

MANAGING THE EXTENDED ENTERPRISE FOR PROFITABLE GROWTH

INTEGRATED OPERATIONS AND RESOURCES
ACROSS THE ENTERPRISE

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EXECUTIVE SUMMARY

SUPPORTING BUSINESS OPERATIONS WHEREVER THEY ARE LOCATED

Ready or not, your company is becoming an extended enterprise. Pressured by increasing globalization and the need to cut costs and look for new markets, many companies are extending their business processes beyond the firewall. To do this, they are taking steps such as outsourcing manufacturing, asking suppliers to drop-ship to customers, encouraging subsidiaries and regions to share information and resources in a decentralized way, or collecting business intelligence from far-flung distributors.

However, it is challenging to coordinate all the moving parts of an extended enterprise. Often, various locations or functions end up using a patchwork of different business management software that suits their own needs best but doesn't let them share information effectively. The extended enterprise may decide to standardize on a single business software solution. Yet very few vendors offer products with the scope and flexibility to suit all parts of the extended enterprise, large and small.

A software solution must integrate all entities on your network, even the smallest subsidiary and business partner; replace inefficient, manual processes; offer a choice of software applications to best fit each unit's specific business needs and widely varying IT expertise and budgets; provide insight to make good business decisions; and offer preconfigured integration functionality.

A successful solution must meet the following requirements: integrate all entities on your network, even the smallest subsidiary and business partner; replace inefficient, manual processes; offer a choice of software applications to best fit each unit's specific business needs and widely varying IT expertise and budgets; provide insight to make good business decisions; and offer preconfigured integration functionality. Choose wisely, and your business software

can accommodate every size and type of operation, from headquarters down to a four-person sales outpost that only recently was tracking sales with spreadsheets and e-mail.

EXTENDED ENTERPRISE, READY OR NOT

THE NEED FOR GREATER SPEED, AGILITY, AND FOCUS

In the 20th century, the reigning business model was a monolithic, vertically integrated enterprise. Internally, companies sought to exert top-down control over every location and level of operations. Externally, they saw other value chain members – suppliers, retailers, distributors, and others – as competitors to defeat in the Darwinian struggle for customers and market share. But in the current era of globalization, the Internet, teamwork, and dizzyingly fast changes in economic conditions, a smarter, faster, more flexible, and open business model called the extended enterprise is proving more successful.

In the extended enterprise model, the company becomes less centralized and dependent on top-down command and control. Internally, it gives more authority to lower-level managers or branch locations to analyze information, make decisions, and share resources. Externally, it orchestrates a value-creating network, taking advantage

of such things as geographically dispersed suppliers to provide lower-cost goods, contract manufacturers to build components more quickly, distributors to serve the “last mile” to the customer, franchisees to create market presence without direct cost and risk, and multiple sales and service subsidiaries to get closer to the customer.

Many different sizes and types of businesses can be part of an extended enterprise. You might be a billion-dollar beverage company or a small independent bottler selling those beverages in one of the fast-growing MINT countries (Malaysia, Indonesia, Nigeria, and

Thailand). You could be a 100-year-old furniture maker in North Carolina getting your first overseas drop-ship requests from the major European retailer chain that recently started carrying your products. Or you could be the distribution center loading thousands of cartons of merchandise each hour onto outbound trucks.

Regardless of size or market position, moving beyond the rigid command-and-control model gives you greater speed, agility, and focus on your unique competitive advantage – as long as you can master the integration and collaboration issues involved.

