



## CENTRAL FINANCE CO., LTD

### CREATING A STRATEGIC INFORMATION INFRASTRUCTURE WITH SAP® ERP AND SAP NETWEAVER® BUSINESS INTELLIGENCE

#### QUICK FACTS

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Mr. Noriaki Akatsuka, Senior Executive Officer,  
Central Finance Co., Ltd

#### Summary

In April 2004, work started at Central Finance on an SAP-based Accounting Information System that had coordinated financial accounting and controlling at its core. Conducted in parallel with a new mid-term management strategy, the Financial Accounting System module went live in April 2005, followed by the Accounting Information Collection System module in April 2006 and the Management Accounting System module in September 2006.

#### Website

[www.cfweb.co.jp](http://www.cfweb.co.jp)

#### Key Challenges

- External parties could not easily evaluate the company's corporate worth
- Vulnerabilities in the financial accounting system
- Inefficiencies in accounting-related operations

#### Project Objectives

- An integrated management and financial accounting system
- An accounting information infrastructure that supports the implementation of corporate strategy
- Support for the auditing of internal controls related to the Financial Instruments and Exchange Law (J-SOX Act) and tighter internal financial control
- Enhance management access to information and investor relations (IR) information

#### Solutions and Services

- SAP ERP Modules: FI, Treasury
- SAP NetWeaver Business Intelligence

#### Why SAP Solution

- Ability to retrieve reliable and consistent financial accounting and controlling data in real time
- High level of compatibility between SAP® ERP and SAP NetWeaver® Business Intelligence
- Rich standard functions
- Projected reduction of development and operation costs, including maintenance
- Its global track record and the strength of its brand

#### Key Benefits

- Supports the formation of strategic alliances
- Enhances enterprise controlling and system building skills
- Establishes an infrastructure for internal controls
- Streamlines accounting process, enhances checks and balances for payments

#### Database

Oracle 9i

#### Existing Environment

Hitachi 9000V/rp4440

#### Operating System

HP-UX 11iv1



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Central Finance Co., Ltd (Central Finance) is one of the most successful general credit companies in Japan, with its own nationwide network and about 8.49 million card members.

It is the company behind the well-respected CF Card, as well as a range of affiliated credit cards such as the JR Tokai Express Card, JTB Card and Suzuki Card. Central Finance has a consolidated turnover of 2,591.9 billion yen, operating revenue of 106.4 billion yen and profit of 8.8 billion yen for the full year ending March 2007. In April 2007 the company announced a strategic partnership with Sumitomo Mitsui Financial Group Inc. and Mitsui & Co., Ltd in the consumer finance sector which is expected to lead to further expansion of its business.

Central Finance has been implementing a series of enterprise applications to support its continued growth and enhance its corporate worth under the Accounting Information System project. The Financial Accounting System module was introduced in April 2005, followed in April 2006 by the Accounting Information Collection System, which automatically generates records for each item in a contract. The Operating Receivables Management System was introduced in September 2006 to estimate the reserves needed for possible loan losses and most recently, the Commercial Profit Management System module was installed. The Accounting Information System is underpinned by SAP® ERP and SAP NetWeaver® Business

Intelligence (SAP NetWeaver BI), and standardises and streamlines accounting data, enhances financial and investor relations (IR) information. It will also enable the company to handle financial reports and audits on internal controls in line with the new Financial Instruments and Exchange Law (J-SOX Act) in Japan.

### The Ideal Accounting Strategy for Expansion

The Accounting Information System with its aim to integrate both financial and management accounting received fresh impetus in November 2005. The plan identified a solid financial infrastructure as key to supporting continued growth and improving corporate worth. Making operating receivables sound, reducing the likelihood of losses from bad debts, and leveraging alliances to improve growth potential and efficiency became management priorities.

