SAPinsider

BENCHMARK REPORT

by Ogo Nwanyanwu November 2023

FINANCIAL CLOSE TRANSFORMATION 2023

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Insider Perspective

"In our current system, we split the financial close process over five days, with each department playing a specific role. However, our communication is very manual, often relying on transferring Excel files between departments. This has led to instances where tasks are forgotten or delayed, causing confusion and miscommunication. Our process is very manual."

– IT FINANCE MANAGER, ENERGY COMPANY, NORTH AMERICA

EFFICIENT FINANCIAL CLOSING cycles are critical for organizations to make informed decisions. Yet, many face challenges with processes that are isolated, slow, and error-prone, particularly large corporations with complex ERP landscapes and operations spread across different regions. Challenges in financial closing significantly affect data reliability and strain the controllership function. This situation demands accurate reporting and a high level of stakeholder confidence. Consequently, finance leaders are increasingly prioritizing digital solutions to enhance the financial close process. These solutions are aimed at unifying data, automating tasks, reducing errors, and expediting the closing cycle.

From August to October 2023, SAPinsider surveyed 145 members from the SAP finance and accounting community. The findings indicate a reliance on manual methods and outdated tools, such as spreadsheets, is still common, causing delays in the financial close process. On average, organizations require eight days to close their books each month, a duration that remains unchanged from the previous year. The top 20% of respondent organizations by financial closing performance, successfully reduced their closing time to just three days.

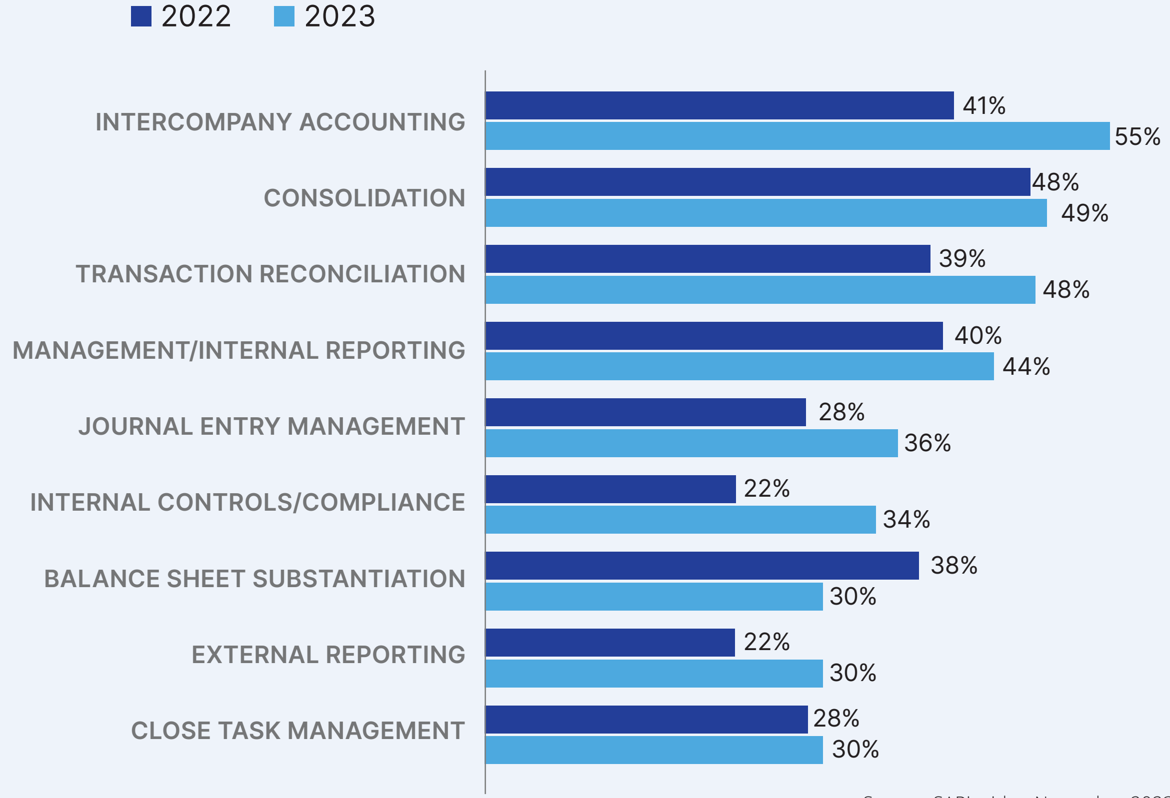
The notable performance gap in financial closing between top-performing organizations and their peers, indicates the leaders have effectively embraced and integrated contemporary digital solutions, while lagging organizations still depend on traditional, manual methods. A striking 82% of respondents pointed out manual processing as a primary cause of inefficiencies in their financial close processes, consuming time that could be better spent on higher-value tasks. SAP customers specifically identified the lack of sufficient automation, leading to manual processes, as a critical factor influencing their financial close transformation priorities. This need for greater automation was closely followed by demands for broader finance and accounting (F&A) transformation and modernization initiatives. (see DART framework on page 11).