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DEFINING THE EXTENDED ENTERPRISE

EXTEND BUSINESS REACH AND INSIGHT BEYOND YOUR FOUR WALLS

Simply put, an extended enterprise comprises all the various entities, both directly controlled (such as subsidiaries or branch offices) and external (such as contract manufacturers, service providers, and franchisees), on which an organization relies to deliver its products and services to its customers. In today's connected business environment, a significant portion of the enterprise value creation and delivery happens outside the home country or firewall. According to a PRTM study, over 42% of all manufacturing activities and 38% of final assembly have already been globalized. By 2010, more than half of the companies' total operations will be located outside the original home country. The survey also showed a new trend – a high rate of growth with respect to the globalization of product and technology development. While these functions have traditionally been kept at a company's headquarters, the need to adapt products to international markets and the lack of qualified R & D personnel are driving the trend toward increased globalization.¹

A surprisingly high proportion of the subsidiaries and partners within the extended enterprise are small and geographically distributed. For example, a company may have thousands of suppliers, distributors, franchisees, and partners across the world but fewer than 50 employees. Its contract manufacturing partners may be located in various hubs in Southeast Asia or Eastern Europe, while sales and distribution offices may be located in cities in the Americas, Europe, and Asia to be closer to customers. These subsidiaries and partners may address a specific niche (such as logistics and service operations) in a region, so they are vital for the success of the corporate parent even though an individual branch might have only three or four people.

According to research from AMI Partners in 2009, of all companies selling to large enterprises, 94% have fewer than 100 employees.⁴

Encouraging Growth, Not Just Cutting Costs

As noted above, extended enterprises were already catching on in the 1990s, when formerly controlled economies around the world started to open up, and the Internet began making real-time connectivity much easier. But extending operations beyond the firewall is doubly important in the postcrisis economy when companies have to squeeze every last dollar of inefficiency out of their operations. It's no surprise that in the PRTM study, nearly 30% of the 300 global executives surveyed indicated that reducing material and labor costs are the primary drivers of globalization.²

At the same time, increased access to local markets is also considered a major driver of globalization, just behind cost reductions. Nearly half the respondents in the PRTM survey noted that they expect access to local markets to increase in importance.³ These executives already know that protecting the bottom line by cutting spending and freezing all new projects isn't enough; you also have to go to new markets to gain new customers and grow revenue.

1. PRTM Management Consultants, *Global Supply Chain Trends 2008–2010 Report*.

2. Ibid.

3. Ibid.

4. AMI Partners, *SMB Global Opportunity Assessment, 2009*.

And if you intend to succeed in the reshaped competitive landscape, you need to reexamine every aspect of your business – spending, income, target markets, business processes, and more. For example, you might not only renegotiate raw material prices with your existing supplier but also find additional new sources. You might decide to get your product into new markets by creating a joint venture with a reseller or let retailers log on to your extranet to order just-in-time replenishments. Or after experiencing layoffs at headquarters, you could create regional sales offices to get closer to the new customer base you're targeting. There is a world of options.

However, improving profitability by cutting expenses, boosting growth, and speeding up your reaction to changing market conditions – all at once – is tricky. Not only are different capabilities and infrastructure required for each type of improvement, but each option requires you to increasingly extend your business reach and insight beyond your own walls.

If you intend to succeed in the reshaped competitive landscape, you need to reexamine every aspect of your business – spending, income, target markets, business processes, and more. It's no longer enough to simply protect your bottom line by cutting spending and freezing new projects – you also have to determine which new markets to penetrate to gain new customers and grow revenue.

Addressing the Challenges of Extending Your Enterprise

The challenges of managing a globally dispersed enterprise fall into three main areas: operations, business scale, and agility.

Operational Challenges

To simultaneously reduce costs and leverage opportunities for revenue growth, your company has to carefully coordinate resources and activities. Doing so quickly and efficiently across a complex web that includes globally distributed offices, manufacturing

locations, third-party providers, and strategic suppliers poses a significant operational challenge. Process complexity and workflows in a small autonomous subsidiary are very different from those in headquarters, larger divisions, or joint ventures. And regulatory requirements can differ dramatically between countries, regions, or states. If one-size-fits-all systems and processes are imposed on all these disparate operations, your organization may lose the flexibility to respond to unique industry, regional, or regulatory requirements.

