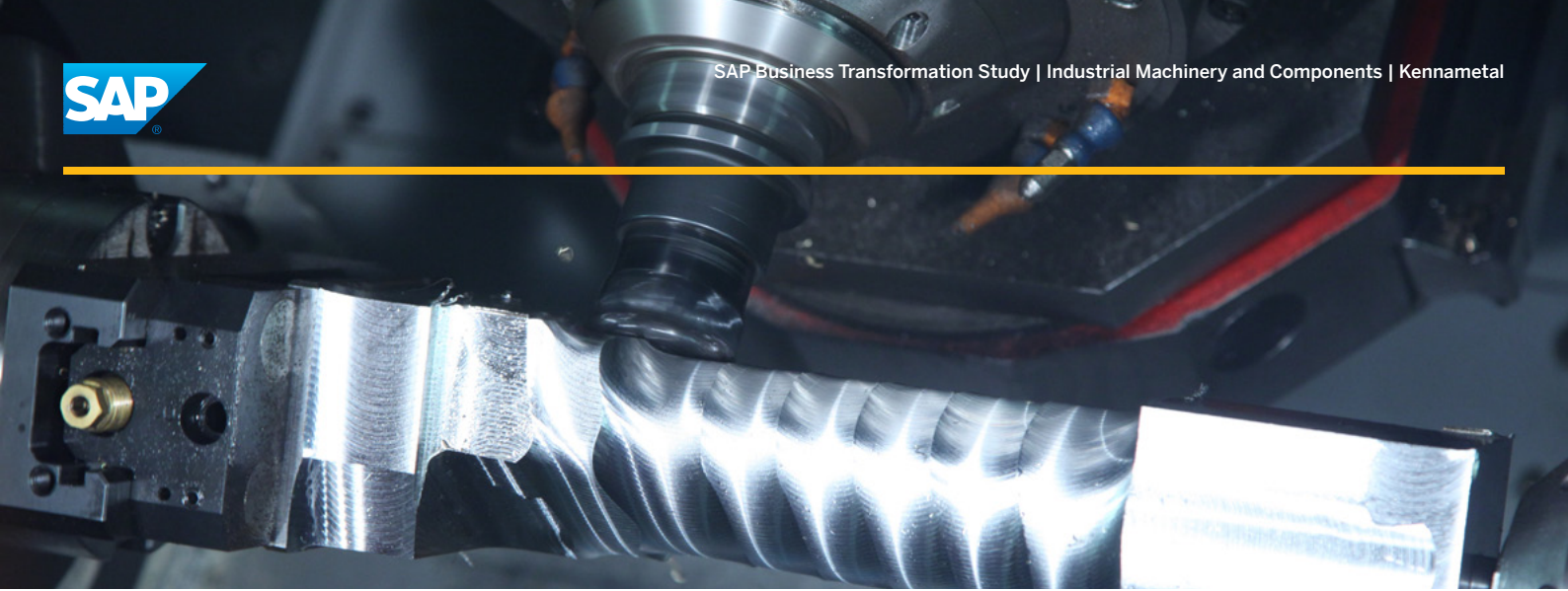

Kennametal: Rebuilding the Business on SAP® Standards

Industrial component supplier Kennametal Inc. planned to transform itself to become more customer facing. An outdated, heavily customized version of SAP® software made upgrading impossible, so a rapid reimplementation path was required. Kennametal **redesigned its business processes by leveraging industry best practices** supported by SAP, contributing to record financial results.

Partner

Executive overview

Company
Kennametal Inc.

Headquarters
Latrobe, Pennsylvania

Industry
Industrial machinery and components

Products and Services
Global manufacturer of wear-resistant solutions for demanding environments

Employees
13,000

Revenue
US$2.4 billion

Web Site
www.kennametal.com

Partners
IBM Corporation, SAP® Active Global Support organization

BUSINESS TRANSFORMATION

The company's top objectives

- Focus on market segments, not products, to improve customer satisfaction and loyalty
- Enable deployment of emerging technologies and innovations
- Simplify and standardize business processes

The resolution

- Restructured for leanness and market centricity
- Implemented global standardized business processes based on the SAP® Best Practices for Industrial Machinery & Components package
- Reinstalled core SAP software from a clean slate and installed new functionalities in many SAP applications

The key benefits

- Achieved alignment with market-facing segments that has been credited with many "wins" in the marketplace
- Exceeded standardization goals
- Deployed SAP-developed solutions instead of internal custom development

Read more

"Lots of business software veterans looked at our plan and said, 'Nobody can do this.' We said, 'Yes, we can,' and we did it; and now we have the benefits showing up in spades."

Steve Hanna, CIO, Kennametal Inc.

