

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

In today's globalization era, companies have to compete with the competitive market, and thus they are required to give better service to the demanding market locally and internationally. In order to maintain and expand its market share, companies are required to give better services to their customers, deliver better quality products with lower cost. To do this, first of all, companies must have a good management system. With a good management system, companies will be able to work effectively and efficiently to provide a better customer service.

Maintaining a good management system is not easy. It requires integration in each department and discipline. A company management usually includes purchasing management, sales and distribution, financials, production, and inventory. One of the common management problems most companies face is managing inventory. "Inventory is a list of goods and materials, or those goods and materials themselves, held available in stock by a business." (<http://en.wikipedia.org/wiki/Inventory>, 15/03/2007).

To most companies such as retail industries, inventory is the backbone which affects the whole aspects of their business. For these companies, Inventory is their largest asset, therefore it must be properly managed. Good inventory management will reduce operating cost and time which leads to an increase in company's cash flow. On the other hand, mismanagement of inventory may increase operation time and cost which will lead to declining cash flow and a loss in market share to competitors.

This inventory management problem was also faced by PT SALUYU Motor. PT SALUYU MOTOR BANDUNG is a local company located on Jalan Asia Afrika, Bandung, which focuses on distributing cars and spare parts. Established in 1974, PT SALUYU MOTOR BANDUNG started its business by importing cars from Australia. It now has four sister companies and five outlets spread in Bandung and is an authorized distributor of four automotive vendors, Mitsubishi (main dealer), Nissan (main dealer), Ford (main dealer), and Suzuki (sub dealer).

Based on the interview conducted in 2007, Mr. Satria, the managing director of PT SALUYU Motor, confirms that the company has been facing management problems. He admits that as the company grows, managing the company has become more and more difficult. "It was hard already with only one outlet, and now we have five outlets, and they are much harder to maintain," he said.

Moreover, as the company's early system was not integrated and computerized, it was impossible to create real time reports of the stock they had.

With the old inventory system, they had difficulties in calculating their stock values. This had made them difficult to calculate their expenses and set the appropriate selling prices. The company's 2003 annual reports alone said that they had lost almost 50 millions rupiahs from lost or broken inventory.

On the other hand, Mr Satria says that the company handles more than 100 orders per day. It means inaccurate inventory will make orders fall out. In papers, they run out of stock, but actually they have some stocks left. Bad inventory management also causes high level inventory which results in high maintenance cost, which will result in lower annual profits. For that reason, PT SALUYU MOTOR BANDUNG has been trying to fix those problems.

Problems stated above are what encouraged PT SALUYU MOTOR BANDUNG to turn to Enterprise Resource Planning (ERP). In early 2004, the company started implementing ERP and finished the project successfully in early 2005. And now, with ERP the company is able to perform better and faster. ERP has helped the company to increase their inventory accuracy from 20 percent to 90 percent. Moreover, it has also helped the company to cut operating time, reduced paper and data redundancy, increased customer satisfaction level, cut expenses and increased profits.

Moreover, Mr. Satria says that at first they consider ERP as a burden because it means adaptation to something new. But in the end, implementing ERP is all worth doing. ERP has helped them to work more effectively and efficiently. Managing the company has never been easier, according to Mr. Satria. For that reason, this paper will discuss how ERP has helped PT SALUYU

MOTOR BANDUNG to fix their inventory management problems. But first it is important to understand the concept of ERP.

Whitten (2004: 33) describes ERP as a software application that fully integrates information systems that span most or all of the basic, core business functions (including transaction processing and management information for those business functions). ERP can also be described as

“an industry term for the broad set of activities supported by multi-module application software that helps a manufacturer or other business manage the important parts of its business, including product planning, parts purchasing, maintaining inventories, interacting with suppliers, providing customer service, and tracking orders. ERP can also include application modules for the finance and human resources aspects of a business” ([http://searchsap.techtarget.com/sDefinition/0,290660,sid21\\_gci213946,00.html](http://searchsap.techtarget.com/sDefinition/0,290660,sid21_gci213946,00.html), 20/03/2007).

In short, ERP is a software application that can help business owners to manage their company more effectively and efficiently. In the early stage, ERP was designed to help manufacturing company manage their production. Later, ERP has been successfully implemented to various types of business from retail to service company.

Therefore, virtually, all organizations, large and small, may use ERP software to improve their businesses. A local system developer named Reynaldi who is experienced in ERP implementation says that, a successful implementation of ERP software will significantly reduce work time and operation cost, which results in increase of annual profit and better services to the customers. He also says that ERP organizes information in a centralized database and integrates most departments in the company. Therefore, business

owners will have more control over their company, which will help them to make better business decisions.

In this case study I would like to observe the way PT SALUYU MOTOR BANDUNG manages their businesses, especially, their inventory before and after implementing ERP. I would also like to analyze the benefits PT SALUYU MOTOR BANDUNG has gained from the implementation of ERP.

## **1.2 Identification of the Problems**

In this case study, I would discuss the problems listed below:

1. What inventory problems did PT SALUYU MOTOR BANDUNG have before implementing ERP?
2. How is implementing ERP able to eliminate these problems?
3. What steps have the company taken in planning and implementing ERP successfully?

## **1.3 Objectives**

My objectives in writing this case study are:

- 1.To collect information on problems that the company faced before implementing ERP.
- 2.Analyze and observe the way ERP eliminates these problems and improve the company's performance.
- 3.To collect information on what makes a successful ERP implementation. I hope this information may help companies to understand the steps they

have to take before and after implementing ERP so that companies may experience full benefits of the implementation.

#### **1.4 Limitation of Study**

I would like to conduct research about PT SALUYU MOTOR BANDUNG management problems and analyze how ERP eliminates these problems mainly in the inventory sector. This thesis does not cover the following points:

- The technical aspect which are correlated with ERP technology, hardware, and software (for instance connection, database, data transfer and speed)
- The cost of ERP implementation (for instance consultant, software license and technical support)
- Other management problems outside Inventory.
- The company's confidential information such as financial reports.

#### **1.5 Layout of the Thesis**

This thesis starts with the Abstract, a concise summary of the entire paper in Indonesian. This Abstract is followed by the Preface, in which acknowledgments are given to those contributing and involved in the work. After that is the Table of Contents and the Appendices followed by its four chapters

Chapter I : Introduction to the study.

Chapter II : Theoretical Review of basic theories or concepts related to the Case Study

Chapter III : Findings and Discussion of the study, including ways of

collecting data, information or data gathered and  
discussion of important findings.

Chapter IV : Conclusion, in which major statements are made along  
with some suggestion or implication for further study is  
mentioned.