

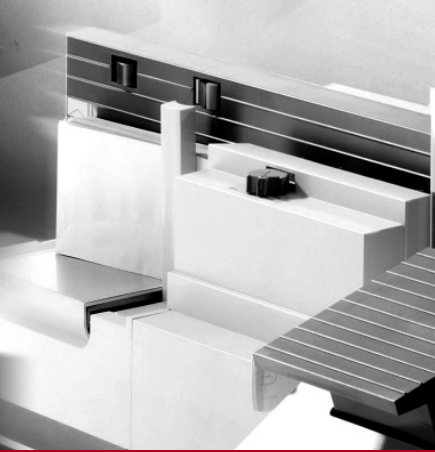


## **FRANCOTYP-POSTALIA TRANSFORMING THE POSTAL EQUIPMENT BUSINESS WITH mySAP™ CRM**

### **BUSINESS TRANSFORMATION STUDY**

Francotyp-Postalia,  
Partnering with SAP,  
Improved Order Handling  
and Service Management  
to Enhance Its Competitive  
Advantage





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# FRANCOTYP-POSTALIA

## AT A GLANCE

### Profile

<b>Company</b>	Francotyp-Postalia AG
<b>Location</b>	Birkenwerder, Brandenburg, Germany
<b>Industry</b>	Industrial machinery and equipment
<b>Revenue</b>	€ 148 million (FY 2005)
<b>Employees</b>	890 (FY 2005)
<b>Web Site</b>	<a href="http://www.francotyp-postalia.com">www.francotyp-postalia.com</a>
<b>SAP® Solutions and Services</b>	mySAP® Customer Relationship Management application (interaction center and mobile sales and service functionalities) and the mySAP ERP application
<b>Implementation Partner</b>	SAP Consulting

With 230,000 customers including businesses and public sector organizations, Francotyp-Postalia AG is a leading producer of franking machines for the outgoing mail market. The company also produces inserting machines and sells mail-processing services and supplies. Francotyp-Postalia – the market leader in Germany – has been in business for more than 80 years and is growing internationally by building on its reputation for high-quality products and excellent service.

### Key Challenges

- Secure market share in Germany
- Provide excellent service while improving productivity
- Simplify and decentralize order taking capabilities
- Improve call center performance and reduce customer wait times
- Expand after-sales business, strengthen existing customer ties, and profit from attractive margins

### Why SAP Was Selected

- Strong functionality that supports the postal equipment business, including flexible configuration of products when orders are placed
- Integration with existing SAP software landscape
- Security of IT investment
- Efficiency of acquiring the software application and consulting from the same source

### Implementation Best Practices

- Minimized disruption to existing business
- Realized quick time to value
- Established steering committee with members from executive management
- Leveraged standard ASAP methodology

### Low Total Cost of Ownership

- Eliminated multiple legacy systems
- Adhered to budget
- Minimized change management costs
- Rapid and on-time implementation phases

### Financial and Strategic Benefits

- Planned internal rate of return of 24.5% and payback period of 2.9 years
- Defended market share in Germany
- Increased contribution margin from service
- Implemented flexible contract management with usage-based billing

### Operational Benefits

- Achieved full visibility of service-related orders and reduced associated errors and duration of billing cycle
- Streamlined call center processes
- Enabled call center agents and sales staff to view all pricing conditions and configure orders
- Improved high-level scheduling and efficiency of field service technicians
- Reduced systems call center agents use from 3 to 1



**“We were seeking a standardized, company-wide overview of all customer-related processes. This would allow us to seamlessly handle every task, improve service, and enhance customer retention.”**

Ulrich Willms, Project Manager, Francotyp-Postalia AG

## KEY CHALLENGES

### Market Leadership in Germany and Global Growth Opportunities

With a reputation for high quality and reliability since its origins in 1923, Francotyp-Postalia AG (FP) is a leading manufacturer of franking<sup>1</sup> and inserting machines for the outgoing mail market. The company has market share in Germany of over 45% (more than any other firm) and is active in more than 75% of the global market.

