

## SAP Customer Success Story



One of the largest corporations in the world, the **Royal Dutch/Shell Group** was founded in 1907 when N.V. Koninklijke Nederlandsche Petroleum Maatschappij merged with Shell Transport and Trading Company plc. A diverse group of energy companies with operations in over 140 countries, its businesses include oil and gas exploration and production; power generation; manufacturing, marketing, and shipping of oil products and chemicals; and renewable energy projects including wind and solar power.



## ROYAL DUTCH/SHELL GROUP

### mySAP™ SRM FUELS SHELL'S CORPORATE VISION

#### PURCHASING POWER

Shopping is fun – especially if there's an occasional bargain to snap up. But if you're really serious about getting high-quality goods at reasonable prices, then you need to be able to see exactly what all manufacturers and suppliers are offering. With SAP's support, the Royal Dutch/Shell Group of Companies will soon be able to systematically manage their suppliers across the world.

Shell's daily purchasing bill runs into millions. This huge corporation produces approximately 3% of the world's oil supply and holds interests in 55 refineries in 33 countries. Keeping its facilities operational means ensuring a constant supply of spare parts and equipment. From ballpoint pens to high-tech drilling platforms, Shell has to keep supplies flowing to operating companies in over 140 countries – and this is precisely the challenge that the company's procurement experts are currently tackling.

Shell's long history of success (the company will celebrate its 100th anniversary in 2007) has left the company with a somewhat problematic legacy. Numerous mergers and acquisitions have created a diverse system landscape consisting of more than 100 back-end systems running different versions of ERP applications – JD Edwards and, principally, SAP. Inevitably, the company's purchasing processes have not remained immune to this situation; each local operating unit is responsible for procuring its own goods and services. What's more, information gaps and

differing requirements in the various business units have so far stymied any attempts to introduce systematic supplier relationship management at the global level.

But this situation is set to change. In a project that it calls Transactional E-Procurement, Shell is aiming to enter a new era in supplier relationship management. By deploying SAP solutions on its existing ERP systems, the company plans – among other things – to streamline its procurement processes and cut its costs accordingly. But it needs to do some basic preparation first: This will consist of achieving data synchronization across the system landscape and providing analysis tools to generate vital management information. After all, if both the procurement people and the business management teams don't have all the facts, they can't be expected to evaluate supplier relationships objectively, let alone embark on effective strategic planning.

### **TRUSTING SAP TECHNOLOGY**

“To me, implementing the Transactional E-Procurement project is like building a new gas processing plant,” says Steve Iveson, Shell's e-procurement project manager and a member of the team responsible for leading the project out of corporate headquarters in London. “You have to invest in both the technology and the associated change before you reap the benefits.”

Currently, Shell's main investments are in two core elements of mySAP™ Supplier Relationship Management (mySAP SRM): the SAP® Enterprise Buyer procurement application and the exchange infrastructure. In addition to functioning as a private exchange to provide an integration hub for Shell's procurement operations, this exchange platform will run key applications for evaluating and optimizing supplier relationships and for integrating content.

The project plan envisions installing separate SAP Enterprise Buyer installations for the JD Edwards and SAP back-end systems and using XML messaging to link them to the private exchange. From here, orders will be transmitted to Trade-Ranger, a global e-procurement hub for buyers and suppliers in the oil and petrochemical industries. Trade-Ranger is set to play a key role

in Shell's procurement architecture. In fact, Shell wants its purchasing volume through Trade-Ranger to approach several hundred million U.S. dollars by the end of 2002, and to process 50% of its procurement business via this channel in just a few years thereafter. Already Shell and other major corporations from the energy and petrochemical sectors have positioned Trade-Ranger's hub as the central axis for their electronic purchasing.

