



Maximizing Value Report: A Benefits Analysis of 100 SAP Customers Worldwide

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Executive Summary

In this paper, Mainstay Partners analyzes 100 SAP customer case studies and success stories found in the book, “*Maximizing Value – 100 Customer Successes*”¹ published in 2006. Our research presents the commonalities identified across these companies in challenges faced, objectives sought, and results achieved through a strategic, financial and operational lens.

The customers researched for this study were able to reduce their ongoing IT costs by deploying a single platform to support both back office and front office operations, enabling them to reinvest this capital in business value opportunities. Across these 100 customers there were a variety of business challenges faced, requiring solutions that fit their specific needs without cumbersome customization.

Our analysis evaluated the challenges faced by these customers and impact of the SAP solution on three levels. First we identified, through our analysis, the top three challenges these 100 organizations faced, across all geographic and business sizes:

- Inadequate access, visibility and quality of business information
- Insufficient customer service and satisfaction levels
- Lack of automated and integrated business processes

We then looked further into the data and evaluated the needs of these customers on a regional basis, where regulatory, economic and cultural factors might have an impact. Here we found that EMEA, Asia Pacific and the Americas all had unique business requirements that focused their efforts in specific business solutions areas. We also highlighted five industries that were facing specific challenges such as stringent regulatory requirements, short product lifecycles or a deep knowledge base of their customer’s requirements.

Our findings show that these companies had met or outpaced their own expectations, delivering a strong average ROI of 112% and average IRR of 50% over an average payback period of 37 months, with some regional and size variations.

Finally, we evaluated the implementation best practices that delivered these results. We investigated the common factors that enabled these businesses to meet or, in many cases, exceed their expected strategic, financial and operational benefits. The three top factors cited by SAP customers included:

- A partnership between business and IT management teams in development of project scope and goals definition
- Well constructed data requirements blueprints that accounted for both current and future use cases
- Customer-focused business process designs that created new, innovative solutions or differentiated service levels.

Another significant contributor cited by these companies was a strong partnership with SAP Consulting. In fact, when SAP Consulting was involved in the implementation, customers were able to deploy their solutions 31% faster than those that did not use SAP Consulting. Lastly, we found that many of these companies were expecting to capture additional benefits in future years by developing add-on solutions to their existing platforms that provided:

- Additional functionality to currently deployed modules
- New modules that complimented the existing solutions
- Further optimization of existing business processes

We hope our research will provide the reader with insights into new opportunities to capture shareholder value based on the results of these ‘best practice’ companies.

¹ “*Maximizing Value – 100 Customer Successes*”, SAP Corporation, Material Number 5007946, May 2006.

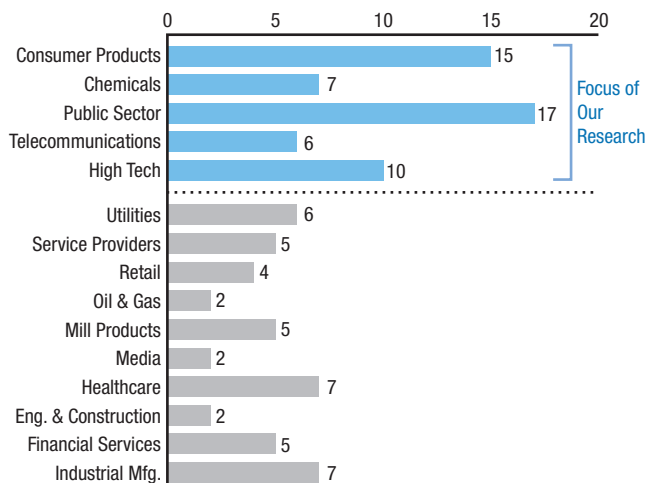
Introduction

In today’s business environment, organizations are looking beyond cost cutting strategies to increase the bottom line. Global business leaders are looking for prudent growth opportunities that will drive expansion into new markets, facilitate the advent of new services and maintain or grow existing market share.

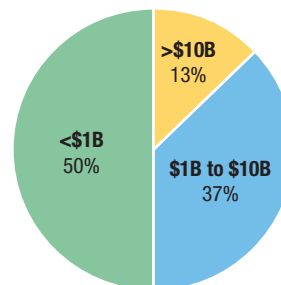
To gain insight into how technology is used to support today’s business challenges, Mainstay Partners performed an analysis of 100 companies that are using SAP software to reduce costs, improve business operations, and take advantage of new growth opportunities. The source of data

used in this analysis comes from the “*Maximizing Value - 100 Customer Successes*”² book, which is a compilation of 100 case studies and success stories published by independent consulting firms and SAP working directly with their customers. As illustrated below, these customers were a diverse set of Global companies from many different industries and with a mix of sizes and maturities. The results of our analysis identified strong commonality in the operational and strategic challenges the SAP companies were facing, the operational and financial results they achieved, and the key implementation success factors they employed.

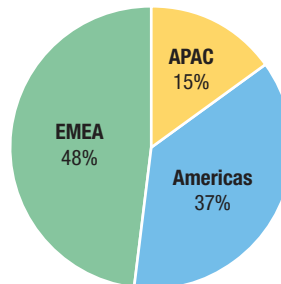
100 SAP Customers by Industry



100 SAP Customers by Revenue



100 SAP Customers by Region



²“*Maximizing Value – 100 Customer Successes*”, SAP Corporation, Material Number 5007946, May 2006.

