SAP Case Study

mySAP™ SUPPLY CHAIN MANAGEMENT AT BEIERSDORF-LECHIA

THE BEST-RUN BUSINESSES RUN SAP

ENHANCING BENEFITS OF A FOCUSED MANUFACTURING NETWORK THROUGH COLLABORATIVE PLANNING

Beiersdorf-Lechia SA is a leading manufacturer and distributor of cosmetics in Poland, producing up to 8,000 tons of creams and lotions annually. With sales of PLN 457 million (€104 million) and 420 employees, the company manufactures its NIVEA brand products for distribution to the Central and Eastern European markets.

Beiersdorf-Lechia is a wholly owned subsidiary of Beiersdorf AG, a leading worldwide consumer products company. Beiersdorf markets, manufactures, and distributes products covering its cosmetics, medical, and adhesive bands businesses. A key foundation of Beiersdorf's growth has been its ability to develop its business internationally. Beiersdorf had an early start: The company was established in Hamburg, Germany in 1882, and by the beginning of the twentieth century was achieving 40% of its sales through representatives abroad. By 2002, the company had grown to encompass operations in more than 100 countries, employ 18,000 people, and attain about 75% of its sales outside of Germany. Beiersdorf's 2002 sales reached €4.7 billion, a 7.3% increase over sales in 2001. Its cosmetics brands include NIVEA, atrix, and JUVENA; in the field of medical supplies, Hansaplast and FUTURO; and tesa in the field of adhesive bands.

To support the company's international expansion strategy, in 1997 NFI Octava, Pollena Lechia, and Beiersdorf AG signed an investment agreement under which Beiersdorf-Lechia SA was established. After undergoing a major restructuring program, which included the divestiture of certain preexisting product lines to focus on the manufacture of multipurpose creams, hand creams, and body lotions, the company opened a world-class production facility in 2001. This facility had a production capacity of 12,000 tons and the potential to grow to produce 50,000 tons.

AT A GLANCE: mySAP™ SUPPLY CHAIN MANAGEMENT AT BEIERSDORF-LECHIA

Strategic Goals:

- Achieve global revenue and market share growth
- Improve profitability by minimizing total costs while maximizing customer service levels

Approach:

Beiersdorf AG implemented an international production strategy for its cosmetics lines in which each manufacturing center specializes in a selected series of products. Beiersdorf-Lechia, which includes Poland-based production and distribution centers, implemented an internal collaborative planning, forecasting, and replenishment (CPFR) process to derive further efficiencies from its parent's focused factory approach. Supply plans for production centers were based upon sales forecasts, analyses of exceptions, and target service levels developed in collaboration with the Polish distribution center. To support this pull-based CPFR process, Beiersdorf-Lechia categorized products based on sales and value and factored in promotional and seasonal demand variations. The planning processes were enabled by mySAP Supply Chain Management (mySAP™ SCM) and other SAP solutions.

Results achieved over the period Q2 2001 to Q4 2002 include:

- **Increased sales by 4%**
- **Reduced inventory by 60% (including a safety stock reduction of 42%), more than offsetting an increase of 10% in transportation costs**
- **Improved product availability levels from 94% to 99.8%**
- **Established a foundation for extending collaborative processes to customers and suppliers**

Over the years, the cosmetics market that is so important to Beiersdorf has proven to be a relatively stable growth market. In the early 2000s, however, great variations occurred in the developments in individual market segments and in different countries. In addition, private label products increased their importance in certain cosmetic sectors of the highly competitive German market (for example, sun protection) at the expense of branded products. Despite the difficult market situation, Beiersdorf achieved a 6.9% growth rate in 2002. This growth took place in nearly all NIVEA brand groups and nearly all regions and countries. In addition, the operating result (earnings before interest and taxes) grew faster than sales and reached 9.9% in 2002.

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Robert Stobinski, Supply Chain Director and Member of the Board, Beiersdorf-Lechia

To increase the efficiency derived from its focused manufacturing strategy of globally sourcing specific product lines from dedicated factories, the company wanted to improve its customer service performance and cost structure to compete effectively in the future.

Given the emerging competitive environment, Beiersdorf-Lechia's board decided to adopt a strategy that would rapidly reduce inventory carrying costs, improve delivery performance, and enable investment into growth-promoting programs, including targeted advertising and product localization. After carefully evaluating its distribution network, the board decided to implement a collaborative planning, forecasting, and replenishment (CPFR) program. The CPFR program was initially focused on internal collaboration between the Poland-based distribution center and production centers in Poland and France.

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Robert Stobinski, Supply Chain Director and Member of the Board, Beiersdorf-Lechia

The company achieved inventory, service, and order cycle time benefits at first by introducing collaborative supply and demand processes, but without the benefit of an enabling software solution. Subsequently, the company selected and implemented mySAP™ Supply Chain Management (mySAP SCM) to enable the CPFR process, achieving further finished good inventory reductions, a lowering of safety stock, and delivery performance improvements.