Business Scale Challenges

Due to the wide range of size, scope, and complexity within the extended enterprise, different units often have different functional requirements for the business management software they use. Each operation requires a solution that is tailored for it. The sophisticated enterprise resource planning (ERP) or business intelligence software solutions needed to power the headquarters or flagship manufacturing locations are very different from the informal spreadsheet and e-mail processes that keep small, scrappy branch offices humming. How do you ensure that each operation is harmoniously sharing all the information that other sites need, so that business is not disrupted? Headquarters is not about to revert to manual, e-mailed updates of inventory levels for every SKU. But at the same time, it may not have the budget, time, or influence to push its top-of-the-line

business management solutions downstream to hundreds of branches or low-tech franchisees. There is a real need for affordable, right-sized solutions that offer the optimal functionality at each level plus smooth integration between the levels.

Agility Challenges

When an extended organization is operating across multiple boundaries, it must work harder to respond quickly to changes. Whether it is negotiating with a potential supplier, opening sales offices to get closer to the customer, or redrawing delivery routes, the company has to be agile to compensate for the intrinsic lag time of informing and hearing back from multiple points. To make that happen, it not only needs to address the operational and IT challenges as outlined above but also must adjust its culture and leadership so that agility becomes a core corporate value.

Recognizing the Perils of Patchwork Solutions

It's clear that companies need to excel at managing their extended enterprise in order to reap the benefits of collaboration without throwing their existing operations into chaos. Figure 1 represents a typical extended enterprise for a large company – a web of multiple divisions, regional offices, subsidiaries, joint ventures, plants, distribution centers, distributors, partners, and suppliers.

In this kind of environment, it's not unusual to find dozens of different business management systems running in different parts of the organization. There is the main suite of corporate ERP, customer relationship management (CRM), product data management, business intelligence, and other solutions implemented at

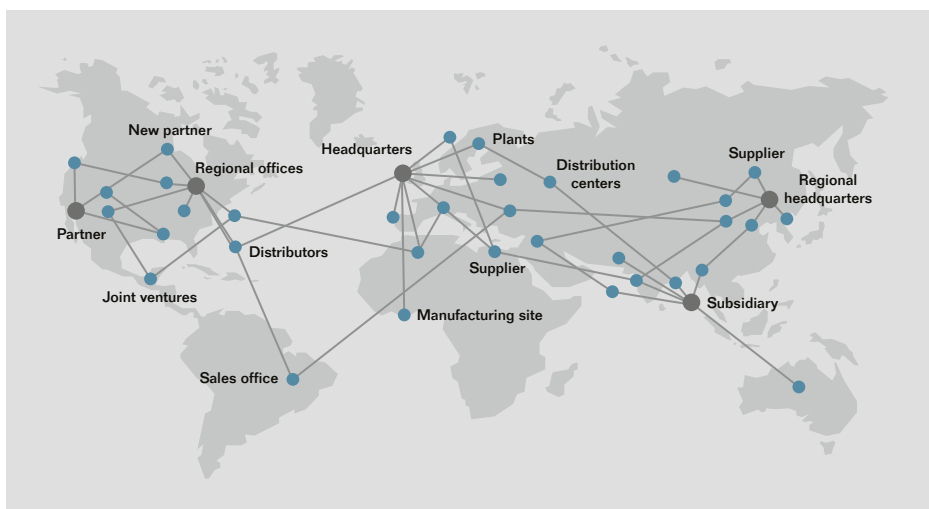


Figure 1: Topology of a Typical Extended Enterprise

headquarters, regional headquarters, and larger divisions. The company may also deploy different systems at a subsidiary or an acquired company, either to meet a specific regulatory requirement or to meet their needs for a simpler or differently featured application. Furthermore, the key suppliers and distribution partners may each have their own business management software, which may come from any number of vendors.

