



CSPC: Driving Business Transformation with SAP Private Equity and HONY Capital

Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

Company

China Shijiazhuang Pharmaceutical Group Co., Ltd. (CSPC)

Industry

Life sciences

Products and Services

Antibiotics, vitamins, antipyretics, analgesics, medications for digestive and cardiovascular conditions, antineoplastic drugs, and patented Chinese medicines.

Web Sitewww.e-cspc.com**SAP® Solutions**

SAP® ERP, SAP NetWeaver® Business Warehouse (SAP NetWeaver BW), SAP® BusinessObjects™ business intelligence (BI) solutions

Partner

HONY Capital (www.honycapital.com)

CSPC is China's largest manufacturer of active pharmaceutical ingredient (API) and pharmaceuticals. Faced with rising costs and corporate spending, CSPC's margin for API declined sharply. HONY Capital, CSPC's largest shareholder, devised a turnaround strategy and engaged SAP to help transform CSPC's business. By implementing SAP® software, **significant improvements** in cost control, inventory visibility, corporate management, and standardization of its data and processes.



Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

CSPC ranks second nationwide in the pharmaceutical industry

Founded in 1938, CSPC has total assets of 18 billion RMB and over 20,000 employees. It is the first mega-pharmaceutical enterprise formed through the merger of several large pharmaceutical companies. CSPC has since developed into a pharmaceutical group that owns China Pharmaceutical Group Limited, 17 subsidiaries, and five businesses units.

CSPC has three main business units: API, over-the-counter drugs (OTC), and pharmaceutical drugs. It focuses on the development, production, and sales of pharmaceuticals. CSPC produces nearly a thousand types of drugs across seven lines, including antibiotics, vitamins, antipyretics, antineoplastic agents, analgesics, drugs for cardiovascular and digestive conditions, and patented Chinese medicines. Thirty of its drugs have total sales exceeding 100 million RMB. Its drugs are sold throughout China and in 60 other countries.

Adhering to the corporate philosophy of “manufacturing great medicine for China,” CSPC strives on continuous innovation, business expansion, new strategy development, and product quality improvements. CSPC has been recognized as a “national innovative enterprise” by three Chinese ministries and commissions, including the Ministry of Science and Technology. Its drug research and development capabilities rank among the top pharmaceutical companies in China. CSPC has established a three-level quality management system, and its products have been GMP certified and maintain 100% market inspection pass rate.

In 2010, CSPC reached annual revenue of 13 billion RMB and ranked second among “Top 100 China Pharmaceutical Companies”¹ for the fourth consecutive year.

FOOTNOTES

1. “Top 100 Pharmaceutical Companies” is evaluated by State Food and Drug Administration, and Medicine Economic News.



Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

Innovation and profit growth through strategic transformation

The Chinese pharmaceutical market is expected to grow rapidly due to national medical reform, domestic consumption increase, and an aging population. China is forecasted to become the second largest pharmaceutical market after the United States in 2020. There are currently more than 6,000 pharmaceutical companies of varying sizes in China. As competition heightens, the industry will move towards further consolidation.

API production requires intensive energy and labor and creates environmental pollution, all of which lead to higher production costs. Since the 2008 financial crisis, a large number of Chinese API manufacturers have begun to use price as the chief differentiator. This intense competition has exerted downward pressure on margins and destroyed market value.

Consequently, CSPC embarked on a journey to transform its business. Dongchen Cai, CSPC's president, believed that in order for CSPC to grow,

it must improve on R & D capabilities and create a culture of social responsibility. Moreover, CSPC would need to diversify its product portfolio by increasing the proportion of pharmaceutical drugs to API and expand geographically through acquisitions.

CSPC faced both opportunities and challenges. Where were the new sources of innovation and profit growth? How would acquired companies be integrated into the existing structure? How could financial controls support business expansion? How should resources and information be shared across regions?

CSPC needed an IT platform to support its rapid expansion and complex business model. A strong IT solution would help CSPC maximize the efficiency and profitability across its supply chain. In 2010, after evaluating its business requirements and available IT solutions, CSPC selected SAP because of its industry best practices.



Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

SAP supports large scale, complex, and rapid growth

Yonggang Ma, CSPC's CIO, states: "SAP, as a German software company, is not only well known for its discipline and strong industry background, but also its strong product integration, which is what CSPC valued the most. While evaluating IT solutions, we compared various vendors and found that SAP software was most aligned with CSPC's requirements because of the ability to integrate across purchasing, production, sales, financial, and accounting processes."

During the evaluation stage, CSPC studied many leading international pharmaceutical companies and discovered that they were all SAP customers. As the world's leading business software provider, SAP has worked with countless industry leaders and

incorporated their best practices into SAP software.

SAP has embedded management philosophies and regulatory requirements into its software. Using accounting standards as an example, China Pharmaceutical Group Limited, a subsidiary of CSPC, can prepare financial statements that comply with the accounting standards of Hong Kong and mainland China. In this case, SAP software provides multiple accounting standards that help CSPC meet its current and future regulatory requirements. Furthermore, SAP has a complete ecosystem of experienced implementation partners and third-party solution providers that have proven success in the pharmaceutical industry.

