

## SAP Customer Success Story

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Seo-jin Chung

Vice President, Overseas Business Division, Hwashin



### AT A GLANCE

**Hwashin Co., Ltd.**  
www.hwashin.co.kr

**Industry**  
Automotive parts manufacturer

**Key Challenges**  
Inventory management, cost reduction

**Implementation Partner**  
Biztech Consulting

**Solution and Services**  
■ mySAP Business Suite

**Existing Environment**  
■ SAP R/3 version 4.5B

**Implementation Highlights**  
■ 6 months implementation time at headquarters, 4 months at China plant

**Key Benefits**  
■ Significant inventory reduction, cost reduction, shorter settlement period, swift decision-making process

**Hardware**  
Fujitsu Prime Power 600 Server (Development server), and Fujitsu Prime Power 650 Server (Operations server).

**Operating System**  
Solaris 8

**Database**  
Oracle 9.2.0.4.

## HWASHIN CO., LTD

**KOREAN AUTOMOTIVE INDUSTRY LEADER TURNS TO MYSAP BUSINESS SUITE TO REDUCE COSTS AND IMPROVE EFFICIENCY LEVELS OF ITS MANUFACTURING PROCESS**

Shaving off costs and squeezing efficiencies is a fact of life for many companies. Even more so with the economic crisis of 1998, that caused Hwashin to focus on cost reduction to improve its competitiveness.

Hwashin Co., Ltd. is a manufacturer of automobile chassis and body parts, and has been a leading player in the Korean automotive industry. It specializes in manufacturing automotive parts critical to durability and performance, and fuel efficiency. The company is focused on finding light-weight materials, materials diversification, and design optimization to develop environment-friendly cars.

With its headquarters in Youngcheon Kyungsangbuk-Do, South Korea, the company also has plants in the U.S., China, and India. With 197.1 billion won (US\$170.8 million) in revenues, it has 640 employees in Korea and 240 employees in China.

### BUSINESS DRIVERS TO IMPLEMENT ERP

Besides cost reduction, Hwashin also set its sights on becoming a world-class automotive parts supplier, with world-class quality and management control.

Consequently when the company looked to update its legacy IT system, several criteria it was looking at included having standard processes that can be applied not only to its headquarters, but also to its overseas plants.

Another criterion was to have an integrated system, with a logistics link to automobile manufacturers. The integrated system is required to cope with the increase in the manufacturing volume and in the number of plants. A third goal was to put in place profitability checks on each product via profit analysis, which would lay the basis for integration between the company headquarters and its plants.

#### **EARLY ADOPTER GAINS**

Hwashin had been considering adopting an enterprise resource planning (ERP) system four to five years before 2000. It was the economic crisis in Korea that was the main “push” factor, which made ERP look more attractive. This recession period challenged most Korean small and medium-sized businesses (SMBs) to cut costs as annual revenues went down. ERP held out promises cost reduction by significantly cutting inventory, and encouraging transparency and process innovation.

Hence in January 2000, Hwashin became one of the first SMBs to implement ERP, even before the big automotive companies.

“In Korea, the Information Technology Sophistication Index is used in Korea to measure how advanced a company’s IT infrastructure is, and how familiar and adept employees are with the technology. The higher the index, the more adaptive the company. Our success is built on our CEO’s willingness to invest as much as 1.4% of revenue in IT and on the employees’ trust in his vision,” says Seo-jin Chung, Vice President, Overseas Business Division for Hwashin.

At the time, there was little information on ERP and few ERP systems available. Hwashin decided to turn to SAP, the world’s largest enterprise software company. Hwashin first implemented

the solution on a Windows NT system, but shifted to a hybrid Unix-NT system one year later. The company managed to successfully complete the ERP project in six months.

SAP was an attractive option as it was one of the first vendors to introduce integration between its applications. This was important, as Hwashin planned to integrate its IT system in its South Korea headquarters with the systems in its overseas branches.

“SAP’s differentiators include multiple currency and language support, scalability, and real-time integration of logistics and accounting,” says Chung.

**“Harnessing data within our company has high mindshare with our CEO. The Advanced Information Technology Index has a strong relationship with our CEO’s will. Our success is built on his willingness to invest as much as 1.4% of revenue in IT and on the employees’ trust in his vision.”**

Seo-jin Chung, Vice President,  
Overseas Business Division, Hwashin

Hwashin wanted the ERP system to integrate its logistics and accounting processes based on standard information, to establish procedures for planning and performance management, and to optimize the purchasing and procurement process.

