



ENABLING THE LEAN ENTERPRISE

A THREE-TIERED APPROACH TO IMPROVING
YOUR OPERATIONS



September 15, 2008, was a sobering day. The bankruptcy of Lehman Brothers will affect the way companies operate for some time.

Realizing that survival meant preserving cash, many companies have quickly reduced workforces and inventory. And with lending practices uncertain, executives are keeping a close eye on future cash and financial performance.

In the past, many companies saw lean initiatives as a way to improve performance and competitive standing. But it was often tough to make the case for change when times were good. Companies are now motivated to align internal objectives and drive improvement. Moreover, as demand in many sectors subsides, companies have the available resources needed to execute. Now is the time to use top talent to transform the business.

Market leaders will take this opportunity to run leaner from top to bottom and emerge in a stronger position. Company executives can start by asking:

- Do my centrally controlled corporate processes help me meet financial objectives and mitigate risk as transparently as possible?
- How can I streamline processes common across the organization, using shared services, to eliminate redundant operations and reduce costs?
- How can I improve the processes managed at a division level that are critical to my competitive differentiation?

EXECUTIVE SUMMARY

AT A GLANCE

Lean at Every Level

Recently, many businesses have used lean principles to move from a decentralized corporate management mode to a hybrid model – recognizing that different functions require different levels of centralized management to be efficient and effective.

An effective lean transformation eliminates more than the most obvious areas of wasted time and resource. A farsighted, lean agenda leverages a tiered enterprise architecture addressing the unique requirements of various business processes (see Figure 1):

- **Corporate level:** Some processes are so critical that you must manage them at the corporate level to maintain close control and transparency. Such processes include enterprise-level performance and risk management, brand management, and sustainability.

- **Shared services level:** Other processes, such as finance and human resources, can be consolidated across your enterprise – perhaps under a single COO-level leader. When managed well, shared services provide benefits that go beyond cost savings.
- **Division level:** Some differentiating processes require decentralized management to be effective. These include sales and marketing, manufacturing, supply chain, and others depending on your specific business. Ensure that your important differentiating processes are efficient, integrated, and demand-driven.

A leaner operation, driven by optimized processes at every level, will pay out immediate cost reductions and ultimately improve your competitiveness in a recovering economy.

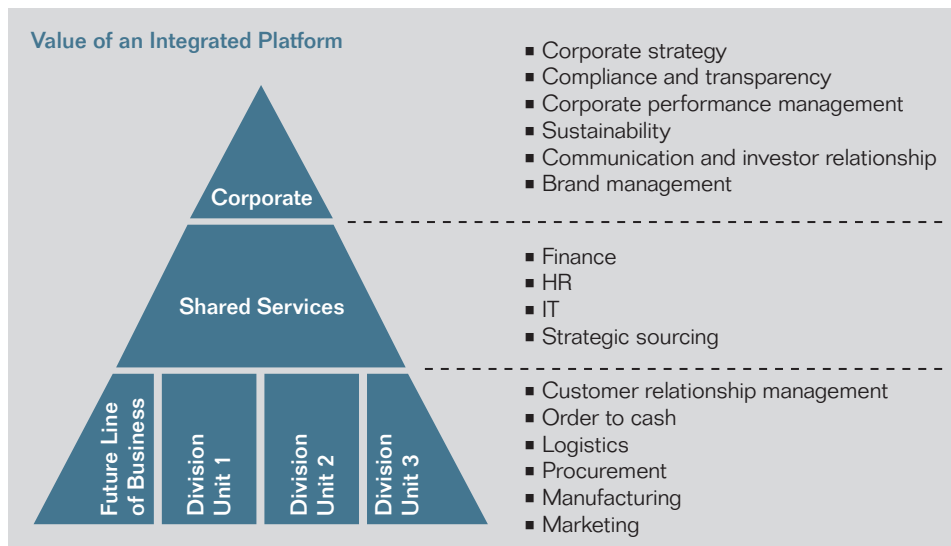


Figure 1: A Lean Operations Framework

Leadership Makes the Difference in Times of Crisis

One thing is for sure: with every economic crisis comes opportunity. Some companies will go from good to great, and others will just fade away, making room for more innovative competitors. To be among the winners, executives should strongly consider best practices that provide a balanced approach to moving forward by including both cost reductions and smart investments. SAP has developed a series of *Executive Insights* that highlight strategies your business can use immediately to run more efficiently and improve the customer experience – even in today's economy.

