Global SAP template strategies are also feasible in Brazil, Russia, India, and China.

Challenge of Localization: SAP Templates in BRIC States

The economy in emerging countries is growing and attracting interest from many companies, but the legal requirements are immense. With a global template approach, companies can also suitably model their business processes in Brazil, Russia, India, and China in their SAP landscapes with calculable outlay. It requires global SAP know-how and local market knowledge, especially in these very demanding countries. Specific project preparation is recommended. Essential for achieving success are a solid, strategy-compliant SAP template, central governance, and a future-oriented IT operating concept.

By Stefan Risse and Oliver Dorsner, cbs Corporate Business Solutions
Globalization and Localization

Besides the major corporations that have been operating for years or even decades, more and more midsize companies are recognizing the need to integrate their branches in emerging markets into the group-wide system landscape. Existing global SAP templates originating from the West are normally used for this, where the aim is to modify the templates only if absolutely essential for the respective company and the business operations in the country. In this respect, it is crucial to know the legal and local requirements and be able to distinguish between the two. The focus is on legal requirements that the standard SAP system cannot cover or the country-specific packages cover only to some extent. These localization hurdles are to be found in every part of the world, albeit to different degrees.

Special Case: BRIC

The “BRIC” states, which include Brazil, India, Russia, and China, are a special case. These are countries that have the most complex legal requirements and a high frequency of legal changes. These are challenges that need to be overcome sustainably; in the implementation project, in reporting, and while running the solution after the go-live. This is why long-term success in these markets hinges not only on specialist knowledge and SAP know-how regarding how the global template has to be modified for the country in question and adopting an efficient approach to introducing SAP into a BRIC country, but also on a forward-looking and sustainable organizational and operating concept.

Brazil

Of the BRIC states, Brazil is considered to be the member with the most complicated legal requirements: Extensive official reporting procedures, such as the statutory “Nota Fiscal”, over 60 different taxes and duties, which are handled differently according to industry and product, a high frequency of legislative amendments, and the extensive specific requirements for legal reporting cause companies to hesitate before making new investments or expanding their locations.

“The Brazilian tax system is extremely complex and the associated constraints are strict,” says Harald Sulovsky, Managing Director of the Heidelberg SAP consulting company, cbs Corporate Business Solutions. “There are also language and cultural barriers that need to be overcome in all BRIC countries.”

Behind the technical exoticism of this South American challenge lie not only the language and cultural barriers but a range of subject areas and unique terms such as Nota fiscal and Nota Fiscal eletrônica (NF-e), Danfe, NCM material classification, tax calculation, CFOP determination, material ledger, SPED reporting, EFD, ECD, Contribuições, and so on. There are various myths about introducing SAP in Brazil, which even include a theory stating that it is impossible to introduce SAP on the basis of templates.

In fact, the opposite is the case. Stefan Risse, Consulting Director at cbs, comments: “Brazil certainly presents the biggest challenge for introducing SAP due to the complexity of its legal and fiscal regulations and the frequency of legislative amendments. But in this case as well, a template-based rollout is the most economical way of implementing a global standard SAP solution. What applies to all countries applies especially to the BRIC states. With a template approach, we can reduce the effort for implementation, training, and change management in the long term. This is important particularly when conveying and introducing such complex fiscal processes like those evident in Brazilian accounting.”

Russia

The challenges faced for a rollout in Russia are the language, forms, numerous paper-based processes, specific import and export processes, as well as tax determination.

There are extensive statutory requirements for forms and reporting that are strictly defined. In the worst-case scenario, non-compliance can lead to an import ban for a product and/or arrest of the chief accountant responsible. The forms are subject to continuous change. Cyrillic writing is mandatory on all official forms. Without the support of Russian native speakers, it is almost impossible to meet the requirements for developing forms.

For each import transaction, the Russian customs authority assigns a product-specific customs declaration number, the so-called “GTD” (Russian for “Customs Declaration Number”), which must accompany the physical material along the entire logistics process and be communicated to the customer on the invoice upon delivery. This requires appropriate intervention in the flow of goods and values in the SAP system.