FP has sales locations throughout Germany and is represented in Europe, North America, and Asia by its subsidiaries and trading partners. About 230,000 customers (110,000 of whom are in Germany) – in various industrial firms, retail businesses, service organizations, and the public sector – rely on Francotyp-Postalia products. The company is bringing new products and services to market as the liberalization of global postal service markets continues.

FP was founded in 1983 from the merger of Francotyp (established in 1923) and Postalia (formed in 1938). Today, one in 10 approved franking machines worldwide comes from the company's production facility in Birkenwerder, near Berlin. Products from FP are certified by national and private postal service providers to assure smooth automated mail handling in mail distribution centers.

FP focuses on developing and protecting its technology, which contributes to both its reputation as a premium vendor and its competitive advantage. Spending for research and development has averaged about 7% of revenues in recent years, compared to an industry average of about 4%. The company now owns over 1,100 individual trademark rights, of which over 800 are patents or patent registrations.

### Importance of After-Sales Revenues

In fiscal year 2005, FP achieved total revenues of €148 million and its annual growth rate in recent years has been over 9%. An important and stable source of profitable revenue growth for FP is its after-sales business, comprising sales of consumable supplies (such as ink cartridges) and services required by customers (such as outsourcing of invoicing and other recurring communications). The after-sales business represents almost 64% of total revenues and is thus a crucial area of focus.

1. A franking machine places a mark on a mail item to show that postage has been paid.

### Competition and the Need to Defend Market Share in Germany

In Germany, FP has five competitors, two of which hold about 44% of the market – and there are high barriers to entering the market. The market in Germany is dominated by just three vendors and any one of them can influence prices and materially impact the performance of its competitors.

Given the nature of the market, FP is not focused on market share growth in Germany. Rather, the company focuses on defending its existing 45% share and increasing contribution margin – particularly in its after-sales business. By achieving success in Germany, FP will secure its key revenue stream and be well-positioned to exploit growth potential in the franking machine sector in other important national markets, particularly the United States and Great Britain.

### Importance of Excellent Customer Service

FP wins and retains customers largely because of the high quality and reliability of its franking and inserting machines, its products' low total cost of ownership (particularly when accounting for after-sales items, such as consumables), and the ease of use of its technology.

The company recognized that in Germany technology excellence alone was insufficient to defend market share and achieve contribution margin objectives. FP also realized that it needed to focus on deriving a competitive advantage from superior service to customers – and to improve efficiency of that service.

FP believed it could also garner a competitive advantage by implementing usage-based billing for its franking machines. A segment of the customer base was attracted to this option because it offered more flexibility and potential cost savings.

### **Enhancing Order Handling Capabilities**

FP needed to first improve its order handling capabilities. The order handling process was enabled by the sales and distribution application in the company's existing SAP® R/3® software, which used variant configuration to support product tailoring and order fulfillment for the company's franking and inserting machines. (SAP R/3 functionality is now found in the mySAP™ ERP application.) Order handling, particularly for franking machine orders (about 10,000 per year), had been a complex and centralized administrative process, requiring specialized knowledge for addressing product configuration and handling pricing conditions. It wouldn't have been efficient to train field sales staff and call center agents to execute orders using this particular system, though distributing order handling capabilities more broadly in the organization was desirable from a customer service perspective.

For recording sales orders and related data FP had three databases, which included one system for supporting direct sales staff, a second system containing all orders and contracts, and a third system for call center agents to access sales and service information. The fragmented information prevented FP staff in Germany from getting a complete view of customer data and impeded them in responding effectively to customers regarding sales and service issues.

### **Improving Field Service**

There were opportunities to improve field service as well. It was important to schedule field service such that a technician qualified to service a particular machine was available – and to ensure optimal utilization of field service staff. Scheduling had been done by paper-based processes and management believed that there were opportunities to improve efficiency.