The company also wanted settlement to be based on logistics-accounting integration. After the implementation of SAP

R/3, the company’s earnings were reported on the 10th of every month, where previously, it was reported on the 25th of the month.

Other goals included the monitoring of planning, production, inventory, delivery and sales by using various reporting tools, and to have cost and profit information by product segment.

Hwashin signed the first contract in June 1999 for SAP R/3 version 4.5B. Then in May 2002, it converted to SAP R/3 version 4.6C, and upgraded to mySAP Business Suite in September 2003.

The initial implementation of mySAP Business Suite was split into two phases. The first phase took six months for the headquarters, while the second phase took four months for the plant in China.

For the China plant, the implementation process can be divided into project preparation, business blueprint (workshop on business solution performance), realization (integration test), Final preparation (pre production, migration), and Go-Live & Support.

Based on the project experience of a partner, Biztech Consulting, All-In-One Solution Project (ASAP) was implemented. In the initial stage, more than 80 % of the processes to be implemented were defined. Existing templates were used to determine education programs and processes. In terms of the SAP implementation support used, it includes CCMS/OSS/SAPNet/InfoDB, Early Watch, Early Watch Alert, with plans to install Go live check in 2004.

#### **BRANCH INTEGRATION FOR PROACTIVE DECISIONS**

Based on the success of the ERP implementation at the Korea headquarters, Hwashin started to build an integrated business environment in its China plants in 2003 which went live in January 2004.

Hwashin wanted to integrate the systems between its China plant and South Korea office to establish a “reliable and integrated logistics-accounting process by implementing early on the standard process used by the headquarters,” says Chung.

In the past, Hwashin had done things manually in the China plant. As the accounting and logistics processes were not integrated, there were difficulties with inventory and delivery management. The settlement process was not accurate as it was done manually, and there was incorrect cost calculation and a lack of profit analysis. This resulted in inaccurate accounting due to incorrect production and delivery information collected manually.

“It took three days to calculate materials and processing costs at the product level. And the cost information was not accurate,” says Chung.

There was also the manual collection of materials warehousing and delivery.

“We had inaccurate inventory check due to untimely or outdated information, resulting in inaccurate cost calculation,” says Chung.

The delay in logistics was not reflected in accounting, requiring re-calculation and manual changes.

There was also a shortage in time and human resources for settlement, which reported on the 10th day of each month. There was distorted cost calculation due to inaccurate data, and delays because of the manual, reporting process and use of unreliable data.

#### **PAYBACK WITHIN A YEAR**

Hwashin’s previous legacy system had meant that much of the work was done manually. With an integrated system, much of the manual work was eliminated and the role of each employee more clearly defined.

The SAP system has allowed for better management of the purchasing and warehousing processes. Clients are now given insights to the production and delivery planning, and management has data on the cost and profit analysis per product at their fingertips.

Hwashin has also gained significant efficiencies from their ERP system. Chung cited the example of IT staff going home from work at 6p.m. if they are not involved any large-scale projects. For the IT staff, they can now monitor inventory and logistics flow in real-time. This information transparency available in real-time has resulted in greater operational efficiencies as decision-making has been speeded up.

In the past, sales accounts were settled on the 25th day of the following month. After implementing the ERP solution, sales accounts are settled on the third day of the following month. This has made it possible to report earnings results in the second week of the following month.

In addition, ERP brought about significant cost reduction. Inventory has been reduced to 2.5 billion won (US\$2.17 million) from 6.0 billion won (US\$5.2 million). In fact, Hwashin estimates that the SAP R/3 system paid for itself within a year.

When Hwashin was considering the introduction of ERP in 1999, the number of employees was 650. Today, even with significant revenue increase, it still employs the same number of workers. This clearly demonstrates how ERP has improved business efficiency and reduced costs.

In terms of key performance measurements, Hwashin measures profit and loss analysis per product, for planning, actual costing, and Profitability Assessment (PA) report. Also there has been a decrease in the time necessary to churn out the earnings report, from 20 to 10 days.

“We rate the ERP system 90 out of 100 points,” says Chung, giving SAP R/3 the thumbs up.

Right now, Hwashin is focused on stabilizing the IT systems at its overseas branches. Down the road, plans are afoot to expand the use of SAP R/3 to Hwashin Co., Ltd. U.S. in the later half of 2004.