Industries

Unlocking New Business Value with SAP's Industry Strategy

Empowering Companies to Engage in Multi-Industry Value Chains – Quickly and Cost-Effectively

The Best-Run Businesses Run SAP™

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Surviving and Thriving in Today's Challenging Business Environment

For nearly 200 years, most of the world's industries evolved at a slow and steady pace, isolated from external forces and disruptive technologies. But in the past 20 years, forces ranging from globalization to deregulation to consumer-driven technologies have converged, forcing companies in every industry to find new ways of developing products and services customers want and need. At the same time, the terms of customer engagement have changed dramatically – from sellers having all the power to buyers assuming more control. And this is challenging companies in new and unprecedented ways.

In the old model, sellers dictated what was available, when it was available, how it was available, and the price at which it was available. But today, the balance of power in the buyer-seller equation has shifted from the seller to the buyer; companies that want to succeed in this dynamic and highly fluid twenty-first-century economy must be able to engage with customers on the terms those customers dictate.

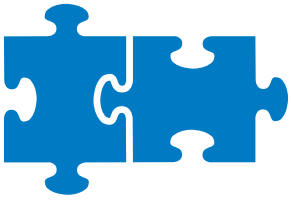
As a result, the rigid industry silos of the past have largely been knocked down, and a business like yours may be looking for growth and opportunity in adjacent markets, industries, and functional roles. But this requires that your company leave its comfort zone by stepping outside industry boundaries and engaging in multi-industry value chains. And as you do this, you retain your core competencies but create new products and markets by expanding into a totally new industry.

CREATING NET-NEW VALUE WITH MULTI-INDUSTRY VALUE CHAINS

Industry expansion comes either by making a direct bid to enter into a new industry or by partnering with other companies as part of a multi-industry value chain. And it's happening more than you may think. We've all seen a consumer products manufacturing company that decides to go directly to consumers through stores or the Internet – and is now in the retail business. It's also common to see an oil and gas company enter the retail industry by selling snacks and drinks at its gas stations. As illustrated in Figure 1, much like trains travelling on a fixed track, today's companies are connecting and reconnecting to multi-industry value chains on their path of getting closer to the end consumer. Along the way, they may move from station to station – or industry to industry – depending on where they see opportunities and how they shape their strategies.

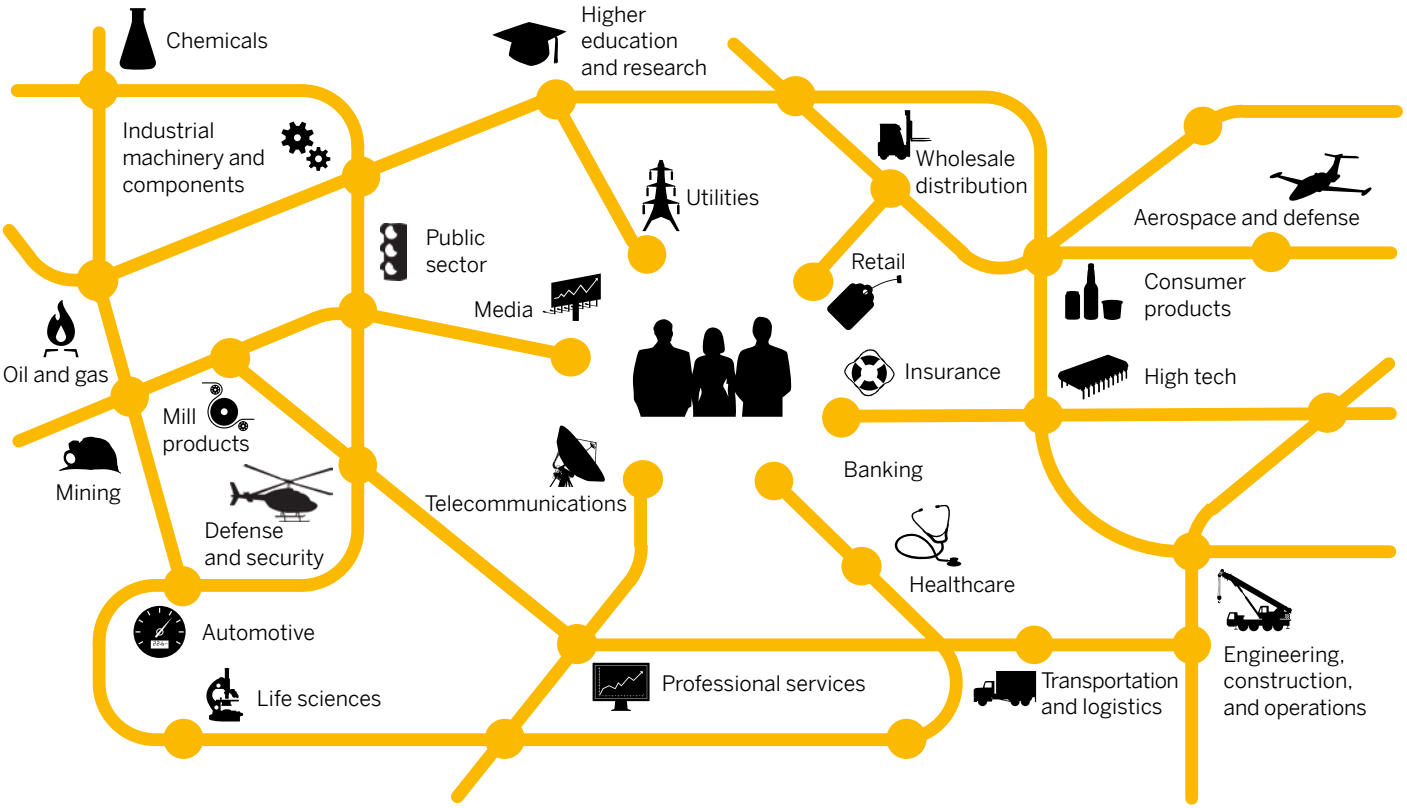
These types of multi-industry expansions happen all the time – and they mean that organizations must not only acquire new capabilities and establish new business processes but also invest in new IT systems to support those processes. Legacy systems typically can't support today's new multi-industry business paradigms that thrust companies into new and evolving value chains.

