

# Weighing Your Options for Human Capital Management

A Comprehensive Study of the Costs and Benefits  
of PeopleSoft Enterprise Versus SAP

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# Weighing Your Options for Human Capital Management

## EXECUTIVE SUMMARY

This paper provides Oracle's PeopleSoft Enterprise Human Capital Management customers with an in-depth guide to all the factors they should take into account as they plan their ongoing technology investment. Drawing on the experiences of research analysts, independent consultants, and customers,<sup>1</sup> this paper provides a new perspective on the true costs of running enterprise applications and the benefits of ownership, comparing the PeopleSoft Enterprise environment with SAP.

Recognizing that human capital management (HCM) technology decisions directly impact business performance and involve multiple company departments, this paper tackles the business priorities of all senior managers, including the heads of HR, IT, and Finance and the COO and CEO. In particular, this paper demonstrates that:

- The architecture of an enterprise application has a significant impact on the usability and adoption levels of the software, as well as the cost of maintaining and upgrading it. This key factor should be considered when committing to an HCM technology platform.
- The true costs of implementing and running business applications are often hidden. By working with independent researchers, PeopleSoft Enterprise has developed a superior ownership experience model that compares investment in PeopleSoft Enterprise HCM with SAP HR over five years.
- TCO is only one part of the buying equation; Total Benefit of Ownership is equally important. This paper compares the depth and breadth of Oracle's PeopleSoft Enterprise application suite with SAP, examining how effectively each supplier supports HCM business needs such as:
  - Automating HR transactions through self service.
  - Supporting interdepartmental business processes.

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<sup>1</sup> Analyst references are annotated throughout this document. Customers and consultants are named where permission was given.

- Providing business intelligence for more effective operational and strategic HR.
- Choice of vendor is about more than cost or functionality—it's also about proven vision, thought leadership, and the confidence inspired by a broad installed base of customers.

This paper concludes with two customer case studies that explain why the customers have committed to running PeopleSoft Enterprise HCM in an SAP environment.

## **INTRODUCTION**

As a user of HCM applications, the technology choices you make have a direct impact on business performance. The ability to plan your workforce needs, acquire and develop relevant skills, measure and manage performance, retain key employees—these kinds of core HCM practices all help you leverage your human capital and contribute to organizational effectiveness. And all are impacted by your technology investment decisions.

Within any organization, however, different constituents will feel that impact in different ways. Senior HR management will typically have both a departmental and enterprise-wide perspective, focusing on how effectively technology supports core HR responsibilities and cross-departmental processes such as talent acquisition. The CIO and other senior members of the IT team look to balance business needs with the practicalities of technology adoption, focusing on issues such as ease of integration or the resources required to customize applications. The CFO and other high-level officers will be set on determining the true costs of investment and balancing that against tangible business outcomes. The only constituents who aren't interested in these issues are the end users—they simply want easy-to-use tools that help them do their jobs.

This paper takes into account of each of these perspectives, providing a comprehensive analysis of all the different components that combine to form an IT investment strategy. It begins by explaining why issues such as architectural design matter to HR as well as to IT. It then looks at the true costs of running PeopleSoft Enterprise applications over a five-year period—the total cost of ownership (TCO)—and compares them directly with SAP. Finally, it focuses on total benefit of ownership, analyzing what functionality is available to meet your operational and strategic HR needs.

## **SECTION ONE: ARCHITECTURE AND APPLICATION DESIGN FROM COST TO AGILITY**

Although it was once seen as the domain of IT specialists, the architecture of HCM applications is a critical issue for senior HR management and other high-level officers. The way that enterprise applications are designed has enormous implications in terms of usability, ease of deployment, and cost of upgrade—each of which impacts the cost of ownership during the initial implementation period

and throughout the five-year TCO cycle. It's no surprise that the underlying environment has become the deciding factor in many customers' selection processes.

A flexible architecture has three important ramifications:

- The cost impact on end-user systems (the “client” system).
- The cost of managing central applications.
- Business flexibility and agility.

### **Impact on End-User Systems**

Oracle's PeopleSoft Enterprise platform is deployed online. This architecture is not an esoteric issue for technologists—internet applications require no software code to run on the client machine, a setup that has significant resource implications. In particular, when a PeopleSoft Enterprise HCM application is upgraded, customers don't need to make any changes to end users' desktops, laptops, or other devices. It also gives them flexibility in the kind of systems that end users can deploy, allowing individuals to access applications through a wide range of devices that run a web browser.

SAP's enterprise software, by contrast, is not a pure internet design, so most upgrades of SAP's enterprise software require some level of hardware or Windows version maintenance on the client PCs. For IT departments that have sites scattered across the world, this upgrade is a major undertaking—or, as one customer puts it, “That's a lot of frequent flyer miles.” One global company in the financial sector considered setting up a “war room” on the U.S.'s East Coast, where end users from around the world would send in their PCs to receive SAP HR client software. Not surprisingly, this condition was one factor in this customer's decision to choose PeopleSoft Enterprise HCM.<sup>2</sup> And the problem isn't restricted to client application software: some SAP customers have had to install new versions of operating systems to handle upgrades.

