

Weighing Your Options for Human Capital Management

An Oracle White Paper
January 2006

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EXECUTIVE OVERVIEW

This summary document provides Oracle's PeopleSoft Enterprise Human Capital Management customers with the key factors they should take into account as they plan their technology investment. It provides a new perspective on the costs and benefits of running PeopleSoft Enterprise HCM in an SAP environment and examines:

- **Total Cost of Ownership.** Working with independent researchers, we have developed a TCO model to compare the true costs of implementing and running PeopleSoft Enterprise HCM and SAP HR over five years. The key issues are highlighted in this document.
- **Total Benefit of Ownership.** This document compares the depth and breadth of both suites in areas such as self service, support for business processes, and performance management.
- **Software Architecture.** This paper examines how the design of applications has a significant impact in areas such as usability, IT resource requirements, and upgrade costs.

This document is a summary of a more detailed document that provides further information about the components of the TCO model and includes two case studies.

SECTION ONE: ARCHITECTURE AND APPLICATION DESIGN

Many enterprise application vendors claim to have an internet-based application architecture, but the newest generation of PeopleSoft Enterprise 8 is an internet design. This architecture isn't an esoteric issue for technologists—the architecture of HCM applications has enormous implications in the following three key areas: end-user implications, architectural complexity, and application design and business flexibility.

End-User (“Client”) Implications

Because of its internet architecture Oracle's PeopleSoft Enterprise applications require no software code to run on client (or end-user) machines. When a PeopleSoft Enterprise HCM application is upgraded, customers don't need to

upgrade end-users' PCs or other access devices. SAP's software, by contrast, isn't an internet design, so most of SAP's software upgrades require maintenance on the client, which is a major logistical undertaking for IT departments that support users at multiple sites.

Architectural Complexity

While our architecture is built from the bottom up on open internet standards, SAP's architecture is built around a proprietary data kernel with open standards wrapped around it and has an additional architectural layer in the form of a proprietary web applications server (WAS). This "four-tier" model adds a layer of complexity for IT engineers and application developers.

SAP's monolithic structure also means that its applications are tightly coupled and inter-independent, which has important implications. If an organization that runs SAP in one part of its business decides to implement SAP's newest HR release, it must first standardize all its existing applications on the same version and same release to integrate it fully. The only way to avoid this major effort is to buy an older version of SAP HR (which means missing out on the latest functionality) or run the HR system as a stand-alone system and build interfaces to other SAP applications.

To tackle these kinds of issues, it's likely that at some point during the coming five-year TCO lifecycle, SAP will develop a new internet HCM application. This effort will require users to pour resources into an additional major upgrade, which effectively amounts to a reimplementation.

Application Design and Business Flexibility

Another downside to the tight coupling between SAP's applications is that there's less flexibility within the individual applications. For example, SAP HR costs are located in the SAP Financials database, which means that the SAP HR application depends on SAP Financials and complicates upgrades.

Fundamentally, PeopleSoft Enterprise HCM was designed first and foremost for the HR environment. Its flexibility is one reason why STMicroelectronics, a global supplier of semiconductors, continues to run PeopleSoft Enterprise HCM alongside SAP for finance. Prior to the rollout of the HCM applications, individual country offices had their own local and legal processes to handle HR activities like recruitment and training, differences that could be handled within PeopleSoft Enterprise HCM with some customizations. "It has been possible to move everyone to one single software platform yet still allow individual countries to manage their own business and legal processes," says Pierre Mollon, corporate HRIS manager. "The real key point was flexibility—and if I had to make the choice today, I would do the same."¹

¹ STMicroelectronics, the world's third largest independent semiconductor supplier, started to implement PeopleSoft Enterprise HCM at the end of 1996, having already committed to SAP Financials.

SECTION TWO: TOTAL COST OF OWNERSHIP

Total Cost of Ownership is an equation that's designed to give customers a picture of all the factors that contribute to technology adoption. By working with independent researchers, we have developed a TCO calculator that helps organizations assess the true cost of leveraging their existing investment over five years and compares it with the cost of running SAP HR.