Over the past year, the strategic priorities of SAP customers in financial close transformation have evolved significantly. While in 2022, 54% of organizations prioritized F&A transformation driven by advanced technologies like SAP S/4HANA, Robotic Process Automation (RPA), Artificial Intelligence (AI), and Machine Learning (ML), this focus has seen a shift. By 2023, the emphasis on this approach decreased to 35% of organizations, likely impacted by budget constraints, the top barrier among SAP organizations. Despite this change, moving to SAP S/4HANA remains critical to achieving a more efficient close. SAP S/4HANA enables access to modern SAP-native financial closing solutions available both for on-premises and cloud environments, including more robust offerings from SAP partners. These technologies are pivotal in enabling SAP users to automate intricate and complex closing cycles.

This is important because as businesses grow, the complexity of their financial close processes intensifies, necessitating more agile and adaptive financial close solutions. The research indicates a growing trend: the number of survey respondents who view business growth and evolution as a key driver for financial close transformation rose from 26% in 2022 to 32% in 2023. Furthermore, there's an increasing demand for capabilities that facilitate the timely generation of actuals for reporting, rising from 23% in 2022 to 30% in 2023. This shift signifies a broader perspective where organizations are not only addressing current operational challenges but are also proactively seeking agile and responsive financial close solutions.

For SAP customers, intercompany accounting emerges as a significant and growing challenge, with 55% of respondents in 2023 facing difficulties, up from 41% the previous year. This complexity highlights the need for effective solutions that can handle the demands of expanding multinational corporations. **(see Figure 1).**

Figure 1: Challenges Across Finance Closing and Record-to-Report



Source: SAPinsider, November 2023

Intercompany processes, often function-specific and fragmented, face growing challenges due to the evolving landscape of accounting standards, regulations, and tax laws. The absence of a centralized approach and reliance on disparate systems exacerbate these challenges, particularly in managing cross-border transactions involving multiple entities. According to the Organization for Economic Co-operation and Development (OECD), 70-80% of global trade within large corporations' value chains consists of intercompany transactions. This scale presents challenges for the controllership function, and emphasize the need for transparent and robust reconciliation processes. In addressing these complexities, SAP Central Finance, along with SAP Solution Extensions by BlackLine, can play a pivotal role. These extensions enhance complex SAP ERP landscapes by offering additional functionalities for automation and streamlined workflows. By consolidating financial data and processes into an integrated platform, these solutions enable a more precise and transparent view of financials, thus significantly reducing errors and associated risks.

Moving onto transaction-related challenges, the survey highlights escalating difficulties in transaction reconciliation (up to 48% from 39% in 2022) and journal entry management (up to 36% from 28% in 2022). As the volume and complexity of transactions escalate, manual processes struggle to keep pace, leading to inefficiencies and inaccuracies. The survey revealed that F&A teams continue to use spreadsheets and emails to manage these tasks, which can heighten the risk of errors and omissions. Through the adoption of automation and digitally enabled workflows, companies can facilitate real-time data exchange, cut down on processing times, and eliminate human errors. More importantly, automation solutions can provide finance professionals with an audit trail, ensuring accurate and transparent financial reporting.

