

Accelerating Business Change Through Next-Generation ERP — Call to Action for the Industrial Machinery and Equipment Sector

WHITE PAPER

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IN THIS REPORT

IDC Manufacturing Insights recently published research from a worldwide survey of 375 discrete manufacturing leaders across 12 countries. The resulting white paper — *In Pursuit of Operational Excellence: Accelerating Business Change Through Next-Generation ERP* (IDC #IDCWP47T) — summarizes the key findings from this survey and provides essential guidance for manufacturers developing their own business strategies. IDC Manufacturing Insights now provides essential guidance and a call to action for industrial machinery and equipment manufacturers in order to achieve success in the current business environment.

SITUATION OVERVIEW

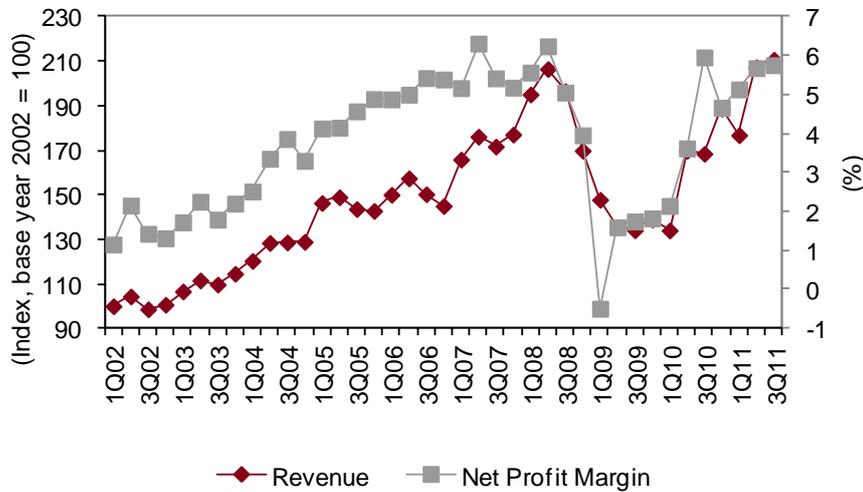
The machinery and equipment industry is a capital-intensive and cyclical sector that tends to be severely hit by downturns when there is a significant contraction of capital expenditures. Activity progressively picks up in an upturn, starting from construction and transportation equipment, followed by capital-good equipment.

The industry was particularly hit by the 2008/2009 crisis, when a sudden drop in orders and rapid consumption of the orders backlog led to a significant reduction in revenues and profit margins. The industry's performance over the last 10 years is shown in Figure 1, which displays IDC Manufacturing Insights' benchmarking database GPI (Global Performance Index).

Data shows that the industry's business indicators significantly improved over the last couple of years, with revenues and profit margins returning to pre-crisis levels. Over this period, companies restructured their business, focused on value-added products and services, and created more global organizations. Today, in certain regions, the industrial machinery and equipment industry is stronger than it was before the crisis. With capital expenditure opportunities readily apparent — particularly in emerging markets — leading organizations are more eager than ever to win the global competitive battle.

FIGURE 1

Worldwide Industrial Machinery and Equipment Revenue and Net Profit Trends, 1Q02–3Q11



Note: The Manufacturing Insights Global Performance Index (GPI) tracks growth metrics from 800+ publicly traded global firms in the manufacturing and retail industries. The GPI tracks general trends in manufacturing and retail subindustries based on the performance of a sample of companies from those subindustries; historical data in the index may be adjusted between quarters based on the addition or subtraction of companies in the index or company restatements of historical filings. Estimates by Reuters.

Source: IDC Manufacturing Insights, 2012

The Quest for Profitable Growth

The results of our worldwide survey suggest that manufacturers want to make sure they achieve profitable growth. To do so, manufacturers will aim to:

- **Sustain more growth.** The survey highlighted that industrial machinery and equipment organizations will focus on improving business growth in the next few years. This is a major shift from the pure cost-cutting initiatives of the recent past, and suggests that the industry is entering an upturn.
- **Improve service innovation.** Nearly 80% of respondents want to sustain growth by selling more value-added services, while mere product innovation was cited by less than 50% of respondents. Attempting to maintain their competitive edge in difficult times, industrial machinery firms have sought to provide their clients with product life-cycle management, while selling remanufactured products, and offering repair, maintenance, and overhaul services. The end goal is creating a more engaged relationship with their clients and improving customer fulfillment.
- **Shorten the supply chain.** With the increasing supply chain complexity and elongation in the industry, more than 60% of

respondents are focusing their cost containment initiatives primarily outside the four walls of their enterprise. Their key strategy is focused on shortening the supply chain and reducing the number of suppliers. Locating manufacturing capabilities closer to customers can also improve service.