License Fees

As an existing customer, you need to make two calculations to assess the cost of enhancing your existing platform or implementing SAP HR:

- Assess the cost of purchasing replacement software from SAP for the applications that you already own against the zero license investment required to keep them.
- Compare the costs of future license fees for new modules that you plan to purchase with similar applications from SAP (if they are available).

For obvious reasons, the combined calculation will come out heavily in favor of continuing to leverage your investment. How great the difference is will depend in part on how heavily SAP discounts its license fees. Bear in mind that though heavy discounts are attractive, the payback comes later—the cost of an SAP license is usually dwarfed by the implementation fees.

Implementation Costs

Although suppliers like SAP took steps to reduce their implementation times following user backlash, analysts indicate that implementation remains an issue. In a survey of SAP's reference customers published in March 2003, Nucleus Research found that “nearly half of the companies studied reported that their implementations of various SAP applications exceeded the initial deployment budget.” The cost of consulting alone ranged anywhere from \$1.5 million to \$45 million.²

As we explain in this document, our implementation costs are lower, and our techniques reflect a long heritage in the HCM space. The Compass Methodology for implementation is built around best practices that we have learned in the field over generations. In addition, as part of its efforts to enhance the Total Ownership Experience, we have launched a range of initiatives to make implementation easier, from automating initial installation procedures to improving usability and developing new products to ease integration.

Many components contribute to the total implementation charge, including testing, training, and integration (see below). One important factor is customization and configuration.

² “The Real ROI from SAP,” Nucleus Research, March 2003.

Even for low-customization implementations, SAP requires more configuration. For example, two workflows must be configured—for the web-facing applications and the core R/3 product set—and user authorization procedures differ in both environments. In addition, customers often have to configure reporting in both R/3 and on SAP’s Business Warehouse.

The resource requirements mount when organizations customize their core applications. In its study of the SAP user base, Nucleus Research found that “excessive customization” and high personnel costs were two reasons why SAP customers were unable to achieve a positive ROI.

The reasons for this high spend include the following:

- SAP’s complexity and monolithic nature, combined with the specialist demands of the underlying code base, require extensive resource and specialist skills.
- Experts acknowledge that our configuration and customization tools are robust and intuitive.
- The less functionality that’s delivered “out of the box,” the more custom design that needs to be undertaken. The breadth and depth of PeopleSoft Enterprise HCM functionality is widely recognized; to match it, SAP customers may need to build.
- If users limit the amount of customization, they will need to reengineer their business processes to conform to the SAP system, which may entail extensive change management.

Integration

One myth about running a mixed IT environment is that the integration overhead will be significantly higher than in a “one-stop shop,” where all applications are provided by the same vendor. In reality, many customers’ integration needs center primarily on five or six key integration points, allowing them, for example, to transfer details of payroll transactions to finance or link time details to project management applications. Sometimes this data can be transmitted in overnight batches, but real-time integration is becoming increasingly necessary. For example, where a new project is created, users will need to report their time that day rather than wait for an overnight batch update.

We supply different solutions to resolve these issues under Oracle’s PeopleSoft Enterprise AppConnect strategy. Where customers choose to integrate Oracle’s PeopleSoft Enterprise Payroll with SAP General Ledger, for example, integration requirements can be met by using Oracle’s PeopleSoft Enterprise Payroll Process Integration Pack.

The PeopleSoft Enterprise Process Integration Pack 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 to manage core integrations, and when systems are upgraded, it maintains the integrations.