For example, if a paper manufacturer – in an effort to increase revenues in a low-margin business – decides to sell tall oil, which is a by-product of making paper from pine wood, it can become a chemical supplier. Tall oil can serve as input for manufacturing



The SAP product architecture of comprehensive networked solutions provides companies with the richness in functionality and flexibility they need to balance and even increase IT and business value in significant and measurable ways.

Figure 1: Engaging in Multi-Industry Value Chains to Get Closer to End Consumers



important products such as adhesives, rubbers, inks, and emulsifiers. In this case, the company would extend its business from being a paper mill to being a chemical supplier. To enable this new business, management would need to support new business processes – for example, those required to store and transport hazardous goods and handle material safety data sheets (MSDS). These new processes help ensure good product stewardship and workplace safety.

If a manufacturer of mechanical components that has been shipping products once a week in a bulk shipment receives a large order from an automotive company, then this company could effectively become part of the automotive industry as a parts supplier. As a result, it must adhere to automotive industry–specific processes, such as just-in-time or just-in-sequence delivery.

As these examples illustrate, companies today are evolving their processes and business models not in a vacuum but rather as part of value chains that span multiple, ever-evolving industries. And as a result, they need to support new processes swiftly and confidently.

INVESTMENTS FOR CROSS-INDUSTRY EXPANSION REVEAL ALIGNMENT ISSUES BETWEEN BUSINESS AND IT

Branching out into a new industry requires new business processes to support new types of operations. And this is where companies often run into problems. Making the IT-related buying decisions to invest in software to support a cross-industry business expansion often puts the driver of change (the lines of business) at odds with the owner of the systems (the IT department). And when one side outweighs the other, it can have significant business ramifications.

When companies make buying decisions about enterprise software, they typically look at two dimensions:

- **Business value** – Line-of-business (LoB) executives want solutions that enable key functional areas required to run their core business processes and execute on their corporate strategy. When evaluating solutions, LoB decision makers look for industry-specific functional coverage, process integrity, process flexibility, and rate of investment return.
- **IT value** – IT executives want IT systems that are agile and scalable so they can respond swiftly and easily to current and future business challenges in a flexible and cost-efficient way. Solutions need to be safe, secure, and able to be maintained at a reasonable total cost of ownership (TCO). When evaluating solutions, they look for platform and ecosystem simplicity, change automation, low cost of ownership and maintenance, and built-in integration methods.