**“E-procurement enables us to make radical changes to the way we buy, the speed at which we buy, the way we and our suppliers work together, and the way we can use information to manage our business in the connected economy.”**

Chris Miller, Shell Group Adviser, Strategic Sourcing

With the establishment of a new global procurement infrastructure, Shell is building on its existing strategic partnership with SAP. Shell was impressed by two strategic capabilities of mySAP SRM: options for integrating it with Shell's installed ERP systems and its uniquely open and scalable technology. Moreover, SAP and Shell are working together to implement a number of new enhancements. Iveson states, “When it comes down to it, we're both pursuing the same vision.” He then adds, “Most importantly, the infrastructure we're putting in place will give us the ideal platform for realizing our goal of fully integrated systems that support real collaboration both internally and externally.”

### **JOINT STRATEGIC DEVELOPMENTS**

The focus of this close collaboration is a group of strategic development projects (SDPs) that fulfill Shell's business requirements and will also influence future SAP components. The projects include constructing a cross-system of master data management (content integration solution from SAP), implementing the analytical functionality of mySAP SRM to Shell's specifications in the company's private exchange, and integrating JD Edwards's

back-end systems into the SAP-based procurement environment. After all, if global spend reporting is to be effective, Shell's managers need an accurate breakdown of purchasing expenditures across categories such as business units, suppliers, supplier families, and material groups.

Iveson is particularly impressed by the analytics for breaking purchasing data down to the level of individual articles so that managers, for example, can identify the best supplier for a specific article. In Shell's case, aggregating purchasing data at the ERP level is difficult because of the different data structures in their disparate back-end systems. Among its other advantages, the private exchange infrastructure offers enhanced master data management, which enables synchronization of master data for both internal and external suppliers. The content integration solution from SAP, for example, provides invaluable support when it comes to standardizing distributed content. Among other things, it helps identify identical or similar products and goods, no matter where the relevant information is stored.

Shell Information Technology International is responsible for installing the private exchange at one of Shell's own IT centers near Kuala Lumpur in Malaysia. Frans Liefhebber, Shell's global e-procurement IT manager and a colleague of Steve Iveson, explains: "We've already got several hundred people there looking after Shell's IT infrastructure. What's more, they also handle key parts of Shell's worldwide desktop support. So it made perfect sense to set up the private exchange at this location." The company's e-procurement hub went live with its initial functions in mid 2002. "The key challenge for us is working out how we can provide optimal support for this high-availability infrastructure," says Liefhebber. "Deciding what tools we need and which teams will be responsible is all part of the learning process."

### **SUCCESSFUL PILOT PROJECTS**

SAP Enterprise Buyer, on the other hand, has already earned its place at Shell. Following a pilot last year at SEPCo (Shell Exploration & Production Company), the U.S. upstream subsidiary of

the Royal Dutch/Shell Group, SAP Enterprise Buyer has been implemented at the Dutch upstream company NAM. "This was a real showcase project," says Iveson. And there is now nothing to stop the planned rollout from proceeding rapidly, business unit by business unit. In many instances, the rollout will be accompanied by key ERP standardization initiatives currently underway in various business areas. Shell plans to have SAP Enterprise Buyer up and running in all the main operating units by 2004. "We're looking at approximately 20,000 users in the exploration and production business alone," Iveson estimates. They'll benefit from being able to access online catalogs to quickly and easily order goods direct from selected suppliers rather than having to take the tortuous and time-consuming route through the more traditional procurement processes. This means that the purchasing people will be able to devote more time to vital tasks such as strategic sourcing.

Iveson and Liefhebber are enthusiastic about the deployment of electronic procurement for services, which accounts for 70% of all Shell purchases and thus offers enormous potential for optimization. Information about costly routine maintenance, which counts as service purchases, is stored in SAP Plant Maintenance components in Shell's SAP back-end systems, where it can be accessed via SAP Enterprise Buyer. When it comes to procuring more complex services, though, the two Shell managers agree that the existing applications need further work, which they know that SAP is addressing.

So far, both Iveson and Liefhebber are satisfied with the progress of Shell's Transactional E-Procurement project and with SAP as a partner. The ongoing challenge, as Liefhebber explains, remains how to respond effectively to the constant stream of changes that take place both inside and outside the project environment. For his part, Iveson remains confident that SAP will work with Shell to overcome these challenges.

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