### **Decision to Implement a CRM Solution**

FP recognized that process enablement by a contemporary customer relationship management (CRM) solution would help address its immediate requirements to improve order handling processes, enhance its deployment of field technical staff, and implement enhanced contract administration. Moreover, by leveraging more complete and accurate customer information, a robust CRM solution would enable improvements to the company's marketing efforts. This would allow the company to execute better-targeted campaigns to help develop both its after-sales service business and other enhancements that would improve margins.

In short, FP sought a CRM solution that would unify its German operations to achieve a stronger customer focus. “We were seeking a standardized, company-wide overview of all customer-related processes,” says Ulrich Willms, project manager at FP. “This would allow us to seamlessly handle every task, improve service, and enhance customer retention.”

## WHY SAP WAS SELECTED

### **Robust SAP Applications Support the Postal Equipment Business**

FP has been a satisfied SAP customer for many years and completed a successful SAP R/3 software implementation. Nonetheless, FP investigated various solutions available for improving order handling, contract management, service function, and marketing processes. Following a careful analysis, management decided that SAP software is superior to other solutions – and that SAP Consulting should be the implementation partner to ensure the most effective implementation.

In particular, the mySAP Customer Relationship Management (mySAP CRM) application can support flexible contract management and usage-based billing – plus the application integrates with the existing SAP software for financials. By using contract management functionality, FP would gain an advantage over those competitors that had not established similar processes. Of course, mySAP CRM integrates better with SAP R/3 software than alternative solutions – and using SAP Consulting ensures a single source for resolving technical issues. So integration and implementation factors favored both SAP applications and consulting expertise.

FP had been using SAP R/3 software–based variant configuration in its order taking process to facilitate flexibility of final franking and to configure inserting machines. But the order taking functionality in mySAP CRM was much easier to use and retained integration with SAP R/3 software. The superior ease of use allowed FP to increase the number of its order takers by including sales staff and call center agents, improved order taking efficiency, and made customer service more effective.

**“We can now offer our customers flexible contract management and have thus achieved a new level of customer retention.”**

Pascal Miet, Director of International IT and Process Management, Francotyp-Postalia AG



# IMPLEMENTATION PROCESS AND BEST PRACTICES

## Rapid Completion of Two Implementation Phases

FP established two major project phases to ensure that the implementation addressed business requirements, minimized disruption during the technical migration from legacy systems, and delivered value quickly. The company leveraged the ASAP methodology (a standard approach from SAP for implementations of its software) to execute the implementation. The complete implementation was supported by SAP Consulting.

In the first phase, the company implemented the mobile sales and interaction center functionality of mySAP CRM, migrating customer and product data from the three legacy systems and consolidating the data in the new system. This phase was completed in six months. A key focus was providing central and complete contract information to support call center agents, implementing the usage-based billing functions in contract management, and implementing computer-telephony integration (CTI). “We can now offer our customers flexible contract management and have thus achieved a new level of customer retention,” says Pascal Miet, director of international IT and process management at FP.

In the second phase, which began one month after the first phase started, FP implemented mySAP CRM service functionality for call center agents and field service staff – and continued rolling out contract management functions. This phase lasted 11 months, which is relatively rapid given the phase’s scope and complexity.

## Strong Governance and Project Management

FP had very strong governance and project management. The company established a steering committee consisting of senior executives in various functions. And it organized project management to strongly support tasks necessary to successfully implement mySAP CRM – assigning specific responsibilities for areas that included sales, service, contract management, and data migration. By achieving high-level guidance – and establishing a structure to ensure efficient execution – the company was able to meet business requirements and complete the project with minimal disruption to the organization.

## Solid Relationship Between SAP Consulting and FP

FP engaged SAP Consulting as its implementation partner. The SAP team of specialists played a leading role in designing the blueprint to serve as the project’s foundation, which was based on a mapping of business processes enabled by mySAP CRM. “Our CRM project stayed on schedule thanks to the active support of SAP consultants and, in particular, very good project management,” says Miet.