There are further implications at the client end in relation to interfaces and navigation. Every part of PeopleSoft Enterprise can be accessed through one common interface, a standard web browser. SAP's R/3 application, by contrast, offers three different graphical user interfaces (GUIs)—the R/3 GUI, the SAP GUI for HTML (for the internet), and SAP GUI for Windows—all of which need to be supported by the IT department. In addition, power users need to be trained on up to three different navigation techniques for the standard SAP R/3 menu, its self-service applications, and its portal.

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<sup>2</sup> This financial sector company ran SAP Financials for several years and recently completed a PeopleSoft Enterprise HCM implementation.

## Architectural Complexity

Though client issues are important, the design of the central application itself has more far-reaching ramifications. Existing PeopleSoft Enterprise HCM users will be aware of the flexibility of the applications and the ease-of-use for application developers. They may not be aware of the comparative complexity and rigidity of the SAP environment.

There are several issues here. First, the PeopleSoft Enterprise architecture is built from the bottom up on open internet standards and is designed for a heterogeneous environment. SAP's architecture, by contrast, 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 proprietary web application server (WAS). This "four-tier" model adds a layer of complexity for IT engineers and application developers, significantly extending deployment times and possibly requiring additional hardware to support it. Many large corporations have already standardized on IBM Websphere or BEA Systems for their intranets, and SAP's model therefore creates a redundant infrastructure.

Second, the steps that SAP takes to resolve these technical complexities may, ironically, create a second problem. It's likely that at some point during the coming five-year TCO lifecycle, SAP will attempt to achieve parity with PeopleSoft Enterprise by developing a new, pure internet-based HR application. As we explain in more detail in the section "Hardware and Related Costs" later in this document, this new application will require users to pour resources into an additional major upgrade. By contrast, the PeopleSoft Enterprise internet-based HCM application will provide a platform for the next five years and beyond.

Third, the complexity of the SAP architecture impacts implementation and ongoing maintenance. One IT manager tested HR scripts on both SAP and PeopleSoft Enterprise during the selection process and believes that the volume of components in the SAP system has major cost implications. "I feel very positive that you would probably be able to support a PeopleSoft Enterprise environment with close to a third of the support staff for the SAP environment," he says. He likens SAP's ABAP programs to the legacy Cobol mainframe program. "They do things very similarly, they're very procedural. You're paying a ton of money for something very old. That almost sealed the evaluation there—I was so very disappointed."<sup>3</sup>

Finally, the monolithic structure of SAP means that its applications are tightly coupled and inter-independent. Though this structure allows for close integration between the different parts of the suite, it has serious implications if an organization already runs SAP in one part of its business (such as finance or manufacturing) and decides to implement SAP HR for the first time. To integrate the new system fully, customers must standardize their other applications on the

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<sup>3</sup> This financial sector company chose to implement PeopleSoft Enterprise HCM while running SAP Financials.

same version and same release. That's a major task for global organizations, given that individual modules of enterprise applications tend to be implemented at different times, in different regions, by different departmental functions. The alternative would be to buy an older version of the HR suite or run HR as a stand-alone module and build interfaces to the other SAP applications.

### **Application Design and Business Flexibility**

Another result of the interdependency between SAP's applications is that there's less flexibility within the individual applications, and the disciplines of SAP Financials tend to pervade the HR application. For example, SAP HR costs are located in the SAP Financials database, which means that the HR application becomes dependent on Financials and complicates upgrades. In addition, while PeopleSoft Enterprise users can set up jobs and structures as they want because its rules are stored in the database, not hard-coded, SAP HR is rigidly position-based and creates additional system administration overhead for updates, changes, and maintenance. (For example, though a global PeopleSoft Enterprise customer can use the same code to identify project managers in every subsidiary, an SAP customer requires a separate code for each country. As a result, multiple changes have to be made to workflows and authorizations each time the project manager profile is changed.)

Fundamentally, PeopleSoft Enterprise HCM was designed first and foremost for the HR environment and operates smoothly with both other PeopleSoft Enterprise applications and third-party software. In the words of Nick Messerschmidt, a veteran of the HR applications arena with extensive hands-on experience of enterprise implementations: "PeopleSoft Enterprise cut its teeth in human resources. It knows the HR space so well, it's almost intuitive."<sup>4</sup>

The PeopleSoft Enterprise 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 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."<sup>5</sup>

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<sup>4</sup> Nick Messerschmidt, a 20-year veteran of the HR sector, implemented PeopleSoft Enterprise at an aerospace company and later at Boston Scientific, the medical devices company.

<sup>5</sup> 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. See Section Four, "Case Studies."

## **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. Even though organizations tend to focus on upfront fees, such as the cost of purchasing a new software license, these fees are only part of the picture. Over time, issues like the underlying design of the application will have a major impact on ongoing costs, especially when it comes to upgrades.

By working with a team of independent researchers, PeopleSoft Enterprise has developed a TCO calculator that helps organizations understand the true cost of leveraging their existing PeopleSoft Enterprise HCM investment over a five-year period and compares it to the cost of implementing and running SAP HR. The calculations, which incorporate data drawn from independent analysts' research and customer experiences, give the fullest picture of total cost of ownership.

