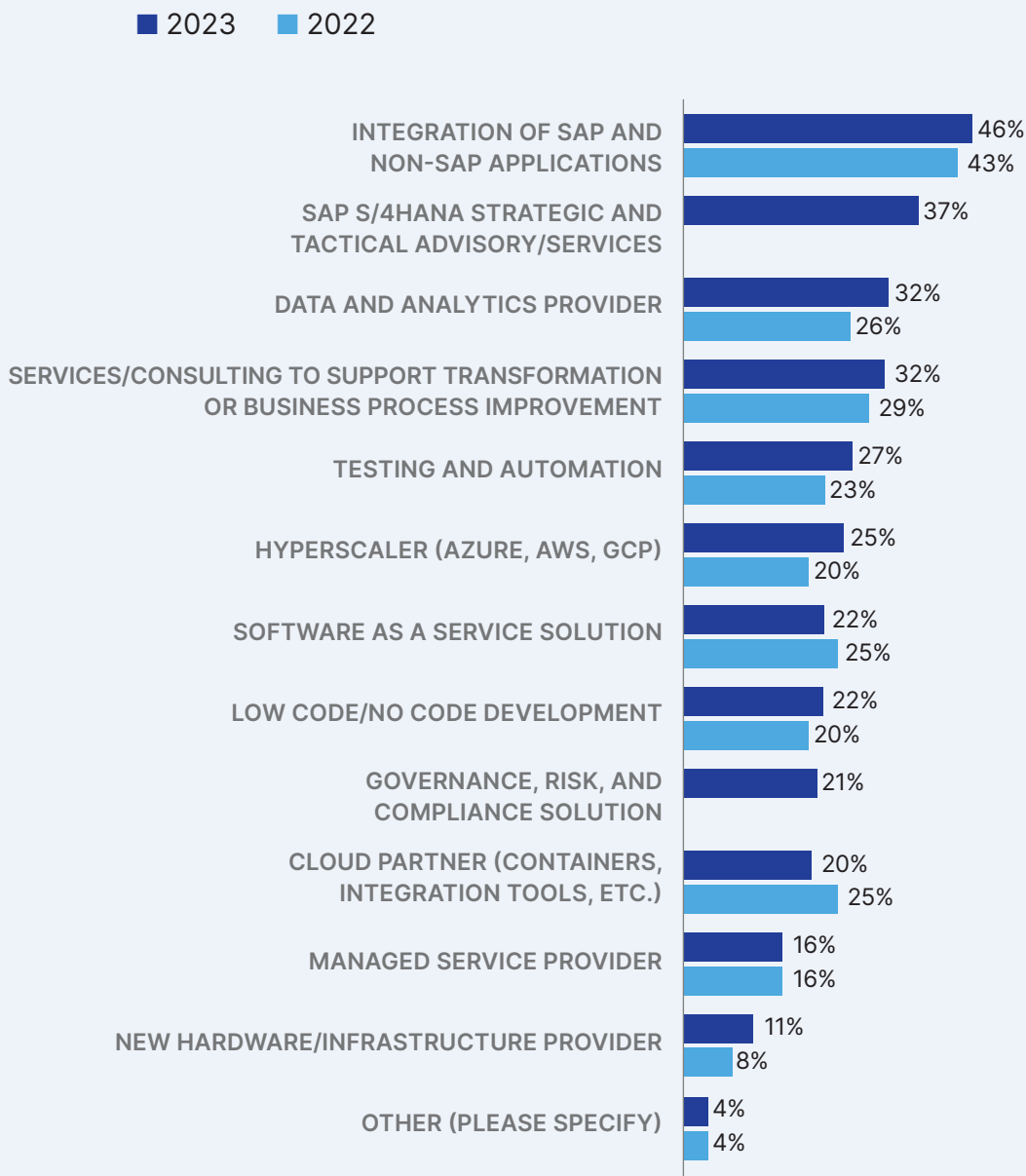
**Figure 7: Plans and View of SAP**



“SAP is a pivotal collaborator for us. They offer an extensive array of functionalities for our organization. While they handle a multitude of back-end operations, it is evident that SAP is pouring significant resources into product enhancement and innovation. While not all their innovations might align with our requirements, we have the discretion to select what suits us best. Our partnership with SAP is longstanding, and we remain in close dialogue with them regarding our needs,” says Jason Anthony, Head of SAP Capability at SA Power Networks.

