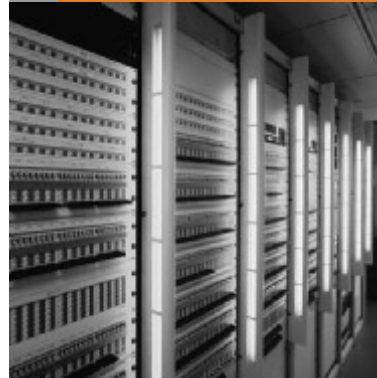


## SAP Customer Success Story Telecommunications

Driven by difficult market conditions, wireline operator **Telefónica de España** embarked on a program of cost reductions, efficiency, and productivity improvements. The company selected the SAP® Advanced Planning & Optimization (SAP APO) component of mySAP™ Supply Chain Management to enhance collaboration with its suppliers. With SAP APO in place, **Telefónica de España** reduced unused network inventory by 40%, improved productivity by 30%, and enjoys significant supplier price reductions.



## TELEFÓNICA DE ESPAÑA

### mySAP™ SUPPLY CHAIN MANAGEMENT BRINGS PROCESS-INDUSTRY FOCUS TO THE TELECOMMUNICATIONS INDUSTRY

Telefónica de España is the leading telecommunications operator in Spain, with more than 13 million customers and over 35,000 employees. Like many companies in the telecommunications industry, Telefónica de España sought better ways to reduce costs and boost productivity. One consideration was streamlining its supply chain operations with mySAP™ Supply Chain Management, a key application within the SAP for Telecommunications solution portfolio.

### ADDRESSING MARKET PRESSURES

There were three major areas that Telefonica started to look at in 2001. First, it needed cost reduction. Second, it needed inventory reduction for ADSL (Asymmetric Digital Subscriber Line) products and infrastructure products from the providers. And third, it was looking for purchase-price reductions from ADSL providers.

The bursting of the high-tech bubble at the beginning of the new century had been particularly hard on the telecommunications industry. The company was facing a challenge meeting the skyrocketing demand for its ADSL – even as its other service offerings were faltering. For Telefónica de España, ADSL would help it compete with cable television companies to carry video and digital data to its subscribers using regular telephone company services. Deregulation and the accompanying liberalization of the market had put additional pressures on Telefónica de España to become drastically more competitive or face erosion of its traditional market share.

At that time, Telefónica de España was directed by its corporate parent to implement 1 of 12 “Structural Projects” aimed at achieving cost reductions and improving efficiency and productivity in every area of the organization related to the purchasing process.

### **Business Case: Reengineer Supply Chain Management Processes**

Prior to this time, Telefónica had been experiencing difficulties coordinating with its primary suppliers, third-party logistics service providers, subcontractors, and retailers. In particular, Telefónica de España was having challenges with the deployment of its ADSL high-speed broadband services, a combination of high demand and supplier collaboration challenges. Telefonica responded to the 12 Structural Projects initiative by developing a business case to demonstrate how it could accomplish the twin goals of cost reduction and improved efficiency. Essentially the approach was to reengineer the supply chain management processes and then implement that reengineering.

### **SAP APO an Easy Choice**

During the business-case phase, Telefónica reviewed potential suppliers for network life-cycle management tools it required. After receiving presentations from several suppliers, the organization selected SAP Advanced Planning & Optimization (SAP APO), the planning component within the mySAP Supply Chain Management solution.

Telefonica decided to tap into SAP’s long experience in the more mature discrete and process manufacturing industries. It implemented SAP APO to apply those approaches to its own goals for cost reduction, efficiency, and productivity.

“They also did an analysis across the Telefónica Group to determine which ERP system prevailed,” says SAP’s Ralf Weigand. “A similar analysis was done among their main infrastructure providers. In both cases, 80% of the organizations polled were using SAP ERP solutions. It’s a very easy decision, then, if you want to implement a solution that integrates with an ERP system, that you choose one that is already present both within your organization and that of your suppliers. It makes a lot of sense in terms of easy implementation, integration, and maintenance of the solution.”

### **TWO-PRONGED APPROACH**

To achieve the objectives of reducing operating costs and inventory levels related to network infrastructure, Telefónica addressed the problem from two different perspectives. First, it redesigned the intracompany processes that related Telefónica with its suppliers. Second, it implemented new technologies allowing process automation and collaboration with external suppliers.

It began by asking, what was the process for communication between Telefónica de España and a primary supplier like Alcatel, from order to delivery to billing? Could it be simplified, speeded up, shortened, and streamlined? The process was analyzed and a pilot project was designed to test the results. “The solution was very innovative,” recalls Carlos Tapia, EMEA SCM telco, IBM, which took on project management responsibility at the outset. “We had to convince everybody affected by it that it would work better than the processes they were currently using. A pilot project was the only way to do that.”

### Limited Pilot Project

Telefónica de España decided to limit the pilot project to one product, one supplier, and one geographic area – ADSL, Alcatel, and Madrid respectively. The approach it took was typical of the supply chain management (SCM) solutions used by the discrete processing industries to accomplish just-in-time inventory control. IBM deployed SAP APO and linked it to Alcatel's ERP system using SAP Exchange Infrastructure technology and RosettaNet, an open-standards communication protocol.

### Gratifying Results

The results were gratifying. Across the board, everyone within the Telefónica organization who had to deal with network life-cycle management agreed that the project was a complete success.

SAP APO enables Telefónica de España to forecast demand more accurately, communicate that demand to suppliers, and convert the forecasts to just-in-time supply of network elements. Both sides have been able to reduce their inventories substantially, resulting in costs savings to Telefónica and price reductions to Telefónica from its suppliers. Those price reductions have been significant.

Because Telefónica de España is now better prepared to respond to market demand, it has been able to reduce its ramp-up time from six months to one. The under-utilized network inventory is thus reduced by 40-60%.

Order processing has also been accelerated. Telefónica de España automatically forwards all supplier-related documents to the appropriate suppliers. No manual entry or reentry is required, reducing paper trails, errors, and resource requirements.

### AT A GLANCE

<b>SAP solution components</b>	mySAP™ SCM with SAP® Advanced Planning & Optimization
<b>Hardware Platform</b>	Sun Microsystems
<b>Operating system</b>	Solaris
<b>Database</b>	Oracle
<b>Number of users</b>	40 on SAP APO
<b>Number of sites</b>	15
<b>Length of implementation</b>	6 months

By delivering internal efficiencies, the SAP solution has enabled Telefónica to streamline cross-company workflow and improve employee productivity by about 30%.

### Payback in Months

Effectively, the new system paid for itself in just several months in those areas in which it has been implemented. And there have been other, unquantifiable benefits as well. By sharing information with a supplier and doing collaborative planning, Telefónica has already achieved a better quality and delivery of service.

Telefónica is now in the process of extending the solution to additional services, suppliers, and geographies across its enterprise. Telefónica's other primary suppliers – Ericsson and Lucent – are currently in various stages of implementation.

And the project manager can justifiably say: Mission accomplished.

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