

Kao Corporation, The ABS Project

SAP Award of Excellence 2005

"The Project of the Year"

With SAP Installation, Standardized Operation at 22 Asian Bases Enforced KAO's Global Expansion in Asia

As a consumer products manufacturer, Kao has been a front runner since 1964 in expanding its marketing to the greater Asian region, and it is currently expanding its manufacturing and sales operations for a range of items from household use products including areas of personal care, household goods, and feminine sanitary needs to cosmetics and industrial chemical products. Foreseeing further advancement of business performance within the Asian countries crucial to its global expansion, Kao commenced its "KAO ABS Project" in October, 2000 to promote the standardization and optimization of its business operations. The project was one of enormous scale, extending over a period of four years and five months and involving implementation at twenty-two Asian business centers, with SAP as the ERP package of choice.



Mr. Akio Tsuruoka
Executive Vice President,
Member of the Board,
Global Procurement
Kao Corporation



Mr. Takashi Matsuzaka
Vice President,
Global Information Systems
Kao Corporation



Mr. Hiroyuki Kowase
Vice President,
Information Systems Division,
Global Business Synchronization
Group & International Consumer
Products,
Kao Corporation

Global Business Synchronization Group & International Consumer Products, who played a central role in the Project, explains as follows: "Before the ABS project was initiated, self-contained business operations were administered in each Asian country, and such things as business methods, processes, codes, rules and KPI (Key Performance Indicators) were not synchronized. As an example, the definition for 'sales' differed from country to country, together with differences in accounting standards, and these all interfered with our global expansion. In addition, changes occurred in the business environment as well. After the Asian currency collapse in 1996 - 97, European global retailers began to enter the Asian market. Due to this, the distribution and

Confusing Evaluation Indices Interferes with Wide Area Operations

The goal of the "Kao ABS Project" (hereinafter ABS Project) was to standardize and optimize business operations by the installation of the SAP ERP package, with the ultimate goal of a broader expansion of business throughout the countries and regions of Asia. ABS is an acronym for "Asian Business Synchronization," describing how the "synchronization" (standardization) of business operations was viewed as a key factor in Kao's expansion in the Asian area. The initiation of SAP installation began from December, 2002. A pilot installation program was undertaken first in Thailand and Hong Kong, and from then, SAP was

gradually installed in all twenty-two Asian bases in a two-step process lasting until February, 2005.

What lay behind Kao's establishment of the ABS Project? Mr. Hiroyuki Kowase, Vice President, of Information Systems Division,

Client Data

Company Profile

Company name	Kao Corporation
Headquarters	Kayaba-cho 1-14-10, Nihonbashi, Chuo-ku, Tokyo, Japan
Established	May, 1940
Business Description	Manufacturing/sales of household products, beauty products, industrial chemical products and business products.
Capital	85.4 billion yen
Consolidated Net Sales	936.8 billion yen.
Employees	5,600 (Total including all Consolidated Subsidiaries: 19,143)

Project Profile

Aims	Synchronization and improvement of business in the Asian area.
Period	October, 2002 to February, 2005
Staff	Approximately 80 (Kao) 120 (ABeam) (Both during peak periods)
Software	SAP R/3 4.6C

■ The ABS Project

Project Goal :
 Toward growing wide-range business operations throughout Asia, the project aims to implement standardized business operations and optimize overall business based on a uniform package (SAP).

Role of ABeam Consulting :

- Standardizing Business (Processes, codes, rules, KPI)
- System design and development
- Pilot installation
- Rollout to Asian countries
- Support following installation
- Maintenance and operation support

ABS = Asian Business Synchronization

■ ABS Project Operation Structure

sales methods changed dramatically, and Kao's business model was required to change in response."

These changes in the style of Asian distribution and sales represented a driving force behind Kao's decision to introduce a new information system. At that time, Kao was using an in-house-developed software; the prototype was created in Japan, and the source code was made open so that it could be subcontracted for localization to local companies in each Asian region. However, to try and respond to the rapid change in business environment by continuously updating the in-house-developed program resulted in tremendous costs in labor and time. Kao thus decided to move towards the installation of the ERP package.

