

BUSINESS BENEFITS SERIES

BUSINESS BENEFITS SERIES HIGHLIGHTS

- 59% net return on investment
- Enhanced production planning boosts capacity 5%
- 75% faster financial closes
- 70% faster financial analysis
- New compliance system supports international growth
- 15% drop in engineering change processing time

COMPANY PROFILE



Metalsa
Monterrey, Mexico
www.metalsa.com.mx

Metalsa is a global supplier of technologically advanced automotive components and systems. The company designs, engineers and manufactures a range of chassis, interior, suspension and fuel systems. Metalsa also provides vehicle design, engineering, prototypes and program management services to its customers, which are primarily automotive original equipment manufacturers (OEMs).

Industry
Automotive

Chief Executive
Jesus Theurel

Revenue
US\$580 million

Employees
4,140

Metalsa Positions for Growth with Integrated Financial and Supply Chain Platform; 59% Net ROI Projected

EXECUTIVE SUMMARY

Based in Mexico but with a major production facility in the U.S. and end-customers in dozens of countries, Metalsa has become a prime example of the growing internationalization of the automobile industry. The company designs and manufactures advanced vehicle components ranging from chassis assemblies and components to suspensions and fuel systems. It also provides vehicle design, engineering, prototypes and program management services to its customers, which include global original equipment manufacturers (OEMs) (Customers include Daimler Chrysler, Ford, GM, International, Nissan Paccar, Toyota, Volvo and Volkswagen).

To satisfy the quality demands of global customers—and keep margins healthy—Metalsa has had to bring its business and manufacturing systems up to international standards. The company's efforts, however, were hampered by an outmoded IT platform that provided little or no integration between business functions, preventing executives from monitoring business performance in real time and taking fast corrective action. Multiple databases and standalone applications also made it difficult to maintain clear audit trails essential for meeting international regulatory requirements.

Metalsa launched a major upgrade of the platform in 2002, installing a set of Oracle applications for managing and integrating the company's finances and supply chain. A study by management consultants Mainstay Partners documented a range of strategic and operational benefits from the implementation, including faster access to accurate financial and inventory data, more tightly coordinated production planning, and better regulatory-compliance and audit systems.

According to Mainstay, Metalsa is on track to realize approximately US\$19.1 million in total (gross) benefits from its Oracle investment. Overall, Metalsa will achieve a 59% net return on investment (in the first nine years) on its investment. The study projects Metalsa achieving payback on its investment after six years (in early 2008) with forecasted net savings of approximately US\$9.7 million over nine years.

ORACLE PRODUCTS AND SERVICES

- Oracle Financials
- Oracle Cash Management
- Oracle Treasury
- Oracle Enterprise Asset Management
- Oracle Human Resources
- Oracle Self Service HR
- Oracle Training Administration
- Oracle Payroll
- Oracle Discrete Manufacturing
- Oracle Manufacturing Scheduling
- Oracle Quality
- Oracle Inventory
- Oracle Warehouse Management
- Oracle Purchasing
- Oracle Order Management
- Oracle Shipping Execution
- Oracle Demand Planning
- Oracle Release Management
- Oracle Advanced Pricing

PROJECT BACKGROUND

Metalsa's investment in a new business and IT platform began as part of a corporate initiative in 2002 to standardize back office operations, boost margins and move aggressively into new markets in Europe, North America and Asia. But it became clear early on that the company's legacy platform—an aging mix of standalone databases and a mix of business applications from different vendors—lacked the integration and scalability Metalsa needed to support the initiative.

The lack of a sophisticated financial-information system contributed to prolonged monthly financial closes, for example, and created bottlenecks for managers seeking instant readings of business performance. On the factory floor, managers needed better inventory data to optimize production scheduling and make the most of existing capacity. Strong customer demand meant that any boost in output would translate directly into more revenue. Other hurdles to growth included meeting tough global regulatory requirements, which put pressure on Metalsa to produce auditable performance and quality records.