The key components of this TCO calculation are:

- License fees.
- Implementation fees.
- Integration.
- Hardware and related costs.
- Upgrades.
- Ongoing costs of ownership.

These factors are outlined in more detail in the following sections.

### **License Fees**

As an existing PeopleSoft Enterprise user, you already own the license for the core HRMS and may well have begun to implement other parts of the suite, such as the collaborative applications or PeopleSoft Enterprise Portal. To establish the comparative TCO of leveraging that application or implementing SAP HR, you should:

- 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 PeopleSoft Enterprise license fees for new modules you plan to purchase with similar applications from SAP (if they're available).

For obvious reasons, the combined calculation will come out heavily in favor of continuing to leverage your PeopleSoft Enterprise investment. Just how big the difference is will depend on each specific customer scenario and how heavily SAP discounts its license fees. Bear in mind that though that discount itself may be

attractive, the payback comes later—the cost of an SAP license is usually dwarfed by the fees it earns with its partners in implementing the software.

### **Implementation Costs**

Implementation costs impact the TCO model from three perspectives:

- Replacing existing applications with new software will incur an upfront implementation charge (a charge that's avoided if you leverage your existing PeopleSoft investment).
- A cost will be associated with implementing additional modules in the future, such as collaborative applications. These costs differ, depending on the chosen HCM platform.
- Many of the factors that contribute to the initial implementation costs will arise again when products are upgraded, so the total impact could be two or three times as great over a five-year TCO cycle.

Though implementation requirements are unique to every site, fees are influenced by factors such as the complexity of the software and the breadth of prepackaged functionality. Typically, the industry measures the resource required for an implementation in relation to the license fee. For example, in a review of SAP's mySAP Financial Applications, research firm Gartner reported that the cost of SAP implementations typically range between six and 10 times the cost of initial license fees, with consulting services alone costing anywhere between \$1,000 and \$5,000 per day.<sup>6</sup>

Although a backlash from users and industry commentators in the mid-1990s prompted suppliers like SAP to take steps to reduce their implementation times, market analysts indicate that it 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 spend on consulting alone ranged anywhere from \$1.5 million to \$45 million.<sup>7</sup>

As we explain in the following sections, the PeopleSoft Enterprise implementation costs are far lower and its techniques reflect its experience in the sector. Our Compass Methodology for implementation is built around best practices that we and our partners have learned in the field over years, reflecting our 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 new products to ease integration (see below).

Several components combine to form the total implementation charge. These components are outlined following.

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<sup>6</sup> “SAP mySAP Financial Applications,” Gartner, May 2002.

<sup>7</sup> “The Real ROI from SAP,” Nucleus Research, March 2003.

### **Configuration, Customization, and Business Process Change**

In its study of the SAP user base, Nucleus Research found that “excessive customization” and high personnel costs were two key reasons why SAP customers were unable to achieve a positive return on investment (ROI). ERP deployments required 25 to 200 full-time internal personnel for implementation—personnel who had to be taken off their normal daily activities. In addition, it found that SAP customers spent twice the average fee on consultants alone to handle customization, back-end integration, and development of user interfaces.

The reasons for this high spend include:

- **Architectural complexity.** The complexity and monolithic nature of SAP, combined with the specialist demands of the underlying code base, require extensive resource and specialist skills.
- **Quality of tools.** The quality of configuration and customization tools is important. PeopleSoft Enterprise customers are already familiar with Oracle’s PeopleTools, which was designed for use by application developers rather than heavyweight IT engineers. By contrast, one customer with experience in both environments complains that making a minor customization in SAP—such as changing a literal—required him to pick through a large volume of SAP ABAP programs simply to find the relevant code.<sup>8</sup> As Nick Messerschmidt explains, this effort has financial repercussions: “SAP’s development tools are not as slick as the PeopleSoft Enterprise tools, so you’re taking longer to do the customization.”
- **Functionality gaps.** The less functionality that’s delivered “out of the box,” the more custom design needs to be undertaken. One European consultant believes that prebuilt functionality results in an average license to implementation ratio of 1:2, while applications that do not have prebuilt functionality have a ratio of 1:4 or more.<sup>9</sup> As we explain in “Section Three: Total Benefit of Ownership,” the breadth and depth of the PeopleSoft Enterprise HCM vanilla functionality is widely recognized: to match it, SAP customers need to build.
- **Business process change.** Many customers will need to reengineer their business processes to conform to the constraints of the SAP system.
- **Additional configuration requirements.** Even where the amount of customization is low, SAP still requires more configuration. For example, there are two workflows to configure— one for the web-facing applications and one within the core R/3 product set—and user authorization procedures differ in both environments. In addition, as we explain later in this paper,

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<sup>8</sup> See note 2.

<sup>9</sup> This European consultant has 14 years of experience in process reengineering and enterprise software as a customer, implementer, and consultant.

customers often have to configure reporting in both the R/3 environment and on SAP's Business Warehouse.

- **Global complications.** Handling global rollouts requires additional work. For example, SAP has 36 different payroll products with a separate country line for each. Oracle's PeopleSoft Enterprise payroll application is built on a single code line for multiple countries and currencies.