"Industry Framework®" Brought Into Action

Since this was Kao's first experience at installing an ERP package, ABeam Consulting, with its great

accumulation of expertise at SAP implementation projects and long experience at business process design, was chosen as the consulting firm for the Project.

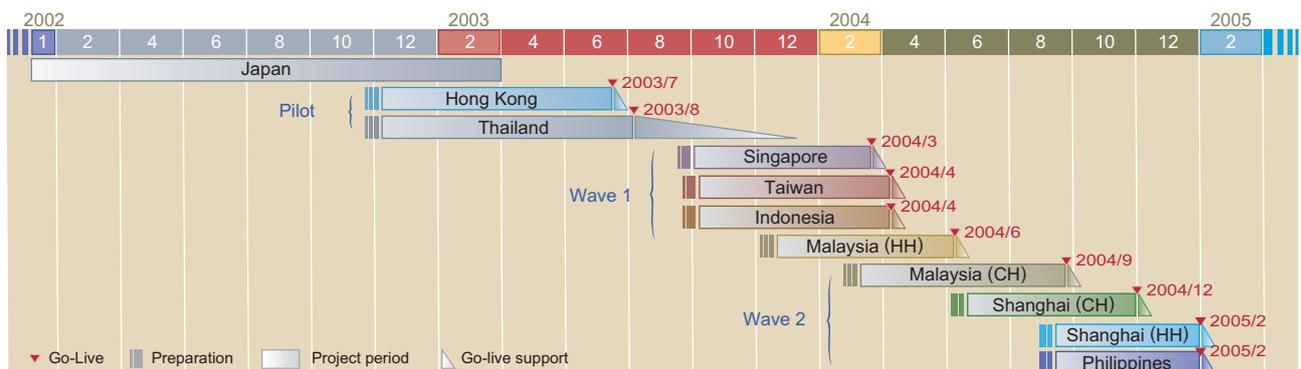
Project members included fifteen ABeam members on-site and additional members arranged locally by ABeam, and in Japan, thirty ABeam members, and at peak periods, thirty Kao members. Other than human resources, the package included almost all SAP modules, including FI (Financial Accounting), CO (Controlling), SD (Sales & Distribution), MM (Material Management), PP (Production Planning), APO (Advanced Planning & Optimizer), BW (Business Information Warehouse), SEM (Strategic Enterprise Management), and CRM (Customer Relationship Management). Add-ons were created for individual countries where statutory requirements were difficult to cover with the basic SAP. Exceptional localizing also took place in cases when customers had special needs for items such as ledger sheets. The business optimization project

covered five areas; the introduction of a new supply planning method, the synchronizing of the related companies, standardization/optimization of basic business operations, the installation of an optimum production method, and budget management. The standardization of business operations took place in six areas (chemical sales, household product sales, material flow, manufacturing, purchasing and accounting), and included a total of approximately 1,300 individual standardized business items, ranging from processes to codes, rules and KPI. These projects were documented and collected in Kao's "Business Standardization Manual."

