

## SAP Customer Success Story



Squeezed by domestic entrants as well as aggressive global retailers in the Korean retail market, Seoul-based discount department store **2001 Outlet**, which specializes in fashion clothing, housewares, food, and groceries, decided to fight back – with SAP.



## 2001 OUTLET

### SAP BEST PRACTICES MAKE 2001 OUTLET A BETTER BUSINESS

“The local market was nearing the saturation point,” explains Yoon Yeo-young, leader, e-business Team, 2001 Outlet, whose eight stores boasted 2002 turnover of 470 billion Korean won (US\$398.2 million). “2001 Outlet needed to differentiate itself from its competitors and expand its sales channels, while competing with other segments of the retail industry, including home shopping and department stores.”

### ACCURATE DATA FOR PROACTIVE DECISIONS

With the strategic objective of becoming the most competitive knowledge retailer in Asia, customer intimacy, backed by effective purchasing and logistics, had high priority.

“Retail success hinges on products and IT systems. We lacked system capability,” recalls Yoon. “We had to acquire a high-caliber customer database at a reasonable cost. We also wanted to optimize the logistics functionality of SAP, including automated replenishment ordering.”

Specifically, 2001 Outlet's previous operational and production systems were not integrated, which resulted in unreliable information, inaccurate or redundant communications, delays in getting data in the first place, as well as difficulties in tracing the source of errors. In addition, the system had not been integrated with the fax, e-mail, and phone systems. As a result, decisions tended to be based on experience and guesswork, rather than on actual feedback from the system.

“Delayed information for decision making could only be used as reactive, as opposed to proactive, indicators,” Yoon elaborates. “It prohibited decision makers from taking action based on real-time information.”

### **EXCELLENT INTEGRATION, LOWEST TCO**

In its quest, 2001 Outlet prepared a key performance indicator (KPI) map comprising sales revenue, gross profit, per-area revenue, stock turns, replenishment lead time, the time taken for the daily closing of accounts, and operating profits. Target values were assigned to the indicators, after which a series of internal return on investment (ROI) review sessions were conducted.

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Yoon Yeo-Young, Leader, e-business Team

The company settled on a SAP solution that comprised SAP for Retail; enterprise resource planning (ERP) components of SAP R/3; its data warehousing module, SAP Business Information Warehouse (SAP BW), as well as a Balanced Scorecard application. The project is part of a corporate-wide IT systems upgrade and internal business process re-engineering (BPR) initiative that had been launched following the International Monetary Fund (IMF) bailout period in the late 1990s.

Yoon cited “excellent integration” as one of the key advantages for choosing SAP. A thorough understanding of ERP and comprehensive customer follow-up, with more customers satisfied, were also pluses.

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SAP also had the best value proposition among those considered, Yoon says. “In the request for proposal (RFP), we requested that each vendor should provide the total cost of ownership (TCO) estimates for the next three years. Our internal review revealed that SAP had a better value proposition than any of its competitors, such as Oracle, that we evaluated.”

The company signed the contract in December 1999, and had completed its initial implementation within seven months by September 2000. After a stabilization period in October, the company went live in November 2000. The first phase consisted of implementing SAP for Retail in addition to the Financial Accounting and Controlling (FI/CO); Materials Management (MM); Sales & Distribution (SD), and Warehouse Management (WM) components in SAP R/3 version 4.6. SAP BW was a late addition to phase one, and was followed in phase two with a Balanced Scorecard (SEM-BSC) implementation.

Yoon says that the SAP R/3 implementation with its consistent and integrated master data structure, coupled with the company’s processes, resulted in a deluge of reliable data.

“Too much information, as is the case with too little information, is a stumbling block for end users to make efficient decisions,” he says. “Based on our analysis of the business requirements, we deployed SAP BW to deliver information in a user-friendly and easy-to-access manner.”

Yoon said SAP BW was easy to use, and handled unexpected requirements out-of-the-box. “With fast support via SAP’s Online Service System (OSS), you can operate it with only a small number of resources,” he adds.

He also had kudos for SEM-BSC, which he called “easy to implement” as it is well-integrated with SAP BW.

Yoon attributes the speed of the implementation to being prepared and motivated on one hand, and to the features of SAP software on the other. In incorporating internal processes, 2001 Outlet wholeheartedly adopted the embedded best practices without modifying the standard functionality, and went for a “big bang implementation”, deploying all the modules in one go, he said.