Common Objectives, Challenges & Results

With the goal of prudent growth in mind, today's business executives are challenged by two seemingly conflicting business objectives:

1. **Support significant new business value** for their organizations through the introduction of technology solutions that automate and enable scaling of critical business processes, while still managing to
2. **Maintain tight IT budgets** with little discretionary funding to invest in new business value opportunities.

Our research indicates that to meet today's business challenges, organizations must invest in solutions that minimize their internal Information Technology (IT) complexities. Simplification of a company's IT architecture will reduce the IT costs required to maintain day-to-day operations. This will, in turn, free up budget for value creating investments. A recent study conducted by Gartner Research has found that the average U.S. Company spends nearly 75% of its IT budget maintaining the status quo, leaving only 25% to commit to new value-creation opportunities³. Our own research and client work shows that if we take into account prior year "carryover projects" and compliance investments, the actual value-creating budget available is typically less than 10%. Given this limitation in investment capital, leadership must be very selective in choosing strategic IT investments.

Mainstay Partners, through research for this paper and other independent analysis estimates that companies have an opportunity to reduce their spending ratio from a 75/25 split to one closer to 60/40 through strategic implementation of enterprise solutions —accelerating IT's capacity to support business growth and saving millions of dollars in recurring IT expenses.

The Top Three Challenges

Our research for this study included the analysis of 100 SAP customers, of very diverse industries and sizes from around the world, and found almost 60% of the organizations identified one of these three challenges:

1. Inadequate access, visibility, and quality of business information
2. Insufficient customer service, and satisfaction levels
3. Lack of automated, and integrated business processes

Inadequate Business Information

Fortune 500 business leaders are often confronted with competing sales, financial and marketing data clouding their ability to make effective business decisions. A legacy of disparate and siloed information systems often contribute to this problem, requiring significant manual effort to cleanse, analyze and report on critical business information. **Our analysis of the 100 SAP customers found that, prior to their implementations, 21% of the organizations reported a need to provide more timely and trusted information to their executive management teams across functions such as finance, product development, supply chain and manufacturing.** After their SAP implementations, these companies were able to deliver real-time visibility into critical business information such as financial results, production runs, and inventory levels to management. For example, five of the SAP customers researched found dramatic results in their abilities to close their financial books, averaging an 82% reduction in the time to close their financial books versus their legacy process.

Company: General Electric, GE Appliance Division

Company Description: One of the largest manufacturers of major appliances in the world, producing Monogram®, GE Profile Performance™, GE Profile™, GE® and Hotpoint® brands as well as several private-label brands.

Challenges: GE's Product Information Management (PIM) process involved a complex, manual merging of two disparate databases. The process was prone to errors which delayed product release and reduced employee productivity.

Benefits: As a result of GE's new PIM process, errors dropped from 20-25 per week, down to 5-8. Errors were also now being corrected overnight, a substantial improvement over the prior two week turnaround time. Finally, system stability was improved dramatically from, on average, one month of downtime per year to only one hour per year—a 95% improvement.

Insufficient Customer Service

Another top challenge, reported by 20% of the organizations in this study, was the need to improve customer service levels and to meet new customer requirements. Several of the most common challenges found across SAP customers included giving end customers real-time visibility into order and service status, and reducing order fulfillment cycle times. Hero Honda Motors Ltd, the world's largest two-wheeler manufacturer,

³"IT Fault Line: Where SOA Meets ITSM", IBM Corporation, July 2006.

needed to better support their dealer network in India. Hero Honda's solution was to completely automate and integrate their order management and order fulfillment processes. The result was not only reduced administration costs of managing this process but Hero Honda was able to cut three days out of their order processing cycle time, better supporting their dealers' demand requirements. We found similar customer service benefits across other researched companies, with order fill rates improving between 5-17% across SAP customers.

Company: Geodis Vitesse

Company Description: A subsidiary of the Geodis Group, Geodis Vitesse is a leading logistics specialist firm serving the European Benelux region.

Challenges: Geodis Vitesse's customers were looking for a partner to speed up key distribution and manufacturing processes such as packaging and final assembly. The company found the highly specialized services required more advanced systems to provide their customers with supply chain information such as stock levels, order status, shipping dates, and production runs.

Benefits: Customers can now view real-time supply chain information through a secure website. Visibility of this information is a unique capability for Geodis, giving them a distinct advantage over their competition.

"We can share everything from the customers' buyer placing an order, to delivering the product to the correct address, and even on to the consumers at home. This is where we are unique, and this is what gives us a real advantage in the market."

— Director of Solutions and Business Development, Geodis Vitesse

Lack of Business Process Automation and Integration

And lastly, 18% of SAP's customers indicated the need to automate non-integrated, manual business processes as a key challenge. Many of these customers were expanding internationally and were struggling to scale operations to meet the demands of these new geographies. They also cited the need for an IT solution that could provide best

Company: Yapp Automotive Parts Co. LTD

Company Description: Founded in 1988, YAPP is China's largest government owned supplier of automotive fuel systems.

Challenges: A high growth market and increasing competition forced Yapp to improve its highly manual manufacturing practices to improve quality and control.

Benefits: The company has automated key processes such as purchase-to-invoice and month-end financial close. These solutions have reduced cycle times, errors and improved inventory management. One example of these productivity gains is YAPP's month-end process. Previously the process required three days and three people to complete, now the same process takes two hours and one person.

practice business processes that addressed their specific industry, regional, and size (e.g., small/medium business) requirements. These companies were able to quantify significant cost savings from the automation of the manual linkages between processes. For example, supply chain savings were captured by integrating and automating advanced planning capabilities with production. Integration of these processes saved Alcan Aluminium Valais SA significant inventory costs – increasing their inventory turns by nearly 10%. Through automation of supply chain practices, we found the average inventory carry cost reduction to be 31% across SAP customers.