### Testing

Testing requirements are frequently underestimated when customers budget for their upfront implementation charges. One financial sector user says that testing accounted for as much as 35 to 40 percent of the total outlay, although this number is at the high end of the scale. The PeopleSoft Enterprise TCO model assumes that testing will amount to 30 percent of costs.

The model assumes that the same level of testing will be required for both PeopleSoft Enterprise and SAP environments. But it's important to check. One large organization in the leisure sector had a higher hardware outlay than it expected with an SAP Financials rollout, primarily because of SAP's preference to run initial testing and quality assurance on a separate server from the production environment. In addition, "the sheer mass of the application, the table sizes, the amount of data we had just kept on expanding and expanding. We had to rethink our entire server strategy just to accommodate SAP," he says.<sup>10</sup>

### Reporting

The PeopleSoft Enterprise HR reporting capability provides for a significantly lower TCO than SAP, primarily because it offers more than 400 standard reports for its HRMS and allows users to run ad hoc queries through a browser. SAP's HR reporting capability has long been the subject of complaints from its HR user community, and as one independent consultant points out, changing and creating reports generally requires IT intervention, which significantly increases the costs and incurs additional ongoing maintenance charges.<sup>11</sup>

As a result, SAP tends to recommend that customers implement its Business Warehouse for what-if analysis. That means that customers are left handling two different engines and toolsets, which makes the reporting process more complex to implement and support. We recommend Oracle's PeopleSoft Enterprise Warehouse on the basis of business need—such as a requirement for non-HCM data sources—not to sidestep difficulties. These issues are explored in more detail in the section "Business Intelligence: Supporting Operational and Strategic HR" later in this document.

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<sup>10</sup> This leisure sector company, running SAP Financials, implemented PeopleSoft Enterprise in the mid1990s.

<sup>11</sup> This independent consultant has experience with both SAP and PeopleSoft Enterprise environments and is a specialist in enterprise application selection.

### **Training**

Like testing, training requirements are frequently underestimated in the approach to a system rollout. The TCO model takes account of both IT and end-user training requirements. From an IT perspective—which typically accounts for less than a third of training outlay—some economies of scale can be achieved in an SAP HR environment if organizations already have SAP skills inhouse.

These skills are counter-balanced, however, by a heavier requirement for power-user training in the SAP environment to cater for the complexity of the GUI. Typically, SAP requires one power user for every 20 users, so the exposure here is high. In addition, some users have to become accustomed to more than one interface.

### **Portal Implementation**

New SAP HR customers are required to implement its Portal before they can roll out self-service applications, a complex task that requires extensive input from the IT department. PeopleSoft Enterprise customers can choose whether to roll out Oracle's PeopleSoft Enterprise Portal, and subject matter experts within the end-user community rather than IT specialists can perform implementation. These issues are explored in greater detail in the section "Rich Functionality: Self Service and the Employee Portal."

### **Integration**

One enduring 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. Historically, for example, SAP has asserted that a large number of integration points are required where a customer runs PeopleSoft Enterprise HCM with SAP Financials—an argument designed to exploit a CIO's instinctive concerns about supporting a heterogeneous environment. In reality, however, there are some simple and effective solutions.

Many customers' integration needs center primarily on five or six key integration points that link their HRMS/payroll application to finance. One of the most common requirements, for example, is for details of payroll transactions to be transferred from Oracle's PeopleSoft Enterprise Payroll to the SAP General Ledger. Other needs include linking time details to project management applications or aligning cost center data structures so that employee-related expenditure can be appropriately allocated. In some instances, this data can be transmitted satisfactorily in overnight batches as a simple text file, 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.

PeopleSoft Enterprise supplies different solutions to resolve these issues under its AppConnect platform. Where customers choose to integrate 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 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 either PeopleSoft Enterprise or SAP systems are upgraded, it maintains the integrations and so preserves your integration investment.

Oracle's 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 Integration Broker, which ships with PeopleSoft Enterprise, 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—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 build inter-departmental and inter-enterprise PeopleSoft Enterprise business processes.

Real-time information exchange is important in a number of HR processes. For example, rapidly exchanging information with HR service providers for background checks can save money—the earlier an organization knows that a prospective employee is unsuitable, the less time it will waste carrying out other aspects of the hiring process. In addition, some third-party HR service providers offer discounts if transactions are carried out in real-time by using industry standards such as XML. At the other end of the employee lifecycle, speed of information dissemination is important during a hostile termination, when system authorizations need to be quickly changed.

Integration Broker provides the platform for this kind of integration. An intuitive, easy-to-use development environment built on top of PeopleTools, it's designed for application developers rather than highly technical software engineers to use. By using either prebuilt or easily customized connectors, it collects messages from different applications and legacy systems, routes them to the appropriate destination, and translates them from one system "language" to another. Its message-based integration allows, for example, HR to query the finance system, receive a response, and generate a payroll action in one continuous process.

Because of its centralized “hub and spoke” design, Integration Broker also reduces the work required when individual applications are upgraded.

