



How IBM and SAP can help reduce the TCO of your SAP environment

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New market conditions require new solutions to grow your business

More than 8,000 joint customers trust SAP® and IBM® to help streamline their production processes. In the recovering economy, companies are now looking to harvest even greater returns from their IT investments: the good news is that SAP and IBM have focused on this next step, and are offering solutions designed to reduce the Total Cost of Ownership (TCO).

As companies ready themselves for growth of revenue and profit¹, firms need to respond faster to market changes and adapt more quickly than others to stay ahead of the game, developing new business models to reflect the changed conditions.

Customers who have gained the benefits of streamlined processes by introducing SAP business applications are now heading for the next steps. Business process transformation, resulting in increased responsiveness, flexibility and resilience, leverages these strategic SAP investments and helps customers take better advantage of their IT infrastructure. IBM has developed a means of enabling companies to adapt faster and at the same time become more cost efficient. This innovation is described as on demand business².

This paper illustrates the key aspects of on demand business for SAP customers, and how more business benefits can be achieved in a collaborative fashion. On demand business marries the strength of SAP's integrated business applications with an integrated change process, optimizing costs and opening pathways to greater innovation and growth.

¹) According to the IBM BCS Global CEO Study 2004

²) On demand business does not denote a product branding nor does it reference a specific program adapter or complementary software component. On demand business describes a set of IBM offerings specifically tailored to the needs of SAP customers. This article describes the context of the use of on demand business with SAP customers.

Highlights

Fundamental advantages of an on demand business: flexibility, resilience, concentration and responsiveness

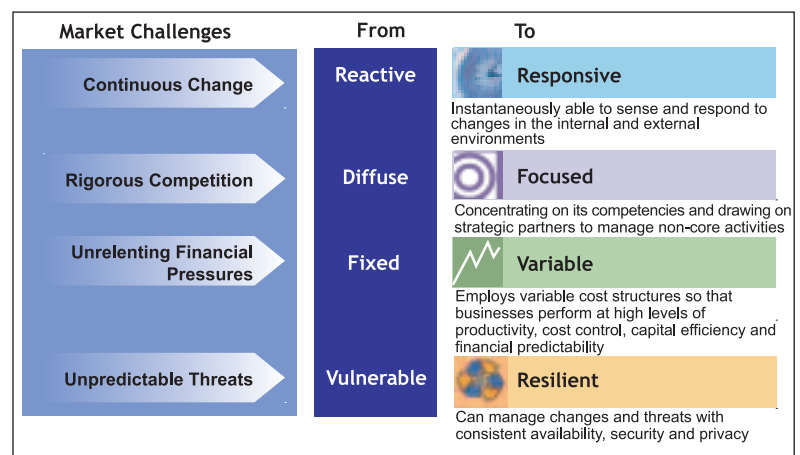
Co-evolution of business strategy and IT systems

Methodical transformation processes developed by IBM

Technical configuration designed to deliver on demand functionality

With on demand business, IBM provides capabilities to help SAP clients adapt to changing market conditions more quickly, and to unlock the full potential of SAP applications that they have already deployed.

The IBM approach enables SAP clients to integrate processes with key partners, suppliers and customers, and respond with speed to any customer demand, market opportunity or external threat. This is what IBM calls an on demand business.



Market pressures and resulting company strategies towards an on demand business

An on demand business has four major characteristics:

- *Respond more quickly to market trends*
- *More resilient processes and infrastructure*
- *Focused on core competencies*
- *Flexible cost structures and strategic partners*

Highlights

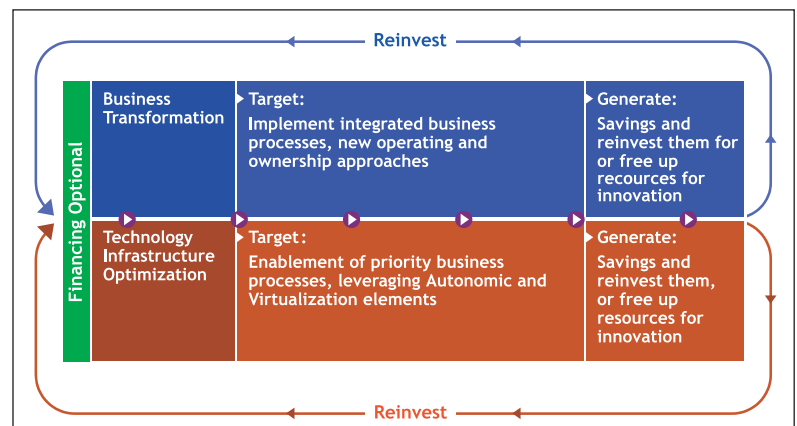
A holistic view

What is different about IBM's on demand approach?