In addition to transactional issues, the findings highlight escalating concerns regarding internal controls and regulatory compliance. The growing complexity and burden of regulatory requirements have made this a priority for SAP customers. Controllers and CFOs are increasingly cognizant of the risks tied to non-compliance, including operational disruptions, financial penalties, and damage to reputation. The survey revealed a notable 12% increase in concerns related to these areas, indicating a heightened awareness and pressure among finance professionals. In this context, automated compliance solutions can be beneficial by providing real-time monitoring, alerts, and dashboards, ensuring accountability, and reducing the risk of penalties.

The financial close process continues to increase in complexity for SAP organizations. Manual processes/orchestration, which diverts crucial resources away from strategic activities, surfaced as the most significant pain point for finance teams (ranked #1). The continued reliance of many organizations on spreadsheets and manual data entry for account reconciliations, consolidations, and other vital processes is particularly concerning. This concern

Insider Perspective

"Intercompany accounting is increasingly complex due to evolving legal entity structures and the quest for operational efficiencies. The integration of nuanced approval and workflow policies amidst cost-cutting measures and stringent accounting standards demands a new level of transparency and visibility. This operational labyrinth, coupled with the inherent power struggles within business units, has magnified the focus on intercompany processes, elevating them from a peripheral concern to a central priority."

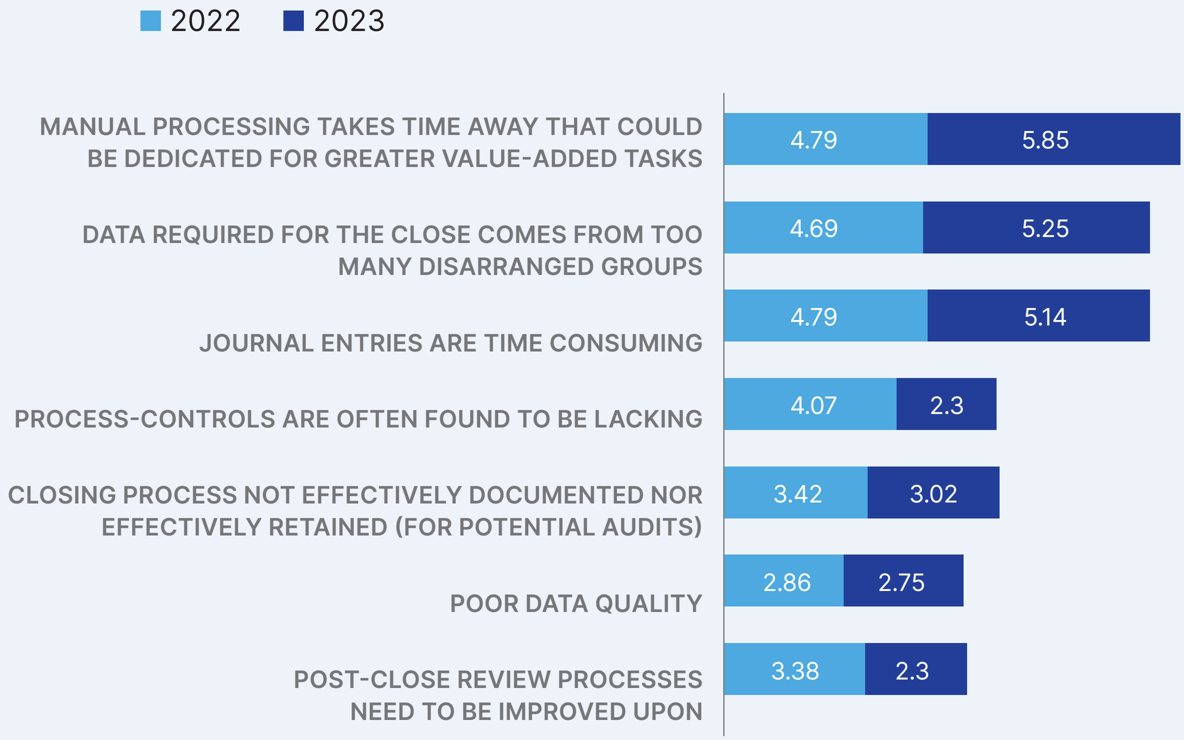
– MARK SLATER, VP DIGITAL BUSINESS SOLUTIONS, REYNOLDS CONSUMER PRODUCTS, NORTH AMERICA is amplified for larger organizations where efficiency is paramount. Further exacerbating this issue is the influx of data required for the close, often originating from disjointed groups (ranked #2), coupled with time-consuming journal entries (rank #3). These factors illustrate the mounting challenges in these areas **(Figure 2).**