By contrast, a number of additional integration challenges are inherent in linking SAP HR to SAP Financials. The problem is not the technology—*it’s the way that technology has to be implemented for maximum effect and the resources required to leverage it*. The key issues are:

- As outlined in Section One, if a customer already uses SAP elsewhere in its business and decides to implement SAP HR, it must standardize all its applications on the same version and same release to integrate the new module fully. This requirement is 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 alone and build interfaces. That may explain why, when it launched the latest version of its applications in 2003, SAP began pushing the merits of its HR application as a stand-alone system.
- Even where customers have managed to standardize on one release, they will be running multiple “instances” (in other words, they will have configured and customized each application differently), thereby increasing the integration effort.
- The underlying complexity of the SAP environment, combined with the relative difficulty of using its development tools, makes the integration task longer.

The net result of these factors is that customers face major expenditure in the form of additional internal and external consulting resources.

### **Hardware and Related Costs**

As outlined in Section One, thanks to the PeopleSoft Enterprise online architecture, client (or end-user) machines run no application code and are unaffected during implementation and upgrades. By contrast, many SAP customers need to install software on each end-user machine around the world and may also have to upgrade operating systems and install additional memory.

In addition, the design of SAP’s applications may result in a need for additional servers or a server farm. Its preference for separating testing and production environments during implementation may have the same effect.

### **Upgrades**

The extent of any upgrade is dictated by factors such as how many different instances of the application are running globally and how much customization has been carried out on the original system. 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 PeopleSoft Enterprise customers have already made the transition to its internet architecture which can be expected to provide its 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. To begin with, as we explained earlier, SAP customers cannot upgrade individual “pillars” of the product suite—so, if they purchase the latest version of SAP HR, they may need to upgrade their existing SAP applications to enjoy full integration. In addition, it’s reasonable to assume that SAP will introduce a pure internet HR application at some point in the next five years to achieve architectural parity with PeopleSoft, which will require further re-implementation.

Organizations should also bear in mind that:

- The extent to which applications have been customized typically lengthens future upgrades, as some elements of the customization will need to be replicated in the new environment. Because PeopleSoft Enterprise provides more functionality out of the box, SAP HR requires a greater amount of customization to achieve the same capability.
- Upgrading integrations between PeopleSoft Enterprise HCM and SAP applications is made easier by technologies such as PeopleSoft Enterprise Integration Broker and the Payroll Process Integration Pack.
- SAP’s global payroll upgrades can be complex; it has 36 different payroll products. Though some code is shared, each country line is built separately. PeopleSoft Enterprise Payroll is built on a single code line for multiple countries and currencies.
- Because SAP runs code on the client, many employee workstations have to be modified when a central application is upgraded. There may also be hardware implications at both the client and server end.

## **Ongoing Costs of Ownership**

### **Maintenance and Support**

Because of its reliance on code on the client, the ongoing costs of hardware, training, support, and maintenance in an SAP environment significantly outweigh the PeopleSoft Enterprise environment.

By far the biggest support cost is system administration, which typically makes up four-fifths of the support equation and is far more complex in an SAP environment. The rest is split between application help desk and application development.

Theoretically, running SAP HR in an all-SAP environment should allow CIOs to pool their IT support resource and therefore save money. In practice, however, this is not normally the case for three key reasons:

- Different technical demands. SAP HR requires different skill sets to the SAP Financials environment because of the way it's built. Unlike SAP Financials, for example, the SAP HR architecture includes “info types” that determine screen sequences and behavior and help cater for regional differences in the way systems are used. Because of these differences, an SAP Financials support team would need to be retrained to handle HR.
- Resource requirements. The SAP Financials support team will typically need to be increased to handle the extra workload of supporting HR—few organizations today run with sufficient spare capacity to handle a whole new application set.
- Complexity. Most important, because of the complexity of the SAP environment, its support resource requirements are far higher than for the PeopleSoft Enterprise environment.

Taking this complexity into account, the TCO model conservatively estimates support to be equal to 20 percent of implementation costs annually for SAP and 10 percent for PeopleSoft Enterprise.

The model also assumes that the software maintenance fee, which covers technical upgrades and enhancements that keep the software current with legislative changes, will run at 20 percent of the license fee in the first year and beyond for both applications, although this can vary according to the particular circumstances of each site.

With its superior ownership experience, PeopleSoft Enterprise is continuing its efforts to reduce both the support and maintenance overhead. It is simplifying the structure of certain products— for example, the number of transformation steps in the Data Warehouse has now been halved— and is introducing embedded diagnostics to help customers identify and tackle problems more quickly. It is also streamlining the way that maintenance upgrades are handled to make it easier for customers to monitor and manage updates.

#### **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 when using Oracle's PeopleSoft Enterprise collaborative applications. Similarly, manager review and status request of a salary change drops from \$44.67 to \$18.26 in an environment where electronic mail is already used.<sup>12</sup> Overall, the average saving per self-service transaction is \$1.24.<sup>13</sup>

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<sup>12</sup> “PeopleSoft Enterprise Self Service/Portal Effectiveness Assessment and Audit,” conducted by Cedar, 2001–2003.