Typically these multiple systems from different vendors are only loosely integrated with each other, creating significant challenges in information flow between them. Information may flow via spreadsheets or e-mails between the users of these systems for financial consolidation, inventory availability, pricing changes, sales orders, invoices, and so on. This manual and bottlenecked information flow

consumes time and resources, is prone to errors, and limits the company's ability to effectively do such things as:

- Close books on time
- Get a quick picture of its overall financial situation
- Comply with various regulations across all operations and jurisdictions
- Proactively and quickly respond to customer issues such as on-time delivery, order changes, or service requests
- Detect and deal with quality issues early
- Eliminate loading-dock surprises, such as wrong items or incorrect quantities
- Communicate demand and supply information, including pricing or availability changes, up and down the supply chain
- Move quickly to take advantage of new competitive or market opportunities

In addition, due to loose integration and manual information flow between these systems, both master and transactional data can get duplicated across the various systems and get out of sync over time, leading people to distrust the data in the system and trust their instincts rather than the figures they see on the computer screen. Such challenges become a barrier to future growth, profitability, and agility. With all these various demands, how do you get everybody on the same page within an extended enterprise?

BLUEPRINT FOR SUCCESSFULLY MANAGING THE EXTENDED ENTERPRISE

BREAKING WITH TRADITION TO FOLLOW A MORE EFFECTIVE MODEL

The Strategies You Need to Connect Business Processes

Effectively managing an extended enterprise starts with connecting business processes and ensuring information flow across the entire network of subsidiaries and third-party business partners. Even operations that have fewer than 25 employees need processes to streamline operations and support information sharing. Without them, inefficiencies continue to get in the way of growth, profitability, and agility. If you want to be the best, you should definitely consider strategies that allow you to run your extended enterprise more effectively, efficiently, and with flexibility to better serve your customers.

See the Whole Picture to Make Faster, Smarter Decisions

The business environment today is not only competitive but also rapidly changing. New competitors enter the market every day. New technologies and consumer behavior change constantly, creating new opportunities for incumbents as well as challengers. As a result, companies need to keep evolving to stay in the game. They might compete on service by letting the customer know at the time of order when the product will ship and then meeting that delivery date. Or they might compete on price and availability

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by changing promotions based on analysis of customer purchases and then providing that information as input into the production planning process. Such benefits can be achieved only by integrating the needed product, customer, and operations data into a single source of truth and providing comprehensive analytics and reporting functionality. As a result, managers can make faster and smarter decisions with confidence.

Manage Operations and Cost Structure Globally

Price erosion is a fact of life in virtually all industries, resulting from increased global competition, emergence of new technologies, and fluctuations in demand. To maintain profitability, companies try to reduce costs by consolidating operations to achieve

greater economies of scale or by moving manufacturing and back-office operations offshore. However, such a move only increases the complexity of their network and increases the pressure to manage it well.

That's why it's critical to standardize business processes across your extended enterprise, which enables you to eliminate duplicate and unproductive activities. For example, by having a uniform process for handling returns of consumer electronics (such as LCD TVs) and integrating that process with purchasing, manufacturing, and inventory activities, you can make sure you aren't continuing to produce the same models of TVs that fail to please consumers.

Limit Exposure to Risk

Risk and compliance are no longer just the purview of governmental regulatory bodies. In today's environment, companies must meet not only the quality, service, privacy, and safety standards imposed by regulators but also those expected by customers, industry organizations, and interest groups. Moreover, when sourcing and manufacturing are distributed globally or outsourced, your risks – and compliance responsibilities – have to follow.

For example, in the high-tech industry every supplier and every contract manufacturer must deliver products that meet Waste Electrical and Electronic Equipment (WEEE) requirements, and every sales office and subsidiary must comply with global trade regulations. Even if just one subsidiary breaks the rules or unknowingly uses unsafe components, the penalties and hits to brand equity and market capitalization can be significant.

You must build the appropriate metrics and reporting into your processes to ensure compliance with financial regulations, product quality standards, delivery deadlines, service-level agreements, industry regulations, carbon emission standards, and many more. An integrated information environment (even across multiple enterprise systems) not only helps ensure enterprise-wide compliance but also can help overcome the risk associated with managing across borders.

Stay Agile and Stay Ahead of the Competition

The pace of change is accelerating in every industry. Despite, or because of, the economic downturn, markets and suppliers are becoming more global. In addition, industry consolidation is changing the competitive landscape, driving prices down, and requiring new levels of innovation and collaboration. As a result, agility becomes a critical success factor for organizations, both in the short and longer terms.