Regional Viewpoint

Common challenges were shared amongst organizations globally, but our analysis also found regional differences— in Europe, Middle East & Asia (EMEA), the Americas, and Asia Pacific (APAC) - that were driven by macroeconomic, regulatory, and other external forces that impacted their competitive environment.

EMEA

Challenges: Companies were challenged by the diverse cultural, regulatory, and maturity level differences of the member countries.

Findings:

- 69% stated their legacy systems were unable to scale to meet business growth requirements
- 40% sought to increase speed and efficiency in both supply chain and procurement processes in order to lower costs, decrease delivery times, expand distribution

APAC

Challenges: Companies were challenged to capture business opportunities in a fast growing market with intense regional and global competition.

Findings:

- 60% lacked integrated and robust IT systems necessary to stay competitive
- 53% were faced with increased competition from regional and foreign companies that were more efficient

Americas

Challenges: Companies were challenged to pursue customer-centric initiatives and improve customer satisfaction to gain a competitive advantage.

Findings:

- 43% aimed to improve operational efficiencies and eliminate redundant tasks by standardizing business processes
- 35% sought to implement new customer relationship management solutions

Europe Middle East & Africa (EMEA)

EMEA's current economic environment was set in motion at the 2000 Lisbon Summit when the European Council

set a clear objective to make the EU the most competitive and dynamic knowledge based economy in the world⁴. Today, if measured by GDP, the EU, with its soon to be 27 members, would rank first in the world and would be the largest industrial producer in the world, ahead of the US and Japan⁵. The opportunities presented by a more open, competitive market in EMEA are challenged by the unique requirements of doing business in this region. Complexities such as country specific language differences, currencies, governmental regulations, and IT maturity levels all must be addressed successfully to become a leader in this market.

From our research, 69% of the 50 EMEA SAP customers stated that their legacy IT systems were incapable of scaling to meet the growth challenges of this unique business environment. Companies cited reasons ranging from systems that were:

- too rigid to comply with newly enacted accounting regulations
- reaching their performance limits and becoming unstable, or
- too costly to continue to manage and maintain

In addition, our research found a common focus across EMEA SAP customers to improve their supply chain and procurement process efficiencies. Prior to implementing SAP, 40% of the customers were challenged to lower operating costs, improve delivery times, and expand distribution capabilities through improvements in these processes. Our analysis found SAP customers saved, on average, over 380,000€ per year in administrative labor by automating their procurement processes and reduced their order lead times between 3% and 10% by streamlining their supply chain processes.

Company: Datasensor

Company Description: A leading photo-electric sensor design and manufacturing company based in Bologna, Italy.

Challenges: Poor customer service was limiting Datasensor ability to grow in the European market. At 70-80% ontime ship results, the company realized a need to improve its manufacturing and distribution capabilities. It also realized that expansion in Europe required an IT environment that would support individual country regulations such as diverse accounting standards.

Benefits: The company realized SAP unique ability to meet Pan-European accounting standards. They were also able to improve ontime shipping results to 96% or better and developed a web-based catalog for e-commerce sales.

Asia Pacific (APAC)

The APAC region has been a much more volatile market than EMEA or the Americas. Growth rates in East Asia, for example, averaged over 8% between 1980 and 1997⁶. This tremendous growth, however, led to a number of economic imbalances creating a regional financial crisis in 1997. After a five year rebuilding period, APAC is once again in hyper-growth mode exemplified by China's GDP, which has been averaging nearly 10% growth since 2003⁷.

Company: Lenovo Group

Company Description: Leading Chinese manufacturer of computers and distributor of high tech products.

Challenges: In the late 1990's the company was experiencing rapid expansion in its core market of China. A victim of its own success, management quickly realized it needed to implement an Enterprise-Scale IT solution.

Benefits: Integration of its production, sales and quality management processes, allowed the company to reduce production shifts from 70 to 7, order lead times by 50%, and increase receivables turnover by 50%.

Success in APAC is predicated on a company's ability to maintain high rates of growth while modernizing operating practices. Evidence of this need for improvement was highlighted in a study from the McKinsey Global Institute. In their research, McKinsey found that Asian company stock-out, inventory turnover and days sales outstanding (DSO) ratios lagged behind world benchmarks by between 35-55%⁸. **Our research for the Maximizing Value Study found that 53% of the SAP APAC customers studied cited increased competition from more efficient regional and foreign competitors as a significant risk to their operations.** SAP's APAC customers were able to capture dramatic improvements in operational efficiencies to meet these competitive threats. For example, Qingdao Jinhua Industries, a leading automotive equipment provider in China, was able to cut the cost of each production run by 5-8%, while Lenovo, a global leader in PC manufacturing and design, was able to reduce its time to process a sales order for production by 23%.

60% of these same customers also stated that their existing IT systems would not support business efficiency improvements due to complex integration requirements and outdated IT architectures that could not scale for future growth. For many APAC SAP customers such as China Merchants Bank, with \$75B

⁴"Current Economic Issues in EU Integration", Mark Baimbridge, Jeffrey Harrop and George Philippidis, Pakgrave Macmillan, 2004, pg 57.

⁵"Current Economic Issues in EU Integration", Mark Baimbridge, Jeffrey Harrop and George Philippidis, Pakgrave Macmillan, 2004, pg 58.

⁶"Winning in Asia", Peter J. Williamson, HBS Press, 2004, pg. 5.