PeopleSoft Enterprise Integration Broker, another component of PeopleSoft Enterprise AppConnect, manages integration across the enterprise and between different companies, providing a platform for collaboration and allowing organizations to automate cross-departmental processes. The PeopleSoft Enterprise Integration Broker, which ships with current versions of Peoplesoft Enterprise 8, is primarily deployed for three key purposes:

- To connect PeopleSoft Enterprise applications to existing “legacy systems.” Customers do not need to rewrite their existing integrations—PeopleSoft Enterprise Integration Broker works with what is there.
- To build and manage real-time links between applications, rather than rely on batch file transfer. This capability can translate into direct cost savings for key HR processes.
- To provide an integration environment, linking PeopleSoft Enterprise with other applications within an organization and providing external links to customers, partners, and suppliers. This technology is essential to building interdepartmental and inter-enterprise business processes.

Upgrades

The extent of any upgrade is dictated by factors such as how much customization has been made, and, in some instances, upgrades effectively amount to re-implementations. Where the underlying architecture changes, so too do the business objects, functions, and processes, which means that data has to be migrated to accommodate new rules and customizations need to be rewritten.

Many of our customers have already made the transition to our new internet architecture, Oracle’s PeopleSoft Enterprise 8.x, which can be expected to provide an underlying platform for the next five years. SAP customers, by contrast, face the possibility of having two major upgrade projects in the five-year cycle. If they purchase the latest version of SAP HR, customers will need to upgrade their existing applications to enjoy full integration or run it alone. In addition, it’s reasonable to assume that SAP will introduce a pure internet HCM application.

Ongoing Costs of Ownership

Ongoing costs of ownership include the following components.

Maintenance and Support

Theoretically, running SAP HR in an all-SAP environment should allow CIOs to pool their IT support resources and save money. In practice, this is not normally the case. For one thing, SAP HR requires different skill sets than the SAP Financials environment because of design differences, so additional training would be required. In addition, few organizations have enough spare capacity to allow an

SAP Financials support team to take on additional work. Most importantly, because SAP is complex, its support resource requirements are high.

Under the Total Ownership Experience initiative, we are continuing our efforts to reduce both the support and maintenance overhead. We are simplifying the structure of certain products, introducing embedded diagnostics to help customers tackle problems more quickly, and streamlining the way maintenance upgrades are handled.

Transaction Costs

One of the biggest benefits of implementing employee and manager self service is the reduction in HR costs. 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 Oracle's PeopleSoft Enterprise collaborative applications.³

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 implemented functionality for around 200 employee and manager self-service transactions. By contrast, SAP offers a total of only 80 manager and employee self-service transactions, and of these, only around 20 can be implemented relatively quickly.

SECTION THREE: TOTAL BENEFIT OF OWNERSHIP

Total Benefit of Ownership is a comprehensive analysis of the hard and soft factors that relate to software investment. Having worked closely with our customers and partners for so many years, we have built a wealth of HCM expertise, which is reflected in the following:

- Rich product functionality, generating tangible benefits in areas such as self service.
- Ability to support core HCM business processes, which reflect industry best practices.
- Business intelligence tools, which support both operational and strategic HR.
- Ease of use and other design benefits.
- Broad customer base, including SAP users who selected PeopleSoft Enterprise HCM.

By way of example, three of these areas of expertise are detailed below.

End-to-End Processes and Collaborative Applications

Our collaborative applications are designed to support cross-functional requirements, combining stand-alone functionality with the messaging technologies

³ "PeopleSoft Self Service/Portal Effectiveness Assessment and Audit," conducted by Cedar, 2001–2003.

required to automate and manage different business processes. One example is the recruitment process. We provide a broad range of applications to support all recruitment-related activities, including:

- Workforce planning, which is part of Oracle's PeopleSoft Enterprise Workforce Analytics suite.
- Skills and competency analysis, provided in the core HRMS.
- Recruitment process management.
- Contingent workforce capability, to provide complete visibility into headcount and spend.
- Integration with third-party services (for example, for job postings and background checks).
- Making new hires productive rapidly, thanks to integration of recruitment, HRMS, payroll, and asset management systems.
- Employee development through Oracle's PeopleSoft Enterprise Learning Management.
- Measuring effectiveness by using tools bundled with Oracle's PeopleSoft Enterprise HRMS and recruitment applications, along with Oracle's PeopleSoft Enterprise HRMS Warehouse and Oracle's PeopleSoft Enterprise Workforce Scorecard.
- Global capability.

