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# SAP Manufacturing Success

## CHAPTER 1: INNOVATION

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# Introduction

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Amidst tough economic conditions, growth of the UK's manufacturing sector is leading the fight against a 'triple-dip' recession.

The latest figures from the British Chambers of Commerce and the Office of National Statistics highlight that strong performance by Britain's service industries (including manufacturing) during the first three months of the year has kept the economy growing.

Against this backdrop, Business Secretary Vince Cable has stated his visions of Britain's manufacturing sector rising from roughly 10% of the economy now "up to the mid-teens" over the next five to 10 years.

Historically, the UK manufacturing industry's credentials have stacked-up well in terms of its overall value to the country. This sentiment is underlined by the fact manufacturing generates between 11% and 12% of the UK's overall wealth, 60% of exports and 2.6 million jobs.

In 2013, SAP in conjunction with the following industry partners; Cognizant, Deloitte, HCL, IIS and itelligence launched the Manufacturing Success campaign. This was spearheaded by industry research, which explores the appetite and capabilities within UK manufacturers for growth. 200 senior business decision-makers within UK manufacturers across a range of sub-sectors and company sizes were interviewed. The SAP Manufacturing Success survey finds UK manufacturers in a self-confident mood, generally optimistic about their own business prospects, yet also aware of the challenges this involves.

These findings correlate with McKinsey's Global Institute's report 'manufacturing the future: The next era of global growth and innovation'. This global research predicts that a bright future lies ahead as a strong pipeline of innovation in materials, IT, production processes and manufacturing processes will give manufacturers the opportunity to design and build new products, reinvent existing ones and bring renewed dynamism to the sector.

The next pillar of the Manufacturing Success campaign includes a series of chapters, which focus on a key area, as highlighted in the research which manufacturers must address if they are to cultivate an innovative environment for driving business and industry growth.

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- Chapter 1: Innovation**
  - Chapter 2: Money & Finance**
  - Chapter 3: Technology**
  - Chapter 4: Management**

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## Spotlight on innovation

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“Innovation is deemed the most critical driver of a nation’s manufacturing competitiveness.”

Deloitte 2013 Global  
Manufacturing Competitiveness Index

The SAP Manufacturing Success report found businesses are confident in their own ability to drive growth and they have identified a number of opportunities to help deliver it. For the majority of UK manufacturers, innovation plays a critical role with 82% considering it “important” in helping achieve growth in 2013 and beyond.

This is consistent with findings from Deloitte’s 2013 Global Manufacturing Competitiveness Index, in which innovation is deemed the most critical driver of a nation’s manufacturing competitiveness. Within this, the quality and availability of engineers and skilled production workers are ranked as drivers.

Despite all the signs pointing towards a continued investment in innovation, manufacturers appear to be divided on the merits. Roughly half of organisations say that they are more focused on investing to innovate and grow – ‘Investors’ (47%), whilst the remainder (53%) takes the primary stance of protecting themselves against risk – ‘Protectors’. However, whilst investing in innovation is a calculated risk, it is a risk that can bring benefits through improved business processes and product development.

There was encouraging news earlier this year, when the Engineering and Physical Sciences Research Council announced a £21 million investment for new Centres for Innovative Manufacturing.

This cluster of four centres, will develop new ways of manufacturing in the fields of electronics, laser use in production processes, medical devices and food production. All were given the green light as part of a £45 million package of investments in manufacturing research announced by David Willetts, Minister for Universities and Science.

At this years’ BIS Manufacturing Summit, Mr Willetts commented: “The UK has a proud history of manufacturing but to build on this success the industry needs access to the very latest science and technology. This £45 million package of investment will see our world-class research base investigating innovative new manufacturing equipment and techniques. This will support our industrial strategy in a range of important sectors, driving growth and keeping the UK ahead in the global race.”





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## Innovation nation

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“Significant drivers of innovation include changing customer demands (34%), increasing sales (34%) and cost reduction / need for increased efficiency (34%)”

SAP Manufacturing Success Report

Whilst the current economic climate is a significant barrier for firms achieving immediate growth, interestingly it is also the biggest driver in motivating businesses to innovate (41%), according to SAP's Manufacturing Success report.

Other significant drivers of innovation include changing customer demands (34%), increasing sales (34%) and cost reduction / need for increased efficiency (34%). External pressures are forcing manufacturers to re-evaluate their processes and how they do business with their customers. It is how companies do business with others where organisations should place a greater deal of significance when looking to drive innovation.

In order to effectively innovate, it's important for firms to build close relationships with their customers and also understand their customers' customer. Having greater visibility of the supplier-buyer network is not easy to achieve, but true innovation is often built from a solid understanding of industry dynamics, drivers and relationships.

From a UK perspective, the latest official UK manufacturing sector data suggests the manufacturing index monthly figure for February 2013 compared with January 2013, rose by 0.8%. Industry commentators such as Lee Hopley, Chief Economist at EEF, the manufacturers' organisation and Markit chief economist Chris Williamson have alluded to signs of improving business and consumer confidence and many manufacturers increasing efforts to grow in new markets as positive signs for the year ahead.

The World Economic Forum's The Future of Manufacturing study provides a clear indicator that the ability to innovate, at an accelerated pace, will be the most important capability differentiating the success of the UK.

Companies regarded as more innovative grew net income over two times faster and their market capitalisation nearly two times faster from 2006 to 2010 compared to their non-innovative counterparts. Countries that are more successful at fostering innovation perform better, whether looking at GDP or GDP per capita.

In the 21st century manufacturing environment, being able to develop creative ideas, addressing new and complex problems and delivering innovative products and services to global markets will be the capabilities most coveted by both countries and companies. But even more essential for innovation to flourish will be access to a workforce capable of driving it.

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## The next steps in innovation

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“Dynamic manufacturers who put innovation at the forefront of their industries will be best placed to react to the changing marketplace.”

John Hammann, Industry Principal for Manufacturing, SAP UK

With a plethora of technologies now available, manufacturers are able to harness a greater understanding of customers and their changing demands, greater innovation can allow businesses to form more valuable partnerships within their business network.

As a result, manufacturers can look beyond their own company to build their strength, allowing them to better integrate with suppliers, customers and even their competitors. Indeed, organisations are most likely to cite partnerships within the value chain as a key area to benefit from innovation investment within their organisation (41%), according to SAP's Manufacturing Success research.

However, in order for innovation to be most effective, in the year ahead and beyond, businesses must have the right technology foundations in place to support their desired growth. Whilst organisations may have the desire and optimism to change their business, without the right tools in place to execute their objectives, their ambitions are unlikely to become a reality.

Central to this is not thinking about innovation in individual silos, incorporating historical considerations such as products and services, but also in terms of thinking differently about business operations, processes, technologies and talent.

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## Conclusion

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The SAP Manufacturing Success survey finds UK manufacturers in a self-confident mood, generally optimistic about their own business prospects.

John Hammann, Industry Principal for Manufacturing, SAP UK comments on the current appetite for innovation in the sector: “Dynamic manufacturers who put innovation at the forefront of their industries will be best placed to react to the changing marketplace and will emerge from the economic storm stronger than ever. The manufacturing industry is at a tipping point, we must react to the needs of our customers and partners. Innovation is at the forefront of this call to arms.”



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