⁷Source: National Bureau of Statistics, China Statistical Yearbook 2004; National Bureau of Statistics plan report.

⁸"Winning in Asia", Peter J. Williamson, HBS Press, 2004, pg. 68

in total assets, creating a single, unified IT environment was critical to improving its core operations. Through the development of a single IT platform, China Merchants Bank was able to automate the management of its payroll function, which reduced labor requirements from an estimated 10 FTEs to 2 FTEs – an 80% reduction.

Americas

A majority of the Americas’ SAP customers included in our research were based in the US or Canada. For these markets, hyper-competitive challenges are a fact of business life, where companies have spent decades competing in very open and mature markets. Companies in these competitive markets realize the significant benefit gained by improving and sustaining relationships with their key customers. In fact, recent research by Fred Reichheld, an authority and best selling author in the research of Customer Relationship Management (CRM), confirmed that exceptional customer relationships greatly enhance a company’s ability to sustain long-term profitable growth. Creating loyal customers, however, involves a major shift in an organization’s approach, interactions and management of their marketing and sales operations. **We found that 35% of the SAP Americas’ customers had recognized a need to develop exceptional customer relationships for their businesses, yet many of the SAP Americas’ companies researched found challenges in building these relationships for several reasons, including:**

- **Difficulty in consolidating customer information** - Siloed customer data, spread across multiple IT systems, was often restricted by highly manual analysis/reporting requirements
- **Inconsistent or poor sales and service quality** - Lack of standardized sales and marketing processes created service gaps and missed sales opportunities
- **Limited customer insight** – poor customer information management practices impeded share of wallet/basket performance

These companies made major advances in developing more loyal and satisfied customers by standardizing their core sales, marketing and service processes, and institutionalizing these solutions through a single software platform. These improvements generated:

- incremental revenue through new customer self service solutions,
- increased prospect/customer close rates, and
- improved linkages between demand forecasting and inventory management

For example, Pacific Coast Feather, a \$300+M bedding distributor, was able to increase revenue contribution more than \$900,000 by generating larger, more frequent orders by simplifying the way customers conducted business transactions.

Company: Day & Zimmerman

Company Description: One of the largest private companies in the US and over 100 years in business, Day & Zimmerman (D&Z) provides a diverse family of managed services (e.g., engineering, staffing, government).

Challenges: The Yoh Company, one of the D&Z’s largest business units in the staffing industry, was facing competition from new web-based talent and outsourcing solutions. The company realized they needed to create a differentiated web-based offering to meet this new channel of services to its customers.

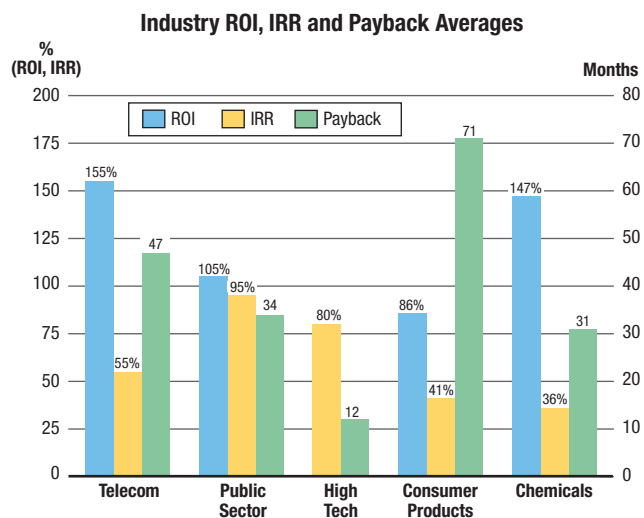
Benefits: Following the company’s philosophy of Accelerating Customer Success, Yoh developed the Yoh Exchange, a portal solution that integrated with their customers’ internal processes. This solution has added over \$3M in gross margin from new sales and contributed an additional \$1.7 M to the bottom-line through an improved product mix.

“We wanted to be more of a trusted advisor to our customers by integrating the concepts of content, commerce, and community to our customers, employees, and staffing suppliers.”

– President & CEO of Yoh

Industry Viewpoint

Business processes and operational requirements can vary dramatically across industries. A simple example is the



* High Tech ROI was purposely excluded from this chart due to lack of data to support meaningful results.

significant differences in financial accounting requirements for a public sector company versus a financial services institution. These diverse needs play a significant role in the complexities of automating and standardizing their core business processes. Industries that face high regulatory requirements, face short product lifecycles, or require significant knowledge of the customer are particularly difficult to automate with a 'one size fits all' solution. We focused our research on five industries that are highly impacted by these factors: High Technology, Telecommunications, Public Sector, Chemicals and Consumer Products industries. Customers in these industries were able to realize significant benefits from deploying solutions created to serve their particular needs and also from experienced, industry-knowledgeable services professionals armed to help deploy these solutions.

High Tech

This industry is characterized by a highly cyclical market, subject to shortages and over supply challenges that affect pricing, rapid technological change leading to risks of product obsolescence, and evolving standards requiring frequent product design changes. **Our research found that 60% of SAP's high tech customers had leveraged supply chain solutions to improve their ability to meet these industry dynamics by:**

- improving inventory accuracy
- reducing production planning time
- improving demand forecast accuracy

Company: Freescale

Company Description: Recently spun out from Motorola, Freescale is a Global leader in the design and manufacturing of embedded semiconductors – computer chips.

Challenges: The semiconductor industry is highly cyclical requiring Freescale to improve its demand forecasting capabilities, inventory management, and improve its manufacturing efficiencies.