#### **BUSINESS REVAMP CREATES MORE PROFIT CENTERS**

The industry best practices embedded in SAP's Retail solution enabled 2001 Outlet to implement BPR in conjunction with ERP, using the SAP business map for retail, including Accelerated Solutions, Industry Solution Maps, the Business Technology Solution Map, and Service Maps, as a guide.

“The ERP implementation has led to an organizational redesign, transforming the former organizational units into profit centers,” says Yoon. “Successfully deploying a stable and integrated backbone for enterprise IT systems, we were able to remove any bottleneck in our systems and turn them into an enabler for business changes.”

The re-engineering involved processes company-wide, from purchasing and logistics to finance, and engendered a culture of information-based decision-making.

“We have a transparent business with accurate data, and the scalability to cope with the expansion of new stores,” Yoon says. “We can now define our assumptions and verify them all within the system, leading to practical results and easier measurement of project productivity. And multiple departments that engage in customer interaction can now have one voice to any inquiries from a customer.”

**“We now have a better performance management process in place. With the availability of timely and relevant information in an easy-to-understand format, we are now able to transform our operational data to information which can be used in an intelligent manner to better improve our business.”**

*Yoon Yeo-Young, Leader, e-business Team*

Replenishment lead-times, on-time deliveries, and purchasing/payment cycle times have all speeded up. With SAP handling all purchasing processes, from purchase requisition to invoicing, 2001 Outlet can now track purchase progress and share that information in real time. The business has become more responsive, because less time is taken to calculate key indicators such as gross profits, per-area revenues, and daily operating income estimates.

“Transparent business processes with daily closing was impossible in the past,” Yoon says. “The closing cycle time for CO has been reduced from 15 days to one day, so that we can make a just-in-time delivery of information for decision-making processes.”

But that has not been all. Yoon found that the successful deployment of the SEM-Balanced Scorecard functionality has allowed 2001 Outlet to drive its strategy throughout the organization.

“We now have a better performance management process in place. With the availability of timely and relevant information in an easy-to-understand format, we are now able to transform our operational data to information which can be used in an intelligent manner to better improve our business,” he says.



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## PAYBACK IN A YEAR

In fact, 2001 Outlet had expected to achieve ROI of 200% over two years, but has been pleasantly surprised.

“The investment has paid back in a year,” Yoon said, rating SAP “90 on the scale of 100” for scalability and performance. “SAP is a reliable partner with long-term viability. We are impressed by its efforts and accomplishment in terms of embedding the industry best practices in its systems.”

The company definitely has long-term plans for SAP. In 2003, 2001 Outlet intends to deploy Analytical CRM to make analyses of customer loyalty even more effective, and Category Management the following year.

“We will be able to provide more value to profit-generating customers, and more customer-centric marketing activities,” says Yoon. The implementation of mySAP CRM 4.0 ramped up on July 1, 2003, and will go live in January 2004. Through CRM 4.0, the company expects to see better campaign management of a one-million-strong consumer database, and customer retention rates enhanced by up to 70% from the current 50%. In the next three years, the consumer database is expected to increase by another 200 million.

## AT-A-GLANCE

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| <b>SAP solution components:</b>        | SAP R/3 Release 4.6C<br>In phase I, SAP for Retail (FI, CO, MM, SD, WM) and SAP BW<br>In phase II: Balanced Scorecard (SEM-BSC)<br>In phase III: mySAP CRM 4.0  |
| <b>Hardware platform:</b>              | Compaq (now Hewlett-Packard)<br>PLT 8500  |
| <b>Operating system:</b>               | 2000 Advanced Server  |
| <b>Database:</b>                       | Microsoft SQL Server 2000   |
| <b>Networking tools and protocols:</b> | TCP/IP  |
| <b>No. of users:</b>                   | 160 (total), 40 (concurrent), out of 780 employees  |
| <b>No. of sites:</b>                   | 8 stores, 1 distribution center   |
| <b>Length of implementation:</b>       | From February to September 2000 for phases I and II; July 2003 to January 2004 for phase III  |
| <b>Desired changes:</b>                | At-the-fingertips information for decision-making; redefining internal customer-oriented processes based on best practices in phases I and II; added value for customers through enhanced campaign management; and better customer retention in phase III |