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IT Strategies to Turn Your Business Network into a Competitive Advantage

Fortune magazine recently profiled the 25 most powerful people in business. There at the top, ranked #1, was Steve Jobs. Why does *Fortune* cite the chairman and CEO of Apple as the most powerful businessman in the world?

“That’s five industries that Jobs has upended — computers, Hollywood, music, retailing, and wireless phones. At this moment, no one has more influence over a broader swath of business than Jobs.”
— *Fortune*, 2007

Also on the list are the heads of Procter & Gamble, Exxon Mobil, Microsoft, General Electric, HP, Cisco, Wal-Mart, PepsiCo, Toyota, Tata Group, and Disney. In addition to strong leadership, these companies have another common trait — they leverage their network of customers, suppliers, and partners to deliver superior customer value. They have transformed business practices by sharing people, processes, information, and systems for collaborative product innovation (P&G and Apple), teamwork in oil exploration (Exxon Mobil), and trusted distributor and supplier management (Cisco and Toyota), to name a few.

This kind of transformation is not limited to companies on *Fortune*’s list. In every industry across the globe, companies are improving their bottom line by focusing on what they do best, while partnering with others who have superior expertise and cost advantage to provide the other elements. Moreover, they are growing their top line by assembling customer-focused solutions that incorporate internal and partner products and services. Companies are driving competitive advantage by orchestrating a network of relationships, and these networks bring unique capabilities to deliver compelling customer solutions.

In the following sections, we will explore the drivers of this global trend — **business network transformation** — and the resulting business and IT challenges that executives should address to succeed in the new environment.

Forces That Shape Your Business Network

Several powerful economic, social, and technological forces are reshaping linear value chains into interdependent business

networks. Think about the ways in which your company innovates, produces, markets, sells, delivers, and supports its offerings differently than in the past. A look across several industries reveals the following drivers and key questions for discussion:

More empowered, better-informed

customers — Today, customers across many sectors, from consumer products and automotive to industrial products and chemicals, have a wide array of choices and information at their fingertips. Trends propagate faster through online consumer forums and trade communities, where customers can instantly access product and service reviews and locate the right offering at the right price. To succeed, companies such as P&G and Apple have deepened their understanding of customer segments and have orchestrated a customer-focused business network to deliver on shorter product life cycles. *How will you orchestrate your business network to meet the speed of innovation that your customers require?*

Business network transformation

signifies the way in which companies are leveraging their business networks for competitive advantage. Each company in the business network contributes what it does best — its unique value add — and the sum of these contributions produces customer solutions that none of the network participants could have brought about alone.

Globalization and deregulation — These trends have opened access to new markets for sourcing and selling, but they have also lowered entry barriers for competitors. To succeed, companies like Nokia are adapting their offerings for specific regions and are tapping into a global pool of talent and innovation. Nokia continues to grow its market share in China and India, despite local and international competition, by orchestrating its demand chain of more than 130,000 local retail partners through local means. *How can you compete in a global marketplace and adapt to local product innovation and go-to-market needs?*

The changing nature of a global workforce – People work at a much faster pace today than we’ve seen in previous generations. Labor is highly specialized and computer savvy, not hindered by company or geographic boundaries. This requires a new level of collaboration to deliver customer value. *How can your employees collaborate with customers, suppliers, and partners on a global scale to keep pace with your competitors?*

Advances in IT – While the notion of business networks is not new, technology has matured to a point where scalability in coordination and collaboration across these networks is finally a reality. Companies are using this scalability across business entities to coordinate business processes on a global scale. Successful companies like Whirlpool leverage IT as a strategic weapon by creating an open business process platform for end-to-end processes; they can then flexibly change their processes to meet evolving business needs. *How will you leverage recent advances in IT to power your business network?*

These forces require companies to evolve from rigid “built-to-last” value chains that cannot deliver quickly on changing customer needs into “built-to-adapt” business networks that are orchestrated around rapidly changing customer solutions.

From Built-to-Last Linear Chains to Built-to-Adapt Business Networks

So how are business networks different from linear value chains? Value chains focus on optimizing the next element in the chain, thereby increasing distance to the end customer and slowing the transmission of customer feedback and innovation. On the other hand, business networks are customer-focused ecosystems orchestrated around customer needs; they accelerate innovation and quickly reduce costs (see **Figure 1**). Business networks are also more flexible and dynamic. Companies that orchestrate networks shift business practices in the following ways:

- **From consolidation and efficiency to agility and innovation:** Linear value chains are focused on consolidation and efficiency, with relatively stable requirements from intermediate customers. In business networks, however, companies must remain agile to adapt to customer needs and evolve their role and business processes, often blurring traditional industry boundaries. Apple, for example, has understood its customer segments and has evolved into retailing, while outsourced manufacturers in many industries have climbed up the value chain to become product innovators.

- **From command and control to connect and collaborate:** In a world of adjacent, tightly managed suppliers, it was relatively easy to define and execute relationships through command and control transactions, such as contracts, delivery schedules, and purchase orders. To deliver customer-focused solutions in a business network, companies need to connect and collaborate more closely. This requires companies to share goals and risks with their network partners via service-level agreements (SLAs), and to share critical information and expertise across the network. The media industry is an unfolding example of this collaboration; companies are sharing benefits and risks as they bring digital content to customers across online, mobile phone, and television networks.
- **From internal R&D to co-innovation:** To keep pace with global competition, companies need to co-innovate with partners, suppliers, customers, and even competitors. Today external collaboration plays a key role in 50% of P&G’s products. SAP is also a noteworthy example of co-innovation with its ecosystem of customers, independent software vendors, technology titans, and implementation partners.
- **From uniformity to diversity:** In linear value chains, companies applied similar business processes across all regions and divisions to replicate capabilities. In business networks, companies embrace diversity as they flexibly tailor their customer solutions to variations in the needs across regions and market segments. Nokia, for instance, adapts its product offerings for local needs by embedding torch lights in its phones and providing dust-proof keypads. The company also distributes its products according to local market structures and means.

