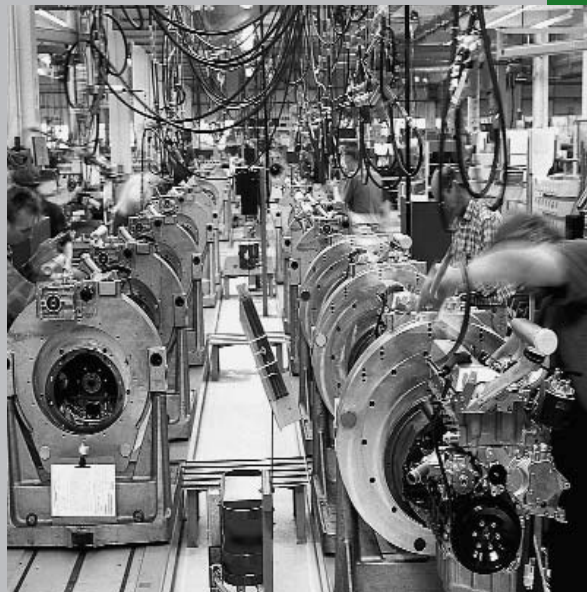


SAP Case Study



mySAP™ All-in-One **AT STATE INDUSTRIAL** **PRODUCTS**

THE BEST-RUN BUSINESSES RUN SAP



AT A GLANCE

The mySAP™ All-in-One solution was instrumental in enabling State Industrial Products to achieve its goal of improving the efficiency of its financial department as well as its pricing and materials management processes.

Key Findings

- ROI – 279% (pretaxed)
- IRR – 35.83% (pretaxed)
- Time to solution – 9 months
- Total reallocation of employee savings – \$864,000
- Total order-to-cash improvement – \$1.2 million
- Same-day order shipment improvement – 64% to 99.9%
- Total inventory savings – \$2.5 million
- System consolidation – 3 to 1
- Wait time improvement for customer order entry – 4–5 days to 1–2 business days



COMPANY BACKGROUND

State Industrial Products, originally known as the State Chemical Manufacturing Company, was founded in Cleveland in 1911 by the five Zucker brothers. Their original \$75 investment was dedicated to developing the company's first product, a handmade floor-sweeping compound. In 1927, the company moved from a small 750-square-foot plant with a one-room office to a new 30,000-square-foot three-story building that housed the most up-to-date equipment then available. The new facility allowed the company to provide faster service and to carry more inventory; sales grew and a successful catalog/mail order business was launched. American involvement in World War II placed new demands on State Industrial, and as a result sales increased. After the war, the company continued to expand, and offices were opened in Columbus and Cincinnati.

During the 1960s the company grew at a rate of 20% per year and its employee rolls grew to 100 people. The 1970s led to another expansion, and again the amount of space the company occupied doubled. In 1978, Cary Zucker founded the Phoenix-based Neutron Industries, a premier telemarketer of maintenance supplies. The company has its headquarters in Phoenix, Arizona, and has twice been ranked among the nation's fastest-growing companies by *Inc.* magazine.

With facilities in the United States, Canada, and Puerto Rico, the thousands of specialty chemical products made by State Industrial are hard at work across North America in commercial and industrial facilities of all kinds – manufacturing plants, schools, hotels, restaurants, and hospitals, and other healthcare facilities.

THE BUSINESS

Since its inception more than 90 years ago, State Industrial has been committed to solving maintenance and cleaning problems with high-quality products and personal service. State Industrial Products Corporation consists of three sales divisions: State Chemical Manufacturing Company, UZ Engineered Products, and Neutron Industries. In all, the three divisions market up to 70,000 different products to a customer base that ranges from a single customer to large private and public institutions.

“SAP has truly increased our ability to think and act strategically instead of wasting time on mundane work.”

Bob Centa, Corporate Controller, State Industrial Products

GARTNER STUDY

Recently, Gartner Consulting Inc. was commissioned by SAP to conduct an unbiased, third-party assessment of the ROI of the mySAP™ All-in-One solution as implemented at State Industrial.

Results of this study are based on Gartner’s Total Value of Opportunity (TVO) methodology. Results were developed independently by Gartner Consulting and State Industrial Products. Results were approved by the State Industrial Products financial office. Results should not be deemed as an industry average and may vary from published Gartner research.

Gartner’s standard TVO methodology includes what we believe are the “best practices” – applied methodologies for each of the value questions. These components of TVO allow for a complete view of an IT-enabled business initiative, from the capability inherent in the solution – based on a technology perspective – to the ability of an organization to convert that capability into business value. In addition, the TVO components build a “trail of evidence” that links the IT capabilities to the resulting projected financial model, which makes the business metrics visible and resulting business operations involved in unlocking value.

THE COMPANY'S STRATEGY

State Industrial Products has an ongoing strategy of lowering operational costs, maintaining product quality, and continually improving its ability to service customers. The company focuses on financial processes, streamlined customer service functions, and improved materials management. By taking aim at these three key areas, State Industrial believes that costs can be controlled by moving employees away from manually intensive tasks into more value-added analytical activities, and improving customer service by providing service agents with more customer and material-related information.

