

Choosing the Best Human Capital Management Suite: A Brief Cost and Benefit Overview for SAP Customers

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Executive Summary
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Choosing the Best Human Capital Management Suite

EXECUTIVE OVERVIEW

This summary document is written for SAP customers who are looking to implement a new human capital management (HCM) application. By tackling key issues such as integration, resource requirements, and product functionality, this document describes an assessment of the true costs and benefits of implementing and running SAP HR compared with Oracle's PeopleSoft Enterprise HCM. In particular, this document:

- Explains that much integration between HCM and financials applications can now be handled by prepackaged solutions and points out that technical advances have made real-time integration between PeopleSoft Enterprise, SAP, and legacy systems much easier.
- Uses a **total cost of ownership** model to compare the cost of investing in PeopleSoft Enterprise HCM and SAP HR over five years. Even if you already own an SAP HR license, factors such as implementation charges, upgrades, and support mean that the true costs of running PeopleSoft Enterprise HCM may prove lower than implementing and maintaining SAP HR.
- Examines the total benefit of ownership, including the capability of the two products in areas such as self service, support for business processes, and business intelligence.

This document is a summary of a more detailed red paper that examines these issues in greater depth.

SECTION ONE—WHY “BEST-IN CLASS” IS A REAL OPTION TODAY

In today's collaborative environments, companies need to be able to move data easily between different systems and link their business processes end to end, breaking down the traditional barriers between departments and different enterprises. Doing so requires good integration between software modules. One of the safest ways to achieve this integration has traditionally been to purchase enterprise applications from the same software developer, a “one-stop shop” approach that's long been a core tenet of SAP's development philosophy.

The downside of this approach is that it discourages users from selecting third-party applications that might better meet their business needs. And it's also oversimplistic. Even where they've “standardized” on SAP, most IT sites are

heterogeneous, supporting custom-built legacy applications and third-party software that was purchased for historical, tactical reasons. So, some degree of integration with non-SAP applications is usually required.

In addition, the complexities of integrating third-party applications with SAP have been overplayed, particularly in HCM, where there are some simple and effective solutions. Many organizations' needs center primarily on five or six key integration points that link their HRMS/payroll application to finance, such as transferring details of payroll transactions to the SAP General Ledger or linking time details to project management applications. In some instances, this capability can be handled through overnight batch transfer, but real-time integration is becoming increasingly important—for example, when a new project is created, users will want to report their time that day.

Either way, we supply different solutions to resolve these issues under the AppConnect strategy. Oracle's PeopleSoft Enterprise Payroll Process Integration Pack, for example, synchronizes business units, accounts, and market exchange rates while mapping HR departments to the SAP cost centers and then manages the posting of payroll data to the general ledger. It can be installed just once and maintains your integrations when either system is upgraded.

Another component of AppConnect, Oracle's PeopleSoft Enterprise Integration Broker, manages integration across the enterprise and between different companies, allowing organizations to automate cross-departmental processes. Built into all our applications, the IntegrationBroker connects to legacy systems without requiring customers to rewrite their existing integrations, and also helps customers build and manage real-time links between applications.

SECTION TWO—TOTAL COST OF OWNERSHIP

By working with independent researchers, we have developed a Total Cost of Ownership calculator that analyzes the cost of implementing and running PeopleSoft Enterprise HCM over five years and compares it with SAP HR. Some of the key components are outlined below.

Software License Fees

As an existing SAP user, you may have already paid for an SAP HR license even though you haven't implemented the system. If not, it's fair to assume that in a competitive pitch, SAP will offer you a heavy discount to match or even undercut our competitive pricing. There's a very good reason for this. It's not the license fee that accounts for most of a customer's financial outlay—it's the implementation costs, upgrade fees and ongoing maintenance. All these factors should be borne in mind when you select an HCM supplier.

Architecture: Underpinning the Total Cost of Ownership Equation

The architecture of an HCM application has a direct bearing on the total cost of ownership, impacting issues such as ease of implementation, customization and

upgrade. Many customers that have selected PeopleSoft Enterprise HCM say that the underlying environment was a critical factor in their decision.