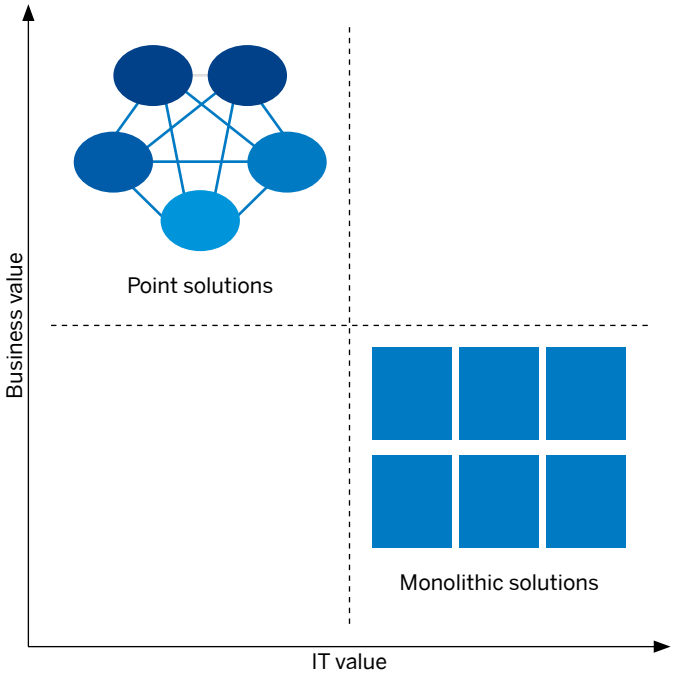
Most companies have difficulty balancing these two competing sets of priorities as they make IT-related buying decisions. And depending on how decisions are made, we see different types of system landscapes evolving.

As illustrated in Figure 2, when companies consider business value alone, they typically clutter their IT landscapes with one-off, best-of-breed point solutions. These initially provide high value for a small community of users but in the end are difficult to scale as well as costly and time consuming to maintain. IT systems that are overmodularized and fragmented can strain the integration capabilities of your enterprise resource planning (ERP) backbone or business information systems – or worse, hinder your organization's agility and ability to address business challenges and opportunities in a flexible, scalable, and cost-efficient way.

In contrast, in companies where IT value is dominant, cost is always the main driver. Once technology is implemented, it generates little endorsement by the functional areas. These companies often have monolithic – and therefore inflexible – IT systems that stifle the business side because the technology can't meet their unique process requirements.

Clearly what's needed is a way to bridge the gap between business and IT priorities – and as we explore in this paper, SAP's industry strategy can deliver just that.

Figure 2: Unbalanced Decision Making Leads to Suboptimal System Landscapes



SAP's Industry Strategy

UNIQUELY POSITIONED TO DELIVER THE BEST INDUSTRY SOLUTIONS

With our long heritage in industries and breakthrough industry strategy, SAP is well positioned to help companies reconcile the needs of business and IT so they can build multi-industry value chains that drive profitable growth. We started in 1972 with our first customer – a chemicals company – and ever since have worked with leading companies in all industries to build solutions that help develop their businesses beyond the current boundaries.

- We established our industry organization over 10 years ago, and since then we have delivered industry-specific solutions for 24 named industries and many subverticals.
- Through more than 50 global SAP-sponsored advisory councils focused on different industries, we enable our customers to collaborate with us and directly influence our product decisions.
- Within all of our industry verticals, we have identified the top business processes and key performance indicators (KPIs) that make a company in a given industry a best-run business.
- We work with our customers to understand how the leading enterprises are performing against these KPIs – and we make this information available to other customers. By engaging with our value architects, SAP customers can use this benchmarking information to see how their company stacks up against the best in the industry.[1]

Based on these strengths, SAP's industry strategy rests on two pillars:

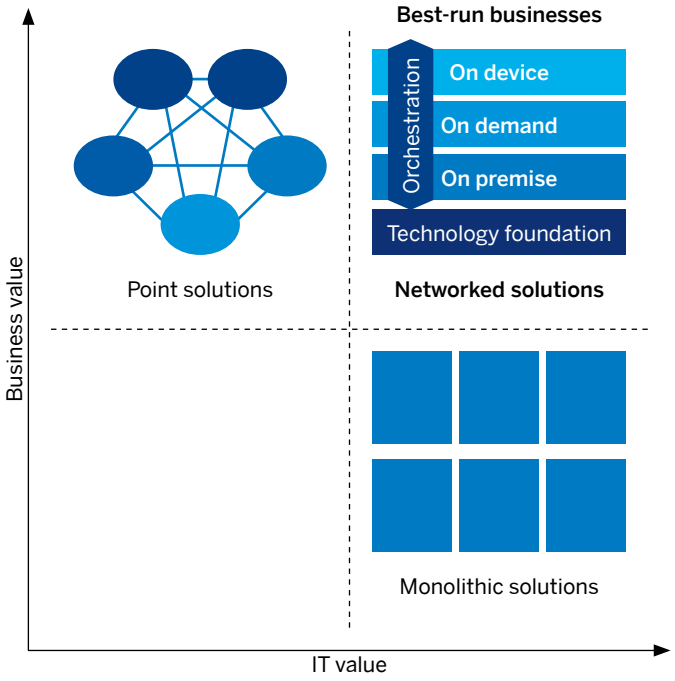
- Bringing together the best of business value and IT value
- Supporting multi-industry value chains

FINDING THE RIGHT BALANCE BETWEEN BUSINESS AND IT VALUE

Consider the competing priorities of business and IT, as discussed previously. Does the software buying process really have to end in an either-or result? Based on our experience working with thousands of companies, the answer is no. We see that the best-run companies bring the two dimensions together so that IT solutions provide business value to lines of business **and** IT value to the whole enterprise. In other words, these companies find balance between these competing interests.

As illustrated in Figure 3, the SAP® product architecture of networked solutions provides companies with the richness in

Figure 3: SAP® Product Architecture Enables Balance Between Business and IT



functionality and flexibility they need to strike that balance. It increases both business and IT value in significant and measurable ways.

Increasing Business Value
To increase your business value, we focus on delivering comprehensive solutions, rather than fragmented point solutions, that smoothly combine different horizontal and industry-specific functionality. Our integrated solutions leverage technology we have created, acquisitions we have made, or partners with whom we have built a close relationship. And they are already integrated by SAP, tested, and available in implementable steps. For example, a manufacturer may choose to support its collaborative demand and supply planning process with a comprehensive solution that would enable the company to anticipate and respond to demand signals to satisfy customer orders while remaining profitable.

Increasing IT Value
At the same time, we are increasing IT value in several ways. First, we provide IT departments with a platform that makes it easy to integrate and orchestrate processes across on-premise, on-demand, and on-device environments. This flexibility is critical to meeting new business and user demands quickly and cost-effectively. Second, the technology underpinnings of these integrated processes are available in small, easily implemented steps. This reduces TCO and accelerates ROI because solutions are easier to implement, and projects can be completed in shorter time frames. And finally, we sustain IT value to the entire enterprise through long-term, trusted partnerships with customers – partnerships that are focused on enabling secure, reliable operations tuned for your business and providing breakthrough technology for competitive advantage.

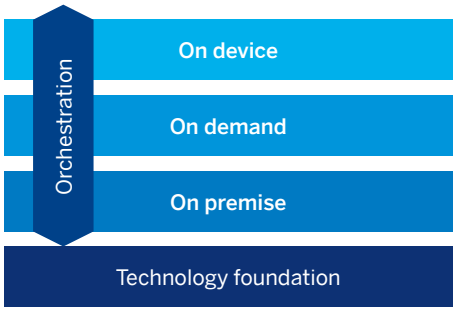
SUPPORTING 24 INDUSTRIES ON ONE PLATFORM

If your company is considering branching out into a new industry, you can rest assured that SAP is already there with trusted, innovative solutions to support your business transformation. We do this by supporting business processes for 24 industries on a single technology foundation.

Are you prepared to break into new industries to grow your business and compete more successfully? SAP is ready with trusted, innovative solutions to support your transformation – quickly, nimbly, and cost-effectively.

As Illustrated in Figure 4, the SAP product architecture is an extendable architecture that brings together applications that run on premise, on demand, and on mobile devices in an orchestrated fashion so they behave as one system from a user perspective.

Figure 4: Orchestrating Delivery of SAP® Multi-Industry Solutions with Extendible Architecture



It includes SAP Business Suite software as well as new on-demand solutions, technology innovations, and recent acquisitions SAP has made. Using functionality of various components of the SAP NetWeaver® technology platform, the SAP HANA™ platform, and Sybase® Unwired Platform – the technologies that comprise our orchestration framework – you can set up processes to span different applications and access points.