For example, we now realize that it's not enough simply to acquire a competitor. It's equally vital that the two businesses mesh harmoniously to provide the same high level of service that customers expect. That includes having single customer IDs, transferring service warranties, reducing duplicate SKUs, and optimizing sourcing and inventory. This ability to roll out new processes or adapt existing processes virtually on demand is what distinguishes successful organizations from their competitors.

Going Beyond Traditional Hub and Spoke

To integrate the various enterprise applications running in their company, organizations traditionally relied on a hub-and-spoke model, where the corporate parent (the hub) interacts with its subsidiaries (the spokes) and requests specific pieces of information. However, this model works only in cases where the spokes are fully controlled by the hub – the parent organization – and where the hub is the source of goods, information, and innovation. This rigid, command-and-control approach limits the subsidiaries' ability to act quickly and flexibly under changing business conditions, both in responding to headquarters and in communicating with other subsidiaries. It also hampers integration with business partners; there are only transactional status updates, so no real relationship is created. At both ends, whether dealing with in-house divisions or external business partners, the hub-and-spoke approach gets in the way of value creation (see Figure 2). This one-way approach is too slow and rigid to meet today's requirements for an agile response to fast-changing business conditions.

By comparison, in a truly networked enterprise, value creation can happen anywhere – either within subsidiaries or externally. With this type of approach, the customer rather than headquarters is considered the hub. This allows the company to leverage the resources, inventory, and capabilities of the entity best suited to meet customer requirements.

For example, if a warehouse in Singapore is out of stock for a vital spare part needed by an industrial customer, a sales agent in the Singapore office can make the decision to purchase the part from the warehouse in Shanghai without having to route the request through the corporate sourcing team at headquarters in Los Angeles. In this instance, the office in Singapore is functioning as the hub.

And because all the business processes are aligned at the back end, the invoicing, delivery, and inventory management are handled automatically. The customer receives the part on time, as promised, and pays the invoice per the usual process. This leads to better customer satisfaction and increased competitiveness.

The networked enterprise lets you optimize across the entire value chain, using principles such as demand-driven supply networks, drop-shipping to customers, performance dashboards reflecting the entire network's real-time status, and other techniques that make better use of global resources in real time.

