A Next-Generation Finance Platform at **Carter's**

by **Ken Murphy**, *Senior Features Editor*

Children's Clothing Retailer Simplifies Its Landscape with SAP S/4HANA

For over 150 years, iconic retailer Carter's, Inc., whose brands include the well-known Carter's and OshKosh B'gosh, has been outfitting generations of children. Carter's is the leading brand of clothing items for children in the US — for every child born in the US, Carter's sells the equivalent of 10 products, including bodysuits, jumpers, fleece pajamas, dinosaur shirts, and anything else that can be buttoned, zipped, or fastened to an infant, toddler, or young child.

At a Glance

Goal: Support continued growth by consolidating a fragmented landscape of multiple financial systems, evaluating financial processes, and adopting best practices that align with a modern, integrated solution

Strategy: Implemented SAP S/4HANA Finance

Outcome: Digitized paper-based processes and automated manual data entry; improved procure-to-pay workflow and tracking; enhanced visibility in billings and collections; created significant time savings in the invoice-to-cash process; created more efficient capital planning, tracking, and reporting of fixed assets; and enhanced record-to-report visibility with a synchronized close

With merchandise sold in more than 1,000 company-owned stores, in most large retail department stores, and online, Carter's has hundreds of thousands of transactions touching its financial systems every day. For many years, these transactions flowed through a network of more than 20 legacy financial systems, including a patchwork of homegrown and bolt-on solutions. Manual processes helped to fill in the gaps and blind spots that system integrations didn't address. Enhancing visibility into these processes was a key driver behind Carter's decision to streamline its legacy environment.

Frank Florian, Director of SAP Finance Systems at Carter's, cites managing chargebacks as an example of a manual process Carter's wanted to simplify. "It was a protracted process that involved a lot of data entry and tracking down spreadsheets, folders, emails, and faxes across various systems before a specific chargeback could be reconciled to the appropriate ledger," he says.

With plans for continued growth and a need for improved visibility into a host of financial processes, Carter's kicked off the "Vision to Value" initiative in 2015 with an overarching goal of moving its finance operations into the 21st century to keep pace with an increasingly digital economy and to better serve both the business and customers. While this transition would clearly require moving to a centralized ERP system and decommissioning some outdated systems, Carter's also viewed the project as an opportunity to modernize its financial processes.

"We wanted to transform the role of the finance function from transaction processing to support analytics and decision guidance," says York Rasmusson, Senior Director of Finance Transformation at Carter's. "This meant streamlining and simplifying financial processes so the department isn't so busy creating reports that it doesn't have time to analyze and interpret the results."

Starting to Explore

Prior to retooling its financial processes, Carter's put out a request for proposals for a modern ERP solution that would support a transition to a digital-first approach. The business restricted its search to top-tier ERP solutions that could grow to scale from a transactional standpoint and provide Carter's with the option to migrate other lines of business and functions beyond finance onto the new platform, including supply chain, warehouse management, and order management. To support that goal, the selection committee included members from many business departments, and demo scripts presented to vendors included a variety of process types.

A lengthy evaluation process concluded in mid-2015 with the decision to go with SAP software. Other than the Concur and SAP SuccessFactors solutions that Carter's already had in place, this represented the company's first foray into an SAP enterprise solution. "SAP met our requirements better than any competitor, and it was a clear and rather straightforward decision," says Rasmusson. "We looked at both SAP S/4HANA and SAP ERP 6.0, and we ended up choosing SAP S/4HANA. The main driver for this selection was that the magnitude of this project was such that we didn't want to revisit this decision and have to re-platform one or two years down the road."

Carter's elected to partner with Deloitte as a consultant and systems integrator primarily for its core competencies, which include an auditing background, extensive expertise with SAP implementations, including SAP S/4HANA, and experience helping organizations spearhead process improvements. "Being an auditing firm at its core, we knew Deloitte would have expertise around controls, security, finance, and accounting, but other distinguishing factors were its deep experience in SAP S/4HANA and highly qualified individuals that matched our culture and our people," says Rasmusson. "It comes down to having the right people, and I think we chose well with Deloitte as our implementation partner." (For more information on Deloitte's role in the project, refer to the sidebar at the end of the article.)

According to Rasmusson, the business process redesign that Carter's underwent was just as pivotal to the success of the project as the SAP solution itself. "The very process of implementing a new technology provided Carter's with the opportunity to transform older and inefficient processes into modern, best-practice processes," he says. "To undertake this process transformation in line with a move to a tier one ERP system, we had to benchmark the way that we were doing things against what the best practices dictate."

Taking First Steps

A thorough benchmarking meant questioning the rationale behind every core financial process. Could processes based on existing technology be redesigned more efficiently on a new platform? To maintain a laser-focus on efficiency, the implementation team challenged itself to limit enhancements and customizations for any redesigned processes.

"Our target was to have 10 or fewer enhancements, and we met our target," Rasmusson says. "And those were all user exit enhancements, so nothing difficult to maintain and no modifications. We had excellent executive sponsorship, which enabled us to remain strong in challenging situations where there could have been some momentum toward a modification or customization. Having that executive sponsorship at the C-suite level really helped us stay within scope."

As part of the benchmarking, Carter's also examined how well its non-SAP legacy solutions integrated with the SAP S/4HANA platform to determine whether a process would be better served by remaining on a legacy system rather than migrating to SAP S/4HANA. Carter's defaulted to keeping a process on its existing solution unless migrating to SAP S/4HANA provided clear benefits.