## IT Architecture of Francotyp-Postalia

<b>SAP® solutions</b>	mySAP™ Customer Relationship Management (interaction center and mobile sales and service functionalities) and mySAP ERP applications
<b>Operating system</b>	Microsoft Windows 2000 Server
<b>Server technology</b>	HP DL580



**“Our CRM project stayed on schedule thanks to the active support of SAP consultants and, in particular, very good project management.”**

Pascal Miet  
Director of International IT  
and Process Management  
Francotyp-Postalia AG



# BUSINESS PROCESS TRANSFORMATION AND VALUE REALIZED

As a result of the mySAP CRM implementation, FP is defending its market share in Germany, achieving greater margin on sales, increasing its services revenue, and helping its customers achieve value. The implementation is planned to achieve an internal rate of return of 24.5%, with a payback period of 2.9 years. The specific outcomes achieved were as follows:

- Delivered value for customers through flexible contract management with usage-based billing
- Decentralized franking machine orders
- Improved order process for items such as spare parts and consumables
- Enhanced call center performance
- Improved field service performance
- Reduced net IT costs

The detailed results are as follows.

## Delivered Value for Customers Through Flexible Contract Management with Usage-Based Billing

FP migrated from a customized contract management solution based on SAP R/3 software to a contract management solution based on standard functionality in mySAP CRM. The new contract management system can collect data for new contracts and handle transaction-based changes to the existing contract – for example, changes to the due date, prices, terms, and service level agreements – and mass changes to multiple contracts. FP manages about 100,000 active contracts and makes changes to 10,000 of the contracts each month. As a result, flexible contract management is very important to FP’s business success.

In addition to eliminating the very high cost of having to maintain customized software, FP is achieving a competitive advantage with the new system by implementing usage-based billing. Thus, customers were given the option – not available from FP’s competitors – to be billed based on franking machine utilization (versus having to enter a more standard purchase or rental agreement). This provided unique value for customers, supported FP’s customer retention goals, and solidified FP’s market position in Germany.

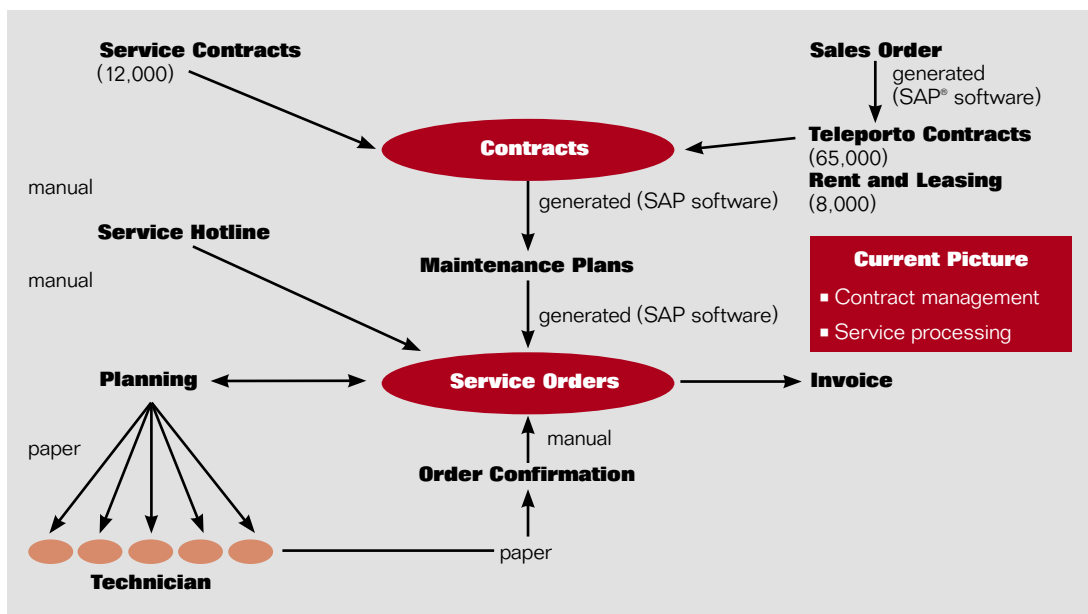


Figure 1: Contract and Service Processes

**Decentralized Franking Machine Orders**

Since mySAP CRM has substantial ease of use for order taking – and integrates with variant configuration in SAP R/3 software – FP was able to expand the number of staff who could take orders for franking machines. “We took order management from the back office to the front office,” says Willms. “By expanding order handling to field sales staff and call center agents, we’re more efficient and better able to enhance cross-selling and up-selling. We can thus maximize our sales opportunities.”