The newest generation of Oracle's PeopleSoft Enterprise platform, Oracle's PeopleSoft Enterprise 8, is an internet-based application architecture. This design has important cost ramifications:

- **PC support costs.** The internet application architecture runs no software code on the client machine (such as the desktop PC or laptop), so when they're upgraded, customers don't need to make changes to end-user systems. By contrast, most SAP application software upgrades require some level of hardware and/or Microsoft Windows version maintenance on client PCs, which can be a major undertaking for global IT departments.
- **Flexibility versus complexity.** Our architecture is built from the bottom up on open internet standards and is designed for a heterogeneous environment. SAP's architecture is built around a proprietary kernel, with open standards wrapped around it, and has an additional SAP-specific architectural layer in the form of the Web Application Server (WAS). This "four-tier" model adds a layer of complexity for IT engineers and application developers.
- **Support requirements.** PeopleSoft Enterprise HCM users vouch for the flexibility of its applications and the ease of use for developers, which reduce support resource requirements. One IT manager tested HR scripts on both SAP and PeopleSoft Enterprise HCM during the selection process and concluded that it was possible to support PeopleSoft Enterprise HCM with close to a third of the support staff for SAP.¹
- **Impact on non-HCM systems.** Because of the way their applications are configured, customized and upgraded, SAP users often end up running different "instances" of the same software release or different versions of the same application. When they implement a new software module—such as SAP HR—they need to upgrade these existing applications to the same version and release to achieve tight integration. That upgrade can be a major undertaking. The alternative is to buy an older version of HR and miss out on the latest functionality or run the HR system standalone and build interfaces. If PeopleSoft Enterprise HCM is implemented, it has no impact on existing SAP applications.
- **Obligatory portal implementation.** Unlike PeopleSoft Enterprise HCM, SAP HR users have to install its Portal product to run employee self service, a process that can prove cumbersome.
- **Future upgrades.** It's likely that at some point in the total cost of ownership lifecycle, SAP will attempt to develop a new internet-based HR application. This new application will require users to fund an additional major upgrade.

¹ Financial sector company that chose to implement PeopleSoft Enterprise HCM while running SAP Financials.

By contrast, the internet architecture of PeopleSoft Enterprise HCM provides a platform for the next five years and beyond.

Implementation Costs

Although a customer backlash in the mid-1990s prompted suppliers like SAP to take steps to reduce their implementation times, it remains an issue. In a survey of SAP's reference customers published in March 2003, Nucleus Research found that “nearly half the companies studied reported that their implementations of various SAP applications exceeded the initial deployment budget.”

Our implementation costs are lower, and the Compass implementation methodology is built around best practices that reflect a long heritage in the HCM space. As part of our efforts to enhance the total ownership experience, we have also launched a range of initiatives to make implementation easier, from automating initial installation procedures to improving usability and developing PeopleSoft Enterprise Payroll Process Integration Pack outlined previously in this document.

As an SAP user, you will likely have experienced the complexity of configuring and customizing its financial or manufacturing applications, and SAP HR is little different. Points to consider include:

- **Architectural Complexity.** The complexity and monolithic nature of SAP, combined with the specialist demands of the code base, require extensive resource and specialist skills.
- **Quality of tools.** PeopleTools are designed for use by application developers, rather than the heavyweight IT engineers of the SAP environment.
- **Additional configuration requirements.** Even for “vanilla” or low-customization implementations, SAP requires more configuration than PeopleSoft Enterprise HCM. For example, there are two workflows to configure—one for the web-facing applications, one within R/3.
- **Functionality gaps.** The less functionality that's delivered “out of the box,” the more custom design needs to be undertaken. As we explain in the next section, the breadth and depth of PeopleSoft Enterprise HCM functionality is widely recognized: to match it, SAP customers may need to build.
- **Global complications.** Handling a global rollout requires additional work. For example, SAP has 36 different payroll products, with a separate country line for each. Oracle's PeopleSoft Enterprise Payroll is built on a single code line for multiple countries and currencies.

Ongoing Transaction Costs

One best way to reduce costs through HCM applications is to implement employee and manager self service. According to research carried out by Cedar, for example,

enrollment in benefits falls from a manual cost of \$98.94 to \$21.79 through using our collaborative applications.

Though SAP may argue that it also offers cost reductions through self service, the important factor is how many transactions can be carried out in this way—the more manual transactions that can be automated, the bigger the ongoing savings. We currently provide easily implementable functionality for around 200 transactions, 97 for employee self service, and 103 for manager self service. By contrast, SAP offers a total of only 80 manager and employee self service transactions. Of these, around 20 can be implemented relatively quickly, mostly for basic tasks such as viewing 401(k) statements, the remaining 60 transactions have to be customized.

