

SUPPLY NETWORK COLLABORATION IN A SOLUTION PROVIDER NETWORK

ENABLING COLLABORATIVE BUSINESS SCENARIOS
OUTSIDE CORPORATE WALLS

SAP White Paper
SAP for Industrial Machinery & Components

THE BEST-RUN BUSINESSES RUN SAP™



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EXECUTIVE SUMMARY

THE IMPORTANCE OF SUPPLY NETWORK COLLABORATION IN A SOLUTION PROVIDER NETWORK

The forces of globalization, macroeconomics, and market demand have combined to transform the face of the industrial machinery and components (IM&C) industry worldwide. No longer are all IM&C manufacturers simply selling products to their customers. To meet the challenges of competition and customer demand, these companies are following a new vision. They are becoming more than just product, parts, and service providers. Around the globe, the industry is shifting toward a new business model: IM&C companies of all types and sizes are transforming themselves into a solution provider network to add value to their product and service offerings.

To equip itself to become a complete solution provider, an IM&C company can join a solution provider network – a global ecosystem of customers, partners, and software developers, all working together to bring continuous value to customers. You can leverage a network – the SAP partner ecosystem, for example – to help you create innovative processes that deliver higher value to your customers by offering turnkey solutions and value-added services.

The transformation to becoming a solution provider network follows three phases. The first two phases include preparing the organization for process integration and then integrating internal enterprise processes. The third phase, which is the topic of this white paper, goes beyond the four corporate walls to enable sophisticated supply network collaboration with your vendors, suppliers, engineers, and financial services organizations. Robust collaborative software functionality enabled by

enhanced supply chain visibility is essential to supporting the service levels offered in a solution provider network. With this functionality, you can develop industry coalitions that lead to new ways to drive more value to your customers.

OUT OF CHALLENGE, MANUFACTURERS MAKE OPPORTUNITY

The new model for IM&C: transition from just selling products and services to becoming a solution provider network

Adapting to new circumstances is a constant challenge for the IM&C manufacturer. Yet, as companies transition from a products and services model to the model of a solution provider network, it is the challenges shaping the IM&C industry today that fuel the impetus toward this business transformation.

The new model addresses directly this challenging question: In a globally competitive environment, how do I ensure profitable growth? Revenues from value-added services often occupy the dominant share of total revenues, and profit margins for value-added services can be much higher than profit margins for product sales.

When functioning as a complete solution provider, a manufacturer can turn to the network for support in addressing the ever-changing challenge of intellectual-property protection and spare-parts piracy. This challenge is often unique to each manufacturer, requiring a flexible solution – and who better to ask than your ecosystem?

Furthermore, a solution provider network answers what is perhaps the IM&C industry's most pressing challenge: meeting ever-increasing customer expectations. The process support and collaborative capabilities enabled by the network help you to speed innovation and bring new products to market faster.

THE POWER TO DELIVER VALUE

What it takes to deliver value: turnkey solutions, optimized value chains, innovative processes, and new technologies

Out of these challenges comes a unique opportunity for IM&C companies to become part of a solution provider network and create sustainable, profitable growth by delivering higher value to their customers. But first, you need to achieve the following.

Deliver Turnkey Solutions

This does not mean simply selling machinery and components; it means providing aftermarket service, support, and other value-added services for that equipment. Today, some of the best-performing manufacturing companies are generating a majority of their revenue from value-added services. As a complete solution provider, you can

leverage your ecosystem to create exponential value for your customers. Solution provider networks present an opportunity for you to collaborate more closely with customers and partners to create new revenue streams – putting up significant barriers to your competition while providing you with a competitive advantage.

Optimize the Value Chain

To deliver more value to your customers, optimized value chains are required. You need to be equipped and able to manage the complexity and dynamics of supply and demand to ensure all members of your value chain network are fully connected and can react with agility to change.

Innovate Processes and Leverage New Technologies

The path to improving total value delivery to your customers leads to innovative processes and the leveraging of new technology. Process innovation is what it takes to master the increase in new-product introductions and ever-shorter sales life cycles. And the use of “mechatronics” – the synergistic combination of machinery, electronics, and embedded software – is one example of new technology adoption that can lead to new-product offerings and increased customer value.

LOOKING BEYOND THE SUPPLY NETWORK

The full advantages of being a solution provider network reach fruition after an IM&C company gains new competencies and uses existing competencies in a different way to harness the power of the network.

One of these competencies is a new mind-set. Manufacturers have focused traditionally on their supply networks. But a complete solution provider must be customer-focused and look past the supply network to the entire value chain and its transformation using globally consistent and integrated processes.

Another important competency is supply network collaboration. As a complete solution provider, you build and manage your business ecosystem within a solution provider network. You have the capability to identify and build alliances and partnerships with other suppliers and consultants and to develop continuous business in partnership with their customers.