Addressing the complexities of financial close, finance leaders are increasingly acknowledging the importance of integrating automation technologies. These technologies are instrumental in improving data organization and optimizing journal entry processes. The incorporation of rules-based workflows for automating journal entries can help minimize errors and save time. Furthermore, it's essential for organizations to commit to continuous improvement and adaptation to navigate the evolving challenges and improve the efficiency of the financial close process.

In 2023, the objective to "improve the efficiency of the close" saw a significant uptick, with 54% of respondents prioritizing it, up from 37% in 2022 **(Figure 3).** This shift indicates that organizations are actively seeking ways to reduce the time and resources required to close their financial books. By streamlining this process, companies can redirect more resources to core business activities, such as strategy, innovation, and customer experience.

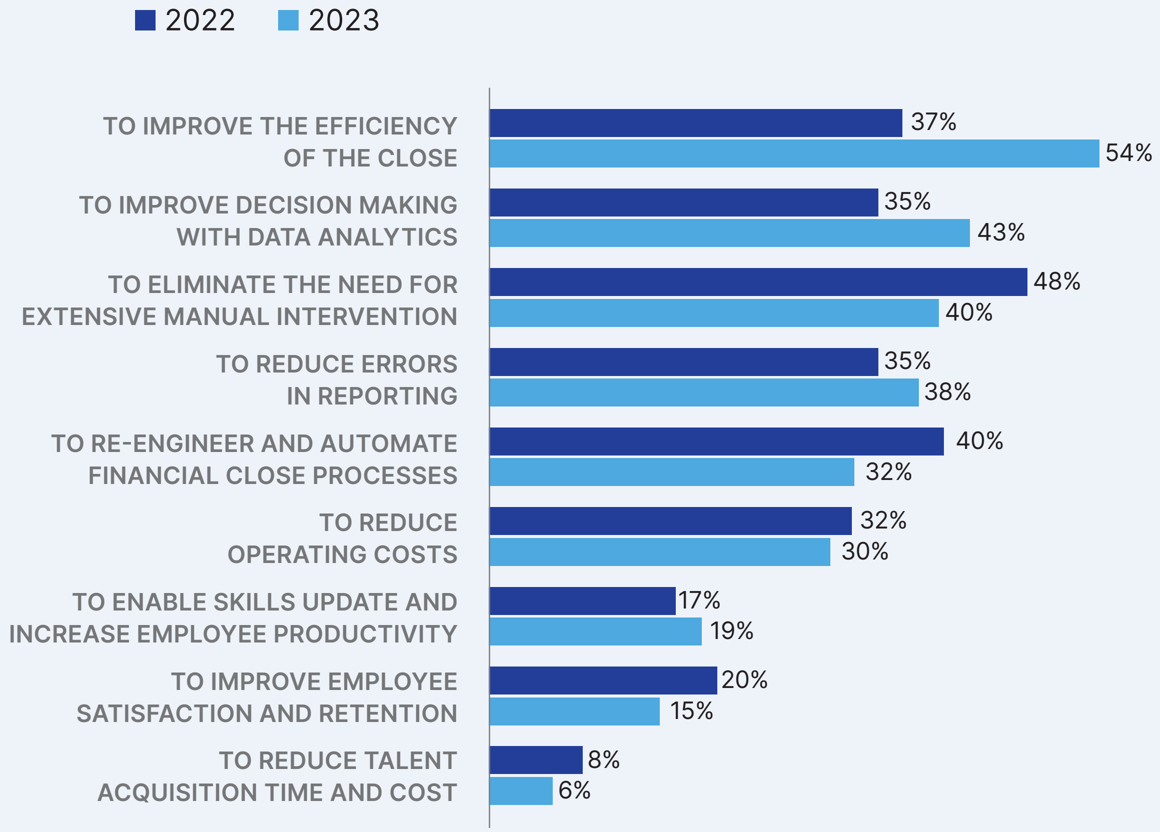
Interestingly, the focus on "eliminating the need for extensive manual intervention" experienced a slight decrease from 48% in 2022 to 40% in 2023. Despite this slight decline in priority, the need for automation in the financial close process remains critical. Manual interventions can lead to errors and increase the risk of non-compliance, making automation a necessity for any business aiming to thrive in today's competitive landscape.