Field sales staff and call center agents are now able to configure franking machines when they enter orders, view all pricing conditions (exploring options and ensuring that the price is correct), and make a machine and contract offer to a customer when stock is available. The sales, contract, and financial information is automatically updated in the system, field installation is scheduled, and appropriate documentation is generated for order completion. As a result of achieving streamlined processes, the company was able to redeploy order handling back-office staff.

**Improved Order Process for Items Such as Spare Parts and Consumables**

FP was able to greatly accelerate and simplify other types of order handling. Spare parts replenishment is now handled automatically by SAP applications as parts are consumed. Orders for service (about 45,000 per year), orders for consumables (40,000 per year), and orders for creating second plates for company images such as logos (10,000 per year) are all handled through fast order-entry screens in mySAP CRM. This eliminates the need for paper-based processes and handling these orders twice.

**Enhanced Call Center Performance**

Through the implementation of mySAP CRM, FP made significant improvements to its call center operations. The 25 call center agents in Birkenwerder have shifted from using three separate systems to using one that provides complete visibility of all sales offers, contracts, and service call activities. The system is supported by CTI, so that callers have a single number to call for service – and information about incoming callers is immediately made available to agents on a single screen. Moreover, the system classifies the callers according to their sales activity and volume, which improves the ability of the call center agents to provide high-priority responsiveness when warranted.

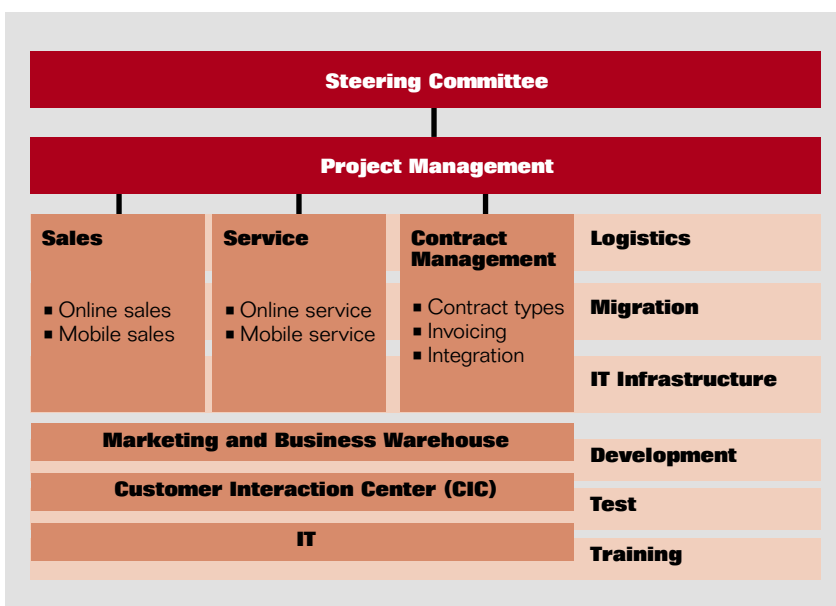


Figure 2: Project Organization

### Improved Field Service Performance

Through the implementation of the mobile service functions in mySAP CRM, FP has improved the effectiveness of its 70 field service technicians in Germany. About half of the field work is defined in the contract and can be planned in advance, while the other half is based on service calls to the call center. While the technicians are still able to schedule their visits within the course of a day, the high-level scheduling – which takes into account technician skills on various machines as well as availability – is done through the resource planning functions in the SAP software.