<sup>13</sup> According to Cedar calculations, the total savings per employee from all reviewed PeopleSoft transactions is \$201.91 annually, and on average, 163 transactions are conducted per employee per year, yielding \$1.24 savings per transaction.

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. PeopleSoft Enterprise currently provides easily implemented 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, and the remaining 60 transactions have to be customized. That differential translates into a major cost savings when PeopleSoft’s collaborative self-service applications are implemented.

Cedar has also carried out research among organizations that have conducted post-implementation audits. On average, respondents report potential cost reductions of 50 percent across all self-service transactions.<sup>14</sup> Oracle’s PeopleSoft Enterprise web-based applications, by comparison, deliver 67 percent savings for employee self-service transactions and 59 percent savings for manager self-service transactions.<sup>15</sup>

### **Section Three: Total Benefit of Ownership**

Total Benefit of Ownership is an analysis of both hard and soft factors that relate to software investment and is designed to assess how enterprise applications enable businesses to maximize both efficiency and effectiveness. Though depth and breadth of functionality are extremely important, total benefits are also derived from a vendor’s ability to support HCM business processes, align HCM initiatives with corporate objectives, and provide a comprehensive analytical framework.

Though SAP’s roots lie in the manufacturing space, PeopleSoft Enterprise originally focused first and foremost on the human resources arena. Both companies have, of course, expanded their development effort to other application sectors in the intervening years, but PeopleSoft Enterprise has consistently built on its HCM heritage. Analysts, consultants, and customers alike acknowledge that we have been the pioneer in this space.

This experience is reflected in the depth and breadth of the PeopleSoft Enterprise HCM application suite. Having worked closely with its customers and partners for so many years, PeopleSoft Enterprise has built a wealth of HCM expertise, which is reflected in its:

- Rich product functionality, generating tangible benefits in areas such as self service.

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<sup>14</sup> “Cedar 2002 Human Resources Self Service/Portal Survey,” published December 2002.

<sup>15</sup> Review of the 56 most commonly implemented self-service transactions in “PeopleSoft Enterprise Self Service/Portal Effectiveness Assessment and Audit,” conducted by Cedar, 2001–2003.

- Ability to support core HCM business processes, reflecting industry best practices.
- Business intelligence tools, supporting both operational and strategic HR.
- Ease of use and other design benefits.
- Broad customer base, including SAP users who selected PeopleSoft Enterprise HCM.<sup>16</sup>

By contrast, because the bulk of SAP's development effort has been on other components of its enterprise suite, it has consistently lagged behind PeopleSoft Enterprise in the HCM space.

These factors are examined in more detail in the remaining sections of this paper.

### **Rich Functionality: Self Service and the Employee Portal**

Depth and breadth of functionality is a core component of any software selection exercise, and the richness of 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.<sup>17</sup>

Though most application suites on the market today support the basic administrative activities that are necessary for effective people management, there are significant differences in their ability to handle some key HCM needs. Richness of functionality is particularly critical in areas such as employee and manager self service, which are a rapid and effective way to minimize HR costs. For example, Owens Corning, which runs PeopleSoft Enterprise HCM alongside SAP Financials, expects savings of tens of thousands of dollars by replacing outsourced open enrollment with inhouse PeopleSoft Enterprise functionality. It is also piloting Oracle's PeopleSoft Enterprise ePay, a collaborative application that allows employees to view their paychecks online, and expects to save tens of thousands of dollars in mailing costs.<sup>18</sup>

In addition to these cost savings, self services frees the HR department from its traditional focus on transactions and gives it the tools to tackle more strategic HCM initiatives. It also provides benefits to end users and line managers—by automating manual processes, it vastly improves data collection and data flows across the organization, improving decision making at both an operational and strategic level.

As we have explained, SAP's self-service suite severely lags behind the PeopleSoft Enterprise suite in terms of both architecture and functionality:

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<sup>16</sup> See "Section Four, Case Studies."

<sup>17</sup> See "Section Four, Case Studies."

<sup>18</sup> Owens Corning, supplier and developer of advanced glass and building materials, implemented PeopleSoft HR in 1991 and continues to run it alongside SAP Financials.

- SAP offers only 80 self-service transactions—20 are easily deployable and the remaining 60 require customization. PeopleSoft Enterprise collaborative applications automate more than 200 employee and manager self-service transactions with minimal work for the customer.
- Because of SAP's underlying architecture, it's not easy for users to build their own automated transactions. Business connectors have to be built to link the internet application component with the R/3 backbone.
- Users are required to implement SAP's Portal before they can roll out self-service applications, which requires extensive involvement from the IT department.

Although customers are not obliged to implement PeopleSoft Enterprise Portal to run self service, those who have done so acknowledge that it's designed for both ease of implementation and ease of use. One critical difference between the applications is the way they allow end users to understand the relationship between different elements on the screen (for example, when an employee clicks 401(k) benefits on the right side of the screen, associated information appears on the left). SAP uses a "drag and relate" technique, but because it has no associated metadata, the IT department has to map every relationship between associated information manually. By contrast, subject matter experts, not IT, deploy Oracle's PeopleSoft Enterprise Intelligent Context Manager.

