

PRESS RELEASE

Six Digital Initiatives Manufacturers Must Follow in 2016

- 2016 will be a year fraught with opportunity, uncertainty and change
- Internet of Things will drive new business models
- Manufacturing in a glut economy puts focus on visibility

Reston, VA, February 1, 2015 – Software AG (Frankfurt TecDAX: SOW) today shared its predictions for the manufacturing and supply chain industry in 2016, derived from its expertise, market observations and interactions with its customers.

Sean Riley, global manufacturing and supply chain solutions director at Software AG, noted: “2016 will be a year fraught with opportunity and uncertainty. The only certainty is that manufacturers will seek to become more flexible and more agile in their business practices, value chains and customer offerings. This is because their customers and the markets they serve are changing, and the way business is conducted around the world is transforming at a never-before-seen pace. I believe there are six key initiatives that manufacturers will need to adopt to be successful in 2016.”

1. Digital Transformations will drive Growth and Profit

Manufacturers will adopt technologies in the coming year that will allow them to transform their operating models and digitally connect processes, events, actions, internal associates and external partners. This will enable manufacturers to develop global standards that are flexible to accommodate regional, customer or product requirements.

Additionally, information about product usage, production capabilities, customer requirements and market requirements will be ingested, analyzed and shared faster than ever before. Becoming a digital enterprise ensures the productiveness of associates is not only fully utilized but that their knowledge is spread across the enterprise. This will be central to manufacturing strategy and will be the lynch pin for all major initiatives as the success of this adoption will be directly measured by the impact on the bottom line.

2. Obsessive customer focus pushes innovation

Understanding customer requirements and innovating based on known and unknown wants will begin shaping manufacturing value chains. This will spur manufacturers to adopt capabilities, such as mass customization, faster than expected in order to provide differentiated products to business and consumer customers. This customer focus shift will be coupled with the increase of demand-driven micro logistics networks that push finish good closer to the customer and are able to nimbly respond to customer demand.

3. The Internet of Things (IoT) fuels new revenue

IoT will drive a shift in business models that price based on availability rather than goods or services. In 2016, manufacturers will begin focusing on providing pricing models for equipment and products based on controllable outcomes. This will be most prevalent in several selected industries, such as industrial equipment, power generation and HVAC providers. These pricing models will exactly match customer requirements to compensate for static growth and hard fought margins. As an example, industrial equipment manufacturers will provide pricing based on yield, quality availability and uptime as they will be able to monitor equipment performance and

dynamically predict remaining useful life of equipment and components to ensure assets are effectively maintained and utilized without failures or unplanned maintenance interruptions.

4. Know what's where, and when

Central to ensuring inventory usage is maximized, which IoT aids with, is the ability for manufacturers to increase visibility to all inventory levels. This includes static materials and maximizing the value of, and gaining real-time visibility into, inventory in-transit. Equally important is the ability for manufacturers to become resilient to exceptions and disruptions. This will enable manufacturers to eliminate short term forecasting and become near term demand-driven, also known as 'capacity for resiliency.'

Central components of this capacity for resiliency are supply chain risk management and enterprise quality management and in 2016, an incorporation of 3D printing. This is part of an innovative postponement strategy to ensure specific products can be utilized for specific demand at the last possible time, ultimately increasing the total value of held inventory.

5. Collaborate to Innovate, Cautiously

Manufacturers have increasingly relied upon suppliers to provide high levels of service and in 2016, they will begin relying on them to provide product and service innovations that support customer centricity, operational excellence and supply chain resiliency. This will require a deeper strategic understanding of unique and standalone capabilities, capacity, and a comprehension of the capabilities that can be delivered by a group of partners and the enterprise.

On this basis, manufacturers will transition their supply chains to supply webs where partners are interdependent, co-innovative and collaborative with each other on both a tactical and strategic nature in order to create shared and distributed value.

6. Protect your property

According to analysis by [Netnames](#), counterfeiting increases by 15% annually and already costs manufacturers a staggering \$1.8 trillion dollars in lost annual revenues. Unlike previous years, the protection of both intellectual and physical property will become paramount in 2016, especially as manufacturers, and their partners, become more connected and digital. Information sharing is critical to successful collaboration. However, protecting schematics and technology advances from piracy or theft from suppliers will force many manufacturers to make some very difficult decisions.

Manufacturers will take direct action to monitor partner production outputs, component and materials orders and take a concerted effort to track certified products to quickly identify the root causes of found counterfeit goods. These efforts have not been done in earnest until now.

"The digital transformation can be seen across the entire manufacturing industry and as 2015 comes to a close, new initiatives and ramifications from this shift will take top priority in 2016," concluded Riley.

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Software AG empowers customers to innovate, differentiate and win in the digital world. Its products help companies combine existing systems on-premise and in the cloud into a single platform to optimize and digitize their businesses. The combination of process management, data integration and real-time analytics in one Digital Business Platform enables customers to drive

operational efficiency, modernize their systems and optimize processes for smarter decision-making. Building on over 45 years of customer-centric innovation, Software AG is ranked a leader in many innovative IT categories. Software AG has more than 4,300 employees in 70 countries and had total revenues of €873 million in 2015.

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