There are specific legal requirements for individual business processes in financial accounting. It is mandatory to show and pay VAT for free-of-charge deliveries. There are also specifics in asset accounting, in the payment process, for material valuation, and in many other areas.

India

Like Brazil, India also has an extremely complex tax system. Similar to Brazil, tax is determined based on diverse parameters: the location of the company, the region to which goods are sold, the product sold (product classification), and for what purpose the product is sold determine the chargeable tax. The SAP country version for India (CIN) offers the relevant functions to model the legal requirements for taxation. Besides VAT, which is state-specific in India, a Central State Tax (CST) also has to be taken into account, for example. Consumption taxes, in particular the Central Value Added Tax (CENVAT), are another special characteristic.

Legislation in India also demands detailed monthly and annual reporting of financial and fiscal data. The necessary reports are provided by SAP in the country version (CIN).
The cultural characteristics in the various regions of India are important factors for implementing an SAP template successfully. Inexpensive local consultants who are managed centrally, expertly trained, and deployed for specific task packages help to overcome these barriers.

China

Good news here: the legal requirements in China only have an average degree of complexity compared with Brazil, Russian, and India. Like other countries, China has its own requirements for accounting principles (Chinese GAAP) and associated legal reporting. Particular attention should be paid to the availability of a Golden Tax solution and the necessary interface to the SAP ERP system. Furthermore, the China National Audit Office (CNAO) has established the nationally valid Golden Audit Report, which is currently mandatory in the Shanghai region only. The relevant reports as well as documents to Chinese business partners must exist in the simplified Chinese language.

A high degree of complexity is generated primarily by specific business models (free-trade zone, bonded and non-bonded warehouse processes, export VAT reimbursement, etc.), extended authorization concept requirements for accessing centrally stored data, and language and cultural preferences.

As is known, there are considerable language and cultural differences, which is why deploying local consultants can help. However, to ensure that a project is as efficient as possible, support from Chinese consultants can be restricted to a small number of activities that can be separated very well.

Project Preparation with BRIC Briefing

Rollout projects to the BRIC states are set on the right track through dedicated, country-specific preparatory measures. The cbs consultants achieve this at “BRIC briefing workshops”, where they convey the necessary know-how on template-based SAP rollouts and the requirements of the BRIC countries. They indicate which processes can be standardized in this environment. Country-specific characteristics such as legal and fiscal requirements are clearly pointed out from a user perspective and applied to the customer’s situation. Implementation projects and BRIC operating concepts can be well founded, organized, and planned on this basis.

Use of Local Consultants?

Attempting to manage global rollout programs locally involves risks. It is difficult to ensure template governance, which involves controlled, sustainable operation of global standards, and the cost benefits listed in the written offer normally disappear rapidly. What is required is a combination of global quality and local know-how. A central rollout team should act as a steering body and ideally as a sympathetic mediator and preserver of the global template processes and requirements in the country.

Sustainable Operation

Everything does not end after the implementation. Legal changes take place frequently and need to flow into the global template solution continuously and without delay. Global IT needs to plan ahead and find a sustainable organizational solution. Dedicated BRIC support is needed. What must be covered are ERP processes, but also subsystems and country-specific interfaces such as SAP GRC NF-e, which is used for obligatory electronic transfer of the Nota fiscais to the Brazilian tax authority SEFAZ. Such support can be provided cost effectively and with a high degree of quality through selective outtasking to a BRIC specialist such as cbs.

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As experienced program managers, they design and manage global SAP standardization programs and international template rollouts in the BRIC states, Asia-Pacific, the Americas, EMEA/Eastern Europe, and worldwide.

10 Success Factors / BRIC Readiness

- Dedicated project preparation through BRIC briefing
- Global template rollout approach
- Solid, strategy-compliant SAP template
- BRIC integration concept for legal and local requirements
- Established global governance structures
- Central rollout and support team
- BRIC-specific implementation methodology
- BRIC subject-matter experts (SAP)
- Local readiness: language, culture, working methods, and communication
- Sustainable BRIC operating concept