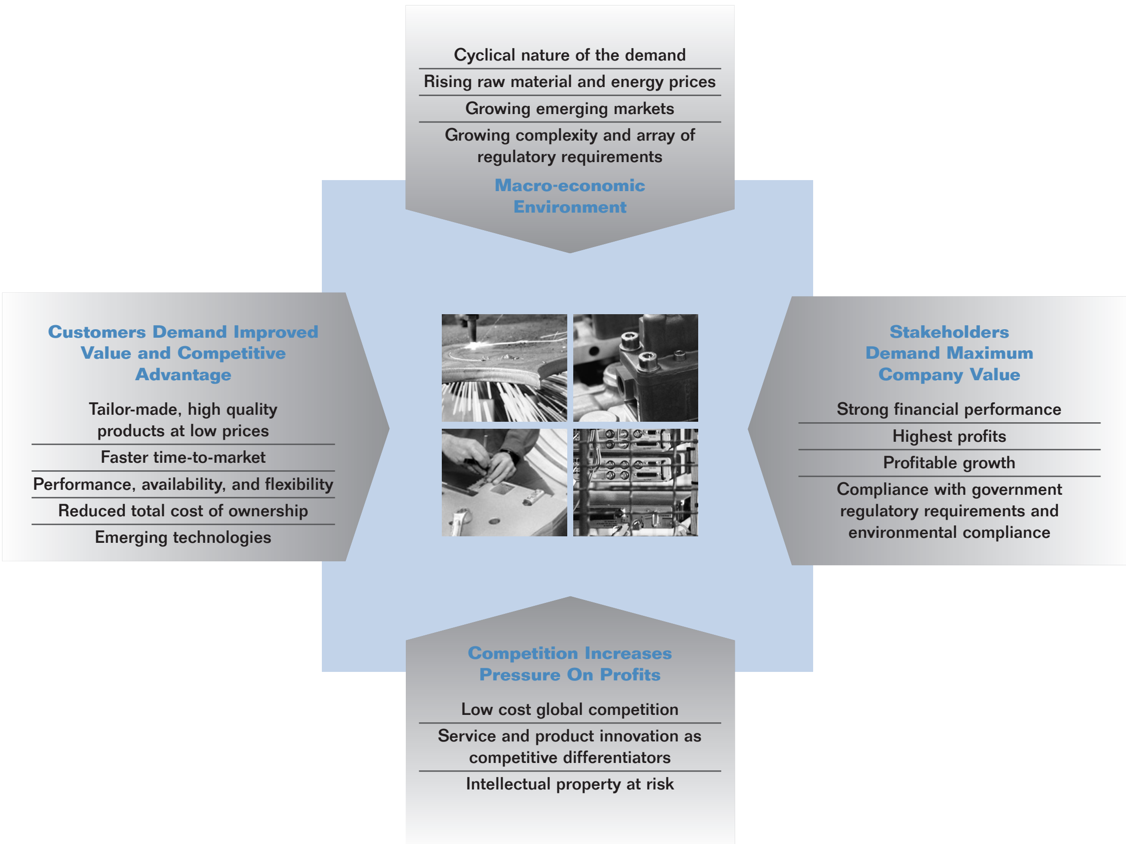
SAP Industry Value Proposition

SAP BUSINESS ALL-IN-ONE SOLUTION FOR MANUFACTURING

Streamlining Make-to-Order and Engineer-to-Order Manufacturing

If you are like many companies in the manufacturing industry, you're feeling the heat these days. While costs are rising and margins are shrinking, customers are demanding more for less. And they're in a position to get it - either from you or your competitors. In such a market environment, the challenges to you and your company are perfectly clear: speed up development times, reduce costs, and increase service levels to maintain customer loyalty.

The Industry Drivers of Manufacturers



How do Your Plants Compare to World Class Plants?

Increase Efficiency To Remove Costs

- World-class plants had a median ROIC that was 6.5 percentage points higher than worst-in-class plants.
- They recorded median sales per employee 41% higher.
- Almost two-thirds of the world-class plants have reduced manufacturing costs, while just one-third of worst-in-class plants were able to do so.

