How Data-Driven Business Apps Close the Digital Transformation Gap

Transcript of a discussion on how intelligence gleaned from business applications, data, and networks provides the best new hope for closing the digital transformation gap at many companies.

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Dana Gardner: Hi, this is Dana Gardner, Principal Analyst at Interarbor Solutions, and you're listening to BriefingsDirect.

Our next thought leadership discussion explores how intelligence gleaned from business applications, data, and networks provides the best new hope for closing the digital transformation gap at many companies.

A recent global survey of procurement officers shows a major gap between where companies are and where they want to be when it comes to digital transformation. While 82 percent surveyed see digital transformation as having a major impact on processes -- only five percent so far see significant automation across their processes.

How can business networks and the cloud-based applications underlying them better help companies reach a more strategic level of business intelligence and automation?

Koch

To learn, we're now joined by Darren Koch, Chief Product Officer at SAP Ariba. Welcome to BriefingsDirect, Darren.

Darren Koch: Thanks so much, it's great to be here.

Gardner: What's holding companies back when it comes becoming more strategic in their processes? They don't seem to be able to leverage intelligence and automation to allow people to rise to a higher breed of productivity.

Koch: I think a lot of it is inertia. The ingrained systems and processes that exist at companies impact a lot of people. The ability for those companies to run their core operations relies on people *and* technology working together. The change management required by our customers as they deploy solutions -- particularly in the move from on-premises to the cloud -- is a major inhibitor.

But it's not just the capabilities and the change in the new technology. It's really re-looking at -- and reimagining -- the processes, the things that existed in the highly customized on-premises world, and the way those things change in a digital-centric cloud world. They are fundamentally different.

Reimagining change in the cloud

Gardner: It's always hard to change behavior. It seems like you have to give people a huge incentive to move past that inertia. Maybe that's what we are all thinking about when we bring new data analytics capabilities to bear. Is that what you looking at, incentivization -- or how do we get that gap closed?

Koch: You are seeing more thought leadership on the executive side. You are seeing companies more willing to look holistically at their processes and saying, "Is this something that truly differentiates my company and adds sustainable competitive advantage?" And the answer on some processes is, "No."

And so, we see more moving away from the complex, on-premises deployments that were built in a world where a truckload of consultants would show up and configure your software to do exactly what you wanted. Instead, we're moving to a data-centric best-practices type of world that gives scale, where everybody operates in the same general business fabric. You see the emergence of things like business networks.

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Gardner: And why the procurement and supply chain management folks? Why are they in an advantageous position to leverage these holistic benefits, and then evangelize them?

Koch: There's been a ton of talk and innovation on the selling side, on the customer resource management (CRM) side, such as our announcement of C/4HANA at Sapphire 2018 and the success in the cloud generally in the CRM space. What most people stop at is, for every seller there's a buyer. We represent the buy-side, the supply chain, the purchasing departments. And now from that buy-side we have the opportunity to follow the same thought processes on the sell-side.

The beauty at SAP Ariba is that we have the world's biggest business network. We have over $2 trillion of buy-side spend and our ability to take that spend and find real insights and real actionable change to drive value at the intersection of buyers and sellers. This is where we're headed.

Gardner: It seems like we are moving rapidly beyond the buy and sell being just transactional and moving more to deeper partnerships, visibility, of understanding the

processes on both sides of the equation. That can then bring about a whole greater than the sum of the parts.

Understanding partners

Koch: Exactly. I spent 10 years working in the consumer travel space, and my team in particular was working on how consumers choose hotels. It's a very complex purchasing decision.

There are location aspects, there are quality aspects, there are amenities, room size, obviously price, and there are a lot of non-price actors that go into the purchase decision, too. When you look at what a procurement audience is doing, what a company is doing, there are a lot of such non-price factors. It's exactly the same problem.

The investments that we are making inside of SAP Ariba get at allowing you to see things like supplier risk. You are seeing things like the Ariba Network handling direct materials. You are seeing time, quality, and risk factors -- and these other non-price dimensions -- coming in, in the same way that consumers do when choosing a hotel. Nobody chooses the cheapest one, or very few people do. Usually it's a proper balance of *all* of these factors and how they best meet the total needs. We are seeing the same thing on the business procurement side.

Gardner: As consumers we have information at our fingertips -- so we can be savvy and smart – probably better than at any other time in history. But that doesn't always translate to a larger business-to-business (B2B) decisions.

What sort of insights do you think businesses will want when it comes that broader visibility?