Benchmarking – The Facts of the Matter

The insights presented in this paper are based on decades of experience in helping our customers become best-run businesses. An important tool in these efforts is the understanding gained from measuring and comparing the actual performance of companies across a wide range of sizes and industries.

For more information about the SAP benchmarking and best-practices program, visit www.sap.com/usa/solutions/benchmarking or contact benchmarking@sap.com.

ENSURING A LEAN ENTERPRISE AT THE CORPORATE LEVEL

MANAGE PERFORMANCE AND MITIGATE RISK WITH REAL-TIME INSIGHT

Starting at the Top

Certain processes are core to the business and should be managed at a corporate level. Functions such as corporate strategy and sustainability, brand management, communications, and investor relations all fall into this category. Let's examine two such process areas that have been forced into the limelight by recent events: enterprise performance management and risk management.

Historically, enterprises have analyzed their business along operational and division-level silos. But in this economy, timely, corporate-level visibility to overall performance and risk can be critical to survival. Given today's rapidly shifting risks – from commodity pricing to vendor viability – even divisions once considered stable cash producers can easily become poor performers and, ultimately, corporate liabilities. So these are prime processes to monitor at the corporate level.

However, due to a lack of integrated systems, the exponential growth of business data, and limited process control, many companies have struggled to aggregate the performance and risks of disparate divisions into a single, enterprise perspective. Lean enterprises, on the other hand, have overcome this hurdle by establishing performance visibility across the organization. In fact, a recent SAP benchmark study indicates that 70% of top-performing companies have metrics available on a real-time basis and are almost twice as likely as an average-performing company to have a

risk management system that supports automated alerts and reporting.¹

By removing information barriers across the enterprise and improving process control, companies can expect the following benefits when managing such processes at the corporate level:

- Drive costs out of the organization through enhanced visibility and compliance
- Create a leaner organization through improved employee efficiency
- Reduce corporate risk through increased transparency and oversight

Examples in the Real World

United Pipe & Supply Co. Inc. – a wholesale distribution company – once had difficulty controlling the accuracy and reliability of its corporate data. It lacked the ability to create reports efficiently and generate desired financial analyses. By unifying and centralizing all performance and financial data, as well as automating reporting and analysis down to the branch level, the company was able to create a reliable source of corporate data, enhance collaboration via bottom-up and top-down budgeting, and provide greater control over performance drivers.

Lean enterprises also gain greater control over division-level risks through top-level compliance and access controls. A good example is Mexico's GRUMA, the world's leading producer of corn and flour tortillas. Challenged by compliance with governance regulations, GRUMA needed to increase internal controls and accurately assess the potential impact

of security risks to the organization. The company implemented an access control application to ensure that employees had the proper access privileges to perform day-to-day business operations without exposing the enterprise to risk. As a result, GRUMA is now better able to track compliance with auditors' recommendations and measure improvements. GRUMA saw a 90% improvement in internal IT audit revision times and a 50% reduction in external IT audit cycles.

Getting Started

To establish lean, effective processes at the corporate level, companies should ensure:

- **Enterprise visibility:** Coordinate efforts at the corporate level, but ensure that all divisions within the organization are represented. Identify operational and financial information that can impact performance across all business processes and levels of the organization.
- **Governance:** Establish an information governance model, processes, and user profiles.
- **Integration:** Develop a process for integrating information from potentially disparate internal and external data sources. The process should be automated, executed in a timely manner, and include the proper level of user access.