Figure 2: Complexities Most Responsible for Financial Close and R2R Inefficiencies



Source: SAPinsider, November 2023

Figure 3: Top Objectives of Financial Close Transformation Strategy



Source: SAPinsider, November 2023

Additionally, the priority to "improve decision-making with data analytics" increased from 35% in 2022 to 43% in 2023. This trend demonstrates the increasing reliance of organizations on data-driven insights to enhance their financial close processes and overall decision-making. SAP's cloud-based analytics tools, such as SAP Analytics Cloud, can assist organizations in efficiently analyzing financial data and unveiling insights to continually improve their financial close procedures. In a nutshell, automation and data analytics are steering the future of financial close processes, offering efficiency, accuracy, and strategic insights.

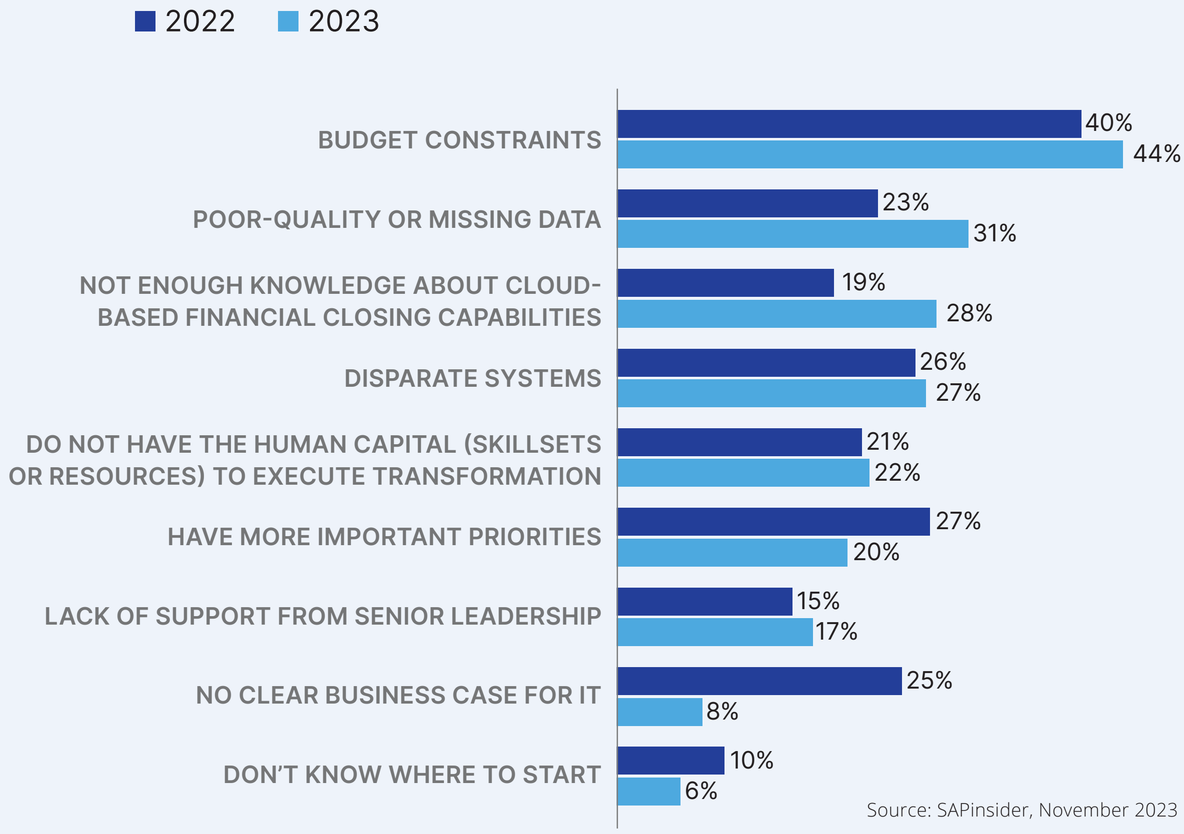
Exploring popular capabilities sought in core finance transformation strategies, a clear trend emerged from 2022 to 2023, leaning towards enhancing the efficiency and accuracy of financial close processes. The importance of real-time unified and integrated master data increased from 76% to 82%, emphasizing the value of seamless integration and real-time data access. Similarly, the priority for unified financial reporting within a single system rose from 73% to 82%, indicating a shift towards consolidated reporting systems.

