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# Global accounting, LG Electronics and Oracle E-Business Suite Release 12

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## Executive summary

### In a nutshell

***The increasing globalisation of business continues to drive the need to be more efficient and the need for better integrated financial management. Driving the improved integration through a single global enterprise resource planning (ERP) platform has become the strategy of choice for most global enterprises. The implementation of Oracle E-Business Suite Release 12 at LG Electronics provides a good example of the efficiencies that can be obtained from the latest ERP applications, with increased productivity and reduced maintenance costs resulting.***

### Ovum view

#### General lessons

- Businesses that have grown internationally can generate substantial improvements in business practices, reduce risk and improve governance through the implementation of a standard set of accounting practices – supported by a single ERP system.
- Although projects of this nature are large and complex, they can be delivered successfully by a combination of strong project sponsorship, detailed business engagement throughout the life of the project, a good implementation partner who understands their customer and detailed involvement and support from the product supplier.
- Technology transformation programmes work best when there is strong communication and leadership from the executive team, and they are aligned with a broader business transformation agenda – such as the LG Electronics Vision for 2010.
- Being an early adopter, while traditionally considered to be risky, can provide early benefits – provided the implementation risks are acknowledged and adequately managed.

# LG Electronics and global accounting

## Oracle E-Business Suite Release 12 implementation

LG Electronics was one of the earliest adopters of the Oracle E-Business Suite Release 12, opting to implement its global single instance (GSI) vision on this platform rather than the established 11i.10 version. The focus on E-Business Suite Release 12 and the GSI ideal was driven by two facets. First, the specific accounting challenges and the broader business context with LG Electronics meant that greater benefits would be delivered through a GSI approach, to bring greater consistency, more flexibility for improvements in processes and much greater accounting transparency and information visibility. Second, there were substantial enhancements to Oracle E-Business Suite Release 12 that were targeted at helping to better manage a global operation, including functionality like subledger accounting and multi-organisation access control (MOAC). When combined, these allow greater flexibility and a lower cost of operation for a global accounting function.

Being such an early adopter inevitably created additional concerns for LG Electronics. To reduce the implementation risk and to increase confidence, LGE utilised Oracle's Advanced Customer Services throughout the project from the Solution Support Center, a dedicated Oracle Support team, the Oracle Technical Support Center and (most importantly) executive support from the highest levels in Oracle. Together these elements helped to ameliorate any heightened risk levels and gave LG Electronic the confidence to be a very early adopter of Release 12.

The initial go-live took place in January 2008, targeting the South Korean and Australian subsidiaries. By early 2009 over 20 subsidiaries of LG Electronics had moved their operations onto this system. It is anticipated that the transition of the entire portfolio of LG Electronics subsidiaries will have been completed by the end of 2010.

## Prior context

Prior to the implementation of Oracle's E-Business Suite, LG Electronics had a very fragmented ERP application environment. Multiple legacy ERP systems were in place, mostly via package software that had been configured for the unique requirements of different business units, operating countries and the acquired entities. However, there was also an extensive, homegrown, ERP system that was used in a large number of operating countries.

The result of this fragmentation was that there were:

- substantial data quality issues, resulting in time being spent on reconciling data from different sources – in order to obtain a 'single version of the truth'
- difficulties in implementing account best-practices or process standardisation initiatives, as the different systems were difficult and expensive to configure to support a standard operating model

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- excessive costs around the support and maintenance of the various systems, with resources having to be aligned to support many different versions of incompatible infrastructure software
- difficulties in understanding the true inventory position of the company, with a sub-optimal inventory position due to buffer overstocking. or production flow issues because of inventory constraints – both resulting in financial inefficiency

As a result of these difficulties the decision-making processes in LG Electronics were hampered, with executives not having ready access to timely business information. Decisions were either based on an incomplete analysis of the information and, therefore, exposed LG Electronics to increased risk or the decisions were delayed until analysis was complete, resulting in missed opportunities and inefficiencies not being addressed in a timely way. As LG Electronics moved to become a much more tightly integrated global operation, as it pushed for its 'Global Top 3' vision, these difficulties were only amplified – reaching a point where they needed to be addressed if LG Electronics was to deliver on its ambitions.

## Business benefits

LG Electronics has already identified a number of tangible business and financial benefits from their Oracle E-Business Suite implementation, and the Release 12 upgrade in particular.

### Tangible benefits

Tangible benefits have included:

- reducing the global accounting closure period from six days to three days
- reducing the time taken to conduct profitability analysis to five days, from the previous six-week long exercise. This allows decisions to scale profitable businesses, products or service to be taken much more quickly and this in turn allows the opportunities to be exploited more quickly. Equally, sub-optimal businesses or products can be tackled more quickly, stemming any business downside or exposure better than before
- reducing ERP maintenance costs substantially, by an estimated 36%. By reducing the complexity of the previous ERP application environment, focusing on standard software rather than custom-built products and removing customisation, the cost of maintenance was drastically reduced
- improved productivity in the accounting teams, by an estimated 25%. Inconsistencies between systems, the duplication of effort, and the need to conduct manual analysis and reconciliation all detrimentally affected productivity.