Koch: It starts with the basics. It starts with, "How do I know my suppliers? How do I add scale? Is this supplier General Data Protection Regulation (GDPR)-compliant? Do they have slavery or forced labor in their supply chain? Where are they sourcing their materials?" All of these aspects around supplier risk are the basics; knowing your supplier well is the basic element.

Then when you go beyond that, it's about things like, "Well how do I weigh geographic risk? How do I weigh supply chain risk?" And all the things that the practitioners of those disciplines have been screaming about for the rest of their companies to pay attention to.

That's the new value they are providing. It's that progression and looking at the huge opportunity to see the way companies collaborate and share data strategically to drive efficiency into processes. That can drive efficiency ultimately into the whole value chain that leads to a better customer experience at the end.

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Gardner: Customer experience is so important across the board. It must be a big challenge for you on the product side to be able to contextually bring the right information and options to the end-user at the right time. Otherwise they are overwhelmed, or they don't get the benefit of what the technology and the business networks can do.

What are you doing at SAP Ariba to help bring that right decision-making -- almost anticipating where the user needs to go -- into the actual applications and services?

Intelligent enterprise

Koch: That begins with our investments in re-platforming to SAP HANA. That feeds into the broader story about the *intelligent enterprise*. Purchasing is one facet, supply-chain management is a facet, sales is a facet, and production -- all of these components are elements of a broader story of how you synthesize data into a means where you have a digital twin of the whole enterprise.

Then you can start doing things like leveraging the in-memory capabilities of HANA around scenario planning, and around, "What are the implications of making this decision?"

What happens when a hurricane hits Puerto Rico and your supply chain is dramatically disrupted? Does that extend to my suppliers' suppliers? Who are my people on the ground there, and how are they disrupted? How should my business respond in an intelligent way to these world events that happen all the time?

Gardner: We have talked about the intelligent enterprise. Let's hypothetically say that when one or two -- or a dozen -- enterprises become intelligent that they gain certain advantages, which compels the rest of their marketplace to follow suit.

When we get to the point where we have a critical mass of intelligent enterprises, how does that elevate to an *intelligent economy*? What can we do when everyone is behaving with this insight, of having tools like SAP Ariba at their disposal?

Koch: You hit on a really valuable and important point. Way back, I was an economics major and there was a core thing that I took away 20 years ago from my intro to macroeconomics class. The core of it was that everything is either value or waste. Every bit of effort, everything that's produced around the world, all goods or services are either valuable or a waste. There is nothing in between.

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The question then as we look at value chains, when we look at these webs of value, is how much of that is transaction cost? How much of that is information asymmetry? How much of that is basic barriers that get in the way of ultimately providing value to the end consumer? Where is all of that waste?

When you look at complex value chains, at all of the inventory sitting in warehouses, the things that go unsold, the mismatches between supply and demand across a value chain -- whether you are talking about direct materials or about pens and paper sitting in a supply closet -- it really doesn't matter.

It's all about how much of that goes to actually delivering on what your customers, your employees, and your stakeholders' value -- and how much of it is waste? As we link these data sets together -- the real production planning, understanding end-user demand, and all the way back through the supply chain – we can develop new transparency that brings a ton of value. And by ultimately everyone in the value chain understanding what the consumers' actually value, then they can innovate in the right ways.

So, I see this all dramatically changing as you link these intelligent companies together. As companies move in the same way -- into a sharing mindset – then the sharing economy uses resources in a far more efficient way, in the exact same way as we use our data resources in a more efficient way.

Gardner: This also dovetails well with being *purposeful* as a business. If many organizations are encouraging higher productivity, which reduces inefficiencies and helps raise wages, it can lead to better standards of life. So, the stakes here are pretty high.

We're not just talking about adding some dollars to the bottom and top lines. We're also talking about a better economy that raises all boats.

Purposeful interconnections

Koch: Yes, absolutely. You see companies like Johnson & Johnson, who at their core, from their founding principles, have the importance of their community as one of the core founding principles. You see it in companies like Ford and their long heritage. Those ideals are really coming back from the decade of the 1980s where greed was good and now back to a more holistic understanding of the interconnectedness of all of this.

And it's good as humans. It's also good from the business perspective because of the need to attract and retain the talent required to run a modern enterprise. And building the brands that our consumers are demanding, and holding companies accountable, they all go hand-in-hand.

And so, the purpose aspect really addresses the broader stakeholder aspects of creating a sustainable planet, a sustainable business, sustainable employment, and things like that.