IBM's approach delivers strategic advice, process, application, infrastructure and sourcing optimization in a holistic fashion, fully leveraging previous investments and recognizing the customer business strategy.

Efficiency from the beginning

On demand business explicitly addresses clients' needs for both flexible project management and tangible short-term benefits. Through IBM Global Financing, clients can leverage special financing options which tie realized benefits to payment streams. This financial package enables IBM to run projects with minimal initial impact on budgets. For example, cost savings can be reinvested for subsequent steps. This reinvestment cycle helps to deliver return on investment as early as possible, and upfront project costs can be minimized.



Reinvesting savings help lower initial budget requirements

Small budget – big effect

IBM has a unique capability to deliver on all aspects of becoming an on demand business. With a total service from IBM, SAP clients can realize benefits from their application landscape far more quickly than using a piecemeal approach, and take advantage of a single source of all the appropriate business and technical transformation techniques.

Highlights

IBM's on demand strategy

How do you develop an on demand business? IBM has a structured process to help transform a business, focusing on process, application and infrastructure.

The first step: Focusing on own strengths ...

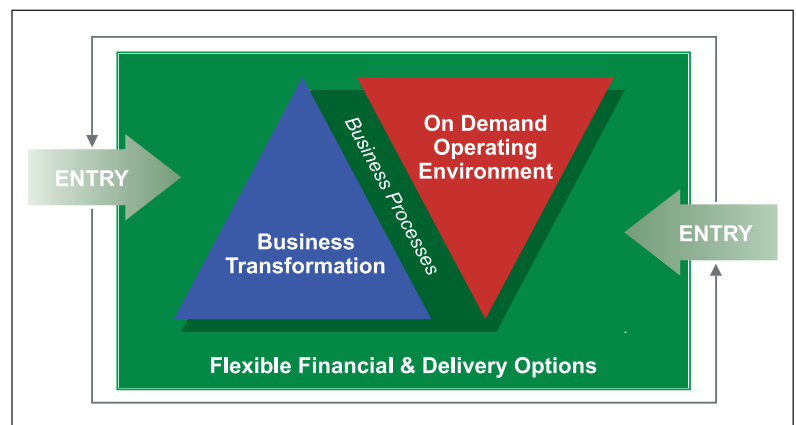
In order to make the transformation towards an on demand business, a firm must first identify distinctive business processes that form the core of the company's competitive advantage. All SAP customers will be familiar with the idea of growth-oriented business transformation and with the benefits of integrated business applications.

... especially in the face of SAP applications

IBM's business consulting expertise, based on industry and application in-depth knowledge, provides enablement for customers to deploy new strategic business processes and SAP functions more quickly, supporting faster time-to-market and a more cost-effective business operation. Many SAP clients have already benefited from this advice and are now transforming their business to a more competitive business model.

Adaption of adequate infrastructive technologies

Second, an on demand business will utilize flexible technology infrastructures, closely aligned with the new business processes. IBM and SAP have teamed up to explore adaptive computing infrastructures, allowing clients to proactively apply processing capacity where it is needed, which cuts overall infrastructure spending while improving responsiveness and resilience.



Elements of an on demand business

Highlights

Choose the optional platform for SAP applications

Running an on demand business means leveraging flexible financing and delivery options in the context of the first two steps. IBM can provide a broad choice of alternatives, ranging from simple hosting to complete business process outsourcing, with support at every stage from IBM Global Financing. No matter which path proves to be the best option, SAP applications provide an excellent platform to run commodity processes either in-house or in an off-shore or out-sourced model.

Conclusion

The on demand business model helps SAP clients to adapt more quickly to changing market conditions:

- *Optimizing processes and sourcing*
- *Establishing a continuous re-investment cycle*
- *Focusing on differentiating processes and applications*
- *Optimizing cost structures and releasing funds for innovation*
- *Enhancing effective processes and infrastructures.*

