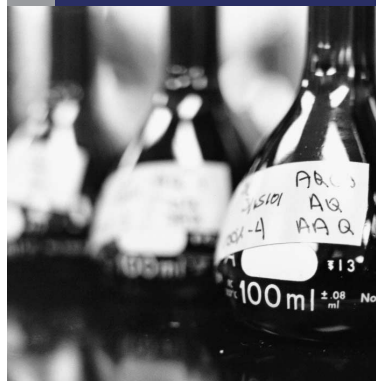


SAP Customer Success Story

“SAP software helps us ensure that we deliver products to our customers in a timely fashion, while we gain the added benefit of internal cost reductions and better information availability.”

Jim Pall, Vice President of Logistics, Stepan Company



AT A GLANCE

Company Name

Stepan Company
United States
www.stepan.com

Industry

Chemicals

Implementation Partners

- SAP® Consulting
- BearingPoint
- Rapidigm

Key Challenges

- Inability to benefit from e-business, due to nonintegrated systems
- Lack of information transparency across enterprise systems
- Need for standard business procedures at all company locations
- Time-consuming, costly manual processes
- Inability to close books in a timely manner in some locations

Solution and Services

- SAP R/3® (now available in mySAP™ ERP)
- SAP Best Practices for Chemicals

Existing Environment

Multiple legacy systems dispersed throughout 4 continents

Implementation Highlights

- Provided 90% of solution right out of the box, thanks to SAP preconfigured settings
- Implemented solution in 18 months for 10 North American locations
- Completed implementation on time and within budget

Key Benefits

- Reduced inventories by 10% to 12% in 2004, partly due to SAP solution
- Reduced book closings from 2 weeks to 3 weeks to approximately 3 days at several non-U.S. locations
- Provided employees and auditors with timely access to up-to-date, global information
- Eliminated redundancies by removing need to enter information into multiple systems
- Gained consolidated view of raw materials at worldwide locations, enabling more cost-efficient global purchasing
- Sharpened company's competitive edge, thanks to unified view of customer and product information

Hardware

Dell servers

Operating System

Microsoft Windows 2000

Database

Oracle

STEPAN COMPANY

SAP® SOFTWARE AND SAP BEST PRACTICES FOR CHEMICALS DELIVER REAL-TIME INFORMATION AND BOTTOM-LINE RESULTS FOR MIDMARKET CHEMICAL MANUFACTURER

SUCCEEDING IN THE CHEMICAL INDUSTRY

To succeed in the chemical industry, companies must innovate continually, maintain efficiency, and operate on a global basis. They often undertake strategic acquisitions to strengthen product lines, and they typically deploy manufacturing facilities and sales offices worldwide in order to supply local customers more efficiently. Although this type of expansion is necessary, it can complicate business processes. When business-critical information resides on disparate systems spread around the world, employees may have difficulty gaining an accurate view into the state of the enterprise. Stepan Company, a global manufacturer of specialty and intermediate chemicals used in consumer products and industrial applications, faced just this challenge.

Founded in 1932, Stepan has a long history of acquiring complementary businesses and now counts 20 locations in 10 countries, including 13 manufacturing locations and more than 1,500 employees. Although these acquisitions helped Stepan meet customer needs, they also resulted in an array of legacy systems used for a wide range of business applications such as accounting, logistics, purchasing, and manufacturing. These systems were dispersed over four continents.



Stepan chose SAP® R/3® (now available in mySAP™ ERP) and SAP Best Practices for Chemicals to align its information systems with its business needs.

OUTDATED LEGACY SYSTEMS

Some of Stepan's systems were as much as 25 years old, making it impossible in some instances to even procure replacement parts, let alone run the newest enterprise software. Most of these systems could not be linked to the Internet, so although it was possible to retrieve data, access was limited and inflexible.

Jim Pall, Stepan's vice president of logistics, explains: "Our customers are located all over the world, and sometimes we will supply a given customer with the same or similar products out of plants in North America, South America, Asia, and Europe. Without access to aggregated information, it is challenging to determine where we can streamline processes to cut costs, while at the same time improving product delivery and growing the business."

This lack of system integration also hampered Stepan's ability to benefit from modern e-business methods such as electronic communication with customers. The organization was constrained by being overly reliant on more conventional business methods, such as direct telephone interaction, for handling many daily business processes.

"Stepan's vision is to pursue e-business opportunities that help us operate more efficiently to meet our customers' needs. Because our legacy systems lacked integration, business-to-business transactions such as electronic data interchange were difficult or

impossible," says Pall. "When customers would ask us to handle transactions in such a way, we would either have to develop a custom solution or revert to manual processes such as faxing orders. Sometimes, we simply had to tell customers that we couldn't do what they were asking," he continues. "We were essentially turning away the opportunity to be more efficient electronically, and we knew that if we didn't find a way to address this situation, it would eventually cost us business."

THE NEED FOR REAL-TIME INFORMATION

Stepan sells to a wide range of manufacturers in many industries, and competes not only on the basis of price but also on product performance and adaptability to unique customer requirements. "Being able to compete on factors other than price alone reduces the severity of the competition we experience selling commodity chemicals," explains Pall. But a company cannot leverage advantages

in product performance and adaptability unless it has the availability of real-time information to determine costs, assess business performance, and identify ways of benefiting from economies of scale across global operations.