1. Ongoing SAP benchmarking study that began in 2005.

CONSOLIDATING PROCESSES AT THE SHARED SERVICES LEVEL

COST SAVINGS AND BEYOND

A Well-Documented Track Record

It doesn't take a crisis to recognize the value of eliminating duplicated effort. So especially today, when many companies are focused on quickly reducing costs, shared services make sense for those common processes that are replicated in various parts of your enterprise. In fact, as a firmly established approach to supporting a lean enterprise, shared services have experienced a renaissance thanks to the economic downturn.

Cost savings through shared services are well documented and have been shown to be proportional to the scope and adoption rate of the shared services throughout the enterprise. For instance, benchmarking studies indicate that companies utilizing shared services in areas such as finance, HR,

IT, or procurement have, on average, over 20% lower operating costs than companies without a shared services model (see Figure 2).

Beyond Short-Term Cost Containment

The benefits of shared services, however, also include longer-term process efficiency and operational effectiveness that can yield a competitive advantage as the economy recovers.

Moreover, shared services offer additional value in the same operational areas where such services have traditionally delivered cost reductions. For example:

- **Finance:** Process consolidation in a shared services environment supports shorter transaction-processing cycle times and can provide informa-

tion that is better quality and more reliable. For example, the SAP Asia Pacific shared services center has reduced processing times by over 60% while eliminating the need to reconcile data. The center also delivered an overall 40% reduction in financial and administration costs.

- **Human resources:** Shared services support stricter regulatory compliance and greater process accountability. In fact, an HR benchmarking study revealed that companies felt the impact of shared services in these areas was the most important – cost reduction was considered of much lower importance.² Significantly, this is a study where many shared services reported double-digit improvements in transaction costs and cycle times.
- **IT:** Current SAP research on best practices in enterprise “centers of excellence” shows that a shared services center of excellence not only reduces IT support costs but also supports a higher degree of business process standardization across the enterprise, more successful power user programs, and overall higher customer satisfaction.
- **Procurement:** Shared services can improve overall spending visibility, increase negotiating leverage with suppliers, and support more effective supplier selection and management processes. Again, a recent benchmark study reveals that organizations with the ability to aggregate purchases across all business units for accurate global analysis of supplier spend data have, on average, 60% higher annual savings compared to companies without this capability.³