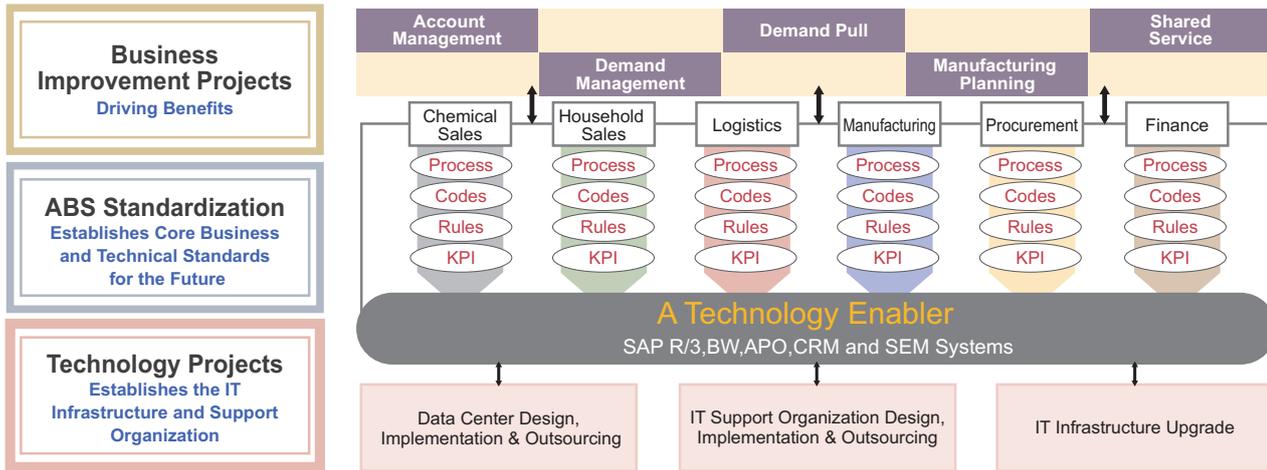
What contributed greatly in the standardization of operations and became the foundation for creating the "Business Standardization Manual" was the "Industry Framework," an original industry-specific template created by ABeam.

The "Industry Framework" is an industry-specific template reformu-

■ Schedule



■ Project Coverage



lating the methodology gleaned from past projects; its key feature is its condensation of high-quality business processes for consumer goods manufacturers. By using the same template in each Asian country, it became possible to support business processes unique to each country and users of different languages, as seen in the high appraisal of Mr. Kowase, “It was very useful in determining the scope of business processes, and proved to be a powerful weapon for standardizing business operations.”

Thailand’s Pilot Installation: Touchstone For Project Rollout

In-depth research was required before introducing SAP to the Asian countries and regions, where such elements of business as methods, processes, rules and KPI differ. “Even with such a simple expression as ‘reduced stock,’ the number of days represented by a stock cycle differs from country to country. So in response, we grasped the situation with the same units of measurement, thus locating the weak points of each business operation and Kao’s overall strengths and weaknesses in Asia; it was on that basis that we were able to determine the scope of the project”. (Mr. Kowase)

Even so, great difficulties were encountered in the process of standardization of rules, codes and KPI. As statutory requirements differ from one country to the next, it was said that the process of negotiating

with local representatives became a problem. Mr. Kowase reflects, “Almost nothing was codified, and even when it was, we encountered many situations in which the implementation differed between departments. When standardizing codes, we had to identify each master name, but the master names were all different as well, and it was not unusual for us to have to check with the local supervisors.”

The ABS Project was first commenced in Thailand. This was based on the estimation that if SAP installation were successful in Thailand, the installation would go smoothly in other Asian countries and regions as well, due to the fact that all of Kao’s Asian business processes were present in Kao’s local Thai branch. The installation there, however, was more difficult than originally planned. Although a system performance test was run before the installation, order receipts and shipping were stopped for a few days in preparation for the go-live date; as a result, when the program actually went online, that several days of accumulated data were suddenly input in a concentrated way, thus causing a rapid increase in the number of transactions, and ultimately hindering the system so that the expected performance was not attained. This necessitated prolonging the support after the go-live date in order to modify certain programs, and also led to certain situations such as the temporary interruption of shipping. However, we were able to make

good use of this difficult experience in Thailand, thus making the installation in the other Asian countries go more smoothly.

Securing and Effectively Assigning Human Resources: Key to Project Success

How did such a large-scale endeavor as the ABS Project succeed in the Asian regions, where languages and cultural backgrounds are so diverse? The key was in securing and effectively posting the required human resources.