Benefits: Freescale was able to reduce inventory carrying costs by nearly 12%; reduce its order planning cycle time by 1 week; improve its sales forecasting accuracy by 10%; and increase its profit margins on new revenue through product mix optimization. These combined efficiencies also resulted in increased customer satisfaction driving future top-line growth.

High Tech companies led all other industries in key project performance indicators including project payback time—at 1/3 the time of the industry

average—and IRR that was 30% more than the cross-industry average. Of the High Tech SAP organizations studied, we also found that 80% delivered customer service improvements either through better supply chain or customer relationship management solutions.

Telecommunications

The Telecom industry landscape is shifting away from pure play offerings such as telephone, internet, wireless, cable and satellite television, to one where the convergence of the telephone, television and internet is necessary to

Company: Brutele

Company Description: One of Belgium's largest multimedia operators providing telecommunications and Internet services to over 300,000 residential and business customers.

Challenges: Brutele had traditionally focused on providing reliable cable TV service to its customers. In 1999, the company made a strategic move into Internet services and needed to build a more sophisticated customer relationship management capability to service its broadening customer base.

Benefits: The company was able to improve its customer service quality by integrating its four independent customer service departments. Today, customer service representatives (CSR) can solve customer issues more efficiently by accessing unified customer information - allowing them to see all interactions across Internet and TV subscriptions. Internally, the company saved over \$5M annually through CSR and help desk productivity gains.

"Being able to deliver solid, high-quality service and support to our prospects and customers was vital if we wanted to stay strong in the game."

– General Manager

remain competitive. The increased number of service offerings introduces a significantly higher level of complexity in servicing customers and managing internal operations.

SAP customers in the telecommunications industry were found to have an average project IRR of 55% and ROI of 155%. These returns were driven by two major factors. First, telecom companies were able to capture market share in new services, such as the Internet, driving revenue growth. Second, these companies found significant cash flow benefits derived from operational efficiencies. For nearly half of these companies, inventory reductions were a significant component to these efficiency gains. Vodafone Portugal, for example, was able to reduce their average number of days in their stores' inventory by 7, lowering their total inventory carrying costs by more than \$900,000 per year.

Public Sector

The public sector has traditionally lagged behind the private sector in their use of technology to automate and streamline operations. Budget constraints often force a lack of investment in IT, but we believe other factors are also at play. Most software solutions are engineered to “for-profit” company requirements making them difficult to integrate into public sector organizations. Our research of SAP’s public sector customers, however, illustrates

Company: The City of Ottawa

Company Description: Ottawa, the capital city of Canada, city government has over 15,000 employees serving 850,000 residents.

Challenges: Twelve municipalities, all with independent IT systems, were merged to create the City of Ottawa in 2001. In addition, the City had to consolidate 54 collective union agreements to establish a uniform organizational design and common pay grades.

Benefits: The City of Ottawa was able to centralize payroll for all employees and consolidate their asset inventory for all property holdings. This drove operational benefits on the order of \$10 million, and an anticipated 100% ROI by 2010.

“This was more than just an integration of technology. It was a harmonization of systems and business processes in a way that enables us to continue to deliver high quality, reliable services.”

– City Manager

the significant improvements these organizations can create from deploying a solution engineered specifically to their unique budget management and organizational process requirements. **Our analysis found the average ROI for the public sector group to be 105%, driven primarily from significant increases in labor efficiency and appropriate personnel allocations across both business and IT administration.** The solutions were also proven to scale effectively as demonstrated in the large metropolitan government case studies researched highlighted by the City of Ottawa and the City of Cape Town serving 850,000 and 3.2 million citizens respectively.

Chemicals

The continued globalization and privatization of the Chemicals industry has driven companies to focus on operational efficiency and standardized, scalable business practices. Two thirds of SAP’s chemical customers were focused on improving their abilities to operate efficiently on a global basis across a variety of business functions including asset management, financial reporting, and

supply chain management. Their goals were to improve the management controls of their business operations, and to free up existing resources to focus on strategic planning to enter new markets. **We found the average ROI of the chemicals industry to be 147%, with benefits mostly driven by automation and standardization of core internal processes.**

Consumer Products

The Consumer Products industry is uniquely focused on delivering value and service to individuals as well as their retail and distribution customers. These companies rely heavily on consumer information to make informed decisions on essential business strategies such as segmentation, product pricing, placement, and promotions to compete effectively. **60% of SAP’s consumer product customers were able to generate new revenues or increase margin contribution through improvements in these business practices.**

Consumer products companies also need to ensure quality and availability of product to drive sales and to keep their retail and distribution customers loyal. Our research found over 40% of SAP’s consumer products customers focused on improving product quality and availability to drive results such as reduced stock outs, increased price premiums, and enhanced share of wallet.

Company: Philips Consumer Electronics

Company Description: A division of Royal Philips Electronics N.V., Philips Consumer Electronics is an international leader in connected displays, home entertainment sets and mobile solutions.

Challenges: Philips Consumer Electronics was facing industry-wide challenges of shrinking margins, an influx on new competition, and a proliferation of consumer product and distribution preferences.

Benefits: Philips Consumer Electronics used SAP to automate their order desk processes, allowing customers to place orders and view order status through the Web, and now anticipates \$7.5 Million in cost savings.

Industry Conclusion

The results of this study indicate that industry-specific solutions drive a higher ROI, shorter payback periods, and significant competitive advantages. In the next section, we explore in more detail the financial impact across these companies and the statistical variances across regions and company size.