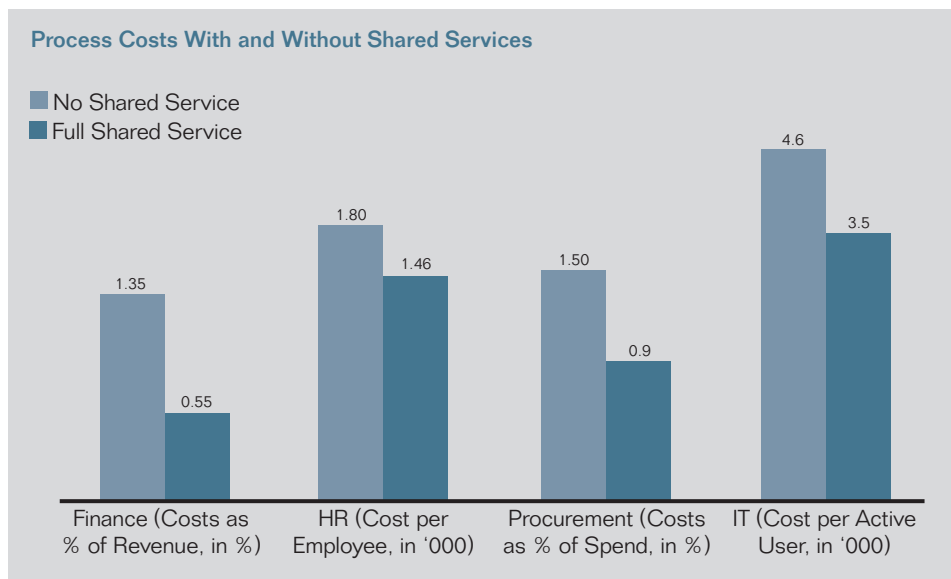


Figure 2: Reducing Process Costs with Shared Services

2. SAP benchmarking study on HR shared services, 2009.

3. Ongoing SAP benchmarking study on supplier relationship management and procurement practices, begun in 2005.

TRANSFORMING AT THE DIVISION LEVEL

DEVELOP LEAN DIFFERENTIATING PROCESSES

Transparent, Demand-Driven, and Integrated

Some processes need to be controlled close to where they are executed. Often these processes are critical to a company's unique differentiation in the market. These processes tend to vary based on the type of product sold and the division's specific customer and supplier relationships. A large, complex, custom machinery division, for example, might differentiate itself through collaborative engineering and build-to-order delivery models. Consumer product divisions may focus on collaborative promotion management and highly responsive replenishment services. And bulk process business units will concentrate on asset and capacity management.

While it may be unwise to standardize and consolidate these functions at the enterprise level, it does make sense that divisions adopt lean principles to ensure that these processes are highly effective and operationally efficient.

Lean differentiating processes should be:

- **Visible and transparent:** Leverage the value of real-time visibility. Lean enterprises want to be immediately alerted to performance issues or wasteful activities.
- **Demand-driven:** For truly efficient operations, ensure that steps are executed only when demand is present. This helps avoid costly buildup of unproductive resources.
- **Integrated:** Lean practitioners forgo functional alignment and align activities in "value streams" to create a

timely and high-quality customer experience. This requires a cross-functional orientation and integration.

More Examples from the Real World

Companies have successfully applied lean principles to differentiating processes in many operational areas. For example:

- **Sales and marketing:** To enable growth, Computer Sciences Corporation (CSC), a leading global technology and business services provider, wanted to integrate its sales processes and create a single view of customer data. The company implemented a sales force automation system based on the SAP® Customer Relationship Management application. CSC gained a single, scalable software solution that rapidly integrates customer and pipeline data and provides holistic visibility into potential business to maximize sales opportunities. Time to generate a monthly global pipeline report was reduced 94% (from 36 hours to 2 hours).
- **Supply chain:** Companies can become more demand-driven by shifting from make-to-forecast to make-to-demand production planning. An international pharmaceutical company instituted a more dynamic supply chain at a packaging plant in Germany and reduced planning cycle times from 14 days to 1 day, increased service levels to 99.9%, and increased inventory turns by 14%.
- **Engineering and design:** Many businesses realize that integrated product life-cycle management processes are

critical for rapid product commercialization. The ability to support real-time integration from product data repositories to sourcing, manufacturing, quality, and supply chain systems can accelerate new-product launches. Based on SAP benchmarking analysis, consumer product companies that use integrated SAP software in support of their new-product development and introduction processes average 30% shorter time to market than their nonintegrated competitors.⁴

ConAgra Foods

Industry: Consumer products

Summary

ConAgra Foods Inc. is one of North America's largest packaged food companies. Among its most popular brands are Healthy Choice, Chef Boyardee, Hebrew National, PAM cooking spray, Egg Beaters, Orville Redenbacher's, and Slim Jim. The company also provides food and ingredients to major food-service establishments and commercial customers worldwide. ConAgra Foods' brands and products help fill the pantries of 95% of America's households.