Highlights

TCO as an indicator of the profitability of IT investments

Two strategies to lower TCO

Concrete suggestions for cost savings

Starting points to change cost structures

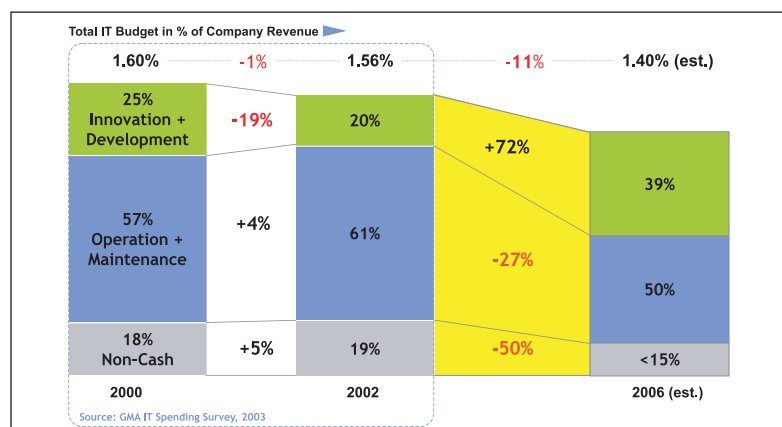
Identifying cost drivers

How on demand helps reduce TCO

What is TCO and how are customers investing today?

Though Total Cost of Ownership (TCO) has been described many times, TCO metrics are difficult to compare. In the context of this article, TCO is a model/framework that helps enterprises to understand the costs and benefits associated with acquiring, owning and using Information Technology (IT) components throughout the entire lifecycle³. TCO comprises⁴

- *Direct costs, such as investments in hardware, software, services (project costs), management, operations, maintenance*
- *Indirect costs, for example end-user operations, downtime, etc.*
- *Non-cash costs, such as depreciation of assets*



Observed and projected SAP TCO development

Identifying cost drivers

When looking at average IT spend, it becomes obvious that most IT budgets are still largely focused on operations and non-cash spending (picture shows budget in average % of total company revenue). The focus on operations means that there is less IT budget available for new developments and innovation, and, as a result, business and IT transformation is further constrained.

What can be done to unblock this situation?

³⁾ Definition from Interpose, Inc.

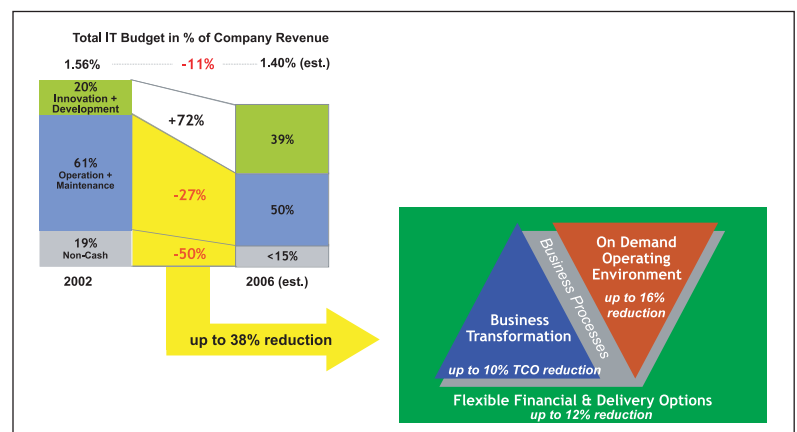
⁴⁾ Projected savings were estimated based on the GMT IT Spending Survey 2003, sampled IBM customer data, the IBM GMV database and analyst market projections.

Highlights

Finding the right cost mix

TCO savings potential for SAP customers

Clearly, high costs are inhibitors of growth. As shown in the picture below, the majority of SAP customers devote a substantial portion of their IT budget to non-cash, maintenance and operation. Some aspects of operation and maintenance are crucial to ensure a smooth application evolution lifecycle. In order to release more funds for innovation (up to 38%), the mix of cost components with limited benefit has to change.



How on demand helps achieve innovation gains

Two strategies

Depending on the transformational capabilities of a company, there are two fundamental paths to lower TCO:

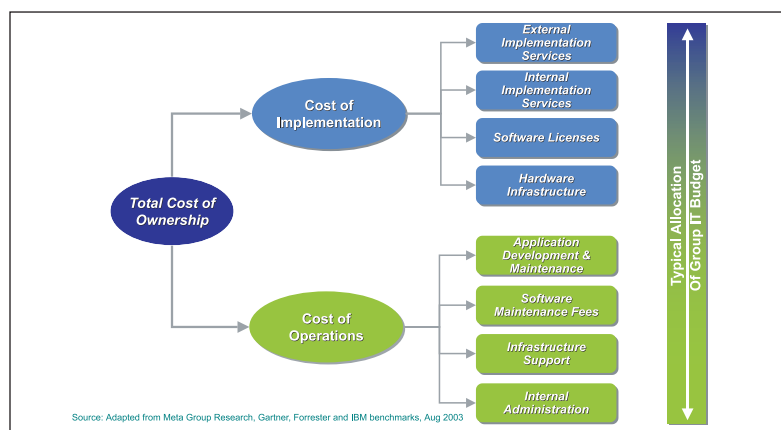
- *Optimizing the current cost structure, or*
- *Changing the cost structure by transforming the business and IT infrastructures*

Both paths will deliver TCO savings. Within each option, IBM also leverages the cost advantages coming from SAP's adoption of a common application platform (SAP NetWeaver). IBM BCS offers diagnostic workshops (details available on request), which can help clients identify the best strategy for reducing TCO.