Addressing these issues through the new Release 12 system brought greater productivity.

The tangible benefits have two macro-level consequences: a lower cost of the financial management operation and improved financial management practices that, in turn, have produced real financial benefits.

**Intangible benefits**

In addition to the tangible benefits there were many less tangible benefits, including the following:

- improved confidence and timeliness in the decision-making process, allowing opportunities to be identified earlier or business inefficiencies to be tackled earlier
- improved ability to implement improved accounting practices worldwide and to ensure that these practices are adopted in a much more cost-effective way than was possible before
- improved ability to integrate any future business acquisitions, or to support new joint ventures
- improved corporate governance, risk and compliance (GRC) abilities, with many aspects of an improved GRC being enforced at the system level.

In general the intangible benefits related to improved levels of business confidence, improved decision making and tighter business controls than were previously possible.

# LG Electronics in context

## LG Information

LG Electronics is a substantial consumer electronics company, with operations across the world. It has progressively grown revenues and profits over the years, and has ambitions to continue and accelerate this growth. *Table 1* shows the financial performance of LG Electronics since 2003.

Table 1 **Financial growth of LG Electronics, 2003–2007**

| | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **KRW billion** | **USD million** | **KRW billion** | **USD million** | **KRW billion** | **USD million** | **KRW billion** | **USD million** | **KRW billion** | **USD million** |
| Sales | 20,177 | 16,932 | 24,569 | 21,513 | 23,774 | 23,217 | 23,171 | 24,263 | 23,502 | 25,298 |
| Operating profit | 1,062 | 891 | 1,250 | 1,090 | 915 | 893 | 535 | 560 | 565 | 608 |
| Net profit | 663 | 556 | 1,546 | 1,349 | 703 | 686 | 212 | 222 | 1,222 | 1,315 |
| Total assets | 11,277 | 9,415 | 13,234 | 12,679 | 14,036 | 13,707 | 13,199 | 13,821 | 14,338 | 15,434 |
| Total liabilities | 7,773 | 6,489 | 8,218 | 7,873 | 7,874 | 7,689 | 7,055 | 7,387 | 7,127 | 7,672 |
| Total shareholders' equity | 3,505 | 2,926 | 5,016 | 4,806 | 6,163 | 6,018 | 6,143 | 6,432 | 7,211 | 7,762 |
| ROE | 20.4% | 20.4% | 36.3% | 36.3% | 12.6% | 12.6% | 3.5% | 3.5% | 19.1% | 19.1% |
| EBITDA | 1,680 | 1,410 | 1,917 | 1,672 | 1,726 | 1,685 | 1,239 | 1,297 | 1,253 | 1,349 |
| Capex | 830 | 696 | 1,274 | 1,111 | 1,322 | 1,291 | 821 | 860 | 985 | 1,060 |

*Source: LG Electronics*

## LG history

LG Electronics was founded in 1958 in South Korea, as GoldStar, and has become one of the most recognisable household names in the consumer electronics market. The company changed its name to LG Electronics in 1995, later separating the business into LG Electronics and LG Corporation in 2002. In terms of basic attributes, LG Electronics has 80,000 employees and operates in nearly 40 countries, generating revenues shown in *Table 1*.

The company has also made acquisitions and entered into joint ventures throughout its history, to drive innovation and to increase its market reach. Examples include:

- in 1995 it acquired Zenith
- in 1999 LG Philips LCD was created as a joint venture with Philips
- in 2005 LG-Nortel was established as joint venture with Nortel
- in 2006 it entered into a strategic partnership with UL.

The history of acquisitions, joint ventures and strategic partnerships explains how the variability in global accounting and financial management practices grew. Each evolution of the company brought new accounting and financial management requirements. This effect has been amplified by the progressive global expansion of LG Electronics and the accompanying local accounting and regulatory needs of each new country operation.

*Figure 1* shows the main elements of the LG Electronics Vision for 2010, the change programme that was initiated in 2005.

Figure 1 **LG Electronics Vision for 2010**


*Source: LG Electronics*

## LG innovation and vision

Throughout its history LG Electronics has established a reputation for innovation in its product portfolio. However, it has a strong corporate ambition to grow its global leadership position. It is this growth strategy that has driven a need for improved financial management that, in turn, has led to the impetus for the Oracle E-Business Suite Release 12 implementation.

- **Growth strategy.** Innovation and growth both need strong financial management foundations. Understanding where growth and product innovation originate from across the entire enterprise governs where continued investment for growth is placed, and where ineffective investments are curtailed.
- **Core competency.** In order to achieve product and market leadership there must be a strong ability to measure the sales and revenue from each product line, in each market in the world. A single financial management system is an

important foundation here. People management on this scale also needs effective HRMS/HCM systems, an area where LG Electronics had previously implemented other elements of Oracle Applications.