ESSENTIAL GUIDANCE

As seen in the IDC Manufacturing Insights survey, the emerging challenge for the industrial and equipment industry is the dramatic growth in complexity:

- More than 50% of companies in the industry expect the level of complexity to increase or significantly increase over the next three years. No company expects there to be less complexity in the future.
- Market, operational, and IT complexity are the main business areas that are expected to become more complex. Compared with other discrete manufacturing industries, the industrial machinery and equipment industry has a higher than average expectation for an increase in operational and IT complexity

Focus on Mastering Complexity

Over the next three years, industrial machinery and equipment manufacturers around the world will undertake a number of critical business initiatives aimed at mastering market complexity and driving out complication from their operational processes and IT systems.

- **Improving customer fulfillment.** All initiatives from industrial machinery and equipment manufacturers will be aimed at creating a competitive edge and ensuring sustainable growth. With customer retention the key objective, improving overall service level is a critical differentiating factor, and customer fulfillment is emerging as the new guiding principle for industrial machinery manufacturers. According to our survey, improving customer fulfillment is the most important business initiative for industrial machinery and equipment firms over the next three years. To better serve their clients, industrial machinery firms need to stay closer to customers to create more engaging relationships. To do so, most firms are keen to undertake new strategies that do not merely focus on creating new products but are primarily focused on adding value-added services around them. The focus on customer fulfillment will generate a better understanding of customers' requirements, which in turn will lead to new services and products.
- **Improving demand planning and forecasting.** In the past few years, manufacturers in the industry have had to cope with a great deal of uncertainty in their markets, generated by a steep reduction in capital expenditure and the subsequent increase in competition for market share. With the change in business model — from products to services — industrial machinery organizations need to

completely rethink the way they go to market. The first and most important process they need to improve is their ability to understand where the market is going by improving their demand planning and forecasting. This is particularly important for aftermarket services and spare parts.

- **New product design and introduction (NPDI).** This is an area where industrial machinery manufacturers feel they are lacking in today and are keen to improve over the next three years. This process combines design and development with the need to launch the product in the market at the right time, in the right locations, with the right features, and with the right quantity and quality. Most industrial machinery manufacturing companies lack a clear NPDI process. This process comprises activities spanning many different organizational silos, including marketing, supply chain, operations, and obviously engineering. This is tightly linked to the need to improve demand forecasting capabilities and the changing business model shifting from products to added-value services.

The Role of IT

Industrial machinery and equipment manufacturers understand the inadequacy of their current IT systems. They need to overcome the current system fragmentation and encourage a more collaborative environment with greater visibility and intelligence of information, internal to the enterprise and external along the value chain. IDC Manufacturing Insights' survey found that:

- More than 60% of industrial machinery respondents feel the IT systems they have in place are ineffective or inadequate to support current business challenges. These organizations feel they lack the timely information to make important decisions, primarily due to information being stored in too many segregated IT systems.
- Though industrial machinery firms believe their ERP is vital to their organization, the vast majority are not fully satisfied with the ERP system they have in place. Nearly 70% of respondents believe their ERP system does not provide them with fast decision-making capabilities. This is due to their current ERP system not offering collaborative or social networking-style features that increase productivity, and being too complex to seamlessly integrate with other existing applications.
- Speeding up business processes is the most critical goal for nearly 90% of machinery organizations. To this end, they want to leverage IT to provide access to real-time information and support faster decision-making capabilities. Nearly 70% of respondents want their ERP system to be able to support them in streamlining processes, rapidly adapting to business change, and keeping costs under control.
- Industrial machinery and equipment organizations recognize the importance of modernizing traditional IT systems, leveraging what

IDC calls the "four IT forces" — cloud computing, social business, mobility, and big data analytics. More than 90% of respondents believe the four IT forces will change the way they work in the near future, and about 30% believe these changes will have a major impact on their business.

- The real strength of the four IT forces lies in being able to deliver IT productivity and business value simultaneously. We expect machinery organizations to make foundational investments in these technologies to improve the value of their IT systems, particularly their ERP systems.

ESSENTIAL GUIDANCE

Call to Action

The following points provide key areas of focus for industrial equipment and machinery manufacturers. By considering the following questions you will be able to identify areas of improvement in the drive for operational excellence.

- Sustain profitable growth:
 - Are you focusing your growth strategy on new value-added services?
 - Is shortening the supply chain and reducing the number of suppliers a key priority for you?
 - Do you understand the level of operational complexity in your business today and what will influence or impact this in the near future?
- Improve customer fulfillment:
 - What is your level of understanding of your customers' needs?
 - Are you able to adequately plan and forecast your market demand?
 - Are you pursuing improvements in your new product design and introduction process?
- Implement an operational ERP:
 - Do you think that the IT systems you have in place are effectively supporting your business challenges?
 - Does your current ERP system support you well in speeding up decision making?

- Do you recognize the importance of modernizing traditional IT systems with the four IT forces — cloud computing, social business, mobility, and big data analytics?

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