The requirement for automated reconciliations increased slightly from 75% to 82%, accentuating the ongoing drive for automation. Although the focus on automated and standardized closing processes and alerts was high at 85% in 2022, it dipped slightly to 81% in 2023. Meanwhile, the demand for a fully documented electronic audit trail rose from 75% to 80%, underlining the importance of transparency and accountability. These trends highlight the growing importance of automation, integration, and standardization in financial close processes.

Clearly, the research findings elevate agile financial solutions as a crucial enabler in addressing these challenges and streamlining financial close processes. Financial regulations and the demand for timely, accurate financial reporting necessitate investment in financial close transformation and technology. Utilizing technology helps automate and streamline procedures, enabling finance teams to focus on more strategic activities. As the business environment becomes increasingly competitive, companies must invest in technology solutions that consolidate data from various sources. SAP offers several solutions to automate and streamline the financial close process, and other service providers and third-party vendors provide robust solutions that complement SAP's capabilities in this area.

Despite the clear advantages of technology in enabling financial close transformation, organizations reported several barriers to this approach. The most notable obstacles in 2023 were budget constraints, data that was either missing or low-quality, a lack of knowledge about cloud-based financial closing capabilities, and disparate systems. In 2023, budget constraints were cited as the most significant barrier to financial close transformation, with 44% of organizations identifying it as a key issue, up from 40% in 2022. This highlights a common dilemma: many organizations recognize the urgency and benefits of transformation but are financially restricted. It's crucial for these businesses to shift their perspective from viewing transformation as a cost to an investment with long-term ROI. Allocating budgets towards transformation will facilitate streamlined financial close processes, improved data quality, and enhanced overall efficiency **(Figure 4).** To overcome budget constraints, businesses should recognize that transformation does not necessarily involve massive expenditures. A focused analysis can help prioritize high-impact, cost-effective changes.

Figure 4: Top Barriers to Financial Close Transformation Strategy



Source: SAPinsider, November 2023

Insider Perspective

"The evolution of technology, has been pivotal in addressing the intricacies of intercompany reconciliation. Where SAP ECC's intercompany capabilities were limited, SAP S/4HANA offers more robust solutions. However, the decision between adopting third-party SaaS applications or relying on SAP S/4HANA's core capabilities often hinges on the nature of the company's ERP landscape—whether it is seeking a homogeneous or heterogeneous system environment."

– MARK SLATER, VP DIGITAL BUSINESS SOLUTIONS, REYNOLDS CONSUMER PRODUCTS, NORTH AMERICA

A surge in concerns over poor-quality or missing data was another barrier that came to light in 2023, increasing from 23% in 2022 to 31%. Reliable data forms the bedrock of efficient financial close processes, and the rise in these concerns underscores the need for organizations to invest more in data quality initiatives, tools, and training. Automation of data collection processes, implementation of data governance policies, and deployment of advanced analytics models to detect and prevent data quality issues can significantly enhance the reliability of data.