TOP BENEFITS ACHIEVED

92%
Business processes based on SAP Best Practices for IM&C

18%
Reduction in legacy applications

30%
Project cost compared to consultants' approaches

See more metrics

Executive overview

Company objectives

Resolution

Business transformation

Future plans

Transforming to become a market-facing company

Kennametal Inc. is a global provider of custom and standard wear-resistant solutions for demanding environments serving the aerospace and defense, energy, transportation, earthworks, and general engineering industries. The company has run its business with SAP® software for over 15 years, and 99% of its revenues flow through SAP applications.

Until recently Kennametal used an outdated version of SAP software that was extensively customized – making it virtually impossible to install upgrades from SAP. "We were spending a lot on maintenance that entitled us to many excellent enhancements from SAP, but we couldn't take advantage of them," explains CIO Steve Hanna. "We wanted to transform our organization to be market facing, but we couldn't make use of all the help available in SAP software."

When the recession struck, Kennametal took the opportunity to reposition the business on numerous levels, including the reimplementation of SAP software. Kennametal solicited consultant proposals to reimplement its business software, but the bids were daunting: prices as high as US$60 million and time frames up to five years.

Kennametal knew that solving its dilemma required a massive transformation based on a bold, even controversial move. "We decided to wipe the slate clean, start over with the SAP ERP application, and completely revise our business processes to avoid the need for customization," says Tom McKee, global IT director for the firm. The new processes were based on the SAP Best Practices for Industrial Machinery & Components (SAP Best Practices for IM&C) package. McKee explains, "This often resulted in better processes than the highly customized ones that had caused us so much grief. The fact that they're better is gravy – the key point is that they're standard."

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Future plans

Going fast to rapidly transform the company

The implementation was part of a Kennametal transformation project designed to position the firm to emerge strong from the recession. Kennametal also restructured itself for leanness and customer centricity. It standardized business processes across the 60 countries where it operates. Moving to processes based on SAP Best Practices for IM&C allowed Kennametal to take advantage of what Hanna calls the "flywheel effect." "In the past, if we added an improvement, we had to do it 60 times," he explains. "Now we only have to do it once."

With help from its implementation partner IBM and cutover assistance from SAP MaxAttention™ services, Kennametal's transformation succeeded. A core team of 160 members and an extended team of 500 designed the global standard processes, conducted four rounds of testing, and trained 6,100 users.

The solution went live on a budget and schedule that were fractions of the consultants' estimates, and it conforms at a striking 92% level with SAP Best Practices for IM&C. "It took us 14 months to accomplish what most companies would take three to six years to do," says McKee. Non-SAP legacy applications were reduced by 18%. Kennametal met its aggressive implementation schedule as well as its budget goals and went live with no need for a shutdown period.

6,400

Customizations previously in SAP software

Collaboration among Kennametal, IBM, the SAP Active Global Support organization, and support services from SAP was essential to making this implementation successful, as was the very active sponsorship of the firm's CEO.

Executive overview

Company objectives

Resolution

Business transformation

Future plans

Achieving faster results with fewer resources

Kennametal recently finished four consecutive record quarters for profits and return on invested capital, achieving financial performance objectives ahead of schedule. Freed from customization-related "fix it" work, a leaner IT organization is contributing on higher levels. The firm has unprecedented visibility into data, process effectiveness, and issues in need of resolution. "Best of all, we have an upgradable solution that allows us to serve the market better at a lower cost," says McKee. "It will carry us into a very bright future indefinitely."

"After completing our 14-month organizational transformation, the natural tendency would have been to pause and catch our breath," adds Hanna. "But we actually accelerated the rate of change in order to meet the ever-increasing demands of our customers. Speed of execution is the competitive edge that ultimately separates the breakaway companies from the also-rans. Kennametal is going fast!"

KEY BENEFITS

92%
Business processes based on SAP Best Practices for IM&C

18%
Reduction in legacy applications

30%
Project cost compared to consultants' proposals

25%
Project duration compared to consultants' proposals

Executive overview

Company objectives

Resolution

Business transformation

Future plans

Continuing the journey

A year into the reimplementation, Kennametal is adding substantial new functionality on top of the core processes. To further its ability to optimize processes, the firm is expanding its footprint in SAP BusinessObjects™ solutions; the SAP Customer Relationship Management, SAP Product Lifecycle Management, and SAP Supply Chain Management applications; and the SAP ERP Human Capital Management solution and plans to continue to leverage software from SAP.

Current business initiatives driving IT investment include customer collaboration, increasing the company's Web presence to include social media, automated design and product intelligence, and business process monitoring. Critical IT infrastructure initiatives include cloud computing, mobility, virtualization, and in-memory computing. All these innovations are possible only because Kennametal now has the solid, highly standard infrastructure in place that is necessary to support them.

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