Metalsa finally concluded the time had come to invest in a modern enterprise resource planning (ERP) solution. The integrated environment, executives believed, would support business growth by linking and automating business processes across departments; and it would add momentum to its global push by facilitating the swift integration of acquisitions while setting up systems to meet the demands of international regulatory bodies.

In short, executives saw the investment as the most effective way to create a modern and scalable IT support function. As Manuel Lopez, Metalsa's chief information officer, said: "Implementing Oracle was a key driver in the creation of a modern professional IT organization. The Oracle environment is helping us become an enabler for growth rather than a barrier."

ORACLE IMPLEMENTATION

The adoption of Oracle applications and technology redefined Metalsa's enterprise architecture, executives said. The company pursued a two-stage implementation, first rolling out Oracle's financial, human resources and purchasing modules in 2003, then implementing manufacturing and logistics modules in 2004.

Overall, executives said the Oracle investment is transforming Metalsa into a more fact-based organization with real-time visibility into operational performance. "The implementation of Oracle E-Business Suite was a key element in our strategy of driving process change throughout our business and creating a foundation for strong growth," said David Sanchez, corporate controller for Metalsa.

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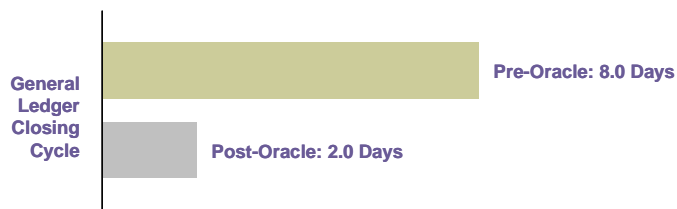
Manuel Lopez
Chief Information Officer
Metalsa

STREAMLINED FINANCES

The study discovered measurable improvements in Metalsa’s financial operations, which are expected to generate an estimated US\$6.3 million in productivity savings and other benefits. The improvements will come from a combination of process reengineering and new functionality introduced by the Oracle system.

A key factor was Oracle’s integrated data model, the study found, which established a single and consistently accurate view of the enterprise’s financial situation. Early gains were evident in Metalsa’s monthly financial closing process, which takes 75% less time now, due to integrated sales and financial information and streamlined account reconciliation procedures (Figure 1).

FIGURE 1: FASTER CLOSES



Source: Mainstay Partners / Metalsa

Managers reported improvements in the speed and sophistication of financial analyses, including 70% faster development of financial plans, as shown in Figure 2. They also noted an increase in the quality of financial forecasts and better report-distribution capabilities. Enhanced data-security and workflow features have also contributed to tighter internal financial control.

FIGURE 2: FASTER FINANCIAL PLANNING



Source: Mainstay Partners / Metalsa

The boost in the quality and timeliness of financial data is giving managers better decisionmaking powers, the study showed—an improvement over the past when delays in data availability put managers in a defensive or reactive mode. Said David Sanchez, corporate controller for Metalsa: “The Oracle solution was instrumental in providing executive management with real-time reporting data that has improved our strategic decision making process.”

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“ The implementation of Oracle E-Business Suite was a key element in our strategy of driving process change throughout our business and creating a foundation for strong growth. ”

David Sanchez
Corporate Controller
Metalsa

Metalsa automated other routine financial activities on the new platform: It reduced information-processing time and set formal procedures for credit and collections; and it introduced more efficient cash-management processes, which led to significantly faster bank account reconciliations, as shown in Figure 3.

FIGURE 3: FASTER BANK RECONCILIATIONS



Source: Mainstay Partners / Metalsa

Metalsa similarly cut the amount of time required for closing accounts-payable transactions by 95%—from seven days to less than a day. Managers attributed the improvement to faster invoice matching and built-in system checks designed to prevent duplicate payments and over payments.