Other important differences between the portals include the following:

- SAP's design is more complex. For example, each managerial role has to be defined by function (such as finance or HR). With PeopleSoft Enterprise, information can be distributed to a simple manager tab.
- SAP Portals are currently designed for the Microsoft environment. PeopleSoft Enterprise supports Microsoft and a wide range of other leading databases and operating systems, including IBM, Oracle, HP, and Sun.

Combined with PeopleSoft Enterprise Integration Broker, PeopleSoft Enterprise Portal can provide online access to data from a wide range of different applications beyond HR, including financials, facilities, and other operational systems. As such, it takes the concept of self service to the next level, providing a highly collaborative, information-rich working environment.

### **Support for End-to-End Processes and Industry Best Practice**

Though organizations tend to be designed from a hierarchical, departmental perspective, the business processes that really drive the enterprise are cross-functional and often extend beyond the enterprise. PeopleSoft Enterprise collaborative applications are designed to support these requirements, combining stand-alone functionality with the messaging technologies that are required to automate and manage different business processes.

One example is the recruitment process. Viewed as an end-to-end process, it includes:

- **Workforce planning.** PeopleSoft Enterprise workforce planning tools, part of Oracle's PeopleSoft Enterprise Workforce Analytics suite, bring HCM into the core business planning process.
- **Skills and competency analysis.** Part of the talent acquisition process involves identifying existing skills and competencies within the organization. Competency management is provided as part of the PeopleSoft Enterprise core HRMS and is a key differentiator for some customers.
- **Process management.** Oracle's PeopleSoft Enterprise eRecruit and eRecruit Manager Desktop are now licensed to some 300 customers around the world—by contrast, the first fully fledged version of SAP's eRecruiting solution only came into general availability in mid-2003. In addition, PeopleSoft Enterprise includes job “agent” functionality, which intelligently routes information to potential recruits based on the interest they've expressed.
- **Contingent workforce capability.** We have built extensive functionality in our PeopleSoft Enterprise Services Procurement application to analyze and manage contingent workforce costs and help organizations better source and leverage contractor talent. By managing both contingent labor and direct hires from a single solution, organizations for the first time will have complete visibility into total headcount and spend. By contrast, SAP offers this functionality only through partners.
- **Integration with third-party services.** PeopleSoft Enterprise has prebuilt integration to major third-party service providers for internet job postings and background checks and has formed alliances to support outsourcing of tasks such as resume management and applicant testing. It also provides tools to help organizations define, measure, and manage their relationships with external service providers.
- **Making new hires productive.** Oracle's PeopleSoft Enterprise recruitment applications are integrated with its core HRMS and payroll applications to ensure that new hire information is rapidly acted on. The collaborative applications are also easily integrated with asset management systems to ensure that new hires have the equipment they need when they join. Through self service, new employees can also quickly enroll for benefits, learning courses, and so forth.
- **Employee development.** By purchasing Oracle's PeopleSoft Enterprise Learning Management (ELM) suite, customers can manage all aspects of an organization's learning activities, including enrollment, learner tracking, and cost allocation. Organizations can carry out multiple methods of learning: online or offline, instructor led or self paced, on the job, in virtual

classrooms, or in traditional classroom-based training. To provide the most relevant learning, we also have partnerships with leading content providers.

- **Measuring effectiveness.** Customers are able to measure the effectiveness of the recruitment processes by using tools bundled with the core HRMS suite and recruitment applications. PeopleSoft Enterprise HRMS Warehouse and Workforce Scorecard also allow them to analyze the drivers behind metrics such as employee attrition.
- **Global capability.** Unlike many recruitment applications available today, the PeopleSoft Enterprise recruitment suite has been built to take account of country-specific needs, particularly in terms of compliance with privacy regulations.

Just as inter-departmental processes rely on individual business units working effectively together, so the different software components that support these processes need to be tightly integrated. PeopleSoft Enterprise applications are built on a common platform and are linked together by using industry standards-based integration technology.

### **Business Intelligence: Supporting Operational and Strategic HR**

Oracle's PeopleSoft Enterprise performance management capabilities are widely recognized in both the user and analyst community. In February 2003, for example, AMR Research described the PeopleSoft Enterprise analytic architecture as "industrial strength." and noted "the completeness and vision of its Enterprise Performance Management products."<sup>19</sup> PeopleSoft Enterprise has worked with the key HR thought leaders in building its applications, including David Ulrich, Row Henson, Jac Fitz-Enz, Charlie Grantham, and Robert Kaplan.

The analytical capability of PeopleSoft Enterprise HCM consists of:

- **Out-of-the-box functionality.** Some 400 reports are delivered as standard with HRMS, and tools delivered with PeopleSoft Enterprise allow users to run ad hoc queries through their web browser.
- **Data warehousing.** By using PeopleSoft Enterprise HRMS Warehouse, customers are able to bring in data from PeopleSoft Enterprise, SAP, and other sources, allowing them to view consolidated data about the workforce and relate it to financial information, customer information, and other business-critical data. PeopleSoft Enterprise HRMS Warehouse offers hundreds of predefined maps to populate its prebuilt metrics and data model for consolidated reporting. These tools are system agnostic—it doesn't matter where the data resides.
- **Metrics, benchmarking, and insights.** PeopleSoft Enterprise HRMS Warehouse comes with 160 predefined metrics to measure the effectiveness of HCM business processes. These metrics were developed with Saratoga

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<sup>19</sup> "Profiles in EPM," AMR Research, February 2003.