"Given the increasingly competitive environment in cosmetics, Beiersdorf-Lechia realized that it must make use of its parent's global manufacturing network as a source of competitive advantage," says Robert Stobinski, supply chain director and member of the board of Beiersdorf-Lechia. "We decided to implement CPFR as a way to achieve the cost reductions and customer service improvements that were essential for going forward. mySAP SCM was selected because of its robust demand planning and supply planning capabilities and the tight integration it offered with Beiersdorf's existing SAP® R/3® solution. We achieved our targeted performance levels after a 12 month implementation."

IN DETAIL

CHALLENGES AND OBJECTIVES

The cosmetics market, which is essential to Beiersdorf and encompasses about half of the company's sales, had provided a source of steady growth over the years. Beiersdorf's international expansion efforts had been effective in enabling entry into new geographic markets, increasing market share, and growing sales. In particular, product localization efforts, such as local language labeling and initiatives, created an emotional bond with consumers in individual markets and proved very successful.

In addition to market forces, Beiersdorf faced a growing demand to improve its internal business processes. Beiersdorf had implemented a focused, make-to-stock manufacturing strategy to ensure production efficiency and growing profitability. The company established production centers around the world dedicated to single product lines and coordinated in-country sales through local distribution operations in each country. The company derived increasing benefits from this focused factory approach by concentrating on continually improving the efficiency and quality of all manufacturing processes worldwide. However, in Europe, for example, this strategy resulted in disconnected processes among Beiersdorf's 14 production facilities and 30 distribution centers. Each of these 44 operations was required to communicate with others to forecast market demand, meet delivery requirements, and minimize inventory and transportation costs.

Given the backdrop of increasingly complex logistics throughout Beiersdorf as a whole, the board of Beiersdorf-Lechia reviewed the company's strategy for achieving profitable growth in Poland and through the company's export activities from its product line-focused manufacturing facility. The board determined in 2001 that its supply chain processes, which were already handling 12,000 orders per year and 70,000 pallets, could not scale to effectively deliver logistics services to support its future needs.

In particular, due to growing competition, it was essential that Beiersdorf improve service to its customers. The company needed to accomplish market-leading service levels while containing costs.

To achieve these objectives, Beiersdorf-Lechia decided to focus on CPFR processes, which would enable the company to meet its service-level objectives while minimizing the controllable set of logistics expenditures, including inventory carrying costs, order service expenses, and transportation costs.
In particular, Beiersdorf-Lechia decided to:

- Base its forecasts on more accurate, real-time demand data from customers
- Implement planning processes that would generate supply plans to more effectively source material to meet demand
- Provide customers with visibility into the status of their orders

IMPLEMENTATION

Beiersdorf-Lechia considered its overall approach to CPFR based on three possible collaborative scenarios within Beiersdorf. These scenarios were between:

- The customer and a Beiersdorf distribution center
- A Beiersdorf distribution and a Beiersdorf production center
- A Beiersdorf production center and a supplier

As a first step, Beiersdorf-Lechia decided to focus on the second scenario. The company had both a distribution and a production center in Poland and could implement the solution relatively quickly and with little risk. Moreover, the Beiersdorf operation in France was willing to participate in this implementation, adding robustness by providing a second production center source without substantially increasing complexity or the timeframe for implementation. Finally, Beiersdorf-Lechia felt that it could achieve tangible results with this initial program. This would pave the way for Beiersdorf globally to build on this implementation, expanding CPFR across the Beiersdorf organization and with the company's customers and suppliers.

The two-phase project commenced in May 2001. In the first phase, to refine procedures and to eliminate risks associated with software implementation, collaborative planning processes were implemented without the benefit of the mySAP SCM solution. During this phase, some measurable improvements were made to stock levels and product availability, and the company reduced order-to-delivery cycle times by 50%. In the second phase, in which implementation began in December 2001 and ended in December 2002, CPFR processes were enabled by mySAP SCM. By the end of 2002, forecast accuracy was improved in the range of 20% to 25%, which in turn contributed to targeted performance levels being achieved, including a reduction of inventory of selected stock keeping units by 60% and product availability of 99.8% (see Figure 1 for inventory changes over time).