Gardner: When we think about attaining this level of efficiency through insights and predictive analytics -- taking advantage of business networks and applications and services -- we are also on the cusp of getting even better tools.

We're seeing a lot more information about machine learning (ML). We're starting to tease out the benefits of artificial intelligence (AI). When these technologies are maturing and available, you need to be in a position to take advantage of them.

So, moving toward the intelligent enterprise and digital transformation are not just good or nice to have, they are essential because of what's going to come next in just a few years.

Efficiency in the digital future

Koch: Yes, you see this very tactically in the chief procurement officers (CPOs) that I've talked with as I've entered this role. I have yet to run across any business leader who says, "I have so many resources, I don't know what to do." That's not usually what I hear. Usually, it's the opposite. It's, "I'm being asked to do more with less."

When you look at the core of AI, and the core of ML, it's how do you increase efficiency? And that's whether it's all the way on the full process automation side, or it's along the spectrum of bringing the right intelligence and insights to streamline processes to make better decisions.

All of that is an effort to up-level the work that people do, so that raises wages, it raises productivity, all of those things. We have an example inside of our team. I was meeting with the head of our customer value organization, Chris Haydon, over dinner last night. Chris was talking about how we were applying ML to enhance our capability to onboard new customers.

And he said the work that we've done has allowed him to redeploy 80 people in his team on to higher productivity use cases. All of those people became more valuable in the company because they were working on things that were at the next level of creating new solutions and better customer experiences, instead of turning the crank in the proverbial factory of deploying software.

Gardner: I happen to personally believe that a lot of the talk about robots taking over people's jobs is hooey. And that, in fact, what's more likely is this elevation of people to

do what they can do best and uniquely. Then let the machines do what they do best and uniquely.

How is that translating both into SAP Ariba products and services, and also into the synergy between SAP and SAP Ariba?

Koch: We are at a really exciting time inside of our products and services. We're just getting through a major re-platforming to S/4 HANA, and that's really exciting because of HANA's maturity and scale. It's moving beyond basic infrastructure in the way that [SAP Co-Founder] Hasso Plattner had envisioned it.

We're really getting to the point of not replicating data. We are using the ML algorithms and applying them, building them once and applying them at large. And so, the company's investments in HANA and in Leonardo are helping to create a toolkit of capabilities that applications like SAP Ariba can leverage. Like with any good infrastructure investment, when you have the right foundation you see scale and innovation happen quickly.

You'll see a lot more of how we leverage the data that we have both inside the company as well as across the network to drive intelligence into our process. You will just see that come through more as we move from the infrastructure foundation setting stage to building the capabilities on top of that.

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Gardner: Getting back to that concept of closing the transformation gap for companies, what is it they should be thinking about when these services and technologies become available? How can they help close their own technology gap by becoming acquainted in advances and taking some initiative to best use these new tools?

Digital transformation leadership

Koch: The companies that are forward-leading on digital transformation are the ones that made the cloud move early. The next big move for them is to tap into business networks. How can they start sharing across their value chains and drive higher efficiency? I think you'll see from that the shift from tactical procurements to strategic procurement.

The relationships need to move from transactional to a true partnership, of how do we create value together? That change involves rethinking the ways you look at data and of how you share data across value chains.

Gardner: Let's also think about spend management conceptually. Congratulations, by the way, on your recent Gartner Magic Quadrant positioning on pay-to-procure processes. How does spend management also become more strategic?

Koch: The building blocks for spend management always come down to what is our tactical spend and where should we focus our efforts for strategic spend? Whether that is in the services area, travel, direct materials, or indirect, what customers are asking SAP for is, how do all of these pieces fit together?

What's the difference between a request for proposal (RFP) for a hotel in New York City versus an RFP for chemicals in Southeast Asia? They're both a series of business processes of selecting the right vendor that balances all of the critical dimensions: Price and everything else that makes for a good decision and that has longevity.

We see a lot of shared elements in the way you interact with your suppliers. We see a lot of shared elements in the way that you deploy applications inside of your company. We're exploring how well the different facets of the applications can work together, how seamless the user experience is, and how well all of these tie together for all the stakeholders.

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Ultimately, each element of the team, each element of the company, has a role to play. That includes the finance organization's desire to ensure that value is being created in a way that the company can afford. It means that the shareholders, employees, management, and end-users are all on the same page.

This is the core of spend management – and the intelligent enterprise as a whole. It means being able to see everything, by bringing it all together, so the company can manage its full operations and how they create value.

