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RESEARCH NOTE

SAP CUSTOMERS ARE 20 PERCENT LESS PROFITABLE THAN THEIR PEERS

THE BOTTOM LINE

An analysis of nearly 100 public companies listed on SAP's Web site finds these SAP users are 20 percent less profitable than their peers. Despite SAP advertising claims to the contrary, factual analysis of ROE data shows the best-run businesses don't run SAP.

SAP's recent advertising campaign boasts that its customers are more profitable than other companies. Nucleus Research's experience over many years of advising SAP clients and assessing the potential and actual return on investment from SAP deployments has not found extraordinary returns to be the case. SAP deployments tend to be large and potentially disruptive, and Nucleus Research has found that unless they are properly managed these deployments can consume significant resources. In some cases, such as the SAP deployment at the city of Tacoma, Washington, financial analysis of that deployment shows the city may be challenged to achieve a positive return from its SAP effort.

As part of Nucleus's ongoing analysis of the actual financial impact of ERP, CRM, and other software solutions, Nucleus undertook an analysis of SAP customers' true profitability. It is important to note that unlike SAP's own research, which it commissioned, this research has been undertaken independently on behalf of Nucleus Research clients and not commissioned by any company.

THE ANALYSIS

Nucleus Research analysts compiled a list of every publicly-traded company listed on SAP's own Web site to assess their actual return on equity (ROE). Return on equity (ROE) is a standard textbook financial calculation for profitability that is commonly used in the valuation of companies. ROE is readily available and is published in most public companies' investor communications. Nucleus gathered published ROE data on these publicly-held SAP customers from Bloomberg (www.bloomberg.com), and compared those customers' ROE with industry average ROEs from Hoovers available through Yahoo! Finance (finance.yahoo.com).

Publicly-held SAP customers have an average ROE that is 20 percent lower than their industry peers.

Based on its analysis of all 81 SAP customers, Nucleus found SAP customers had an average ROE of 12.6 percent, compared to an industry average ROE of 15.7 percent. It is interesting to note that three areas of significant focus for SAP, customer relationship management (CRM), enterprise resource planning (ERP), and supply chain management (SCM), had customers who fared quite poorly, with CRM

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customers achieving profitability 18 percent lower, ERP customers achieving profitability 32 percent lower, and SCM customers achieving profitability 40 percent lower than their peers.

A full list of the companies under analysis and the industry average data is provided in Table 1. In some cases, companies had multiple SAP solution deployments across multiple divisions. The data has been provided so readers can assess the results for themselves.

There are numerous factors that impact profitability. However, the scale and scope of many SAP projects can have a significant impact on company performance, particularly if the deployment stretches to many years and millions of dollars in costs. Companies that are expecting an SAP deployment to have a significant positive impact on their profitability should undertake a factual analysis of expected returns and be extremely skeptical about SAP's marketing claims. To maximize return on investment from an SAP deployment, Nucleus recommends customers:

- Negotiate aggressively on initial license price. Nucleus's current pricing data on SAP solutions shows significant variability in license pricing, suggesting that customers that negotiate very aggressively can reduce their initial license investment. Customers that bring other competitors into the short list and the price negotiation process can leverage greater discounts.
- Carefully evaluate license maintenance. License maintenance fees can be a significant ongoing cost and companies that don't plan to upgrade or have undertaken significant customization may find one-off consulting to be a more effective support solution than ongoing license maintenance.

Companies using SAP today may want to look at other published Nucleus Research case studies to ascertain best practices and lessons learned for leveraging greater value from an existing SAP deployment.