While Central Finance's existing management accounting infrastructure had delivered results, there were areas that could be improved. Mr. Noriaki Akatsuka, Executive Managing Director of Central Finance, expanded on this and the company's mid-term plan to satisfy management requirements: "While financial accounting was conducted based on installment

standards like the credit, collections, and accounts receivable standards, management accounting was based on a separate, sales standard (Lump-Sum Recording). Reviewing and reconciling this difference for record keeping and performance monitoring purposes was one of the challenges we faced. We had enough know-how on the existing management accounting system and were making use of it for strategic decision making. However, we needed to conduct due diligence through detailed investigations on the value of the company's assets and profitability in order to expand our business alliances and achieve our mid-term business goal. This required management accounting figures which generated with the result from the financial accounting system. In other words, it was important more than ever to establish clear indicators in our new accounting system — not just for internal users but for external parties. That was why we needed an Accounting Information System which could integrate financial accounting with controlling."

At the same time, a practical solution was required to resolve the challenges faced in daily accounting work. For example, daily accounting operations had to be optimised to eliminate manual procedures, and accounting work streamlined and standardised by



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**Mr. Haruyuki Nakano**, Assistant General Manager, Corporate Planning Department, Central Finance Co., Ltd

centralising work in the group. Mr. Haruyuki Nakano, Deputy General Manager of the Corporate Planning Department, said, “A review of the financial reporting process — down to the staff responsible for processing the summarised data using Excel spreadsheet — was essential to guarantee the accuracy and reliability of our financial reports, so that they can stand up to the scrutiny of those outside the company. Standardising the accounting process not only minimises the underlying risks in the closing process, it also enhances the quality of our financial and IR information. This will resolve our day-to-day operational issues, enable internal audit trails and provide industry observers with new indicators to measure our unique selling propositions.”

On the management accounting front, Mr. Nakano used the example of the Operating Receivables Management System to explain the problems faced by Central Finance. “We were unable to find out the actual status of receivables in arrears or costs related to bad debts in a systematic or timely way. Furthermore, there were relatively few checking mechanisms across departments as receivables in arrears were managed by specific skilled individuals within different departments. In addition, we did not have enough data to use for IR and the process for calculating reserves for possible loan losses was complex,” he added.

### **SAP Guarantees Consistent Financial Data**

Central Finance underwent a concept

design phase where the execution method was discussed thoroughly. The basic concept of integrating financial and management accounting had to be clarified, and existing issues and the ways to resolve them considered. The company also weighed projected development periods and its resources, and decided that with societal demands for stricter internal controls and swift discovery of misconduct, it would be more practical to use a packaged system rather than develop one in-house. The consideration process included extensive tests of real-life activities on production machines, evaluations with standardisation in mind, how financial and management accounting could be integrated, and the relative advantages and disadvantages of each solution. SAP emerged as the final winner.

“We chose SAP because of its reputation for robustness and good implementation track record. But the deciding factor was the guaranteed integration of financial and management accounting, which was our top priority. We carried out extensive tests and were very impressed that consistent data in real time was guaranteed. Another plus point was the high level of compatibility between SAP NetWeaver BI and SAP ERP,” says Mr. Yukio Nishida, Deputy Department Manager IT System Development Division

For the Information Systems Department, the richness of the standard SAP ERP functionality was key. “We considered the costs of development and operation, and

the maintenance policy after implementation. SAP ERP covered almost all of our accounting needs with standard functions,” said Mr. Yukio Nishida, Assistant Manager of System Development Department, Central Finance. “From the point of view of enhancing internal controls, we also focused on the fact that the standard internal control functions included with SAP ERP have gained wide recognition in the world of business.”

The strength of the SAP brand and its track record, both in Japan and overseas, were important criteria as well. “This project is not a symptomatic treatment. We want to develop our human resources so that our employees can communicate with certified public accountants and senior accounting personnel in highly-rated companies. For that reason, the SAP value proposition was very persuasive, because SAP has a high level of penetration in a range of business areas as an integrated business infrastructure. We found that SAP ERP standard functions are products of long experience and epitomise best practices in business. This is in line with our accounting strategy to ensure that our accounting processes gain wide acceptance outside our company,” said Mr. Akatsuka.