Enterprise Performance Management, Reporting, and Analytics

Our performance management capabilities are widely recognized in both the user and analyst community. Its HCM analytical capability consists of:

- Out-of-the-box functionality. Some 400 reports are delivered as standard with PeopleSoft Enterprise HRMS, while tools allow users to run ad hoc queries through their web browser.
- Data warehousing. This capability is available through PeopleSoft Enterprise HRMS Warehouse.
- Metrics, benchmarking, and insights. HRMS Warehouse comes with 160 predefined metrics, and PeopleSoft Insights allow users to perform multidimensional analyses.
- Workforce scorecarding. PeopleSoft Enterprise Workforce Scorecard, which is based on Oracle's PeopleSoft Enterprise Balanced Scorecard, includes 31 predefined key performance indicators (KPIs).
- Compensation planning. This capability is built into the PeopleSoft Enterprise HRMS application, and sophisticated modeling tools are also available within Oracle's PeopleSoft Enterprise Workforce Rewards.

- Retention planning.
- Workforce planning.

By contrast, SAP's basic reporting functionality is cumbersome and usually requires a super user or third-party expert to create and run reports. SAP's HCM analytics suite also significantly lags behind—it has an engine, but most of the KPIs in its suite are generic, and only a limited number are specifically populated for the HCM environment.

Ease of Use

As well as reducing costs, our design offers a number of significant benefits to PeopleSoft Enterprise HCM customers. They include:

- Ease of implementation, customization, and ongoing development. PeopleSoft Enterprise HCM is less complex architecturally than SAP, and PeopleTools is an intuitive development environment.
- Ease of upgrade. PeopleSoft Enterprise HCM users do not have to worry about end-user PCs when they upgrade because no code runs on client machines. Technologies such as PeopleSoft Enterprise Payroll Process Integration Pack and PeopleSoft Enterprise Integration Broker also ease integration.
- Common workflows. All our products use a common workflow to automate the flow of information within and between applications.
- Ease of navigation. Every part of PeopleSoft Enterprise 8 can be accessed through one common interface. SAP's R/3 application offers three different graphical user interfaces.

Navigation and general usability are a key focus of the Total Ownership Experience. In 2003, we doubled the size of our HCM usability team and carried out extensive usability testing across the entire product set. We also launched several development initiatives, including streamlining navigation, making the design of the HCM products even more intuitive, and introducing dashboards that present summary information and allow for drilling down.

CONCLUSION

For our customers who are facing a choice between implementing SAP HR or staying with 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 significantly lower TCO than SAP HR.
- **Which vendor offers the richest functionality?** The depth and breadth of PeopleSoft's HCM suite provides the functionality and support that users

need for key end-to-end business processes. PeopleSoft Enterprise HCM suite surpasses SAP in critical areas that deliver tangible cost savings, such as employee and manager self service.

- **Which vendor provides the best business intelligence to support operational and strategic HR?** Our analytics capabilities surpass SAP's both in terms of the functionality bundled with the core HRMS application and PeopleSoft Enterprise Workforce Analytics suite.
- **Can the HCM application be easily integrated with any existing SAP applications?** Thanks to the unique requirements of the HCM market and the capability of PeopleSoft Payroll Process Integration Pack and Integration Broker, users can implement PeopleSoft Enterprise HCM and still leverage their existing investment in SAP.
- **Have other customers already gone down this route and demonstrated that it works?** The experiences of customers like IIPC, STMicroelectronics, and Owens Corning illustrate that SAP users do have a choice.⁴ Running Oracle's PeopleSoft Enterprise HCM in an SAP environment brings proven business benefits.

⁴ This document is a summary of a more detailed document, which includes case studies and references to these customers.



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