"One requirement for a new ERP solution is that it must interact well with peripheral systems," says Rasmusson. "The question we had to ask was how well the new solution would read what's happening in the business beyond financials by connecting it to order management systems, point of sale systems, or any other upstream system."

Carter's was afforded the luxury of choosing whether to migrate a process because SAP S/4HANA offers integration to multiple data sources from a multitude of both SAP and non-SAP applications, financial and otherwise. Because of this capability, Carter's took the opportunity during the design phase to meticulously go through every financial process to determine whether SAP S/4HANA would add value over the existing legacy system. And for the handful of systems that ran core financial processes, SAP S/4HANA came out on top.

"When you boil it down from the landscape of the 20-plus systems we had, only two or three of them support core financial processes," Rasmusson says. "When it came to those core processes, SAP S/4HANA represented a meaningful change in our ability to service the business over the existing solution."

Off and Running

Carter's went live with SAP S/4HANA Finance in July 2016, with the procure-to-pay, invoice-to-cash, fixed assets, and record-to-report processes among those supported by the new solution. By October 2016, Carter's was wrapping up a hyper-care phase of stabilization and reaching a pre-implementation baseline for tracking key performance indicators (KPIs). "This puts us on terra firma, where we now have a baseline and can

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Carter's, Inc.

Headquarters: Atlanta, Georgia
Industry: Retail
Revenue: $3 billion
Employees: 16,800
Company details:
- Leading brand of children's clothing, gifts, and accessories in the US
- Company history dates to 1865; OshKosh B'gosh, founded in 1895, became a Carter's company in 2005
- Brands — which include Carter's, OshKosh B'gosh, Child of Mine, Just One You, Genuine Kids, and Precious Firsts — are sold in more than 1,000 company-owned retail stores and thousands of retail department stores
- (NYSE: CRI) www.carters.com

SAP solutions:
- SAP S/4HANA Finance
- SAP Ariba
- SAP solutions for GRC
- SAP Invoice Management by OpenText

Aligned for Results: Carter's Collaborates with Deloitte to Transform Finance

In addition to selecting SAP S/4HANA as a foundation for finance transformation, Carter's faced an important decision to make in selecting a partner to help guide the project and implement a solution.

Carter's ultimately chose Deloitte based in part on the firm's ability to deliver business value through technology enablement. Deloitte's "business first" approach addressed the improvements Carter's needed to grow while also meeting finance commitments. The firm also demonstrated deep experience with SAP's current portfolio of offerings, backed by Deloitte's global network of more than 16,000 professionals who focus on SAP solutions.

Carter's and Deloitte collaborated on an agile approach to the implementation, helping to ensure that no more than four to six weeks passed between major milestones. "Our focus was on delivering measurable results that generated value throughout the implementation life cycle — on time and on budget," says Jerry Hoberman, Principal, Deloitte Consulting LLP.

Deloitte's finance transformation and SAP S/4HANA implementation track record was a key factor in Carter's selection of Deloitte. But Deloitte was able to bring more than just technology and business process guidance to the table. The firm's industry-specific retail, finance, and controls-related insights and capabilities helped deliver results. Deloitte also brought the right people for the challenge, working with Carter's to ensure that each key Deloitte team member aligned with in-house talent.

Alignment on minimal customization was important, too. Simplification—combined with a heavy emphasis on organization and user adoption—ultimately was instrumental to the success of the implementation.

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start to optimize and leverage the platform — including exploring how to reduce our time to close, improve our cash cycle, and reduce processing times and other KPIs," Rasmusson says.

Even throughout the stabilization phase, Rasmusson reports several advantages with SAP S/4HANA Finance. For the procure-to-pay process, this includes increased efficiency by eliminating manual data entry. "Invoice approval is a good example," Rasmusson says. "We have better visibility as an invoice makes its way through the building to accounts payable to start the payment process. We've moved from a highly decentralized, paper-based process to a centralized, automated process using workflow and an automated chart of authorization."

SAP Ariba was implemented as a software-as-a-service (SaaS) solution to facilitate the vendor on-boarding process. The future aim of this solution is to provide for capture, workflow, and routing of vendor information to the SAP software, allowing Carter's to focus on business operations rather than technology management.

The automation Rasmusson describes is provided by the SAP Invoice Management application by OpenText, which integrates with SAP S/4HANA. The application enables a centralized invoicing process by scanning, reading, and filing invoices via optical character recognition (OCR), which kicks off an invoice workflow through a preset list of coders and approvers all the way to invoice payment.

As far as the invoice-to-cash process, system-generated tracking of chargebacks and an improved visibility into chargeback status has created significant time savings and efficiencies in billing and collections. "Today, all the information is in the SAP system, so whoever is approving the chargeback can see all the history in one place," Florian says. "And not only do we have that history, but we've automated the process so once a chargeback is approved, it sends a specific chargeback to a specific general ledger."

Likewise, fixed assets has yielded greater efficiency with the elimination of paper forms, manual routing, and spreadsheet dependence. Many of these gains and simplified processes simply weren't feasible in the previous finance landscape. With SAP S/4HANA, Carter's is ready to push the boundaries of what is possible.

"The next year to 18 months is all about continuing to leverage the new platform and the processes that we have put in it," Rasmusson says. "We see a lot of opportunity for future growth, and by replatforming our financial systems and processes on SAP S/4HANA, we're in a much better position to go after it." ∎