KPI	Worst In Class	World Class
Sales Per Employee	$134,000	$189,000
Return on Invested Capital (ROIC)	11.5%	18%
Scrap and rework % of sales	2%	1.3%
On-time delivery rate	95%	98%
Annual labor turnover rates	10%	5%
Production volume (as % of designed plant capacity)	65%	70%
Inventory Turns – Total	6	9
Asset Turn Ratio	2.3	4
3 Year Improvements (% Of Plants)		
Decreased Manufacturing Costs	33.9%	65.4%
Decreased Manufacturing Time	56.2%	80.5%
Increased Inventory Turns	36.6%	55.8%

Are your IT systems one of the key obstacles preventing you from achieving world class performance?

How Customers Expect to do Business with Manufacturing Companies?

Increase Customer Satisfaction & Loyalty

% Of Orders Arriving Via	3 Years Ago	Today	3 Years From Now
Web-Enabled	1.7%	8.3%	27.5%
Wireless	0%	0%	1.6%
EDI	12.6%	16.1%	23.5%
Direct Connection	1.3%	2.6%	7.6%
E-Mail	3.6%	11.7%	26.4%
Fax & Mail	68.1%	59.7%	42.2%
Telephone	53.6%	44.1%	33%

Can your IT systems support all of the different electronic channels customers will want to use to do business with you in 3 years?

- Goal - maximize percent of electronic order acquisition
- "Hands off" order processing cuts costs, reduces errors, and speeds order turnaround
- Too much business still being done via phone and fax

How Well are You Meeting Customers' Demands?

Increase Customer Satisfaction & Loyalty

Manufacturing Industry: Order Management & Fulfillment KPIS

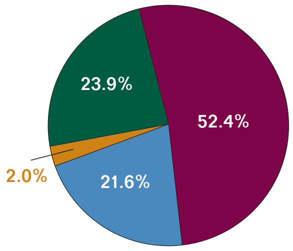
	Bottom 25%	Median	Top 25%
Percentage of total annual sales orders that require no manual intervention	0%	0%	30%
Total annual sales orders delivered on time	85%	93%	97.5%
Percentage of total annual sales orders not fulfilled due to stockouts	5%	2%	0%
Customer order-to-delivery time (days)	14	7	3
Customer order pick-to-ship cycle time (hours)	10	4	2
Order fill rate	90.3%	97.7%	99%
Total logistics costs as a percentage of sales	10%	4.3%	2%
Performance in the above elements results in ...			
Customer retention rate over the past three years	80%	90%	95.8%

Are your IT systems causing you to lose customers and market share to the competition?

Operational Excellence

Improvement Methods such as Lean and Six Sigma Continue to Drive Performance

How much progress has the plant made toward achieving world-class manufacturing status?



	Plants
No progress	152
Some progress	333
Significant progress	137
Fully achieved	13
Total	635

24% are top performing plants in US (report "significant progress" or "fully achieved" world-class status). This percentage is down compared to 2004 data (30%).

- 94% of plants that fully achieved world-class status also have an improvement methodology in place, and 60% are following lean approaches
- Only 48% of plants that have made no progress toward world-class status have an improvement methodology, and just 25% are following some form of lean approach
- Return on invested capital (ROIC) of 20% among world-class plants versus 8% among plants that no world-class
- 82% of plants focus their improvement approach on the production floor

Source - Industry Week/ Manufacturing Performance Institute survey: Manufacturing 2006 Executive Summary

SAP Advantage for Mid-Sized Manufacturing Companies

FOUR REASONS WHY SAP IS THE PARTNER OF CHOICE FOR MANUFACTURERS

360° VISIBILITY

ENABLE BUSINESS STRATEGY

- Become globally cost competitive
- Meet global compliance requirements
- Increase customer satisfaction / loyalty
- Increase productivity & efficiencies
- Increase responsiveness & agility
- Speed M&A integration
- Increase aftermarket revenues
- Speed innovation