"SAP provides an integrated and standardized IT platform across the entire industry value chain. This aligns strongly with CSPC's long-term requirements and business objectives."

Dongchen Cai, President, CSPC



Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

HONY Capital works with SAP Private Equity to drive value creation

As the majority shareholder of CSPC, HONY transformed CSPC from a state-owned enterprise to a modern pharmaceutical group. HONY designed CSPC's corporate strategy, optimized its organizational structure, and helped CSPC to expand through acquisitions. By 2009, CSPC owned 17 subsidiaries and had business in API and pharmaceutical drug manufacturing.

HONY helped CSPC to create the IT strategy plan and blueprint and to accomplish the SAP implementation. In October 2012, HONY was awarded the "Operational Excellence Award" by Private Equity International for its outstanding contribution to CSPC.

The collaboration between CSPC and SAP stems from HONY's long-term relationship with SAP. As a trusted advisor behind Fortune 500 companies, SAP has deep business know-how across various industries and lines of business.

SAP has a dedicated group focusing on serving the needs of private equity firms. The private equity team leverages SAP's global resources to drive value creation. It provides services that are aligned to the private equity investment lifecycle, including IT due diligence, operation benchmarking, carve-out planning, IT planning and implementation, and exit readiness support.

"HONY Capital and SAP established a strategic alliance in 2012. SAP Private Equity works closely with HONY and its portfolio companies to drive value creation across the entire investment lifecycle."

Hong Song, Managing Director, HONY Capital



Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

Data integration and business intelligence enables business transformation

CSPC has always placed great importance on IT. However, as the company expanded and competition intensified, the legacy system could no longer support the company in terms of management control and data integration. As a result, CSPC's management team decided to implement a new enterprise resource planning (ERP) platform that would integrate all subsidiaries and business units. This would give CSPC a strong competitive advantage.

In September 2010, CSPC initiated the first phase of its deployment of SAP ERP at two API and pharmaceutical drug subsidiaries. The scope encompassed all five ERP modules: purchasing, manufacturing, sales, finance, and quality assurance.

The systems went live on May 2011 and created an integrated IT platform. Management controls were put in place and processes were optimized for each business unit, which greatly improved operational efficiency. By the end of 2011, SAP ERP was implemented in CSPC's remaining business units.

In addition to SAP ERP, CSPC also implemented the SAP NetWeaver® Business Warehouse application and SAP® BusinessObjects™ BI solutions to drive better decision making at the executive level. With a sophisticated business intelligence platform, executives were able to monitor performance and make operational decisions in real time. This greatly improved the effectiveness of management's decision making.

“We are excited to see improvements in the areas of data, process, and decision-making as a result of implementing SAP software. The success of the implementation is a monumental milestone for CSPC.”

Dongchen Cai, President, CSPC



Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

CSPC standardizes data and processes and optimizes decision making

Through implementing SAP software, CSPC standardized master data across the entire organization, which included data on customer, supplier, product, and raw material. SAP also created a platform for resource integration within the group.

SAP standardized and optimized CSPC's processes across the entire supply chain, with significant improvements in procurement, logistics, sales, and manufacturing. SAP also integrated business and financial data, which reduced month-end book closing from 10 days to 5 days and enabled financial data to be shared in real time.

CSPC's head of sales states, "SAP sales processes cover the entire group and are applicable to all sales functions due to their flexibility. The legacy system could only track customer names, but was unable

to display details on business activities. With SAP software, customer data is controlled at the group level. This allows sales invoices to be standardized and issued immediately after product delivery, reducing the risk of shipping products without a proper invoice. The accounts receivable value and date for each customer are also tracked in the system."

Overall, SAP provided a strong IT platform that helped CSPC improve its corporate control and reach its strategic objectives of product diversification and growth through acquisitions. CSPC has achieved great success within a few years of launching its business transformation initiative. More than 80% of its profits now come from innovative new drugs, and it has launched several drugs with more than 100 million RMB in sales.



Executive overview

Company

Vision

Why SAP

Solution

Implementation

Benefits

Future plans

Value chain integration

As economies of scale diminish with increased competition, CSPC must rely on innovation to differentiate itself in the market. Today, the company is strongly positioned as a premium player to take advantage of the changes resulting from the Chinese medical system reform.

CSPC's 2011 pretax income was 14.4 billion RMB, representing an 11.5% year on year growth, and its net income and tax payable totalled 770 million RMB and 1 billion RMB, respectively. Its entire industrial output reached 12 billion RMB and foreign export was 550 million USD, which placed CSPC among the top companies within the pharmaceutical industry.

CSPC is targeting to become a global top 30 pharmaceutical company by 2015. To achieve this objective, it plans to make additional IT investments in SAP ERP, SAP Customer Relationship Management, and SAP Supplier Relationship Management applications. While SAP ERP has been implemented at the business unit level, it still needs to be rolled out to its subsidiaries. Most importantly, CSPC aims to create an IT platform that will integrate the entire value chain across suppliers, distributors, and customers.



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