

# ENTERPRISE PERFORMANCE MANAGEMENT IN A PROVIDER NETWORK

ULTIMATE CONTROL FOR A PERFORMANCE-DRIVEN  
ENTERPRISE



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# EXECUTIVE SUMMARY

## GOING BEYOND FINANCIAL EXCELLENCE

The pressures of shrinking profit margins, threats from low-cost competitors, and increasing customer demand are forcing industrial machinery and components (IM&C) company executives to rethink their business model. With the increase in complexity of business today, customers want “one throat to choke.” They expect you to be their one-stop provider. They need you to solve their problems. In response, manufacturers across the IM&C landscape are adopting the solution provider network (SPN) business model to become the value-added, premium price-and-profit maker for their customers. Using a solution provider network, these manufacturers can deliver more value to their customers by leveraging the vast IM&C ecosystem.

Software solutions for enterprise performance management are essential to supporting a solution provider network. They enable a common view of your business. They allow the office of the CFO to monitor, analyze, report, and act on information from many different parts of the business, including external SPN partners, vendors, and customers.

These solutions help you create a performance-driven enterprise. They equip you to define your SPN strategy and plan and budget to that strategy. They enable documented audit trails to consolidate, monitor, and report on performance outcomes. They optimize the drivers of profitability on an ongoing basis, and they enhance operational performance with comprehensive, relevant, and flexible analytics.

This paper discusses those enterprise performance management solutions that are most critical to establishing an SPN. The first is planning and how to increase accuracy in planning at every level in your organization. The second is profitability and cost management to capture real costs and profits on your bottom line. The third is analytics to help you take control of your business and your future.

The paper concludes with case studies of manufacturing companies that are using these powerful solutions successfully to support their solution provider networks.

Customers are looking for broader, value-added solution and service offerings. They expect faster product innovation and higher quality. When buying machinery, they also consider return on investment.

# POWER TO THE CUSTOMER

## THE SHIFT TO VALUE-ADDED OFFERINGS

Today, manufacturing business executives must deliver profitable and sustainable growth while juggling unprecedented complexity with the rapid march of technological change, more stringent compliance requirements, and the increase in sophisticated customer demand. In fact, the shift of power to the customer is changing the face of the industrial machinery and components (IM&C) industry.

Customers are switching from manufacturers that follow a traditional business model – simply making and selling products and spare parts – to manufacturers that can solve their problems and be their single-source provider. They demand greater value and competitive advantage when they buy machinery and components. Customers are looking for broader, value-added solution and service offerings. They expect faster product innovation and higher quality. When buying machinery, they also consider return on investment. Furthermore, customers are looking for different delivery models. They no longer want to buy just machinery; they want to buy greater uptime in the overall equipment life cycle.

“A new type of firm is emerging – that of integrated solution providers. These firms do not conform to the traditional categories of manufacturing or services. Instead, they add value – and perform their distinctive role – by bringing together products and services in ‘integrated solutions’ that address the needs of large and midsize business – and government-owned customers.”<sup>1</sup>

As a machinery and components manufacturer, knowing what your customers want and expect gives you the opportunity to create long-term differentiators for your products and services. However, the creation of differentiators that deliver more total value to your customers requires innovative solutions.

### The Shift to a Solution Provider Network Model

At the heart of SAP support for the IM&C industry are a vision and a strategy, including a next-generation IM&C business model designed to help manufacturing companies succeed. The key to the new model is the creation of a solution provider network (SPN) and the ability to deliver more value to your cus-

tomers by leveraging the virtually limitless resources and possibilities of the IM&C ecosystem. (You can learn more about the new model by reading the SAP white paper *Powering a Solution Provider Network: The Next-Generation Business Model for the Industry*.)

With your own SPN, you can transform yourself into a solution provider and achieve sustainable growth by offering greater value to your customers. You find this value in your solution provider network – your global ecosystem of customers, partners, and software developers, all working together to create continuous customer value. Through your SPN, you can seize new opportunities and develop new capabilities to continuously enhance customer value.

1. Source: Charlotta Windahl, Pierre Andersson, Christian Berggren, and Camilla Nehler, “Manufacturing firms and integrated solutions: characteristics and implications,” *European Journal of Innovation Management*, Volume 7, Number 3 (Emerald Group Publishing Limited, 2004).