According to Rick Lindquist, Stepan's IT director, whenever Stepan acquired new businesses — such as when it acquired the Manro

surfactant business in the United Kingdom in 2001 — its leadership knew that the company had to integrate these acquisitions into the existing infrastructure, but often found this impossible because of system incompatibilities. This meant the company was forced to perform many business processes manually, which not only proved time-consuming and led to redundancies, but also limited transparency of information.

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Jim Pall, Vice President of Logistics, Stepan Company

“Because we could not establish standard business processes, every country in our operations handled procedures differently, which forced us to do things like manually consolidate financial spreadsheets. This restricted our ability to assess the results of our sales efforts, or even to calculate how much we were spending on supplies. For instance, it would take up to three weeks to close books at the end of every month at some locations. That meant there was at least a one-month lag between the time sales activities ended and the time we had any insight into what the results of those activities were,” says Lindquist.

And like other organizations in the chemical industry, Stepan is affected by a myriad of federal, state, and local regulations, such as the Sarbanes-Oxley Act. Failure to comply with such regulations can seriously impair a company’s ability to conduct business.

A PERFECT FIT

Needing to resolve these challenges in order to pursue its strategic initiatives, Stepan began investigating enterprise resource planning (ERP) solutions. The company wanted a solution that addressed the issues specific to organizations in the chemical industry, and ideally one that fit the needs of a company its size. “During our evaluation of major ERP vendors, we found that SAP software provided top-notch functionality,” says Pall. “Other solutions touched a much smaller percentage of chemical industry needs, whereas SAP provided a 90% solution fit.

“ERP was a new environment for many of us,” Pall continues, “so it was important not only to find a solution that met our needs, but also to work with a solutions provider who could help us navigate through any issues that might arise. SAP won on both counts.”

PRECONFIGURED SETTINGS

Stepan installed the SAP software using the SAP Best Practices for Chemicals preconfigured offering. “Even though Stepan considers many of its practices and processes to be unique, we found that the preconfigured settings were extremely valuable to our employees on the implementation team. They provided a basis for us to understand how a ‘generic’ chemical company would implement the SAP solution. We were then able to modify the configuration to fit our needs,” says Pall.

Stepan worked with SAP Consulting to get up to speed on ERP technology, and then set up a sandbox system (that is, a simulated pilot) to learn the ins and outs of the SAP solution. This setup provided an encapsulated offline environment that Stepan employees could configure and reconfigure at will, without fear of impacting live data. It also enabled Stepan to train system users before actually going live. Once Stepan felt it

had a solid idea of how it wanted to implement the SAP solution, the company called in BearingPoint to implement the overall solution, while Rapidigm provided programming support for enhancements.

“Our project was successfully completed in approximately 18 months for 10 North American locations. The implementation was on time and within budget, and it is providing many of the benefits we expected. The preconfigured offering was certainly one of the many reasons for that success,” Pall states.

A MORE EFFECTIVE GLOBAL COMPANY

Stepan has since expanded its SAP solution. “Now that we have enterprise-wide integration, our employees in sales, marketing, and finance have access to all the global data they need. Before, those employees had to rely on paper reports sent by offices in

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Europe, Asia, and Latin America to determine sales volume and profitability. Today, employees can pull the information they require and know that it's up-to-date to the moment," explains Pall. "This has led to incredible efficiency improvements. With the old systems, we were often duplicating efforts by entering the same information into multiple systems. The enhanced information availability has allowed us to reduce inventories without affecting service. In 2004 alone, we've been able to reduce inventories by 10% to 12%, compared to 2003. While the SAP solution isn't the only reason for that, it's an important part of the equation.

"Other improvements include our faster month-end closings. Previously, closing the books at several of our non-U.S.-based facilities took two to three weeks," adds Pall. "Now, all of our facilities, including those in the United States, close books in roughly three days. This provides our executives with more timely insight into the overall business."

Lindquist and Pall concur that implementing the SAP solution has provided tremendous benefits. "By enabling a unified view of our product and customer information, SAP has helped us become a more effective global company. In a number of cases, we've been able to consolidate product listings within our system. Before, we would identify similar or even identical products differently in separate systems. Consolidation allows interchangeable products between countries as well as the ability to learn from one country to another. For instance, employees can now easily view product formulas, cycle times, and operating instructions used by facilities in any country where we operate, and can learn from their efficiencies. With information about

raw materials purchased globally rather than just on a country-by-country basis, this consolidation also allows us to do a better job of global purchasing," says Pall.

And finally, the integrated SAP solution helps Stepan meet some of the government regulations in a more efficient manner.

FUTURE PLANS FOR ENHANCEMENTS

Having realized such improvements in its operations and supply chain management, Stepan intends to take advantage of other SAP solution capabilities in the future.

"We are currently setting up an enhancement team to focus on key areas such as sales and distribution, materials management, and finance, to name a few. This team will allow us to determine how we can fully leverage the range of SAP capabilities," says Pall. "We are especially interested in deploying additional software such as SAP Business Information Warehouse and SAP Advanced Planning & Optimization [SAP APO]. The business information warehouse will serve as an important data repository that will enhance our data distribution efforts, while SAP APO will allow us to automate planning and improvement functions so that we can always keep pace with customer requests," explains Pall. "SAP software helps us ensure that we deliver products to our customers in a timely fashion, while we gain the added benefit of internal cost reductions and better information availability. These are make-or-break factors in the chemical industry, and we have been pleased to find a solution that helps us successfully address the future."