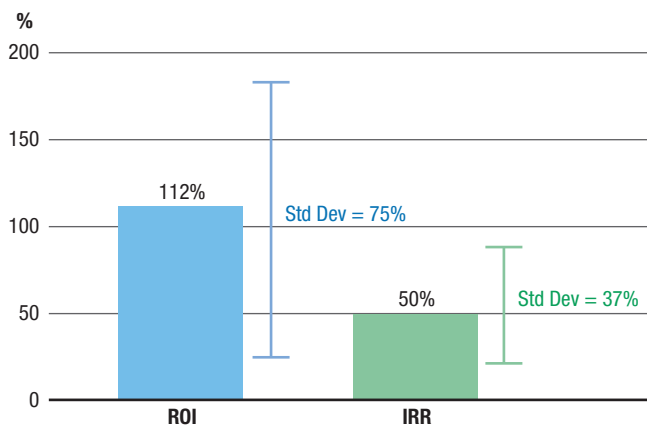
Financial Results

Our work with Fortune 500 executives focuses on helping their organizations increase the rigor and accuracy of benefits expected from large IT investments. The financial results identified in this paper reinforce a trend we have seen in the marketplace - quantitative, detailed financial justifications are now an essential requirement to gain funding for these opportunities. Many of the SAP customers studied highlighted that their methodologies for identifying, planning and measuring benefits of their projects were a key element in securing funding and achieving their successes in deployment. They also highlighted the fact that the results achieved often met or even outpaced their own expectations. In the following section, we detail our analysis of the SAP customers' financial results and provide our insights into these findings.

General Insights

In order to provide a consistent view of the financial returns across the 100 SAP customers, we removed several outliers that would have skewed the financial results significantly higher. These outliers were companies that had found tremendous returns from deploying new, modular solutions to extend the capabilities of their existing SAP solution foundation. We removed these data points as they did not sufficiently account for the cost

Average Return on Investment (ROI) & Internal Rate of Return (IRR)*



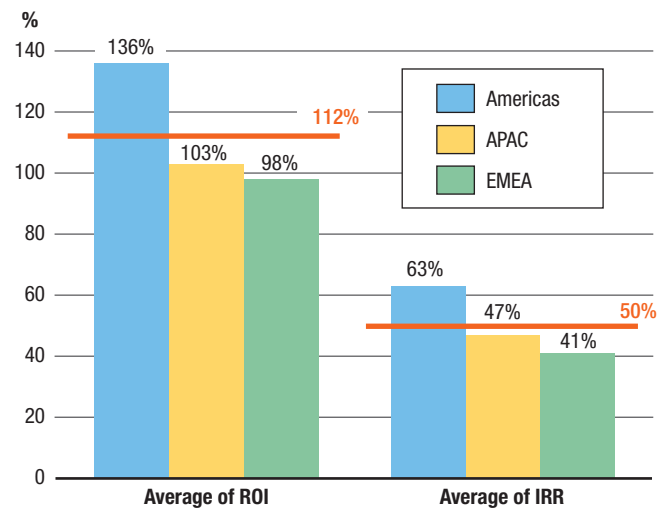
* Average ROI/IRR calculation was based on an analysis of 24/36 case studies respectively. A number of case studies were eliminated from our analysis due to a lack of detailed financial information.

basis of the existing environment. **After taking this more conservative view of the financial data, we found an average Return on Investment (ROI) of 112%, an average Internal Rate of Return (IRR) of 50%, and an average payback period of 37 months.**

Regional Financial Findings

As illustrated, the financial results for EMEA and APAC were very similar. We did find, however, that although

Regional ROI and IRR Averages



implementation costs in the Americas were found to be in-line with the global averages, their ROI and IRR results were significantly higher, with shorter payback periods. The average SAP implementation in the Americas delivered:

- ROI of 136% compared to 103% for APAC and 98% for EMEA
- IRR of 63% versus 47% for APAC and 41% for EMEA
- Payback period of 32 months versus 45 months for APAC and 37 months for EMEA

We believe the higher returns were, in part, based on an ability to grow margin enhancing revenues from new capabilities employed through the SAP CRM solutions.

Large Enterprise vs. Small and Midsize Enterprise (SME) Results

According to recent research by the Economist Intelligence Unit (EIU) more than half of midsize enterprises surveyed indicated that achieving a competitive advantage hinges on the use of IT, while 68% see IT as a determining factor in their ability to grow, and 72% cite IT as critical to maintaining operational flexibility as they grow and expand into new markets⁹. Only five years ago, these companies were constrained to mid-market solutions to meet their IT needs. Today, the affordability of enterprise software solutions has enabled small and midsize companies to benefit from proven, scalable solutions that have served large companies for decades.

For the purposes of this study, Mainstay Partners defined the SME segment as companies with less than \$1 Billion in annual revenue or less than 2,500 full-time employees. **Our research found that large enterprises generated a higher ROI than SME's, driving a respective 135% versus 81% return.** The main factor in the large enterprise's superior returns was the significant increase in the scale of cost take-out opportunities and operational

margin efficiency improvements. Benefits for large enterprises were found to be, on average, 10% higher than the SME segment. However, we believe that the ROI gap is narrowing, and will continue to narrow for SME customers, as the solutions continue to mature and enterprise-scale technologies become more mainstream for SME companies.