Gardner: The vision is very compelling. I can certainly see where this is not going to be just a small change -- but a step-change -- in terms of how companies can benefit in productivity.

As you were alluding to earlier, architecture is destiny when it comes to making this possible. By re-architecting around, as for S/4 HANA, by taking advantage of business networks, you are well on the way to delivering this. Let's talk about the platform changes that grease the skids toward the larger holistic benefits.

Shifting to the cloud

Koch: It's firmly our belief that the world is moving to mega-platforms. SAP has a long history of bringing the ecosystem along, whether the ecosystem is delivering process innovation or is building capabilities on top of other capabilities embedded deeply into the products.

What we're now seeing is the shift from the on-premises world to a cloud world where it's API-first, business events driven, and where you see a decoupling of the various components. Underneath the covers it doesn't matter what technology stack things are built on. It doesn't matter how quickly they evolve. It's the assumption that we have this API contract between two different pieces of technology: An SAP Ariba piece of technology, an SAP S/4 Cloud piece of technology, or a partner ecosystem piece of technology.

For example, a company like Solenis was recently up on stage with us at Ariba Live in Amsterdam. That's one of the fastest-growing companies. They have raised a B round at $1 billion valuation. Having companies that are driving innovation like that in partnership with an SAP platform brings not just near-term value for us and our customers, it brings future-proofing. It brings extensibility when there is a specific requirement that comes in for a specific industry or geography. It provides a way a customer can differentiate. You can just plug-in.

[SAP business unit] Concur has been down this path for a long time. The president of SAP Ariba, Barry Padgett, actually started the initiative of opening up the Concur platform. So deep at our core -- in our roots -- we believe that networks, ecosystems, and openness will ensure that our customers get the most value out of their solutions.

Gardner: Because SAP is an early adopter of multicloud, SAP can be everywhere at the most efficient level given what the hyperscale cloud providers are providing with global reach and efficiency. This approach also allows you to service small- to medium-sized businesses (SMBs), for example, essentially anywhere in the world.

Tell me why this long-term vision of a hyperscale-, multicloud-supported future benefits SAP, SAP Ariba, and its customers.

A hyperscale, multicloud landscape

Koch: When you look across the landscape of the hyperscalers and you look at the pace of innovation and the level of scale that that they are able to deliver, our lead time is slashed. We can also scale up and down as required. The cloud benefits apply to speed compared to having boxes installed in data centers, as well as ease in workload variability -- whether it's test variability or our ability to run ML-training models.

The idea that we still suffer multi-month lead times to get our physical boxes installed in our data centers is something that we just can't afford. Our customers demand more.

Thankfully there are multiple solutions around the world that solve these problems while at the same time giving us things like world-class security, geographic footprints, and localized expertise. When a server fails halfway around the world and the expert is somewhere else, the hyperscalers provide a solution to that problem.

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They have somebody who walks through every data center and makes sure that the routers are upgraded, and the switches and load balancers are working the way they should. They determine whether data correctly rests inside of a Chinese firewall or inside of Europe [due to compliance requirements]. They are responsible for how those systems interact.

We still need to do our investment on the applications tier and in working with our customers to handle all of the needed changes in the landscape around data and security.

But the hyperscalers give us a base-level of infrastructure so we don't need to think about things like, "Is our air conditioner capacity inside of the data center sufficient to run the latest technology for the computing power?" We don't worry about that. We worry about delivering value on top of that base-level of infrastructure and so that takes our applications to the next level.

In the same way we were talking earlier about ML and AI freeing up our resources to work on higher-value things, [the multicloud approach] allows us to stop thinking about these base-level things that are still critical for the delivery of our service. It allows us to focus on the innovation aspects of what we need to do.

Gardner: It really is about driving value higher and higher and then making use of that in a way that's a most impactful to the consumers -- and ultimately the whole economy.

I'm afraid we'll have to leave it there. You have been listening to a sponsored BriefingsDirect discussion on how the providers of business solutions and networks are doing more to help companies reach a strategic level of business intelligence and automation.

And we have learned how such business functions as procurement and supply chain management are providing a newfound wellspring from which to deliver insights and to accelerate productivity.

So, a big thank you to our guest, Darren Koch, Chief Product Officer at SAP Ariba. Thank you, sir.

Koch: You got it.

Gardner: And thank you as well to our audience for joining this BriefingsDirect modern digital business innovation discussion. I'm Dana Gardner, Principal Analyst at Interarbor Solutions, your host throughout this series of SAP Ariba-sponsored BriefingsDirect discussions. Thanks again for listening and do come back next time.

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