### **Transforming Operations with Standard SAP Functions**

Central Finance’s Accounting Information System consists of an Accounting Information Collection System module, a Financial Accounting System module built with SAP ERP, and

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a Budget Administration System module, as well as a Management Accounting System module developed with SAP NetWeaver BI. The Management Accounting System in turn comprises subsystems on Operating Receivables Management and Chain Store Profitability Management.

Financial and management reporting has been integrated as follows:

1. Data on contract items from different systems is consolidated in the Accounting Information Collection System via a common interface
2. Records for each contract item are automatically generated by referencing a record conversion table in the Accounting Information Collection System
3. Records are summarised by the unit they are to be managed by, via the Financial Accounting System
4. Account closing reports are prepared in the Financial Accounting System
5. Entering and sorting by contract details in the Operating Receivables Management System, and automatically calculating reserves for possible loan losses from accounting balances by using contract details in the same system
6. The record summaries for each branches in the Profitability

Management System are used to prepare profitability management data for branches.

In cases where records cannot be created automatically, the relevant data is pasted into an Excel spreadsheet and input into the Financial Accounting System with a SAP ERP upload function.

In implementing SAP ERP, Central Finance focused on using standard functions as far as possible, minimising customisation. Except for some of the reports, the Financial Accounting System was built based on standard functions, under the close supervision of the project evaluation group. In addition, several work processes were re-engineered simultaneously to take maximum advantage of built-in SAP functions:

1. **Digitised accounting reports**  
All accounting documents, including account management books have been entered into the system.
2. **Streamlining workflow through electronic approvals**  
Manual procedures for approving and posting the contents of electronic documents were converted to real-

time electronic processes instead. The ability to establish the status of operations in a systematic manner made it easier to prevent work delays.

### 3. Automating and digitising accounting records

The record interface for each systems was standardised and automated to make it possible to access financial data in a logical way. In addition, time-consuming activities such as manual entry of data to create and post documents were made more efficient with an upload function using Excel spreadsheets.

### 4. Reducing workload for settlements with corporate cards

Know-how about affiliated cards was leveraged to introduce corporate cards for settling travel costs and advancing money. This has eliminated cash control in sales branch offices as far as possible and streamlined settlements for expenses, ultimately reducing costs.

### 5. Centralising payroll work at the accounting department

The SAP ERP payroll function was used to centralise regular payroll activities at the accounting department, establishing a system of internal checks in the process.

### Adding Value Through a Strategic Accounting Infrastructure

The Accounting Information System has also played an important role in the strategic business partnership with Sumitomo Mitsui Financial Group Inc. and Mitsui & Co., Ltd.

“I don’t think that a strategic alliance like this one could have worked if we still had our original accounting system. The fact that we were able to provide a clear basis for evaluating our company as part of due diligence was an extremely important advantage.”

“The project members clearly understood the concept of integrating financial and management accounting, and while working on the project we experienced knowledge transfer from both internal and external sources. As a result, we improved our skills in enterprise management and system development such that they are respected outside the company. Our underlying potential has been realised and this has had a positive effect on the company,” said Mr. Akatsuka.

SAP solutions play an increasingly important role in underpinning the strategic accounting infrastructure at Central Finance. The company now aims to enhance its corporate worth further and create more synergy by leveraging the know-how, experience, brands and customer base of its affiliates.

“We have kept to a policy of staying true to our original business strengths in our projects over the last few years. We have developed new fixed-purpose loans which are backed by the demand connected to commercial and commodity distribution through our partnerships with mega-banks and trading houses. We see this as part of our wider strategy for expanding alliances,” added Mr. Akatsuka. “We

want to increase our corporate worth by applying new innovations while staying true to our core competencies, and aim to develop our human resources accordingly. We have high expectations that SAP solutions will provide the right framework for enhancing the quality of our management.”

The company has already started other projects to comply with the J-SOX Act and auditing of internal controls related to financial reporting. Work has progressed to the point where SAP ERP has enabled visibility into accurate accounting data, allowing the practical process of risk analysis to begin.

**Implementation Partner**  
SAP Consulting

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