Financial managers also reported a 95% efficiency improvement in processing receivables—from seven days to a half day—largely because of the introduction of more sophisticated credit control procedures such as automated alerts when customers exceed credit limits. Related process automation has reduced the Manual labor and management oversight associated with executing receivables transfers.

TIGHTER SUPPLY CHAIN DRIVES SAVINGS

In effect, the Oracle platform set up an integrated flow of financial and performance data throughout Metalsa’s manufacturing and logistics base. The result, managers said, was markedly better visibility into the company’s global supply chain, which is helping drive cost and productivity savings in purchasing, inventory management, capacity planning, quality control and regulatory compliance.

The introduction of standardized purchasing procedures, for example, has reduced labor requirements by two headcount so far, while sophisticated order-processing capabilities (such as multi-line ordering) allowed Metalsa to create optimal order sizes based on current and projected inventory levels and materials requirements.

For indirect purchases, Metalsa plans to leverage the Oracle system to channel spending to a group of preferred vendors. Volume purchase agreements with vendors are expected to yield 1% compound annual savings starting in 2006 on about US\$50 million in indirect purchasing, according to Mainstay.

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David Sanchez
Corporate Controller
Metalsa

Metalsa also began tracking major assets, such as manufacturing equipment, through a central online system (Oracle Enterprise Asset Management), which translated into 30% efficiency gains. Executives said the new system is helping to minimize the need for “corrective” maintenance, which is five times more costly than preventive maintenance. This improvement is expected to generate about US\$800,000 in benefits over the life of the investment, the study estimated.

LEANER INVENTORY

The investment is yielding benefits in Metalsa’s inventory operations, where improved planning and forecasting has made it possible to consistently carry an optimal mix of parts and raw materials. The move cut average stock levels by about 10% and reduced write-offs. Managers again attributed the improvement to Oracle’s single enterprisewide database and information model, which helped synchronize purchases with production-line demands and eliminated inconsistent views of inventory levels across departments.

Metalsa’ new single-database infrastructure (the company went from five databases to one) also scales more easily and cheaply, executives said, removing another bottleneck to business—and data—expansion. Overall the study expects Metalsa to save about US\$400,000 from consolidating databases and retiring associated legacy applications and licenses.

BETTER CAPACITY PLANNING BOOSTS PRODUCTION

The unified platform helped Metalsa establish just-in-time manufacturing methods and more accurate production forecasts, giving managers greater flexibility to rapidly switch assembly lines and boost capacity. According to the study, the system is expected to add about 5% in capacity, enabling the company to delay capital expenditures on new plant and equipment. The rise in output is projected to drive a corresponding revenue boost of about 5%.

The study also documented efficiency savings stemming from the Oracle system’s ability to rapidly create and manage multiple bills of materials (BOM) supporting multiple product versions. The result, executives said, was consistently “cleaner” and more detailed BOMs with less write-off. According to the study, such efficiencies saved an estimated 15% in engineering change-processing time.

ENHANCED GLOBAL REGULATORY COMPLIANCE

Metalsa executives see the ability to meet complex global regulatory requirements as a prerequisite for successful global growth. Oracle’s solution has been a key enabler of the company’s commitment to developing effective compliance programs, executives reported.

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METALSA BUSINESS UNITS

- **Heavy Trucks** operates a facility in Apodaca, Mexico and in Roanoke, VA.
- **Upper Vehicle Structures** operates a facility in San Luis Potosi, Mexico
- **Lower Vehicle Structures** includes one unit dedicated to DaimlerChrysler and another for all other customers

In particular, Metalsa automated the process of maintaining auditable trails of key records and transactions throughout the product development and manufacturing process. The Oracle environment now permits “on-demand” analysis of production and financial information, and provides support for the administrative aspect of monitoring and compliance process and batch validation.

BUSINESS BENEFITS SUMMARY

According to Mainstay, Metalsa is on track to realize approximately US\$19.1 million in total (gross) benefits from its Oracle investment. Substantial savings, totaling about US\$6.4 million, come from the introduction of labor saving financial and accounting processes. Approximately US\$6.3 million in benefits will come from new manufacturing and production scheduling capabilities that increased factory capacity along with revenue potential.

