



LEADERSHIP MAKES THE DIFFERENCE DURING TIMES OF GLOBAL FINANCIAL CRISIS

OPTIMIZING BUSINESS CYCLES THROUGH
TECHNOLOGY INVESTMENT



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About the Author

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SURVIVING AND THRIVING IN TIMES OF ECONOMIC TURMOIL

Undoubtedly, in a tough and difficult economy, executives are challenged more than ever to strike the right balance between reducing costs and making the targeted investments that will ensure future success. And the continued uncertainty in the economic forecasts makes this balancing act even more challenging.

No one can predict how long the current recession will last. However, one thing is for sure: with every economic crisis comes opportunity. Some companies will go from good to great, others will just fade away, making room for more innovative competitors. To be among the winners, executives need to answer three key questions:

Where Should I Invest Today?

Companies that outperform in challenging economic climates do so by setting strategic priorities, driving investments at the core of their business, and funding projects that generate a quick return on investment. A survey of some of our key customers shows that most companies plan to continue their transformational projects and will continue investing in scalable business processes to enable growth and margin improvements at a lower cost structure. But all companies are reevaluating new and existing projects on the value they can deliver.

How Can I Cut Costs Without Weakening My Organization?

There are always the obvious cost-cutting opportunities: travel, workforce optimization, shared services for corporate functions (finance, HR, IT,

legal), real estate, renegotiating more favorable contracts with suppliers. The more challenging cost reductions are in the areas of sales, marketing, R & D, and strategic IT. As an example, making a cut across the board in your IT spend can be a dangerous mistake. IT-based projects are often so deeply integrated into a company's core processes that any reduction in planned IT investments can put the organization at risk. Yet companies can't afford to maintain redundant processes and systems. Best-run companies are using this economic situation to harmonize and consolidate their IT landscapes while investing in value-generating processes and enabling IT.

How Can I Grab Market Share to Defend and Grow My Position?

By concentrating on the customer experience and substantiating your strategy through IT, your business can not only survive the current financial storm, it can thrive. In fact, acquisitive companies tend to benefit from downturns. Downturn mergers tend to generate significantly more value than boom-time mergers. You can emerge from this tough economy even stronger than before, but you must take decisive action. Given the gravity of the situation, there is no question that



companies must take action now. This paper will lay out the strategies that companies have employed in the past to outperform their peers during times of crisis and give you specific recommendations on how to reduce cost, invest smartly, and grab market share.

WHY SOME COMPANIES WIN IN MARKET SHAKE-UPS

Companies can use market fluctuations and global discourse to their advantage. Organizations that have built a stronger foundation for future success during an economic downturn typically fall into one of two categories:

Some established companies, such as Canadian National Railway Company, Colgate-Palmolive Company, Nike Inc., and Unilever, have keyed on harnessing their market power and resources to build and protect their brand. In challenging times, each of these companies employed a singular strategy around providing an exceptional customer experience. Subsequently, they were able to achieve market consolidation, expand market share, and drive growth.

“Our SAP solutions were crucial to our success in establishing global processes. They were essential to our phenomenal revenue growth between 2000 and 2007 from US\$8 billion to US\$16 billion.”

Roland Paanakker, CIO, Nike Inc.,
quoted in SAP 2007 Annual Report,
March 2008

Nike – a global marketer of athletic footwear, apparel, and equipment – operates in over 160 countries. In

1999, the company started to reengineer its customers' experience around very targeted and specific customer subsegments in lieu of a more product-oriented organization. Nike needed a global platform that enabled unwavering attention to the customer experience. From 2000 to 2007, SAP helped Nike build a global foundation and adopt global processes to position the company for growth. SAP® software improved Nike's key performance indicators for greater cash flow, inventory management, and profitability.”

In 1995, Canadian National Railway transitioned from a government Crown corporation to a very successful public company. Between 1999 and 2004, CN acquired three railroads and partnered with a fourth. Many new opportunities were created when senior management changed to a more customer-focused strategy. At the same time, CN has achieved the lowest operating ratio (operating expenses as a percentage of revenue) in the industry. CN counted on the ability of SAP software to replace or integrate legacy applications that impeded operational efficiency and integrate acquisitions.

