

Hoffmann

Eberhard

What is your background?

I have been working as a Project Manager for enterprise resource planning (ERP) consultation, as well for ERP implementation over the last 25 years. Over this period I have gained a lot of useful experience and developed the technical expertise required to continue working on successful projects.



Kingdee Software Implements Standard-Costing for Karl Mayer (China)

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Currently I am implementing ERP-systems for various business enterprises. Most of these organizations are producers of industrial machinery. I have been running my own company for the past seven years. In the middle of 2005 I was entrusted as the Project Manager responsible for the implementation of an ERP-system at KARL MAYER (China) Ltd. This world renowned German company produces textile machinery, and its second largest production facility is located in Changzhou, Jiangsu.

What is the business of KARL MAYER, Changzhou? And how is the strategy of KARL MAYER's China operation integrated into its worldwide business?

KARL MAYER is the global market leader in Warp Knitting Machines and its market share is around 78%. With production facilities in Germany, Italy, Japan and China and Sales and Service locations in US, UK and Hong Kong, KARL MAYER has approx. 2,500 employees. The turnover in 2007 was around EUR 400m. The Chinese market is by far the biggest market for the KARL MAYER group.

Could you please explain the complexities of your operation and the current status of management systems at KARL MAYER?

Due to the high variety of products, the system must be flexible in order to meet the KARL MAYER's specifications. There are machine-types with more than 5000 parts in a multi-level structure Bill of Material (BOM) and that BOM has up to 8 levels. This shows the complexity of the operations and components for production and assembly. More than 30,000 materials need to be set up and maintained; there from 13000 materials are self-produced, requiring a BOM and routing as basis for smooth planning.

Why did you choose Kingdee' K3 system, and what are your past experiences with Kingdee?

In 2005, KARL MAYER already used Kingdee's K3-system for financial application and warehouse management. As a part of the overall strategy of production capacity expansion in China in 2005, KARL MAYER needed to extend the K3 system to cover manufacturing. A thorough evaluation was conducted of Kingdee, targeting the comprehensiveness of package functionalities as well as consulting skills. They demonstrated their capability to address all the functions needed. Plus, their local service infrastructure enables them to react fast in response to urgent service demands.

Through a tight project-organization, disciplined implementation approach and permanent communication during all stages of the

project, it was possible to run the system live after less than one year from the implementation start date.

What are the benefits of standard costing and why did you decide to take on this management tool at this time?

Actual costing is the common practice for Chinese manufacturing companies, but there are problems with this approach. Fluctuation of capacity strongly affects the valuation of material. For example, if production activity is low, costs will be allocated to less products and the value of materials increases disproportional to the amount produced. Therefore the value of inventory in general fluctuates during the fiscal year if there is no constant capacity.

Advantages of the common standard costing method:

- No fluctuation of values during the year
- Only once a year does the value of all materials need to be calculated.
- Transparency and comparability with operations of other subsidiaries in international KARL MAYER group
- Managers can easily detect problems happening down to the shop floor in a timely manner by analyzing cost variances reports (actual vs. budget)
- International standardization

What is the current status of the standard costing project? What are the obstacles you encountered during implementation and how did you tackle them?

Kingdee also has products and experiences in this area and it has delivered standard costing solutions to many other production companies. We are now in the process of implementation by working in collaboration with Kingdee. This requires an even higher quality of data for the main calculation, such as correct and complete average costs of material, costs for sub-supply operations and the costing lot-size. The hourly-rates for the Cost-Centres related to the types of activities, the overhead rates for material as well as for production must be investigated and determined. We are going to run the main calculation at the end of December. From the functional user perspective, standard costing brings in a new way of working. It requires a lot of effort in order to convince end-users of the advantages of this approach and develop their knowledge and skills.

What is your view on the outlook of ERP-market in China?

The trend of more and more SMEs opening subsidiaries in China is still going strong. Business operations and legal regulation seem to be slowly shifting towards western models. ERP projects need planning. ERP-projects in China are a kind of training project for the end-users.

What advice you give to our reader to get the ERP staff right?

Proper attention should be given to several critical factors. How the local project can fit into group strategy should be made right. The intricacies of cultural shifts, like develop the Chinese user's accountability of the data and process accuracy should be addressed with skill. Cost-efficiency is essential. This is the experience I gained with ERP-projects in China. I will manage and lead further ERP-projects in China as market demand is still high.

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