As a result of the implementation and elimination of paper-based processes, mobile technicians can now enter their service orders on their laptops and receive electronic confirmations. Also, the technicians have access to warranty and contract information – plus they can electronically transmit usage readings from meters – which improves their efficiency at customer sites. Now, customers are more satisfied, less back-office administration is required, errors have been eliminated for metered usage data, travel costs have been lowered, and integration with SAP software-based financial processes has reduced the duration of the billing cycle.

### Reduced Net IT Costs

FP was able to reduce some IT costs through the implementation. There was no longer any need to pay an external contractor to maintain the legacy SAP R/3 software for contract management or to provide updates. Also, the cost for data and system maintenance covering the three legacy systems was no longer needed. In total, the IT cost savings are about €60,000 per year. Additionally, FP eliminated the risk of any system failure it faced with operating the legacy systems – an estimated €100,000 per year in a risk-adjusted savings.

FP needed to add one IT staffer to maintain the new systems, and because of CTI and the implementation of mobile ISDN communication capabilities for the field, the company experienced higher telecommunication costs of about €43,000 per year. This cost was factored into the ROI analysis.

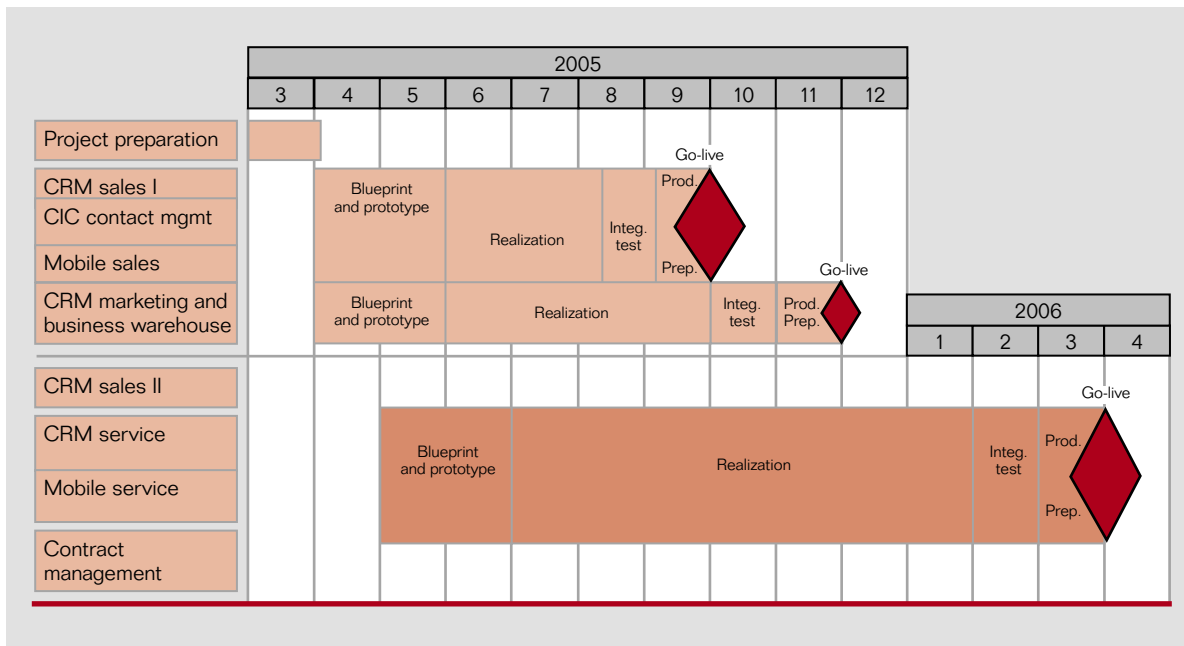


Figure 3: Project Phase Planning

### FP Improves Critical Processes

The following table captures examples of processes that improved as a result of the implementation – and the consequences of these changes.