Another key finding from the SAP customers is that SME's have an average implementation time of 8 months which is almost half that of companies in the large enterprise segment. This is believed to be primarily driven by two factors:

- Limited number of personnel impacted by the change in business process and operational procedures for SMEs
- A reduced number of IT systems integration points for SMEs allows for a more rapid introduction process

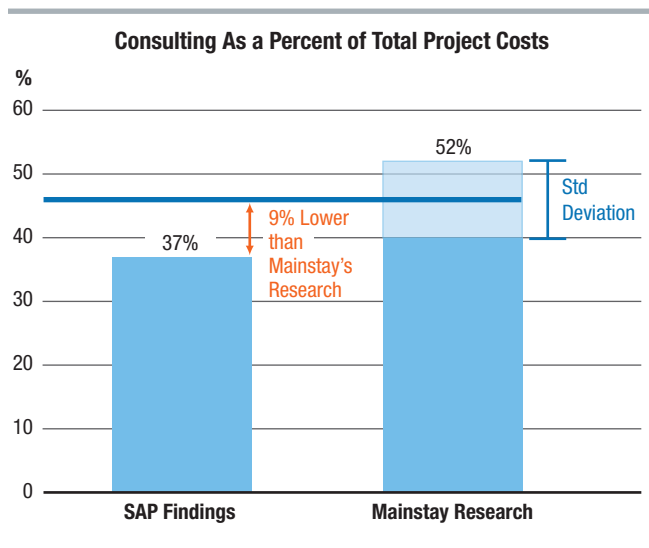
Our findings of strong returns and rapid deployment for the SME segment present an alternative to the mid-market software competitors. These customers now not only have a solution to meet their immediate growth challenges, but a long-term solution that can scale even for the largest companies.

⁹"Thinking Big: Midsize companies and the challenges of growth", Economist Intelligence Unit, 2006, pg. 26.

Implementation Best Practices

General Findings

As we have shown, SAP’s customers were able to match, or in many cases beat, their strategic, financial, and operational objectives. In this section, we explore implementation success factors across the 100 SAP customer deployments and highlight best practices that led to their successes.



A recently published report by Mainstay Partners identified a strong correlation between customization requirements of IT solutions and negative perceptions of these systems¹⁰. Specifically, our research found that the more time spent on adjusting the solution to the specific needs of the organization, the more the application was disliked within the organization. Low acceptance can lead to resistance in use—undermining and often defeating the initial project goals.

Our SAP research found that customers were able to avoid these pitfalls by adopting the ‘out-of-box’ industry and regional business best practices inherent in the software.

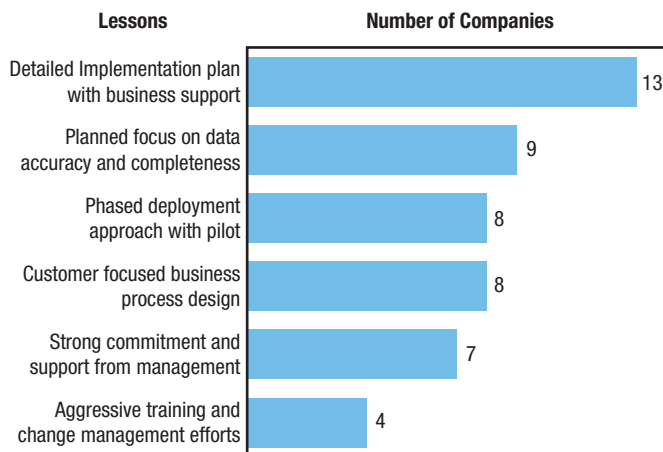
In fact, the average implementation time for SAP customers was just under a full year, or 11.87 months.

Other supporting evidence was identified by looking at the total costs for an implementation. We found the SAP customers had an estimated 9% lower consulting expense (as a percent of total implementation cost) versus similar

industry-wide benchmarks. **Across the SAP customers researched, we found 37% of the total project costs were attributed to consulting fees compared to the industry-wide research that found these same costs to be 40%-52% of the total¹¹.** In addition to adoption of SAP’s business processes, these customers also discussed several common implementation guidelines that they credited for their success:

Set A Plan For Success—Most critical is to have the line-of-business and IT resources create a joint plan that is clear, realistic and achievable. This will reduce the number of surprises between the teams and create a sense of ownership for both business and IT management. Waters Corporation, a Massachusetts based leading manufacturer of high performance quality assurance equipment for the pharmaceutical, life sciences, government and industrial testing laboratories, followed the “architect before you build” philosophy. Their project team articulated the strategic goals and needs of the business, and then mapped out a detailed list of system requirements that would allow them to meet the goals. The result was improved processes and enhanced financial performance.

Common Lessons Learned



Identify Data Needs Before Implementing—Have a solid understanding of the eventual uses and requirements of data across all business processes before creating the

¹⁰“Enterprise Resource Planning ROI & Best Practices”, Mainstay Partners LLC, 2006, pg 24.

¹¹“Enterprise Resource Planning ROI & Best Practices”, Mainstay Partners LLC, 2006, pg 28.

implementation plan. At CJ Corp., a leading consumer products company in South Korea, they understood that simply collecting customer data into profiles did not guarantee CRM success. Instead, they sought to understand what data to collect, when and how to collect them, and which data would be actionable. By having complete and accurate data on their customers, CJ sales representatives have a full view of the customers' purchasing and service activities in coordination with information on marketing campaign options. The company expects this solution to provide sales department efficiency gains of \$841,000 over a 4 year period.

Customer-Driven Business Processes—Re-shaping business processes around the customer—not the internal organization—to gain a competitive advantage in today's hyper-competitive marketplace. Sterling Group, an emerging Russian IT integrator, was able to generate improved customer insight across all phases of the customer lifecycle (e.g., business development, lead management, engagement, billing and follow-on sales phases) achieving a 74% IRR on their implementation.