Table 1. SAP customer data

| <i>Company</i> | <i>SAP Solution</i> | <i>Industry</i> | <i>ROE</i> | <i>Industry ROE</i> |
|--------------------------------|-----------------------|--------------------------------|------------|---------------------|
| Adidas-Salamon | CRM | Consumer, retail | 21.1% | 8.7% |
| Air Products and Chemicals | ERP | Chemicals | 15.8% | 19.5% |
| Alcan Aluminum | SCM | Mill products | 1.2% | 19.5% |
| Anheuser-Busch Co. Inc | PLM | Consumer | 61.2% | 22.0% |
| Arctic Cat | CRM | Auto | 15.2% | 19.6% |
| Astrazeneca | SCM, CRM | Life sciences, pharmaceuticals | 26.4% | 22.2% |
| Avaya Global Connect | CRM | Telecom | 66.9% | 10.6% |
| Avid | CRM | High tech | 5.4% | 3.7% |
| BASF | PLM, SCM | Chemicals, life sciences | 12.2% | 19.5% |
| Bayer Healthcare | SCM | Life Sciences | 4.9% | 22.2% |
| Beiersdorf-Lechia | SCM | Consumer | 20.8% | 47.1% |
| Biomet Europe | ERP | Manufacturing | 23.3% | 14.0% |
| BMW | SCM | Automotive | 13.2% | 11.9% |
| Brother International | CRM, SAM | Consumer, retail | 14.5% | 14.9% |
| Brown-Forman | SCM | Consumer | 27.3% | 13.7% |
| Cable & Wireless | SRM | Telecom | 17.0% | 15.6% |
| Capstone Turbine | SCM | Industrial machinery | -41.1% | 8.8% |
| Caterpillar | SAM | Logistics | 35.9% | 18.2% |
| Colgate Palmolive | SCM | Consumer | 116.4% | 47.1% |
| Conectiv Energy | SAM | Utilities | 8.1% | 10.2% |
| Danfoss GMBH | CRM | Machinery | 7.9% | 16.3% |
| Danone | CRM | Consumer, retail | 6.7% | 16.4% |
| Dow Corning | PLM | Chemicals | 32.7% | 19.5% |
| Dragerwerk AG | CRM | Engineering construction | 11.6% | 15.3% |
| Dupont | SCM | Chemicals, life sciences | 17.1% | 19.5% |
| Eastman Kodak | SCM | Chemicals, life sciences | -47.5% | 19.5% |
| EnBW | CRM | Utilities | 23.8% | 10.2% |
| Epson Korea | SAM, CRM | Consumer, high tech | 1.1% | 14.9% |
| Ericsson | SRM | Telecom | 26.7% | 8.6% |
| Fraport ag | PLM, SCM, SAM, mobile | Aerospace, services | 6.9% | 10.9% |
| Freescale semiconductor | SCM | High tech | 13.4% | 13.5% |
| GE Bayer Silicones | PLM | Chemicals | 14.9% | 19.5% |
| GE Engine Services | PLM | Aerospace | 14.9% | 10.9% |
| Grammer | CRM | Automotive | 14.6% | 11.9% |
| HDI Hannover Versicherung AG | ERP | Insurance | -15.4% | 9.8% |
| Heidelberger Druckmaschinen AG | PLM | Industrial machinery | 4.6% | 8.8% |
| Henkel | SCM | Consumer | 43.9% | 48.8% |
| Hero Honda Motors | CRM,SRM | Auto | 15.8% | 11.9% |
| HP | SCM | High tech | 6.4% | 14.2% |
| IDS Scheer | Mobile | High tech | 13.1% | 12.6% |
| Intermec Technologies | CRM | High tech | 14.6% | 16.3% |
| IVM Immobilien AG | ERP | Real estate | 8.4% | 9.5% |
| Johns Manville Europe | SCM | Mill products | 8.9% | 6.7% |
| Kraft Foods | SCM, PLM | Consumer | 8.8% | 16.4% |
| Lenovo Group | CRM | High tech | 23.1% | 14.2% |

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|--------------------------------------|----------------|-----------------------------------|--------|-------|
| Loewe | CRM, SAM | Consumer, retail | -91.8% | 3.7% |
| Loreal | SCM | Consumer | 45.8% | 47.1% |
| Molex | SCM | High tech | 7.3% | 7.3% |
| MLP AG | CRM | Insurance | 18.9% | 13.3% |
| Nissan Motor | SRM | Auto | 22.8% | 11.9% |
| NOVA Chemicals | SAM | Chemicals | -7.7% | 19.5% |
| Officemax | SCM | Retail | 6.8% | 6.4% |
| Paul Hartmann AG | CRM | Oil and gas | -9.2% | 15.3% |
| Perrigo | SRM | Pharmaceuticals | -62.6% | 13.3% |
| Phillips | CRM, mobile | Manufacturing, consumer retail | 18.7% | 20.2% |
| Porsche | SCM | Automotive | 27.3% | 11.9% |
| RCS Diffusione | SCM | Media | 8.3% | 26.0% |
| Rohm and Haas | CRM | Chemicals | 16.7% | 19.5% |
| Rolls Royce | PLM | Aerospace | 18.4% | 10.9% |
| Royal Dutch / Shell | SRM | Oil and gas | 28.8% | 23.9% |
| RWE Systems | SRM | Utilities | 25.6% | 10.2% |
| Schering do Brazil | CRM | Pharmaceuticals | 16.9% | 22.2% |
| Schwarz Pharma | CRM | Pharmaceuticals | 0.3% | 22.2% |
| Sea Containers | SRM | Transportation | -0.7% | 26.1% |
| Shanghai General Motors Co. | SCM | Automotive | -38.5% | 11.9% |
| Siemens AG | CRM | High tech | 8.3% | 14.2% |
| Siemens Medical | SCM | Health care | 8.3% | 14.0% |
| Siemens Mobile | Mobile | Telecommunications | 8.3% | 8.6% |
| Siemens VDO Automotive | PLM | Automotive | 8.3% | 11.9% |
| Sony Marketing Asia | SCM | High tech | 6.2% | 7.3% |
| Sony of Canada | CRM | High tech | 6.2% | 7.3% |
| Star Cruises | ERP | Transportation | -0.5% | 9.4% |
| Texas Instruments | CRM | High tech | 18.6% | 13.5% |
| TriQuint Semiconductor Inc. | ERP | High tech | 0.9% | 9.8% |
| Unilever | SCM | Consumer | 47.4% | 16.4% |
| Valero Corporate Services | PLM | Oil and gas | 27.3% | 19.2% |
| Villeroy & Bosch | Mobile | Consumer | 4.7% | 2.6% |
| Volkswagen Grupp | CRM | Automotive | 2.8% | 11.9% |
| Waters Corporation | CRM | High tech | 41.4% | 9.2% |
| Wincor Nixdorf International GmbH | ERP | High tech | 26.0% | 14.2% |
| Xerox | SRM | High tech | 14.6% | 14.2% |
| Average | | | 12.6% | 15.7% |