SPEED TO TANGIBLE VALUE

- Reduce raw material costs 3% - 30%
- Reduce inventory levels 25% - 60%
- Increase aftermarket revenue 16% - 70%
- Reduce lead times 15% - 200%
- Reduce DSO 10% - 90%
- Speed up financial close 75% - 175%
- Pre-configured and "pre-integrated" Manufacturing solution can be live in as little as 8 weeks

SAFE

- SAP viability and reputation
- Proven – SAP has been providing mission critical solutions to more than 3,000 Manufacturing customers globally for over 30 years
- Appreciating asset – 8,800 developers & over US $1B in annual R&D to enhance solution
- Market leader - SAP has 58% of global market share
- Focus – not distracted by acquiring competitors & integrating their disparate systems

LOWEST TCO

- Reduce IT costs by 30-50% by retiring disparate systems / applications
- Modular Flexibility - deploy all at once or by business processes as needed
- Eliminate 80-90% of cost of interfaces (based on average US$35K to develop and US$6K/yr to maintain)
- Leverage current IT investments by using SAP NetWeaver technology for cost effective integration

SAP Leadership in Various Segments of Manufacturing

Industry Segments	Sample Customers	Top 10 Market Share	Total SAP Customers	% Mid-Size Enterprises
General Industrial Machinery & Equipment	Mitsubishi Heavy Industries, Pall	50%	659	66%
Measuring & Controlling Devices	ABB, Honeywell, Siemens	80%	337	54%
Semiconductor & Electronic Measurement Equipment	ASML, KLA Tencor	90%	291	56%
Industrial Tools & Metal Working Machinery	Hilti, Trumpf, Sandvik	70%	263	61%
Engine, Turbine, Pump & Compressor Machinery	Atlas Copco, Kaeser Kompressoren, Sulzer, Wärtsilä	80%	203	59%
Lifting, Material Handling & Railroad Equipment	Kone, Schindler, Toyota Industrial Equipment	80%	127	63%
Construction & Mining Machinery	Caterpillar, John Deere, Komatsu	80%	127	56%
Heating, Ventilation, Air Conditioning & Plumbing Equipment	Carrier, Daikin, Lennox	70%	107	55%
Electrical Equipment, Appliance & Components	Cooper, Mitsubishi Electric, Schneider Electric	80%	102	55%
Textile, Paper, Printing & Packaging Machinery	Heidelberg, Metso, Saurer, Tetra Pak	100%	87	58%
Motion & Fluid Control	FAG, Rexroth Bosch Group, SKF, Timken	60%	56	58%
Oil & Gas Machinery	Cameron, Kværner, Schlumberger	70%	26	36%

Hear it from Our Customers

Short Project Cycles

NEXPRESS Employees: 800	"In just 16 weeks SAP SI really helped us turn things around. Now we have a robust, scalable solution based on SAP industry best practices that helps us compete better and keep costs down." **Mr. Robert Scheidt, Vice President Of Operations**
PACIFICCYCLE Revenue: $295 million Employees: 350	"SAP brought a preconfigured client and we installed the system in 77 days. We used the AcceleratedSAP methodology and moved rapidly through the blueprint, design, realization, and go-live phases. SAP brought best business practices and its expertise in how to install the solution. Our people brought their knowledge of our business and how to test the system against our needs." **Mr. Ed Matthews, Director of Information Systems**
Ferra Revenue: AUD 20 million Employees: 110	"We walked out on a Friday and back in on the Monday and started using SAP. It is now supporting virtually all our business functions including sales, pre-production planning, distribution and accounting." **Mr. Marc Meili, General Manager, Ferra**

Positive ROI

Leybold vacuum	"Within one year of SAP APO productivity/capacity utilization increased 30%, delayed production orders dropped by 68%, and throughput times dropped by 15%."
NIBCO	"We lowered inventory levels from $102.1 to $76.0 million, and improved inventory turns by 17%. We reduced annual sales and administrative costs from $56.8 to $45.9 million."
Southern Pump & Tank Company	"We lowered inventory by 28%, and reduced slow and nonmoving items by 70%. On the service side, we reduced the days from job completion to invoice generation from 8 to 3, increasing cash flow. And we compressed the monthly financial close from 20-plus days to 5."

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2008/11
Company's registration no.: 198902722M

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