Other projected benefits include approximately US\$5.1 million in savings from more efficient purchasing systems that enabled vendor consolidation and volume pricing. Approximately US\$800,000 in benefits are projected to come from enhanced asset management, including the introduction of cost-effective new equipment-maintenance programs. Metalsa will also save about US\$400,000 from consolidating databases and decommissioning legacy applications, the study showed.

Table 1 summarizes the estimated benefits generated by Metalsa’s investment in the Oracle system.

Table 1

Projected Benefits 2003-2010¹

Category	Costs/Benefits (US\$)
Streamlined financial management	\$6,400,000
More efficient manufacturing processes	\$6,300,000
Optimized purchasing	\$5,100,000
Cost-effective asset management	\$800,000
Consolidated IT operations	\$400,000
Improved training administration	\$100,000
Total Benefits	\$19,100,000

1. Investment totals by area are presented at the net present value of real cost/benefit incurred

Source: Mainstay Partners / Metalsa

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ABOUT THE BUSINESS BENEFITS SERIES

This study is one of a series of investigations into the costs and business returns of IT investments, with a focus on Oracle technology and applications. It is intended to serve business executives and managers who are evaluating technology investment options.

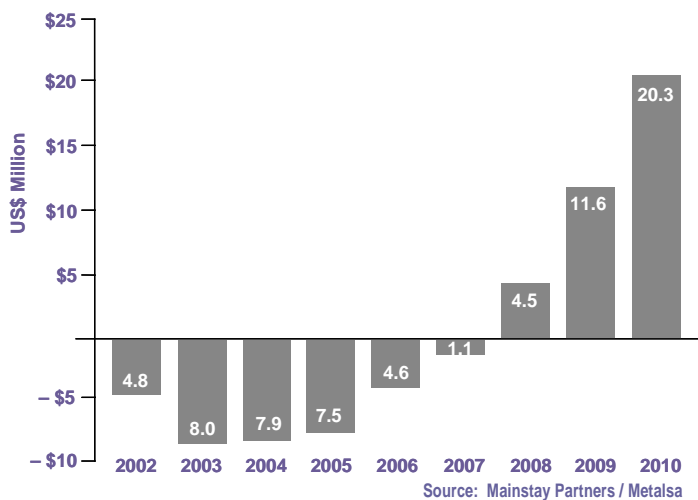
Research and analysis for this study was conducted by Mainstay Partners, an independent consulting firm, and was based on interviews with executives at Metalsa, review of planning documents, and searches of industry literature. ROI calculations use industry standard assumptions regarding the time value of money.

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Overall, Mainstay estimates that Metalsa will achieve a 59% net return on investment (in the first nine years). The study projects Metalsa will achieve payback on its investment after six years (in early 2008) with forecasted net savings of approximately US\$9.7 million over nine years. Figure 4 shows Metalsa's forecasted cumulative returns from its investment.

FIGURE 4: PAYBACK ANALYSIS (2002-2010)



ROI METHODOLOGY

The Oracle Business Benefits Series uses industry-standard methodology to calculate the financial returns from implementing Oracle applications and technology. Key elements of the analysis include:

Net Present Value (NPV): calculated by discounting future net cash flow to the present at a pre-determined interest rate. For the ROI Series, the weighted average cost of capital (WACC) is used as the discount rate.

Return on Investment (ROI): calculated by dividing the project's net present value by the net present value of the project costs, multiplying the results by 100 and adding the cost of capital. An ROI greater than the enterprise's cost of capital is considered a value-creating project.

Weighted Average Cost of Capital (WACC): a calculation of a firm's cost of capital that weights each category of capital proportionately. Included in the WACC calculation are all capital sources, including common stock, preferred stock, bonds, and any other long-term debt.