Looking ahead, the most common investment area is SAP and non-SAP applications integration (46%), followed by SAP S/4HANA strategic and tactical advisory services (37%) (**Figure 8**). “Integration

**Figure 8: Investment Areas in the Coming Year**



is really the key. SAP is the system of record for so much, but we still need to provide accessibility to that system of record for the rest of the landscape,” states Jason Anthony, Head of SAP Capability at SA Power Networks. “We like the BTP approach, and that leads into how we are going to integrate. More systems want to have more streamlined, more secure integrations, be it internally within systems that we are hosting, or it could be with external partners and their external systems.”

Even when companies are opting for non-SAP solutions for their business, they recognize the importance of minimizing silos and maintaining master data. Langan Engineering & Environmental Services, Inc. recognized this. As Sam Ishak, CIO of Langan says, “We want to make sure that we are using best-of-

breed solutions where appropriate, but we don't want them to work in silos. We want one sole source of truth for data. A good example is what we are doing for our business development team. That system is built on Microsoft Dynamics, but we store the master data in SAP. So, we are using SAP for our central repository, and have integrations between SAP Datasphere and Microsoft Dynamics. The solid level of integration means we can use Microsoft Dynamics but not have to replicate data and not have multiple sources of truth."

## REQUIRED ACTIONS

Based on the survey responses, organizations should consider the following steps to advance their digital transformation projects:

- **Shore up your data foundation.** Any digital transformation initiative is incomplete without a workstream that captures, cleanses, stores, normalizes, and transforms data. For Pacific Coast Companies, the journey to data quality and readiness began five or six years ago when it recognized that managing data was mission-critical. The company split its data among its six subsidiaries and held each subsidiary accountable for the quality of its own data. Results have been mixed, and data quality remains a challenge. As Menard states, "One of the four or five things that will limit our growth is not being able to have accurate high-quality data."

Menard recommends three steps in pursuit of data quality. The first is to admit having a problem; second, to establish new processes for how you manage data; and third, to invest in resources to go and clean everything up and ensure people are following the process going forward. The best time to clean up data is when it is not sitting in a company's operational system and when it is being moved from ECC into S/4HANA.

- **Leverage SAP S/4HANA migrations to standardize business processes.** In their SAP S/4HANA journeys, many tech leaders decided early on that they would conform their business processes to fit the new system versus trying to conform the new system to fit their existing business processes. In many cases, this has driven the decision favoring a greenfield migration approach. This not only minimizes the cost, time and effort involved with upgrades, but also allows companies to benefit from industry best practices that are built into the platform.
- **Make talent retention a priority.** People with experience migrating to SAP S/4HANA, launching sophisticated data analytics and automation solutions, and applying AI/ML to real-world scenarios are in high demand. Some companies reported that critical team members involved in SAP S/4HANA migration were quickly recruited by competitors or consultancies. To retain these skilled associates, companies need to build and grow a corporate culture that fosters continuous learning, experimentation, and innovation.
- **Establish a cross-functional emerging technology laboratory.** In a dynamic technology landscape, companies must adopt structured methods to evaluate technologies worthy of investment. They can set up cross-functional laboratories where business and technology leaders collaborate to evaluate use cases, screen vendors and partners, build business cases, and manage an innovation pipeline. Labs like this are given the freedom to experiment and to "fail fast, fail small."
- **Get started with AI.** Under the governance of an emerging technology lab, companies should experiment with predictive and generative AI. They should start with business processes with discernable patterns, like accounts payable/receivable, material planning, and quality control. On a small scale, prove productivity and efficiency gains. Solution providers including SAP are beginning to embed AI directly into their offerings. Start small, vet some POC candidates in the lab, and accumulate learnings that can be applied to subsequent deployments.

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