In addition to business process improvements, State Industrial realized overall integration benefits from mySAP All-in-One, which the company first implemented in November 1998. According to Bill Rady, State Industrial's director of information services, the most significant benefits to integration have been:

- Improved inventory management via real-time material visibility across the manufacturing and fulfillment processes
- Elimination of data interfaces due to the end-to-end integration of manufacturing, distribution, sales, and cost information
- Real-time visibility for the financial group in procurement, manufacturing, and fulfillment systems

To better implement this strategy, plans are under way to equip key people in State Industrial's field organization with the portable computing capabilities they need to completely fulfill their ongoing strategic needs.

THE SELECTION OF SAP

State Industrial Products' previous system landscape consisted of an IBM mainframe that housed Arthur Andersen's DCS system; the DCS interfaced with Andersen's MAC-PAC, which in turn ran on an AS400. The mainframe handled order entry, billing, purchasing, and materials control, while the AS400 handled materials requirements planning (MRP) and bills of material.

There was no integrated view of material planning information; forecasting was done only with finished goods. Budgetary constraints meant that within this environment the company could run MRP only once a week. In addition, for lack of an integrated electronic planning system, a great deal of paper was being generated for reporting.

During the second half of 1997, the company performed a business process assessment on all its operations in order to evaluate its current situation and determine where it wanted to be relative to customer service and overall sales, marketing, and operational processes. "From that assessment," says Rady, "we gathered all the issues that needed to be rectified and determined that we needed a robust ERP system to address most of them properly. We looked at the top players in the market and decided to go with SAP, because it showcases proactivity in providing solutions, its R&D spending was three times the total revenue of the nearest competitor, and we needed a company that could help us grow."

Upon completion of the study, State Industrial, with the assistance of Perot Systems (formerly Solutions Consulting) began the implementation of mySAP All-in-One in February 1998 and completed the entire integration in November 1998. "Perot provided quality people who had relevant manufacturing and similar SAP® implementation experience," says Rady. "This experience, along with their ability to understand and implement SAP best practices in our environment, contributed to making the implementation the success that it was. In addition to their knowledge of our industry, Perot put forth a great effort to learn our business, which in turn was integral to our successful on-time implementation."

PRICING AND CUSTOMER SERVICE

Prior to the SAP implementation, State Industrial offered customers only one level of pricing; because of the difficulties of implementing new price plans and ongoing special price file administration, very little specialized pricing – which could have accommodated customers with special needs – was offered. Pricing flexibility could only be set at each of the company’s six distribution centers – Atlanta, Cleveland, Los Angeles, San Juan, Toronto, and Tulsa – but the problem was that the pricing structure was not determined from the location of the distribution centers; it was dependent upon the demands of the customer. State Industrial found itself under growing pressure from the demands of the 360,000 customers to whom it had sold in the previous five years and by those customers’ need for individual price plans tailored specifically for them.



While mainframe improvements were making some customer-specific pricing possible, special pricing could be set up for only a few selected price plans and any extra pricing requirements placed a tremendous strain on the system. In addition, there were no mix-and-match product configuration capabilities. “When it came to selling our Fragrance Paks for our air freshener systems,” Rady says, “we could not give the customer the ability to purchase multiple fragrances unless they purchased an entire case of product. Now, they can mix and match from any of our 11 fragrances.”

The implementation of SAP software allowed State Industrial to drop its old distribution center-based pricing system, which gave them much more flexibility in regard to pricing capabilities. “We could now react quickly to competitive pricing pressures,” Rady continues, “for the functionality and administration of SAP contract pricing was superior to what we had in place previously. In addition to having the ability to set up customer-specific pricing, we could also post the effective dates for which the pricing was offered. This gave us visibility to contracts that were about to expire in order to determine a proactive approach to their renewal.”

State Industrial’s figures show that in 2002 nearly \$1 million in sales took place through contract pricing. The ability to streamline this process made the reallocation of approximately one FTE possible, for a savings of around \$58,000. In addition, another half an FTE was saved due to the fact that less custom development was needed to meet the demands of a contract pricing system.

With the help of mySAP All-in-One, State Industrial now efficiently processes 70,000 orders a year from sales associates and customers via the Internet, accounting for slightly more than a third of all orders processed. Wait times in call center queues have been eliminated, improving order entry time from an average of four to five minutes for a phone-based order to one to two minutes for an order placed electronically. In addition, thanks to fewer administrative tasks, two additional FTEs have been reallocated, saving \$78,000 annually.

And thanks to the advanced functionality that the SAP solution provides in regard to automated operations, coupled with the decreased complexities of an integrated application platform, State Industrial was able to reallocate three FTEs from its information services operations department, saving \$117,000 annually.