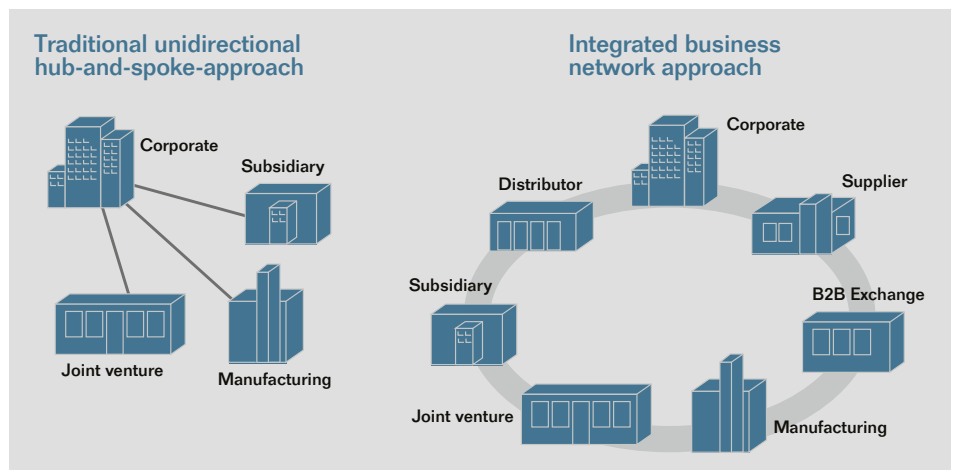


Figure 2: A More Effective Model for the Extended Enterprise

THE ROLE OF INFORMATION TECHNOLOGY

EXTEND YOUR ENTERPRISE AND ACHIEVE COMPETITIVE ADVANTAGE

The use of information technology is the key to profitably extending your enterprise and achieving competitive advantage. To operate effectively and efficiently, organizations must integrate their entire network of business partners. For example, the billion-dollar beverage company mentioned at the beginning of this paper can now streamline its operations and close its books in a timely fashion every quarter. The small bottler in Thailand can keep track of the orders its salespeople deliver daily by bicycle cart to beach-front refreshment stands and request just-in-time replenishment. The North Carolina furniture maker can plan its material purchases or log on to the distribution center's extranet to see where to ship this week's newly built patio furniture. And the German retailer can unify the reports from all its suppliers and figure out which products are most profitable or have the fewest customer complaints.

In this web of global commerce, a multitier technology strategy is what connects a company to its business partners. There are several key elements of such a strategy:

- **Integrate all entities in your network, even the smallest of your subsidiaries and business partners.** With international expansion and the desire to have sales and service offices closer to new markets, even the smallest subsidiaries of 5 to 10 employees are becoming competitive weapons to penetrate new customer segments and increase market share.

Integrate all entities in your network. With international expansion and the move to have sales and service offices closer to customers in new markets, even the smallest subsidiaries of 5 to 10 employees are becoming competitive weapons.

- **Replace legacy tools and systems.** Your business is only as strong as your weakest link. Having to access multiple systems, relying on phone and fax for information, and resorting to manual processes creates inefficiencies and can result in lost orders, longer cycle times, unsatisfied customers, and higher costs of doing business.
- **Work with a vendor that offers a choice of solutions to best fit your business needs.** Subsidiaries and business partners have unique business needs and widely varying IT expertise and budgets. Look for solutions to power your corporate headquarters, complex manufacturing sites, sales offices, distributors, and suppliers based on the fit, budget, functional sophistication, and deployment model that best match the needs of each organization.
- **Seek out solutions that provide insight to make good business decisions.** The very nature of an extended enterprise requires information and visibility within a business process, across the entire process, and across the entire business network. Look for solutions that not only provide reports and real-time dashboards to answer the question

"Are we executing well?" but also give you the ability to query and predict the impact of different business scenarios. That lets you answer the question "Are we doing the right things?" With this level of enterprise insight, you can seek answers at all levels of your organization and respond nimbly to fast-changing business conditions.

- **Look for solutions with preconfigured integration functionality.** Integration, specifically integration within and across your business network, represents a significant portion of your total cost of ownership, not only for implementation but for maintaining the integration points and when upgrading or adding new software. To reduce the time and cost of implementing and maintaining your integrated business network, you should look for solutions that include preconfigured integration functionality. This lets you harmonize business processes not only at the data level but across all nodes of your extended network, from headquarters to subsidiaries to business partners.

SAP® SOLUTIONS FOR BUSINESS NETWORKS

THE RIGHT VENDOR TO HELP YOU MANAGE YOUR EXTENDED ENTERPRISE

SAP offers a portfolio of business management solutions to connect companies of all sizes and business sophistication, from complex manufacturing sites, sales offices, distributors, and suppliers to your corporate headquarters. Complementing this traditional back-office software, the SAP® BusinessObjects™ portfolio supports business intelligence, enterprise information management, enterprise performance management, and governance, risk and compliance solutions. These solutions come with

preconfigured integration content that harmonizes business processes, maps data between SAP solutions, and orchestrates corporate-wide integration across applications and different integration technologies. SAP solutions address the fit, budget, functional complexity, deployment model, and business process needs of your entire business network, allowing you to function as a single operation focused on the customer. As a result, you can achieve business process excellence and insight at all levels.

For More Information

To find out how SAP software can help your organization manage its extended enterprise, contact your SAP representative or visit us online at www.sap.com/sme/solutions/businessmanagement/businessnetworks.epx. To find the right solution for your needs, use the solution adviser tool at www.sap.com/sme/howtobuy/solution_adviser.epx.

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