Mr. Toshinori Iwasawa, principal with ABeam, the Manufacturing/Consumer Business division explains as follows: “Although ordinary

■ Core ABeam members



Mr. Toshinori Iwasawa
Principal
Manufacturing/Consumer
Business Division



Mr. Akira Akaishi
Senior Manager
Manufacturing/Consumer
Business Division



Mr. Koh Watanabe
Senior Manager
Strategic Business
Transformation
Division



Mr. Masaki Tomida
Senior Manager
Manufacturing/Consumer
Business Division

communication between project members was carried out in English, it was also necessary to secure and effectively post personnel who speak the local language as well as English and who have the same cultural background, in order to compile local requirements, train local users and improve the results. ABeam used all possible channels to secure these human resources, including contacts back from the time ABeam was known as "Deloitte", contractors with personal connections, and vendors with whom we have business relations, and we drew from them their full potential as ABS Project members."

As Mr. Iwasawa continues, "The project was deployed in seven Asian countries and regions. We tried to proactively avoid problems, such as in cases of obtaining visas, we worked on the project while planning a few months ahead of time regarding who would go to which country, so as to avoid situations in which the people involved might not being able to obtain a visa right before a flight." This accumulation of know-how is evidence of ABeam's exhibiting its full capabilities in Asia.

"User Training" was strongly emphasized in the ABS Project. Mr. Kowase comments, "Training is an important factor in the business optimization project. No matter how great a system is, if it's not utilized,

there is no point in having it. Even if a standardized business process is introduced, if the users don't understand that the aims are to optimize business operations, its effect will be weakened." ABeam took the measure of establishing a training program with six levels, training each individual user after measuring his or her basic proficiencies in such areas as English communication and computer handling, then checking them for their achievement at each level of training, providing supplemental training when the desired level has not been achieved, all in order to raise the users to the level that the project demands. It should be noted that the final step in this training program was the acquisition of SAP operation skills.

Awarded SAP "Project of the Year" Award

Mr. Iwasawa comments, "The goal

of this project was not simply to change the system, but to use the new system to innovate business processes. We are supporting Kao even after the installation of SAP, contributing in the role of Kao's continuing BPR." For Kao's part, in order to provide ongoing linkage to the BPR, it has established a data center and monitoring center in Japan (Tokyo), and a help desk in China (Shanghai) as part of its standardization infrastructure. ABeam is currently handling operation of the help desk in Shanghai, a situation that well symbolizes ABeam's ongoing BPR contribution to its client.

ABeam's performance in the ABS Project was highly evaluated and awarded the SAP "Project of the Year" Award. This will long be remembered as a great achievement brought about by ABeam and Kao's strong determination and shared perception toward successful completion.

Reasons for Success

Regarding factors behind the successful completion of the ABS Project, Mr. Iwasawa from ABeam points out the following three points: "an organization led by the local team," "keen governance of business standardization from Japan," and "creating an organization structure that would maintain standardization after the installation of SAP." Mr. Kowase from Kao points out "the strong will of top management for the promotion of the project" as a reason for success, together with the fact that the team included more members from business divisions than from an information systems division. "The participation of the final users in the installation project was crucial to success. In addition, the company held broad-based meetings once a month in which the head and director of the related divisions would participate, thus providing us with information regarding the approval of standardization, pointing out problems and giving us advice, all of which helped us as well."

Finally, Mr. Kowase gave ABeam high grades for the great advantages exhibited by its business process design methodology, its global ability to secure personnel, and for the utilization of its original template "Industry Framework."

Record Awards of SAP Award of Excellence

The SAP Award of Excellence is awarded to companies with a high level of customer satisfaction, based on SAP's customer satisfaction study. ABeam consulting has been awarded the "Service Partner Award" eight years in a row since its founding in 1998 (a record high in Japan). In addition, ABeam has been awarded the "project of the year" award for three projects, an award reflecting the highest level award in the "project category" rating the project size, difficulty and accomplishment; it has also been awarded the "Project award" and for an additional three projects, awarded for successful achievement of outstanding performance.

"Project of the Year": Bridgestone Sports (2001), TEAC (2002), Kao (2005)

"Project Award": Nissan Chemical Industries (2003), Otsuka Pharmaceutical (2004), JR West (2004)

Case Study

Manufacturing Integrated Solutions

ABeam Consulting Ltd.

PR Group, Marketing

Tel : +81-3-3501-8355

www.abeam.com

Printed in September 2005.