While the benefits of business network transformation have been well debated, the IT capabilities required to create “built-to-adapt” business networks need to be better understood.

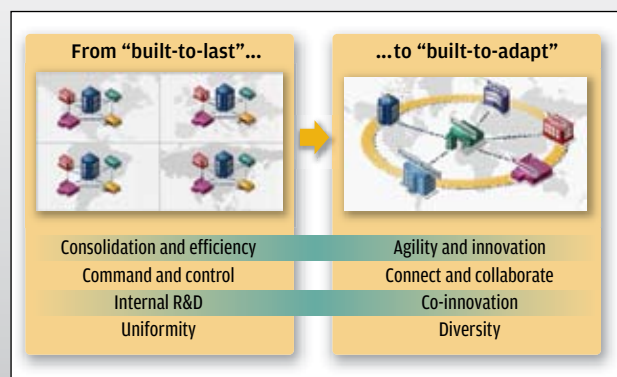


FIGURE 1 ▲ The old built-to-last vs. new built-to-adapt models

Let's consider the IT perspective, along with SAP's capabilities to help you prepare for this transformation.

SAP Can Prepare You for Business Network Transformation

How can SAP customers prepare – from an IT standpoint – for business network transformation? SAP can help companies use IT strategically, allowing them to optimize performance across the business network. The following lessons learned from successful customers provide a good model for the journey.

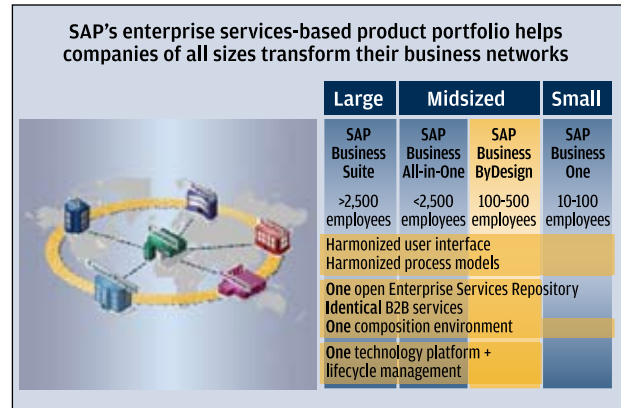
Lesson #1: Deploy a business process platform for your business network. Instead of focusing on the next tactical middleware or application purchase decision, leading companies choose to deploy a strategic business process platform that integrates applications and middleware technologies to deliver end-to-end business processes on one open platform. SAP helps companies of all sizes establish their business process platform through SAP Business Suite for large enterprises, SAP Business ByDesign and SAP Business All-In-One for midsized companies, and SAP Business One for small companies (see **Figure 2**).

Lesson #2: Extend your business process platform to customers, suppliers, and partners. Business process platforms can support multi-enterprise processes through business process integration and scalable composition across customers, suppliers, and partners. With business process steps available as reusable building blocks in the Enterprise Services Repository, SAP NetWeaver Process Integration provides technically simple ways to connect processes across the business network. And SAP NetWeaver Composition Environment, enhanced with new business process management capabilities, provides business process flexibility through model-driven composition tools.

Lesson #3: Manage risk and optimize performance across the business network. As companies seek to optimize their processes across the business network, visibility into risk, compliance, and performance are essential to make insight-based decisions. Business Objects, an SAP company, provides performance optimization applications, leveraging structured and unstructured data and business processes in SAP and non-SAP systems to provide actionable insights for closed-loop execution across the business network.

Lesson #4: Empower your business users. Business users need to work in their user environment of choice for maximum productivity. And they need to collaborate on information and processes within their communities. Rather than force change in user

FIGURE 2 ▼ SAP enables business network transformation for all segments



behavior, companies can enable collaboration and increase productivity by bringing processes and analytics to familiar user environments. Whether it is an electronic, forms-based process (such as a supplier responding to purchase orders through SAP Interactive Forms by Adobe) or the latest collaboration capabilities in the SAP NetWeaver Portal (where customer, supplier, and employee communities can be formed), or a business user executing processes through Microsoft Outlook (Duet) or Lotus Notes (Project Atlantic), you can empower the business user to access the same business process and information in a consistent way without building redundant IT infrastructures.

Conclusions for Business and IT: Sustaining Competitive Advantage

As the traditional sources of competitive advantage wither away, companies across the globe are discovering the power of business networks. The ability to orchestrate and participate in these networks helps companies in two ways:

1. It expands the top line, as companies can meet customer needs with higher value offerings and innovations sourced from internal and external resources.
2. It improves the bottom line, as companies can cut costs by focusing on their core strengths and outsourcing non-differentiating tasks to more partners on a global scale.

Orchestrating these business networks requires a new IT architecture and strategy. It begins by establishing an open, service-enabled business process platform. This allows companies to reuse capabilities and rapidly compose new processes to integrate with partners and drive cross-enterprise business performance. Analytical capabilities then provide closed-loop performance execution, making visibility, decision making, and collaboration possible across the business network. ■