As the business landscape continues to evolve, organizations are increasingly recognizing the need for more efficient and unified systems. In 2023, a significant 27% of respondents flagged disparate systems as a concern, a slight increase from 26% in 2022. The presence of disjointed systems often leads to inefficiencies, data inconsistencies, and an increased need for manual interventions. To address this, organizations are encouraged to integrate their systems, leveraging solutions such as SAP S/4HANA or transitioning towards unified platforms. Such measures can streamline data flow, enhance business processes, and expedite decision-making, thereby driving efficiency across the organization.

The year 2023 also saw a considerable shift in the understanding of cloud-based financial closing capabilities. There was an alarming jump in the number of respondents who cited a lack of knowledge about these capabilities as a barrier, rising from 19% in 2022 to 28%. This gap in knowledge demonstrates the need for comprehensive training and education on the benefits and capabilities of cloud-based financial close management solutions. As interest in cloud solutions grows, there is a tremendous opportunity for vendors and consultants to provide educational resources, workshops, and training sessions to bridge this knowledge gap.

Integrating modern solutions from SAP and SAP partners into the financial close process can significantly automate and refine operations, allowing multinational finance teams to concentrate on strategic initiatives. In an increasingly competitive business world, the ability to harmonize data from various systems using SAP Central Finance or SAP Master Data Governance is becoming indispensable.

The disparity in closing performance — top organizations closing books in three days versus nine days for others — highlights a divide in the adoption of SAP technologies. Many companies still rely on manual processes, which might reflect resistance to retiring legacy systems or a knowledge gap in utilizing solutions like SAP Group Reporting.

To maintain a competitive edge and ensure precise financial reporting, organizations must invest in SAP's integrated systems that support a more efficient financial close. There's a clear opportunity for companies to progress by leveraging SAP's robust suite of financial tools, complemented by proper training. Prioritizing this digital transformation is essential for achieving an optimized and strategic financial close process.

Our study this year also revealed several key findings regarding how SAPinsider organizations approach strategic priorities around financial close transformation.

- Organizations reported no change in the average number of ERP instances they run from six in 2022 and six in 2023. On average, organizations had fewer entities involved in the period-end financial close in 2023 (37) compared to 2022 (39).
- In terms of the most essential F&A skillset growth to support financial close transformation strategic priorities, data analytics remains a top priority for organizations in both years, with 42% highlighting it in 2022 and 40% in 2023. The understanding of the latest technology and automation capabilities saw a slight decline from 42% in 2022 to 37% in 2023, but it remains a significant area of focus. Budgeting and forecasting saw a notable increase, rising from 18% in 2022 to 29% in 2023, indicating a growing emphasis on financial planning. While the importance of technical accounting and financial close decreased from 32% to 21% year-over-year, industry-specific accounting knowledge saw a significant rise, going from 8% in 2022 to 17% in 2023. While data analytics and technological understanding remain crucial, there's a clear shift towards more specialized knowledge areas like budgeting, forecasting, and industry-specific accounting.
- Organizations are increasingly prioritizing internal reporting capabilities and ensuring robust transaction reconciliation and compliance processes. Management/Internal reporting saw a significant increase in focus, rising from 32% in 2022 to 51% in 2023. This indicates a growing emphasis on internal data visibility and reporting capabilities. Transaction reconciliation and Internal Controls/Compliance are other areas that witnessed notable growth in attention, with year-over-year increases of 14% and 11%, respectively. Consolidation, while still a major area of focus, saw a slight decline from 48% in 2022 to 44% in 2023. Areas like Journal entry management and Intercompany accounting remained relatively stable, with minor fluctuations. The data suggests a shift towards enhancing internal visibility, improving accuracy, and ensuring compliance in the closing process.