This requires effective collaboration, especially as knowledge moves from pricing of product and service items to comprehensive contracts that are based on sharing risks and rewards between your customer and you. You need to enable collaborative business scenarios, such as inventory collaboration with suppliers, design collaboration with engineers, system component and subcomponent collaboration, and business and financial collaboration with financial services organizations. In addition, you may be required to orchestrate the collaborative manufacturing network to deliver complete solutions. To achieve that, you need to employ demand planning at the ecosystem level, not just the organizational level.

A solution provider network requires new competencies, including a new mind-set that thinks past just the supply network.

COLLABORATE TO SUCCEED: THE BENEFITS OF SUPPLY NETWORK COLLABORATION

To stay competitive, the IM&C manufacturer must get the latest products with the latest features out into the market before the competition. The last obstacle you need is endless, back-and-forth collaboration with your suppliers to define designs and reach final agreements.

To get their products to market faster, IM&C companies aspiring to participate in a solution provider network start by improving the efficiency of their bidding process. This is especially important when you are sourcing specialty components for which the vendor universe is generally small and the bidding process is highly collaborative. In these transactions, engineering drawings frequently accompany requests for quotations, and these may require back-and-forth collaboration to refine designs and specifications. Using your extended ecosystem, you can make bidding process improvements that streamline vendor collaboration, allowing you to move swiftly from design into production.

In a July 2007 Aberdeen Group sector insight report, it was noted, "Supply chain visibility ranks as one of the top two application focus areas for companies as part of their supply chain technology investment plans."¹ The report goes on to say that just having visibility is not enough to handle the constant change; companies striving to be complete solution providers need to go beyond supply chain visibility and into the realm of integrated, collaborative planning and response management.

Although most IM&C companies have some degree of visibility into the supply chain, most lack the ability to move from pure visibility into both disruption and response management. And they lack capabilities for customer collaboration and planning collaboration. A solution provider network supports the collaboration functionality needed for these beyond-sight levels of supply chain management:

- In supply chain disruption management, employees receive proactive alerts if production and demand events do not go as planned. To correct the deviation, disruption management provides escalation workflow and problem resolution functions. The Aberdeen report cited earlier points out the following: "Effective disruption management improves on-time delivery performance and lowers expediting costs."²
- In supply chain response management, the use of supply chain information can identify and stop causes of delay, and it can help manufacturers rapidly respond to changes in supply and demand. Response management analyzes data very quickly to understand the impact of the delay and to take proactive action to minimize it. The Aberdeen report observes, "Effective supply chain response management reduces lead times and variability, enables lower inventory investment, improves customer satisfaction and revenue attainment, and cuts supply chain costs."³

Today's supply chain management goes beyond just visibility to support integrated collaborative disruption and response management.

Going beyond visibility to support collaborative supply chain disruption and response management is just one arrow in the quiver of a solution provider network. Others include manufacturing integration and intelligence, sales and operations planning, and productivity enhancement tools – and all of these are supported by solutions from the SAP for Industrial Machinery & Components (SAP for IM&C) solution portfolio.

1. Nari Viswanathan, "Beyond Supply Chain Visibility: Response Management Is the Key," Sector Insight Report (AberdeenGroup, July 30, 2007).

2. Ibid.

3. Ibid.

ENABLING A SOLUTION PROVIDER NETWORK WITH SAP® SOLUTIONS

To meet the needs of its ecosystem, SAP continually interviews thought leaders and industry experts to understand the challenges and changes you face today. This knowledge, amplified by SAP's worldwide customer experience, has resulted in the most comprehensive portfolio of solutions for the IM&C industry – SAP for IM&C.

In terms of supply network collaboration, SAP for IM&C solutions facilitate real-time collaboration at every level, including engineering designs at all stages – from initial design to bidding to production. In addition, the robust SAP NetWeaver® technology platform integrates non-SAP and SAP® applications easily for a lower total cost of ownership. The SAP Business Suite family of business applications – built on SAP NetWeaver – offers powerful, adaptive business solutions with best-of-breed functionality and support for collaboration over the Web. And composite applications from SAP enable continuous business innovation.

All of these solutions empower a solution provider network. They are open, based on established industry standards, and have a broad set of functionality seamlessly integrated within them. Because SAP solutions support enterprise service-oriented architecture (enterprise SOA), the processes you develop to drive higher value for your customers are reusable and repeatable, making them highly cost-effective. These are the solutions enabling the next generation of a solution provider network today.

Collaborate with SAP Today

To learn more about supply network collaboration and SAP functionality that enables solution provider networks, such as sales and operations planning or productivity enhancement tools, consult with your local SAP representative or visit SAP at www.sapmanufacturing.com.

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