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These new capabilities include the ability to offer turnkey solutions in the form of complete aftermarket service and value-added support, in addition to the original equipment. You also need the power of the ecosystem to create new streams of revenue and to give you a competitive advantage that cannot be copied by your competition. Moreover, to master the increased frequency of new-product introductions and the shorter life cycle of original equipment and machinery, you need to innovate processes and leverage new technologies to drive customer value continuously.

Finally, to capture opportunities to deliver more value to your customers, you need to optimize your value chains – getting the right information to go to the right place at the right time. Enterprise performance management software empowers you to manage the dynamics of the supply and demand ecosystem to insure that all members of the value chain network are fully connected and informed. Enterprise performance management is the path

to enabling you to react with speed and agility to any changes in your supply and demand picture.

### Enterprise Performance Management and the Role of the CFO

The CEO and the rest of the executive team look to the CFO for solutions to the myriad challenges that surround them every day. In response to these challenges, the need to plan faster and do more with less budget and fewer resources is on the CFO's shoulders. As CFO you must be more efficient and precise with every decision, while dealing with a wide range of governance, risk, and compliance (GRC) issues. In the face of all this, you must find new ways to maximize profitability and increase your visibility and control over the drivers of your company's finances and operations.

Today, the office of the CFO is faced with more pressure and responsibility than it has ever seen. As a result, you wear many hats in the organization – the company's chief profitability officer, chief strategist, chief compliance officer, and chief liaison with the investor community. In dealing with each of these responsibilities, you must be able to see what is going on throughout the company, prioritizing and modifying plans whenever necessary to keep up with change. To understand and manage those changes, the CFO needs to monitor, capture, analyze, report, and act on information collected enterprise-wide as well as information outside the corporate walls from partners, suppliers and vendors, and customers.

By linking your processes together, enterprise performance management solutions give you a common view of your business. This view empowers you to transform your organization into a performance-driven enterprise. This transformation is enabled with a comprehensive enterprise performance management solution that supports the following activities:

- Strategy management – Helps you set your goals, map your strategies, and then monitor and manage performance from high-level objectives down to operational metrics
- Planning – Enables you to increase planning accuracy throughout the enterprise, while simultaneously reducing plan cycles and associated costs
- Financial consolidation – Equips you to complete your financial consolidation and reporting cycles faster and with increased confidence in your data
- Profitability and cost management – Gives you an activity-centric view and deep insight into what drives costs and profitability inside your organization
- Financial performance management – Helps you achieve financial excellence by linking strategy management, planning, financial consolidation, and profitability via a trusted, centralized data source
- Analytics – Provides comprehensive business analytics of your internal processes and procedures, including spend, sales and operations, supply chain, manufacturing, customer services, and finance functions

# ENTERPRISE PERFORMANCE MANAGEMENT SOLUTIONS IN AN SPN

## PLANNING, PROFITABILITY, COST MANAGEMENT, AND ANALYTICS

Of the six activities supported by a comprehensive enterprise performance management solution, all are essential to the support of an SPN, but three are fundamental. These include planning, profitability and cost management, and analytics:

- Without world-class **planning**, it is difficult to tie all the different parties in the SPN network, including customers, suppliers, ecosystem partners, subsidiaries, service providers, and you.
- Without precision **profitability and cost management**, including new supply chains added in the SPN, it is a challenge to increase revenue while decreasing costs to maximize profits.
- Without broad **analytics** that look at both internal and external, cross-network processes, it is hard to get real control of the business.

### World-Class Planning

A robust planning application is required to support an SPN. Such an application is the key to increasing demand, helping you meet customer expectations and reduce costs by optimizing inbound supply. Your planning capabilities should support the full array of top-down and bottom-up financial and operational planning requirements of the organization, as well as the consolidation processes necessary to have the smoothest, most timely financial close possible – both in a single application and user interface.

To consistently manage your company's performance in following an SPN strategy, you need accurate and timely financial and operational data to enable

efficient business planning, budgeting and consolidation, forecasting, analysis, and reporting for greater confidence and reliable results. In supporting an SPN, corporate and departmental planning must be integrated to allow you to intelligently model cost scenarios and perform sensitivity analyses to determine

Enterprise performance management is the path to enabling you to react with speed and agility to any change in your supply and demand picture.

operational budgets based on strategic plans and assumptions. Furthermore, you need a fully documented audit trail and a way to comply with strict guidelines for consolidating and reporting company information internally and externally.

