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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%
Freescall 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%

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%