- There's a noticeable increase in the percentage of organizations not using SAP solutions for their financial closing processes, rising from 14% in 2022 to 19% in 2023. SAP Business Warehouse remains the most popular SAP product, with its usage increasing slightly from 32% in 2022 to 35% in 2023. SAP Analytics Cloud saw a rise in popularity, with its usage going from 15% in 2022 to 20% in 2023. While many organizations continue to rely on SAP products for their financial closing processes, there's a trend toward diversification. The increase in SAP Analytics Cloud usage suggests a growing emphasis on analytics and data-driven decision-making in the closing process.

KEY TAKEAWAYS

SAPinsider's research reveals that SAP customers should apply the following key steps to ensure that their strategies for financial close transformation have the foundation for success:

- **Implement automation to streamline closing processes and improve accuracy and efficiency.** Given the rising complexities and the pressing need for timely and accurate financial closes, finance leaders should invest in automating manual tasks, such as journal entries and reconciliation. Automation reduces human error, accelerates processes, and ensures consistency. Furthermore, integrating various data sources and ERP systems through solutions like SAP S/4HANA can lead to a unified and streamlined financial close process, offering a consolidated view of data.
- **Enhance data integrity for reliable financial reporting. Address issues related to poor quality or missing data.** Implement tools and processes that ensure data accuracy, consistency, and completeness across all entities. This can involve routine data audits, investing in data quality software, and setting up robust validation mechanisms. Consistent and high-quality data forms the foundation of an efficient and reliable close process.
- **Adopt an incremental transformation approach to minimize disruptions.** Instead of overhauling entire systems at once, consider a measured, step-by-step approach to finance transformation, as indicated by the preference for a 'Crawl/Walk/Run' strategy among respondents. This ensures that changes are manageable, risks are minimized, and the organization can adjust to new processes and tools gradually.
- **Lower resistance to adoption with training and development.** Even the most advanced systems can falter if not used effectively. Finance leaders should prioritize the training of their teams, ensuring they are well-equipped to leverage the full capabilities of the tools they're using. Continuous training sessions, workshops, and certifications can ensure that the finance team stays updated with best practices and can optimally utilize the systems in place.
- **Enhance controllership communication for stakeholder trust.** Enhance the controllership function to ensure accurate financial reporting and maintain stakeholder trust. Establish clear communication channels to regularly update stakeholders about changes, improvements, and challenges in the financial close process. Ensuring transparency can alleviate concerns and maintain trust even as the organization undergoes transformation.

DART
MODEL FRAMEWORK

FINANCIAL CLOSE TRANSFORMATION

DRIVERS

- Insufficient automation leading to manual work and manual processes (36%)
- F&A transformation /modernization initiatives (migration to SAP S/4HANA, automation, use of RPA, AI/ML, etc.) (35%)
- Business growth and evolution create need for more agile financial close solutions (32%)

ACTIONS

- Improving the efficiency of the financial close (55%)
- Replace spreadsheet-heavy processes and tasks with best practices automation (46%)
- Consolidating financial operations onto a single instance of SAP S/4HANA (36%)

REQUIREMENTS

- Real-time unified and integrated master data (83%)
- Harmonized financial reporting in a single system (82%)
- Automated reconciliations (82%)
- Automated and standardized closing processes and alerts (82%)
- Fully documented electronic audit trail (80%)

TECHNOLOGIES

- Single point of truth for financial data (30%)
- Dashboard and visualization tool(s) (29%)
- Group reporting solution (26%)
- SOX / compliance tool (24%)
- Centralized solution to control all financial data and processes (23%)
- Intercompany balance sheet reconciliation and automation solution (22%)
- Financial close automation tools (21%)
- Master data integration solution (19%)
- Disclosure management tool (17%)

Appendix: 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 is 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 they 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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When is simple not as simple as it seems?

Businesses everywhere want simplicity to reduce costs and increase productivity. At the same, new challenges are emerging. Cybersecurity, globalization, technology shifts such as cloud computing, and significant M&A activity are all driving greater demand for better information and agility. Technology is often seen as a simple solution to address today's complex business issues. Yet, for many organizations, simple is not nearly as simple as it seems.

With our global network of consultants worldwide, we work with our clients to help address their most complex industry issues, from strategy to execution.

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