Because an SPN leads to the development of value-added products and services, decision making increases proportionally. A planning application improves the decision-making process with tools like risk-adjusted planning that enable a greater understanding of the probability a situation may occur, allowing proactive corrections to be taken. In addition, cycle time can be reduced because your finance and line-of-business managers can collaborate in a unified landscape, streamlining the process of creating and approving plans and budgets.

With planning functionality, transparent financial data and a single version of the truth enable fast, accurate management and statutory reporting to minimize business and compliance risks. These include new business and compliance risks that can result from the switch to an SPN model, which can be minimized with streamlined collaboration. For example, the time and effort to modify common business processes can be reduced with the effective use of pre-packaged business process flows and self-service flows. Finally, an enterprise performance management solution helps to increase user productivity with an intuitive interface and familiar office tools to help workers make the most of their time.

### Precision Profitability and Cost Management

Because a primary motivation for an SPN is increasing profits while containing costs, you need to make insightful, informed decisions that optimize costs and maximize profitability. To help you make those decisions, your profitability and cost management capabilities should include an activity-centric application that underpins performance management with deep insight into what drives costs, profitability, and performance inside an organization.

The application should offer functionality for activity-based costing and profitability analysis, shared-services costing, driver- and activity-based budgeting, and objectives and metrics management. This functionality provides the timely, actionable information

you need on customer and product profitability, as well as channel profitability and process costs, including transaction-level costing. In addition, the application should support IT services costing and give you the ability to align IT resources and capacity with demand, reduce delivery costs, and gain transparency in services costing and cross-charging.

In addition, your profitability and cost management application should include powerful, driver-based budgeting and activity-based budgeting models for quick access to timely, accurate, and actionable information. And for objectives and metrics management, the application should support dynamic functionality for performance monitoring to maximize achievement through improved control of objectives.

With profitability and cost management capabilities, you can have accurate, actionable, on-demand cost analysis using Web-based, multidimensional activity-based costing. This supports informed decisions that maximize

A robust planning and consolidation application is required to support a solution provider network.

customer and product profitability and optimize process costs. The application should transform your budgeting, planning, and forecasting capabilities, enabling flexible budgets and plans capable of rapid reforecasting that link with cost models for integrated business planning.

### **Analytics Across Your SPN Ecosystem**

Your analytics functionality should support a network view of your SPN ecosystem, extending your insight beyond the enterprise. The application should provide comprehensive business analytics for your internal processes and procedures, including spend, sales and operations, supply chain, manufacturing, customer services, and finance functions.

Analytics functionality should support accelerated deployment and a best practice-based data warehouse. The features of the analytics application should include a myriad of analytics, reports, dashboards, and diagnosis functionality for functional roles within organizations as well as for vertical manufacturing solutions.

Combining rapid time to value with reduced deployment risk, a comprehensive enterprise performance management analytics application can provide superb return on investment through the insightful and timely analyses it provides. With these analyses, your business users and managers are empowered

to take immediate action to address key issues. Analytics can be linked to internal processes and procedures or externally to partners, suppliers, and customers. The application must also be scalable and able to extend flexibly to fit your new SPN business model and execution strategy.

Analytics functionality provided by an enterprise performance management solution give you the flexibility to integrate into the differing realities of your daily priorities. Whether you utilize built-in data models right through to analytics or build your own, you can extend the analytics to match your unique requirements. As your company's significance as a value-added provider increases, you can extend data models and analytics to reflect the insights unique to your business.

With enterprise performance management analytics, you can determine profitable trading partners and enable collaborative process improvement. Performance can be improved by integrating management and financial reporting. Improved data analysis and decision making can reduce and control costs. You can manage assets and improve capital utilization through accurate forecasting and analysis. And, together with your SPN ecosystem, you can efficiently service customers by understanding their unique demand, supply, and operational insights.

# SAP CUSTOMER SUCCESS STORIES

## PERFORMANCE MANAGEMENT IN A SOLUTION PROVIDER WORLD

The following SAP customer case studies exemplify how manufacturers are powering their solution provider networks and enhancing performance to bring value to their customers.