Process Area	Problems	After SAP® Software	Impact
Order handling	<ul style="list-style-type: none"> <li>Highly centralized and complex processes</li> <li>Double entry of orders due to paper-based processes</li> </ul>	<ul style="list-style-type: none"> <li>Simplified order handling based on the mySAP™ Customer Relationship Management application</li> <li>Integrated with back-end variant configuration in SAP R/3® software</li> </ul>	<ul style="list-style-type: none"> <li>Expanded population of order takers</li> <li>Faster order entry for simple products, such as consumables</li> <li>Improved customer service</li> <li>More efficient staff resource utilization</li> </ul>
Contract management	<ul style="list-style-type: none"> <li>Information about contracts was stored in several databases and difficult to access</li> <li>Needed to efficiently manage 100,000 active contracts, 10,000 of which needed to be changed each month</li> </ul>	<ul style="list-style-type: none"> <li>Centralized contract management</li> <li>Implemented usage-based billing</li> </ul>	<ul style="list-style-type: none"> <li>Full visibility of customer contracts, FP responsibilities, and expiration dates</li> <li>Ability to offer usage-based billing (competitors didn't offer this)</li> <li>Better ability to plan service provision and to forecast revenue</li> </ul>
Field service	<ul style="list-style-type: none"> <li>Inefficient scheduling of field service staff</li> <li>Lack of availability of technicians skilled to service specific equipment</li> </ul>	<ul style="list-style-type: none"> <li>Improved high-level scheduling</li> <li>Enhanced visibility into technician activities</li> </ul>	<ul style="list-style-type: none"> <li>Efficient deployment of field service technicians</li> <li>Higher probability that right technician is available for specific equipment</li> <li>Improved productivity</li> <li>Capture of key information for subsequent transactions, including machine serial number and delivery date</li> <li>Efficient collection of meter readings and digital signatures from customers</li> </ul>

## FUTURE ROAD MAP

FP expects to pursue the following specific initiatives:

### Enhanced usage-based billing

Usage-based billing, which is enabled by SAP applications and is unique to FP in the market, affords a competitive advantage. The company plans to continue developing and marketing this capability, so that it adds value for customers and distinguishes FP as a provider of innovative services for franking machine users.

### Service cost analysis

FP plans to use the business warehouse functionality in mySAP CRM to analyze its service costs – particularly warranty costs. This will ensure that FP can plan its resources to render warranty service, that internal accounting for warranty reimbursement (from FP's sales to its manufacturing subsidiaries) is handled properly, that manufacturing quality is continuously improved through analysis of product issues, and that net costs will be lower.

### Campaign management

About 50% of FP's sales are recurring revenue, and FP wants to support this revenue stream. The business warehouse analysis of its contracts – and a determination of which contracts are up for renewal – will support FP's implementation of the campaign management functions in mySAP CRM. This will allow FP to better target its customer base and to tailor communication about its products and services, facilitate cross-sell and up-sell opportunities (particularly for customers with older machines), and help to ensure that it secures contract renewals and upgrades.



## LESSONS LEARNED

As the implementation progressed, FP found that the following tenets are key to success:

### **Address change-management issues.**

Strong support and consistent communication from senior level management was essential to ensure buy-in from the organization in Germany – including call center agents and field service – in which individual roles were changing significantly.

“By securing executive support, we addressed the fact that we were experiencing a significant cultural change in our organization through CRM implementation,” says Willms.

### **Prepare data before migration to new systems.**

Ensuring the accuracy of data – particularly data supporting the complex contract management implementation – was essential to ensure a smooth migration to mySAP CRM. By minimizing redundancies and errors in the original data, FP was able to ensure that its sales staff, call center agents, and field service technicians could fully perform their contract-related duties as the new systems went live.

### **Sustain data discipline.**

Throughout the implementation, it was essential for staffers to maintain a disciplined approach and thereby ensure that data was complete and accurate. The system’s success was fully dependent on maintaining error-free data about customers, contracts, and services rendered.

**“By securing executive support, we addressed the fact that we were experiencing a significant cultural change in our organization through CRM implementation.”**

Ulrich Willms

Project Manager

Francotyp-Postalia AG

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