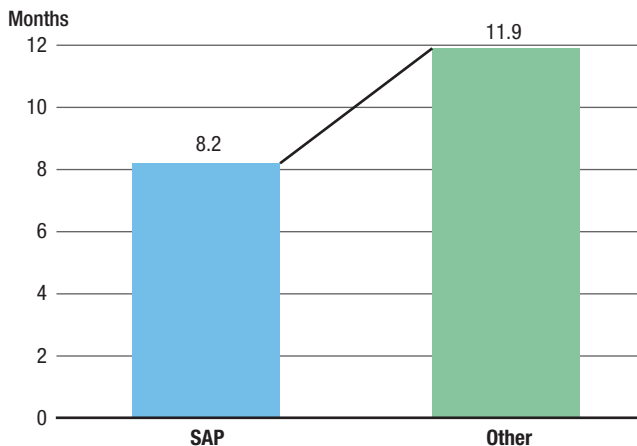
SAP Consulting Partner Results

Another pattern that emerged from our study was the affinity the customers had for SAP consulting. More than 20% of the organizations selected SAP Consulting to assist in their deployments of SAP solutions for two main reasons:

1. **Knowledge & Experience**—With a focus on installation and customization of SAP software, and deep industry knowledge, SAP Consulting is better prepared to find the fastest and most efficient means of solving the business problem.
2. **Single Point of Accountability**—SAP Consulting provides customers with a single point of accountability throughout the project lifecycle. They provide a turnkey solution of services including consulting, project management, process redesign, education and configuration.

Implementation time was another advantage we found from our research. **In fact, we found partnering with SAP Consulting actually yielded an average implementation time of 8.23 months, which was 31% (or 3.64 months) faster than customers who had not used SAP Consulting.**

Average Implementation Time: SAP Consulting vs. Other Vendors



A great example of SAP Consulting's value was discussed by Interpolis Insurance N.V., one of the top 5 insurance providers in the Netherlands. Interpolis described SAP Consulting's role as an advisor, providing unique insights into ways SAP's solution could meet their particular business process needs. With over 80% of their bank statements being reconciled manually, SAP Consulting was able to help Interpolis identify ways to reduce this number to around 10%. Interpolis was able to achieve this efficiency gain while also increasing the volumes of collections by 40%.

Future Value Opportunities

Our extensive research of similar enterprise software solutions found that 73% of benefits are achieved in future years (3-5 years after deployment)¹². In this Maximizing Value study, we found that SAP solutions not only help executives achieve their immediate operational and strategic goals, but also function as a catalyst for streamlining future business processes and longer term competitive advantages. Once the success of the first project is realized, it is easy to envision areas within the organization that would benefit from similar process improvements.

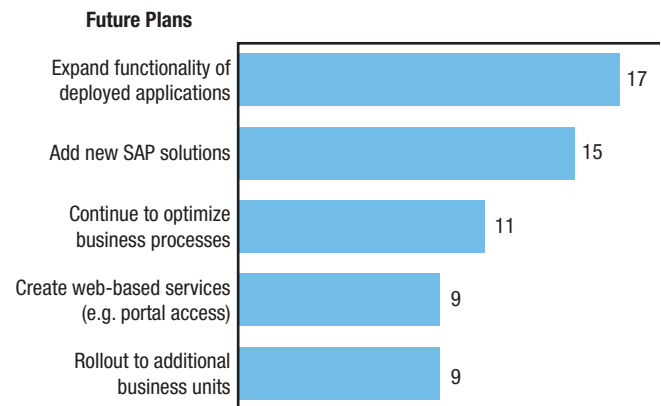
Xerox Europe, for example, plans to build on the current SAP implementation by broadening the use of its supply chain management solution. Xerox is looking to further harvest the benefits of this technology by connecting its external suppliers to the solution, enabling electronic invoicing and moving into collaborative commerce.

C.H. Beck, one of the leading publishing houses in Germany, spurred by the convincing level of ROI they achieved, intends to augment its CRM solution by adding new business intelligence and reporting capabilities to enable more advanced profitability analysis of the

thousands of book projects it undertakes each year.

As illustrated in these two examples, common next steps discussed by SAP customers included expanding the initial functionality, implementing complimentary SAP solutions, and optimizing business processes.

Most Frequently Stated Future Plans



¹²"Enterprise Resource Planning ROI & Best Practices", Mainstay Partners LLC, 2006, pg 33.

Conclusion

Our research into 100 SAP companies investigated the experiences and benefits of comprehensive solutions across a diverse set of industries, geographies and company sizes. Despite these differences, we found common themes across several areas of focus: strategic challenges, operational improvement opportunities, financial results and implementation lessons learned.

Consistently, we found that executives were being challenged to provide significant new business value while maintaining tight budgets. Across the board, despite the scale and scope of the projects, the SAP customers were able to realize returns that had rapid payback and provided significant long-term competitive advantages. Furthermore, these companies looked at the solutions as an asset that would continue to grow in value as new solutions were added to the existing platforms.

Across the three major geographies, we learned companies are experiencing like challenges specific to their geographical area. These specific challenges, and the topic of future value opportunities, are areas we intend to explore further in future research efforts.

Finally, we learned that SAP customers found success in attacking their business challenges by first understanding the business opportunity and the advantages it can provide to their customers, suppliers and vendors. These customers were then able to create a focused partnership between business and IT resources as well as solutions providers to solve for these challenges. The net result was significant shareholder value and the ability to support rapid growth in an increasingly competitive, global marketplace.