### Wolverine World Wide Sets Its Global Footprints with SAP

Michigan-based Wolverine World Wide Inc. (WWW) is a designer, manufacturer, and marketer of casual shoes and performance outdoor, work, and rugged footwear. With 4,500 employees across five operating units, WWW has grown rapidly through the execution of a strategic plan based on product innovation, brand development, global expansion, service excellence, and social responsibility – all attributes of a solution provider network. By following its strategic plan, in 2005 Wolverine exceeded US\$1 billion in annual revenues for the first time.

Since 1999 Wolverine has leveraged SAP® software to expand globally, rapidly integrate new brands, and launch new lines of business. The \$1 billion milestone reached by WWW in 2005 represented a 60% increase from 1999.

#### Wolverine Aligns Processes with Best Practices

WWW's legacy systems were expensive to operate, complex, and outdated. The company needed one information technology platform to centralize and consolidate its operations across all of its brands. It required real-time, fully integrated information and analysis capabilities in a globally competitive industry driven by consumer preference.

After a brief review of vendors, WWW chose SAP as its software solution vendor for its size, commitment to R & D, and financial stability. SAP's leadership in the enterprise resource planning market space and its penetration in the consumer products industry were also factors in the decision.

#### Wolverine World Wide Reaps World-Class Business Benefits

SAP solutions have helped WWW increase performance across the enterprise. They have helped the company transform its manual work practices into enterprise-wide processes based on best practices in the apparel and footwear industry. This stable back-office environment has allowed WWW to centralize core functions, such as customer

“With SAP solutions, we have a flexible foundation for almost limitless growth and expansion, and a true partner willing to invest in our business while helping us achieve best-in-class operational and financial performance.”

**Steve Gulis**, Executive Vice President and Chief Financial Officer, Wolverine World Wide Inc.

service, procurement, distribution, logistics, and accounting, as well as shared-services operations. As a result, WWW has achieved significant improvements in operating efficiency since implementing SAP software in 1999, including a

68% improvement in electronic order rates, a 26% increase in inventory turns, a 75% reduction in time to close books, and a 34% reduction in days sales outstanding.

### Francotyp-Postalia Integrates Processes for Better Service

Francotyp-Postalia Sales & Service GmbH manufactures a full line of postage meters and mailing solutions. As the business grew, Francotyp-Postalia realized that aftermarket service was becoming more and more important. Evolving into a solution provider strategy, Francotyp-Postalia implemented a customer relationship management solution that integrated all business processes from initial sale to aftermarket service.

#### Meeting and Exceeding Customer Expectations

With enhanced contract management capabilities and the ability to define configurable pricing and flexible billing models, Francotyp-Postalia was able to greatly increase the quality of its service offerings. In moving from manufacturing products to providing end-to-end solutions, Francotyp-Postalia was able to eliminate paper service orders, reduce service cycle times, and increase usage-based billing. This new aftermarket service solution is integrated with accounting processes and has enabled Francotyp-Postalia to track serial numbers, warranty entitlements, service histories, service-level agreements, machine configurations, and installed-base records to ensure customer service expectations are met or exceeded.

# SAP AND ENTERPRISE PERFORMANCE MANAGEMENT FOR THE CFO

## GET ULTIMATE CONTROL

SAP solutions for enterprise performance management provide powerful functionality the CFO can use to:

- Measure assets, profitability, costs, and capacity at a granular level
- Align strategies with goals, initiatives, metrics, and people
- Help ensure efficient planning, budgeting and forecasting, and management of the “triple bottom line”
- Achieve greater confidence in management and compliance reporting through fast, accurate close processes and self-service reporting
- Provide frontline business users with trusted information delivered through native integration with familiar Microsoft Office productivity tools in concert with an intuitive Web interface

Enterprise performance management applications from SAP can all integrate with the SAP Business Suite family of business applications; SAP solutions for governance, risk, and compliance; the SAP NetWeaver Business Intelligence component; and SAP NetWeaver Business Intelligence Accelerator software.

The features supported by your profitability and cost management application should include cost and profitability analysis supporting best-of-breed, activity-based costing for timely, actionable information on customer and product profitability, as well as channel profitability and process costs, including transaction-level costing.

These comprehensive offerings can help you meet the unique requirements of today's global, fast-paced business environment, including the transition to the business model of a solution provider network.

### Find Out More

Discover how your IM&C company can benefit from enterprise performance management in a solution provider network. Visit [www.sap.com/solutions/performancemanagement](http://www.sap.com/solutions/performancemanagement) today.



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