Support

Theoretically, running SAP HR in an all-SAP environment should allow CIOs to pool their IT support resource. In practice, this is not normally the case. SAP HR requires different skill sets to other SAP environments. Unlike SAP Financials, for example, the SAP HR architecture includes “info types,” which determine screen sequences and behavior. In addition, few organizations have sufficient spare capacity to handle a whole new application set. Above all, because of SAP’s complexity, the support resource requirements tend to be far higher than ours.

Under the Total Ownership Experience initiative, we continue to reduce the support overhead. The structure of certain products has been simplified—for example, the number of transformation steps in Data Warehouse has been halved—and embedded diagnostics has been introduced to help customers identify and tackle problems more quickly. We are also streamlining the way that maintenance upgrades are handled to make it easier for customers to manage updates.

SECTION THREE—TOTAL BENEFIT OF OWNERSHIP

Total benefit of ownership is an analysis of the hard and soft factors that relate to software investment and is designed to assess how enterprise applications enable businesses to maximize their efficiency and effectiveness. Analysts and customers alike acknowledge that we have the experience in the HCM space, and this is reflected in several key areas.

Depth of Functionality, Support for End-to-End Processes, and Usability

Depth and breadth of functionality is a core component of any software selection exercise, and the richness of the PeopleSoft Enterprise HCM suite remains a key factor in customers’ purchasing decisions. The strength of our competency management application, for example, is one reason why IIPC, one of the world’s largest users of SAP manufacturing and finance applications, opted to run

PeopleSoft Enterprise HCM.² Richness of functionality is critical in areas such as self service— and, as we have explained, SAP's self-service suite lags behind in architecture and functionality.

Our collaborative applications are designed to support cross-functional needs, combining standalone functionality with the messaging technologies required to automate and manage different business processes. One good example is Oracle's PeopleSoft Enterprise Recruiting Solutions. We provide a broad range of applications to support each aspect of the recruitment cycle, beginning with easy-to-use tools for workforce planning and skills analysis. The Recruitment suite itself includes features such as job agents, offers integration to third party services for online job postings and background checks, and manages candidate data each step of the way. Once a candidate is hired, easy integration with the HRMS and payroll systems ensures a smooth onboarding process. And for multinationals, we cater for country-specific needs, particularly in areas such as privacy regulations.

In addition, we have built extensive contingent workforce capability into Oracle's PeopleSoft Enterprise Services Procurement application, giving organizations complete visibility into total headcount and spend. By using Oracle's PeopleSoft Enterprise Learning Management suite, customers can also manage all aspects of employee development. This comprehensive talent management capability is typical of the richness of our entire product suite.

Customers and independent analysts also comment favorably the PeopleSoft Enterprise HCM product suite's ease of use, and the company is committed to further enhancing the user experience as part of its Total Ownership Experience.

Business Intelligence: Supporting Operational and Strategic HR

Our performance management capabilities are recognized in both the user and analyst community. In February 2003, for example, AMR Research described PeopleSoft Enterprise analytic architecture as “industrial strength.”³ Its HCM analytical capability consists of the following:

- **Out-of-the-box functionality.** Some 400 reports are delivered as standard with the PeopleSoft HRMS. Tools delivered with PeopleSoft 8.17 also allow users to run ad hoc queries.
- **Data warehousing.** Using Oracle's PeopleSoft Enterprise HRMS Warehouse, customers are able to bring in data from PeopleSoft Enterprise, SAP, and other sources and relate workforce data to financial information, customer information and other business-critical data.
- **Metrics, benchmarking and insights.** The PeopleSoft Enterprise HRMS Warehouse comes with 160 pre-defined metrics to measure the effectiveness of HCM business processes, allowing customers to bring in external

² See Case Studies, Section Four.

³ “Profiles in EPM,” AMR Research, February 2003.

benchmarking data. A set of insights allows users to do multidimensional analysis of headcount, workforce movement, diversity, and so forth.