Highlights

Optimizing the current cost structure

A view on the current average spending of SAP clients reveals two major areas of investment: Cost of implementation and cost of operations.



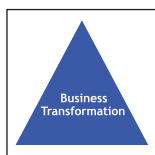
TCO improvement options

Detailed analysis of savings potentials

IBM's approach helps SAP clients to identify the areas for greatest cost reduction within the SAP lifecycle model, and breaks them down into TCO elements. A detailed model helps clients to identify savings potential in relation to the strategic and operational business value. The resulting client-specific list can be used to map out individual transformation steps, each of which is designed to optimize the cost structures.

Concrete suggestions

Example areas where IBM customers have achieved significant TCO improvements are listed below (percentages are indicative and are based on a series of IBM customer cases. Actual customer results may vary and might be limited overall when multiple solution aspects are combined):



- Rollout of industry templates, providing accelerated implementation through use of predefined SAP solutions and industry templates (up to 10% implementation improvement potential)
- Global optimization programs, including reduction of SAP program delivery costs (up to 25% implementation improvement potential) and optimized implementation services (up to 20% operations improvement potential)
- Reduce time-to-benefit realization, by leveraging existing infrastructures and experience, extensive ERP implementation and support experience, and accelerated processes and tools (up to 30% improvement potential)



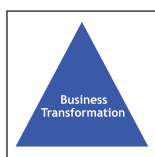
- *Achieving economies of scale through business process outsourcing of commodity business aspects (for example, leveraging productivity gains from higher capacity levels, centralization and standardization, reduction of manual processes) (up to 25% implementation and operation savings potential)*
- *System harmonization through the consolidation of organization, processes, applications and infrastructure provides significant improvement potential, eliminating redundancies (up to 15% improvement potential). More specifically, this includes hardware consolidation of physical SAP environments, which is particularly valuable after a merger or acquisition.*
- *Data harmonization, including master data harmonization and database consolidation, leveraging IBM's data management capabilities. Furthermore, shared service centers can be introduced, implementing a shared business and IT environment which reduces overheads and optimizes capacity allocation across a company. An SAP customer competence center (CCC) is one example of this approach.*
- *Implementation of dynamic resource provisioning and orchestration, including autonomic computing and virtualization elements (includes storage, server, databases and SAP application). Implemented as IBM Dynamic Infrastructure for mySAP Business Suite, this area can deliver substantial capacity improvements and increase the resilience (availability) and responsiveness (adapting to changing demand) (up to 15% infrastructure improvement potential).*

Highlights

Identifying the most effective starting points

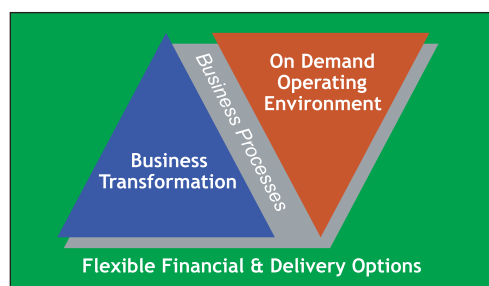
Changing the current cost structure

Changing the current cost structure requires an assessment of the company's overall spending processes. The IBM Business Consulting Services business transformation practice helps clients to isolate the most relevant cost elements for transformation, by looking at the entire business model to identify the key business elements with the highest cost-impact. An important element is the harmonization of business processes and IT systems, designed to improve the overall cost structure through a more-effective system landscape. This harmonization goes well beyond the optimization of existing cost components, and can deliver additional savings beyond the SAP cost structure reductions. For example:



Flexibility will be increased by refocusing in-house IT staff only on higher value SAP projects, such as rationalization of application portfolios, harmonization of data, security and operational management, and improving application development and support (up to 25% improvement potential)

Administrative staff numbers can be reduced by utilizing IBM standardized SAP technical project management delivered by IBM's AMS division or IBM off-shore capabilities (between 20 and 23% improvement potential)



IBM's flexible financial options can help to reduce consulting and internal staff costs by using standardized SAP basis services, processes, and tools on demand (activity-based ratecard). These financial options are valid for both implementation and operations.