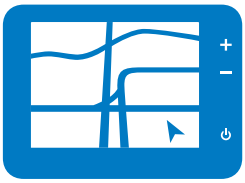
Think about the salesperson that uses the SAP Sales OnDemand solution on an iPad. All relevant data about each customer, which is stored in the on-premise, back-end system, is instantly available and helps the salesperson make the right proposal and offering. After a sale is done, the salesperson can use an iPad or smartphone to connect immediately with the company's back-end SAP ERP application and confirm in real time that the order has been transacted. The order is then processed in the company's on-premise system and credited to the salesperson's quota.

For companies using SAP enterprise software, it's easy to "switch on" processes that support multiple industries – for example, retail, transportation, and discrete manufacturing – and have continuous process orchestration. Activating new functionality may require that you purchase additional licenses, but you don't need to deploy entirely new software packages to expand your business into a new industry. You simply activate additional functionality in your existing SAP software to support new industry-specific business processes. Most of the core industry functionality is already built into the software for all 24 industries that SAP supports. And if you choose to deploy partner solutions – which complement core processes supported by SAP software – they are designed to be plugged into the orchestration layer of the networked solution architecture.

As the lines between industries blur and as enterprises move from simple, direct supply chains into complex ecosystems and multi-industry value chains, SAP is there to support that change. In addition to leading innovation within many industries, we are extending thought leadership, supporting end-to-end business processes, and building the industry-specific solutions that help you run, grow, and transform your organization as you evolve. The result is new business value that will enable your functional areas to innovate and new IT value that will help you keep costs down.

Looking ahead, SAP's strategy is to continue to help customers increase their participation in value chains by supporting integrated processes, regardless of whether those processes are in a single company or across several enterprises in multiple industries.

SAP is ready with trusted, innovative solutions to support your transformation – quickly, nimbly, and cost-effectively – and with an architecture and technologies that orchestrate applications to build your business.



Our Strategy Going Forward

SAP's strategic commitment is that we will stay on this course and work with customers in each of the 24 industries we serve to help you run, grow, and transform your business as you participate in multi-industry value chains. Our strategy continues to encompass understanding your evolving business and IT needs and developing integrated solutions to support them.

It also involves inventing and leveraging game-changing technologies and making them relevant for your industry. As we've all witnessed with the development of the Internet and devices like the iPad, breakthrough technologies can enable the reinvention of how work is done, value is created, and customer needs are met. As an innovative company, we have the curiosity to ask "What if..." and the drive to say "Why not?" For example, with the invention of the SAP HANA platform, what used to take three days to compute now takes a second. Using in-memory computing, this breakthrough technology moves data from disk to local memory so that the results of complex analyses and transactions are available at your fingertips – and business decisions can be executed without delay.

You can have:

- **Access to data in real time** as business happens
- **Deeper insight** because you can quickly interrogate massive volumes of granular data
- **Simpler and more cost-effective IT** because you can manage large volumes of data while reducing IT complexity

Computing that is this fast, deep, broad, and cost-effective creates a whole new paradigm for business. Just as companies are figuring out how to leverage devices like iPads, now they can start envisioning what it means for their business when processing speeds are no longer a barrier and they can instantly access large volumes of up-to-date, granular data. Unprecedented processing speed paves the way for transformation that changes everything. For example, the energy industry has long envisioned having a smart grid that can sense changes in demand in real-time, as well as problems on the grid as they occur, and instantly boost and reroute power in seconds to avoid blackouts. Without processing speeds like those offered by the SAP HANA platform, this was

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only a dream. Now power companies have the technology to make it a reality. Similarly, the SAP HANA platform can power dynamic cash management by converging data from hundreds and even thousands of sources and enabling near-instant analysis of cash and liquidity positions down to the penny.

These are just a few examples of what's possible. And SAP industry solution teams will be working with companies like yours to find innovative ways of applying SAP HANA appliance software to your industry and converging it with other leading-edge technologies, such as mobility, analytics, and on-demand technologies.

LEARN MORE

Is your company prepared to break into new industries to grow your business and compete more successfully? With SAP software, now you can – quickly, nimbly, and cost-effectively. To learn more about how to run better, visit our Web site at www.sap.com/industries.

We sustain value through long-term, trusted partnerships with customers – partnerships that are focused on enabling secure, reliable operations tuned for your business and providing breakthrough technology for competitive advantage.

FOOTNOTE

1. For more information about benchmarking, contact your SAP representative.

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