- **Workforce scorecarding.** Oracle's PeopleSoft Enterprise Workforce Scorecard illustrates targets for each measure, the outcome of the measure, and how that outcome may impact the organization. Based on the Balanced Scorecard, it includes 31 predefined Key Performance Indicators (KPIs).
- **Compensation planning.** This capability is built into the PeopleSoft Enterprise HRMS application, while sophisticated modeling tools are also available within Oracle's PeopleSoft Enterprise Workforce Analytics suite.
- **Retention planning.** Retention planning capability helps customers better understand how retention issues impact the business and allows them to track key performers.
- **Workforce planning.** This capability assists analysts with planning, allowing them to establish competency and proficiency rules and create scenarios for assessing competency levels.

In addition to its business intelligence packages, the PeopleSoft Enterprise HCM suite contains an advanced level of analytical capability in its transactional and management applications. They include Enterprise Incentive Management, which allows organizations to model and manage complex incentive schemes, and Online Performance Management, which provides a framework for individual performance measurement and links to learning and competency management software.

By contrast, SAP's basic reporting functionality usually requires a super user or third-party expert to create and run reports. Because of the complexity, SAP has tended to recommend that users make an additional investment in its Business Warehouse, a very different environment from the ABAP-based reporting of SAP's HRMS. While SAP's HCM analytics suite has an engine, most of the KPIs in its suite are generic, and only a limited number are specifically populated for the HCM environment.

SECTION FOUR—SAP USERS CHOOSE PEOPLESFT ENTERPRISE HCM

Case Study: IIPC

A joint venture between IBM and Chinese computer company Great Wall Computer Group, IIPC manufactures and ships computer products around the world and is one of the top 10 exporters out of China. Although the company runs one of the biggest SAP systems in the world for its manufacturing, distribution, and financials operations, it selected PeopleSoft Enterprise HRMS system in 2001. According to CIO Johnny Wong, there were several reasons behind that decision, including:

- The necessary technology was provided to handle competency management.

- PeopleSoft Enterprise 8 has a high volume of flexible interfaces to external systems such as time recording and web recruitment.
- IIPC wanted to access its different applications through a browser, which plays to the internet architecture that underlies PeopleSoft Enterprise 8. This architecture has generated a number of benefits, including reducing training costs for new hires.
- The software provides the best localized fit for IIPC's HR needs in China.

Phase One of the implementation went live in October 2001 and focused on automating manual processes in areas such as employee records, recruitment, benefits, and variable pay. Under Phase Two, it is now concentrating on areas such as competency management.

Case Study: STMicroelectronics

STMicroelectronics, the world's third largest independent semiconductor supplier, had already committed to SAP Financials when it began looking for a global HRMS system. Its decision to implement PeopleSoft Enterprise HRMS—which was upgraded to version 8 at the end of 2002—was based on several key issues that are as relevant today as they were during the initial installation:

- Better flexibility. The infrastructure allows individual countries to retain autonomy in the way they run HR processes while still retaining one core software platform. For example, if there's a specific way to calculate a headcount report it can be done with some customizations.
- The company was able to meet STMicroelectronics' requirements in 31 different countries.
- It's better to support a mixed IT environment rather than be reliant on one sole supplier—that way, each supplier knows that if problems arise, it's easier for the customer to switch.

The company rolled out PeopleSoft Enterprise HRMS to more than 43,000 employees in 31 countries on a country-by-country basis over three years and is now starting to deploy some eHR services, such as web-based elearning enrollment.

CONCLUSION

For SAP customers who are facing a choice between implementing SAP HR or PeopleSoft Enterprise HCM, the key issues can be distilled into five questions:

- Which vendor offers the lowest Total Cost of Ownership? From initial implementation through support and upgrades, PeopleSoft Enterprise HCM will typically have a lower TCO.
- Which product offers the richest functionality? PeopleSoft Enterprise HCM provides the depth and breadth of functionality that users need and support

for end-to-end processes, and it is richer than SAP in critical areas such as self service.

- Which product provides the best business intelligence? Analytics capabilities in PeopleSoft Enterprise HCM surpass SAP's, both through functionality bundled with HRMS and its Workforce Analytics suite.
- Can the HCM application be easily integrated with existing SAP applications? Thanks to the unique nature of HCM integration and the capability of PeopleSoft's Process Integration Packs and Integration Broker, users can easily implement PeopleSoft Enterprise HCM and still leverage their existing investment in SAP.
- Have other customers already gone down this route? Customers like IIPC and STMicroelectronics illustrate the benefits of running Oracle's PeopleSoft Enterprise HCM in an SAP environment.



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