Flexible sourcing and hosting options, ranging from traditional SAP hosting to business process outsourcing, can help to reduce hardware costs by leveraging shared environments for non-core systems. IBM leverages its global data centers (architecture, processes, tools, staff, and facilities) to optimize the SAP clients' cash flow (up to 45% savings potential)

Growth perspectives

Successful cost-saving projects help start the re-investment cycle described above. Customers may decide during the initial scoping sessions how released funds will be invested according to corporate strategy and key financial milestones defined.

In an accelerating economy, focus on innovation occurs more quickly than in tight markets. The IBM on demand business strategy is focused on turning attention, as quickly as possible, from cost-saving projects alone to innovation projects.

A client example: Large multi-national consumer products client

What were the challenges?

The client had a need for a new IT and business model making it possible for customer to satisfy quality of service with a controlled cost, take risks, become responsive and prepare for the future. There were specific challenges to address within the business organization:

- *Become faster in reacting to competitive pressures and new business opportunities*
- *Establish a more 'innovative' and 'aggressive' market approach to realize the company's vision*
- *Define business requirements in terms which can be translated into IT needs*

On the IT infrastructure side the following items were key:

- *Satisfy demanding Service Level Agreements (SLAs) and cost pressure requirements at the same time*
- *Position the IT organization with the ability to react to new business requirements*
- *Address the uncertainty about the value of the existing and future server solutions*

Highlights

Realizing a variable cost structure

How did IBM address these client challenges?

To address the need for more financial flexibility, the entire business and supporting IT model was based on a variable cost structure around service delivery. An initial system harmonization and server consolidation project carved out substantial savings.

The entire project was led by IBM Business Consulting Services, orchestrating a team of service, software and infrastructure consulting specialists and architects.

Capacity on demand was essential to satisfy the client's vision of more flexible operations management. Dynamic metering and billing have now become reality, tying together service level agreements and capacity provisioning.

Today, storage, server and application resources are managed dynamically (including the de-provisioning of unneeded resources), and billing is based on resources actually consumed.

Supporting financing concept

The project was supported by IBM Global Financing, with an adaptive project-based leasing model, billing overall project and operation costs on a monthly basis in one integrated package.

What were the benefits?

- *Immediate saving through landscape consolidation: IBM provided a tenfold reduction in servers*
- *Solved the real customer pain, with delivery of software as a service*
- *Reduced the infrastructure part of the IT budget by more than 40%*
- *Converted a significant part of FIXED costs into VARIABLE cost*
- *Delivered IT resources on demand (pay by use) with metered pricing*
- *Improved flexibility*
- *Balanced cost, capacity and quality of service even within an unpredictable demand scope*
- *As a result, the overall ROI was lowered within less than two months.*

Highlights

Complete portfolio of products and services

Complete portfolio of methods

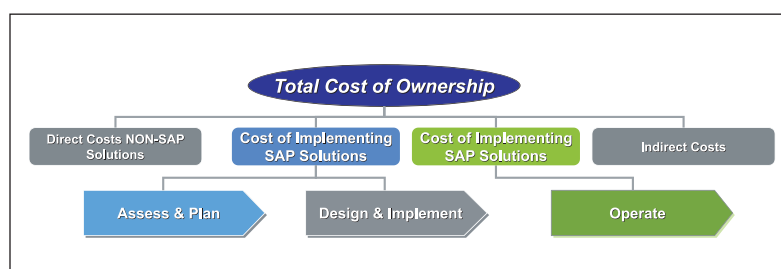
Joint elaboration of the strategy, step-by-step

Transparency of every project step

How IBM can help

IBM has the most complete portfolio of products and services to accelerate the optimization and transformation processes needed to release more company funds for innovation and designed to lead to a more responsive, resilient, focused and flexible business. IBM, uniquely, has the offerings and experience to help with these different approaches, or any combination thereof, from a single technology purchase through to an enterprise transformation.

As an initial step, IBM Business Consulting Services has a fast and comprehensive approach to help clients estimate and optimize the total cost of ownership for SAP solutions, and assess how the on demand business approach can produce real benefits based on the following structure:



TCO model and process

The on demand business strategy offers a menu of optimization opportunities. Within initial scoping workshops, SAP clients are guided through the on demand business methodology, which helps identify the most relevant options and how to implement them step by step.

SAP clients' business and financial priorities provide the framework for the sequence of cost saving and innovation projects, using the on demand re-investment cycle. Many clients start with a single implementation project, and re-invest the initial savings in subsequent optimization and/or transformation steps.

Further information

To learn more about how the IBM and SAP alliance can help your business, please visit: **ibm-sap.com**

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