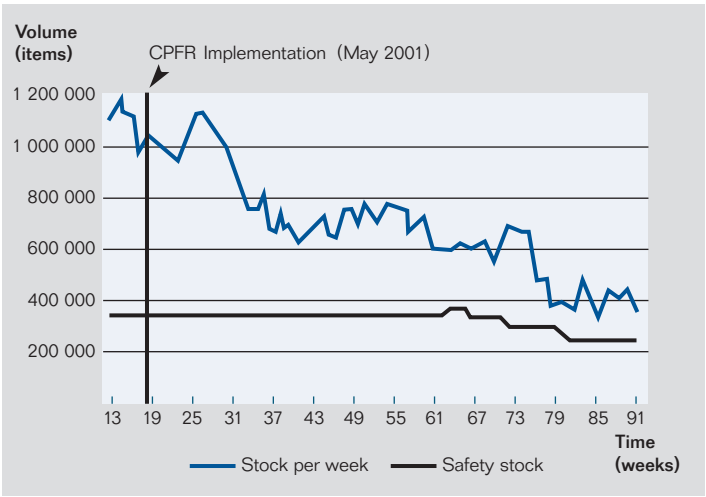

Figure 1: Inventory Changes Following Program Implementation

The CPFR process enables delivery to the distribution center in Poland based on agreed-to requirements and a balancing of supply and demand. Instead of production centers pushing products to the distribution center, the processes allowed products to be pulled based on forecasted demand, seasonal trends, current stock levels, and supply capacity. The production plan generated also serves as the basis for raw material suppliers, who provide components that are necessary for order fulfillment. As the solution was implemented, the company determined that scheduled deliveries between the production centers and the distribution center should be increased, enabling a reduction in safety stock levels and increased service levels (an associated increase in transportation costs was more than offset by the savings in inventory). The overall solution applied is based on the cycle presented in Figure 2 and is enabled by the supply network planning (SNP) and demand planning (DP) capabilities of SAP Advanced Planning & Optimization (SAP APO), part of mySAP SCM.

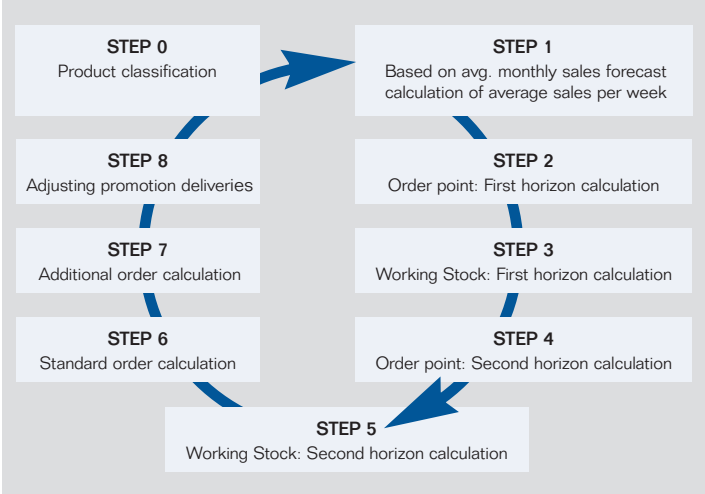

Figure 2: CPFR Cycle

The process begins with product category determination, which enables the calculation of economic production lots and delivery quantities. Products were divided into three categories: A (products with high sales volume and value), B (with a high volume, but average sales value), and C (with both low sales volume and value). Then, production and delivery volumes are calculated for a one-week time horizon and for a three-month horizon, based on historical sales data, information about promotions, and forecasted trends. The SNP capability highlights any supply

surpluses or shortfalls, recommending appropriate changes in production and delivery plans. As shown in Figure 3, data is transferred between SAP APO and SAP R/3 to support the CPFR process. This integration ensures accurate and efficient transfer of sales history for statistical forecasting calculations in demand planning and conversions of plans to time-phased purchase orders.

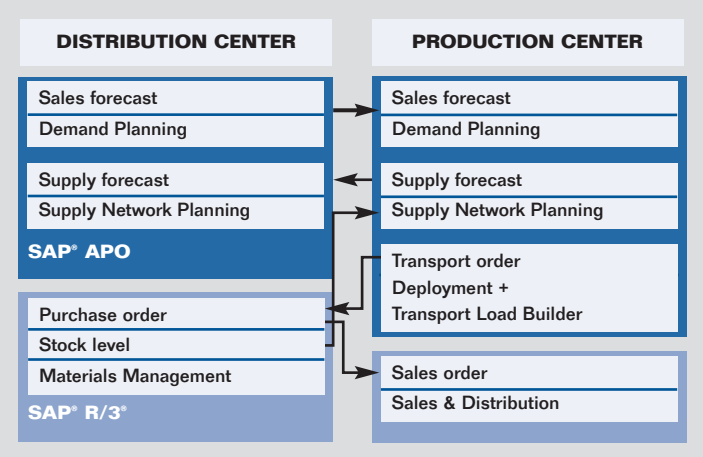

Figure 3: Enabling SAP Solutions

The implementation, which was completed on time and within budget, was led by Beiersdorf's internal IT solutions organization working in partnership with Electronic Data Systems, an SAP implementation partner. There are 130 users of the SAP solutions within Beiersdorf-Lechia. There are a total of 11 users, based at the production centers in France and Poland and the distribution center in Poland, focused on employing DP and SNP.

The implementation at Beiersdorf-Lechia has provided a foundation for further implementations throughout Beiersdorf. These initiatives are strategically important to Beiersdorf and will enable the company to continue to achieve profitable growth well into the future.

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