Results with SAP® Software

- Improved forecast accuracy by 30%
- Reduced days in inventory (finished goods) by 7%
- Improved service level (case-fill, on-time) by 0.2%
- Improved availability in stores (store in-stock rate) by 0.7%

4. Ongoing SAP benchmarking survey on new-product development and introduction.

EMERGING IN THE LEAD

ENABLE THE LEAN ENTERPRISE

Achieving lean operations is a journey, not a single project. True transformation requires changes across the enterprise. To start, it is critical to have top-level sponsorship and put in place the right governance and performance measurement structures. Then the following best practices can help you accelerate the realization of your objectives:

- **For the corporate level:** Ensure corporate control through enterprise-wide visibility without inhibiting operating divisions from optimizing specific processes. For maximum effectiveness, performance visibility must be in real time. This requires a common, linked platform for strategic planning, operational performance management, and process execution.
- **For the shared services level:** Get started by launching a pilot for a single function. Prove the concept and gain valuable experience by starting

with a noncore function that provides immediate business benefit.

- **For the division level:** Set up a lean center of excellence to guide your journey. Establish a competency center with emerging talent that is familiar with the lean tools and methodologies and can guide division business leaders on adoption of best practices.

In addition, all levels of the lean transformation effort can leverage the following best practices to ensure streamlined and integrated operations:

- **Establish end-to-end process integration through business process platforms:** Lean principles focus on value streams. Companies that rely on numerous legacy and best-of-breed systems often have difficulty realizing the integrated value stream vision. Lean enterprises establish a business process platform that natively sup-

ports cross-functional integration.

- **Prioritize projects that offer immediate benefit while supporting a lean foundation long term:** Prioritize projects that can be implemented quickly – generating immediate benefits during the crisis – and that contribute to a robust, long-term business foundation.

Executive Insights from the Chief Value Office

SAP is committed to delivering value to our customers. With decades of experience working with thousands of CXOs worldwide, across all industries and lines of business, we have captured insights based on the best practices of top performers and the latest market trends. We have developed actionable, value-based recommendations to help companies chart their journey into the future. We are pleased to share our point of view in the *SAP Executive Insights* series.

About the Authors

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SUPPORT FROM SAP

ASSOCIATED PROCESSES AND SOLUTIONS

SAP supports end-to-end, integrated processes, with built-in industry best practices, including:

- **Driving strategy and growth:** Link strategy to execution by delivering critical insights to executives, managers, and front-line employees to aid fast and accurate decision making.
- **Gaining efficiency in finance and HR operations:** Free up resources by streamlining processes while reducing their costs through greater automation, standardization, and consolidation.
- **Centralized sourcing and contract management:** Connect supplier management, central sourcing, central contract management, and operational procurement processes.
- **Optimizing sales and marketing investments:** Align and integrate account planning, forecasting, campaign and lead generation, pipeline management, price and margin management, available-to-promise and credit checks, quotes, order capture, and financial settlement.
- **Collaborative demand and supply planning:** Balance demand and supply plans and respond to network events through integrated and end-to-end demand management, sales and operations planning, and supply planning processes.
- **Integrating product development:** Align and integrate processes that include component and task sourcing, supplier collaboration, production ramp-up, supplier-managed inventory, and quality management.

These processes are supported by a variety of solutions including these:

- **SAP BusinessObjects™ enterprise performance management solutions** help companies capitalize on the value of their corporate data by providing organizational alignment, visibility, and greater confidence.
- The **SAP ERP application** offers comprehensive financial management, talent management, and support for end-to-end operational process control for companies across a broad range of industries, including the most complex multinationals.
- The **SAP Supplier Relationship Management application** automates, simplifies, and accelerates procure-to-pay processes for goods and services.
- The **SAP Customer Relationship Management application** helps companies use their customer information for optimal customer interactions in sales, marketing, and service.
- The **SAP Supply Chain Management application** helps transform a linear, sequential supply chain into a responsive supply network.
- The **SAP Manufacturing solution** provides a powerful set of software that helps manufacturers integrate their operations with the rest of the enterprise.
- The **SAP Product Lifecycle Management application** provides 360-degree support for all product-related processes – from the first product idea through manufacturing and service.

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