Other companies have introduced new business models to the marketplace and leveraged the crisis to disrupt distracted companies. These disrupters, such as eBay Inc., Research In Motion Limited, and Under Armour Inc., created innovative solutions that addressed niche markets – targeting previously underserved customers. These companies took advantage of a market downturn to test and refine their offerings. When the market rebounded,

“We have grown the most during down cycles, and with SAP we are perfectly positioned to quickly expand both organically and through acquisitions.”

Curt Gomes, President, Pacific Coast Supply LLC, SAP Business Transformation Study, May 2007

each company was in a position to displace incumbents and sell into mainstream markets.

Disrupters were also better able to build their brands as larger competitors focused internally. And despite the uncertainty in the market environment these companies not only held steadfast on advancing their innovations, they also invested in SAP software, and established a customer support and finance infrastructure that supported its goal for further growth. These investments would allow them to scale when the overall market rebounded.

Consolidator or disrupter, these winning companies took decisive action and concentrated on creating a more compelling value proposition for their customers.

SIX PRIORITIES FOR TODAY'S ECONOMIC CLIMATE



“When you improve service, you lower the cost of doing business. Each time we improve the service and lower the cost, we open up markets to handle freight that we couldn't haul before.”

E. Hunter Harrison, President & CEO,
Canadian National Railway Company,
SAP Business Transformation Study,
July 2007

In addition to protecting and growing the brand, market leaders know that in times of crisis nothing is more important than ensuring the operating flexibility necessary for innovative, market-driven decisions. If you want to run with the best, you should strongly consider these best practices to strike a balance that allows both cost reductions and smart investments:

Manage Cash: As credit lines tighten and spending slows, companies should manage their cash-to-cash cycle and shore up shareholder confidence. Leading companies pay particular attention to balance-sheet health. Liquidity management becomes an integral part of an organization's core processes. The ability to reduce leverage and increase cash flow through working capital practices enables organizations to support long-term cash needs. The benefit can be tremendous. SAP/ASUG Benchmarking

reveals that companies with the capability to make real-time credit decisions average 40% lower days sales outstanding.

Run Lean Operations: Drive excess costs out of your organization. You can reduce internal costs by improving employee productivity and streamlining operations. A deeper look into your operating model through cross-enterprise visibility can result in significant savings. Organizations deploying a shared-services operational model

have, on average, 25% lower operating costs than organizations that deploy a decentralized approach.* As for external costs, prepare for disruptions in the supplier environment, and initiate projects that reduce all maverick and nonessential spend. Organizations that leverage spend analytics tools achieve, on average, 80% higher annual savings.* Similarly, organizations that use contract management capabilities as a means to drive compliance on contract terms realize twice the annual savings and require one-third the support staff.*

Drive Compliance Activities: In the very near future, organizations can expect even more rigorous regulations than those imposed by existing compliance initiatives such as Sarbanes-Oxley (SOX). Ready your organization now to support the next wave of regulations that the International Financial Reporting Standards (IFRS), the Registration, Evaluation, Authorization

* SAP/ASUG Benchmarking 2008



and Restriction of Chemicals (REACH), and others will bring. Many companies learned that complying with SOX and internal controls policies resulted in increased operating costs. The average internal audit cycle time, measured in days, is almost three times lower for those companies that have automated processes.*

Get Closer to Your Best Customers:

In difficult times, your customers are looking for reliable, trustworthy suppliers. Segment customers by risk, size, and value so that you can optimize sales potential by offering targeted, value-based pricing. During the Great Depression, the General Electric Company proved it was in tune with its customers by developing an innovative

financing strategy so customers purchasing new refrigerators could pay over time.