FINANCIAL PROCESSES

Under the old system, GL, AP, AR, planning, and cost accounting were separate, stand-alone systems. The SAP implementation reduced the financial close process from 10 to 12 business days to approximately 3 business days. SAP made an impact on payroll as well. Thanks to a more efficient method of uploading data, manual journal entries were greatly reduced – for an FTE reallocation savings of \$52,000. In addition, the recently implemented fixed assets module has enabled State Industrial to further update the financial close process and realize improved reporting accuracy of its capital expenditures.

Cost accounting underwent a complete transformation. Aggregation of bills of material, routings, and labor information went from a manual effort to a completely automated process with the help of mySAP All-in-One. One result: increased accuracy in product costing and inventory valuation.

Planning and forecasting is another area that has seen significant improvement. Prior to mySAP All-in-One, this was done offline in Excel. Says Bob Centa, corporate controller: “Consolidating budgets and forecasts was a nightmare before SAP. Post-SAP, we are now able to focus on analyzing the data rather than just making sure the numbers roll up properly. SAP has truly increased our ability to think and act strategically instead of wasting time on mundane work.”

State Industrial, made up of three different divisions, operates in multiple currencies, and SAP’s legal consolidation module has been a boon in that area. “SAP’s legal consolidation module implementation has resulted in significant process improvements,” says Centa, “giving us a greater degree of comfort in the accuracy of data.”

The streamlining of business processes helped in other ways. “We were able to reallocate a total of eight employees from multiple accounting, accounts receivable, and accounts payable functions, yielding a savings of approximately \$299,000,” says Centa.

MATERIALS MANAGEMENT

Prior to mySAP All-in-One, State Industrial had two different systems (MRP and DRP) that were synchronized once per week. Inaccurate billing and materials information on the DRP system was a major problem, which in turn led to inventory inaccuracies on the MRP system. “We were not realizing production efficiencies and we did not have a true inventory picture,” says Ron Stamberger, director of warehouse operations. “You could see stock on hand but could not see sales orders or production orders against the stock. We carried way too much inventory. Sometimes orders could not be shipped in a timely fashion, and that in turn hurt the earnings of our salespeople.”

The new process gives State Industrial Products a real-time view into stock on hand, and the ability to release orders without manual intervention. Now that the entire process has been automated, same-day order shipment volume has grown from 64% to 99.9%. And the automation of redundant processes in materials management has led to savings of approximately \$260,000 in FTE reallocation.

The company formerly carried \$9.7 million or so in inventory. The SAP implementation lowered that figure to \$7.2 million – a \$2.5 million reduction. In addition, real-time visibility of the inventory picture has become much more transparent, reducing inaccurate sales orders and lifting service levels.

“SAP’s R&D spending was three times the total revenue of the nearest competitor, and we needed a company that could help us grow.”

Bill Rady, Director of Information Services, State Industrial Products

RETURN ON INVESTMENT

The first step to determining the ROI was to isolate the present value of the cost-reducing and revenue-enhancing benefits introduced by the three top mySAP All-in-One business process improvements. The next step was to divide that figure by the present value of the total investment. Although additional benefits are certainly being derived from other business processes, the study team could not isolate any of these benefits with the same level of confidence it did the three isolated for this study.

For the purposes of this study, the time frame investigated was a 10-year useful life period. Although there are industry discrepancies regarding anticipated useful life periods (due to the nature of enterprise software and the customers' expectations), it was determined that a 10-year ROI would be the most useful period on which to calculate the ROI.

The investment estimate includes all costs involved in licensing, deploying, debugging, and maintaining mySAP All-in-One software and services, although this estimate did not include any indirect, soft, or overhead costs. In most cases, indirect and soft costs are either negligible or difficult to quantify; overhead costs would be consistent regardless of which SAP strategy was implemented.

The pretaxed ROI calculations represent a very positive and realistic number. While every reasonable effort was made to discover as many of the financial benefits associated with mySAP All-in-One as possible, identifying each and every one of them was not a realistic goal. Taking that caveat into consideration, the ROI estimate made here should be considered conservative.

CONCLUSIONS

The SAP solutions have proven to be extremely valuable to State Industrial Products' business operations, its customers, and its stakeholders. The company's staff continually challenges SAP to meet these ever-changing internal as well as external needs. In addition to the performance benefits gained, State Industrial understands that SAP is totally committed to providing the highest levels of service possible and remaining on the cutting edge of necessary performance enhancements.

The implementation of mySAP All-in-One has enabled State Industrial Products to:

- Streamline processes, allowing the reallocation of employees from redundant or manual work to more strategic areas of the business
- Increase service levels and profitability through a more accurate and efficient pricing model
- Reduce inventory carrying costs
- Improve the accuracy and increase cash flow by way of a more robust automated financial environment

Since the successful implementation of mySAP All-in-One, order fulfillment, financials, and pricing are now completely optimized. This optimization has enabled State Industrial to be well poised to meet the ever-increasing challenges of its business and its marketplace.

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50 069 148 (04/07) Printed in USA.

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