Retain Your Top Talent: The most talented people in the marketplace stay employed – even in hard times. Create programs to retain top talent and to build a team that can help your company achieve its five-year growth objectives. As others reduce capacity, be opportunistic and leverage this unique opportunity to recruit the right team. Effective talent management not only helps companies with growth objectives, it also helps improve their bottom line. Organizations that invest in talent management practices have significantly higher operating income per employee.*

Protect and Nurture Your Brand:

Brands can be made or broken in a time of crisis. In tough times, retaining profitable customers and reaching out to new ones requires greater innovation and dedication. This can be done through new products, services, and strategic acquisitions. Apple Inc. is a prime example of how a company reinvented itself by creating a customer experience second to none. First, Apple dropped those products that didn't contribute to its bottom line. Then, the company created a new line of products that took Apple back to its roots (elegance, ease of use, fashionable). Finally, Apple launched new services like iTunes with a world-class customer experience. These moves were very risky for a company that could have easily become a minor player in the market. But focusing on branding, customer experience, and the bottom line was the only way to survive. Clearly, the gamble paid off. In the last five years, Apple revenue skyrocketed from US\$6 billion to \$32 billion and its brand value grew from \$5 billion to \$13 billion, according to Interbrand Corporation. This success required significant business discipline and process change supported by a large investment in technology.

* SAP/ASUG Benchmarking 2008

MAXIMUM VALUE FROM IT

In this challenging global economy, IT can help you drive immediate business value and streamline operational costs. Investing in the right IT platform and end-to-end business processes enables companies to simplify the IT landscape and reduce total IT cost. These investments also allow businesses to run more efficiently and improve customer experience. Investing strategically in IT requires businesses to:

Build Closer Business and IT

Collaboration: Uncertainty means higher demand for IT. In times of scarce resources, business and IT executives need closer collaboration around end-to-end business process innovation. Business leaders also need accurate and timely information to run lean operations. Flawless execution of such initiatives can result in exponentially higher returns than traditional IT cost reduction efforts.

Reduced IT Budget by over 30%

“Our investment in a single instance of SAP software... has really changed the world at Rohm and Haas.”

Raj Gupta, Chairman and CEO,
Rohm and Haas Company,
SAP Business Transformation Study,
October 2006

Drive Business Value: Corporate scrutiny of new investments is at an all-time high. It should be. Delivering projects on time and on budget is not enough anymore. Companies must focus on

a third dimension: on value. Many leading companies are adopting value-management best practices. This starts with a business case for every project that identifies clear business ownership and specific measurements of success. All projects are managed as a portfolio of initiatives competing for the same funds. Those projects with the highest value and lowest risk get funded first. Postimplementation, business owners then work closely with the value management team to make sure the value is extracted. Projects are only celebrated once the promised value is realized. Unfortunately, few companies adopt this simple best practice. But it must become the rule, not the exception.

Reduce IT Costs and Consolidate Application Portfolio:

After the bursting of the dot-com bubble, many CIOs significantly reduced their operational costs. This eliminated much of the low-hanging fruit such as vendor and data center consolidation and outsourcing network management. Unfortunately, in this downturn, reducing costs further will be a much harder task. Perhaps the largest remaining opportunity lies in simplifying the application portfolio. Consider that today companies run anywhere from between 5 and 100

In 2008, 99% of Colgate's Global Operations Run on SAP

“The strategy for us was very clear. We looked to build a business framework of capability all around the world. We wanted to expand our network beyond our own company, and SAP allows us to do that.”

Paul McGarry, Vice President,
Colgate-Palmolive Company,
at the SAPPHIRE® Conference,
May 2008

business applications per \$1 billion in revenue. Savvy CIOs can consolidate their applications portfolio on a single business platform such as SAP and significantly reduce total IT costs while building more agile capabilities. But this requires business support and short-term investment. It is a matter of investing to take cost out.

Deliver on the Real-Time Enterprise:

With strong focus on delivering immediate value, companies can increase visibility across the enterprise and benefit from an advanced analytics platform. Through the deployment of real-time business dashboards, organizations can create a stronger link between business strategy and its execution by making real-time critical business decisions.

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