Institute and Towers Perrin to follow industry standards so that customers can bring in benchmarking data to help compare results to their peers. A set of Oracle's PeopleSoft Enterprise Insights is also delivered, allowing users to perform multidimensional analyses of headcount, workforce movement, diversity, benefits enrollments, absence, and so forth.

- **Workforce scorecarding.** Oracle's PeopleSoft Enterprise Workforce Scorecard uses the same data as the source applications. Rather than simply presenting the data in a report, however, the scorecard illustrates the target for each measure, the outcome of the measure, and how that outcome may impact the organization. Workforce Scorecard, which is based on Oracle's PeopleSoft Enterprise Balanced Scorecard, includes 31 predefined key performance indicators (KPIs), which are used to measure and evaluate the success of the HR function.
- **Compensation planning.** This capability is built into the PeopleSoft Enterprise central HRMS application. Sophisticated modeling tools are also available within Oracle's PeopleSoft Enterprise Workforce Rewards (part of Oracle's PeopleSoft Enterprise Workforce Analytics suite), which allows managers to pull in data not traditionally associated with HR-based compensation planning, such as meal allowances.
- **Retention planning.** Retention planning (included in PeopleSoft Enterprise Workforce Rewards) helps customers better understand retention issues and how they impact the business. It can track specific employees who possess critical skills and who are key performers and analyze potential retention risks in that population
- **Workforce planning.** PeopleSoft Enterprise Workforce Planning assists analysts with high-level planning around workforce competencies and skills. The application works similarly to PeopleSoft Enterprise Workforce Rewards, allowing analysts to establish rules or alternatives for competency needs and proficiency levels and then create scenarios for assessing competency levels within an organization to meet a certain goal.

In addition to its business intelligence packages, PeopleSoft Enterprise HCM suite contains an advanced level of analytical capability in its transactional and management applications. They include, for example:

- **Oracle's PeopleSoft Enterprise Incentive Management.** This suite provides a platform for organizations to model and manage complex incentive schemes by using historical and forecast data. The first specialist application is PeopleSoft Enterprise Sales Incentive Management, which allows managers to set targets in the context of corporate objectives.
- **Oracle's PeopleSoft Enterprise Online Performance Management.** This ePerformance application provides a framework for individual performance measurement and also links to the learning and competency management

applications. It allows managers to align results-based metrics and behaviors with corporate goals and track them on an ongoing basis. Unlike SAP, it also allows organizations to customize performance management for different employee groups and regions, reflecting the diversity of requirements across global enterprises.

By contrast, SAP's basic reporting functionality is cumbersome and 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.

SAP's HCM analytics suite also significantly lags behind PeopleSoft Enterprise—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. PeopleSoft Enterprise offers the greatest number of predefined metrics for measuring HR processes and workforce investment (for example, training ratios, compensation value, workforce composition, workforce ROI).

In addition, PeopleSoft Enterprise has predefined planning and forecasting applications, not just tools, for aligning the workforce to business objectives.

### **Ease of Use**

In Section Two, we explained how architectural complexity increases the TCO of SAP HR as compared to PeopleSoft Enterprise. But as well as reducing costs, the PeopleSoft Enterprise design offers a number of significant benefits to HCM customers. They include:

- Ease of implementation, customization, and ongoing development. Users and consultants who have experience with both PeopleSoft Enterprise and SAP implementations testify to the fact that the PeopleSoft Enterprise environment is easy to use. Not only is it less complex architecturally than SAP, but PeopleTools is a slick, intuitive development environment.
- Ease of upgrade. As well as benefiting from a simpler design, PeopleSoft Enterprise HCM users do not have to worry about end-user PCs or other devices when they upgrade. Unlike SAP, PeopleSoft Enterprise runs no code on client machines. In addition, technologies such as the PeopleSoft Enterprise Payroll Process Integration Pack help organizations retain integrations during the upgrade cycle, while the “hub and spoke” design of PeopleSoft Enterprise Integration Broker reduces the work required when individual applications are upgraded.
- Common workflows. All PeopleSoft Enterprise products use a common workflow to automate the flow of information within and between applications. This is a critical aid in building a cohesive HCM strategy and aligning disparate operations.

- Ease of navigation. As we demonstrated in Section One, every part of PeopleSoft Enterprise can be accessed through one common interface: a standard web browser. SAP's R/3 application, by contrast, offers three different graphical user interfaces, and power users need to be trained on up to three different navigation techniques.

Navigation and general usability are a key focus of the PeopleSoft Enterprise superior ownership experience. Customers and independent analysts comment favorably on the ease of use of its HCM product suite, and we are committed to further enhancing the user experience. In 2003, it doubled the size of its HCM usability team and has carried out extensive usability testing across the entire product set. It has also launched several development initiatives, including:

- Streamlining navigation around the product.
- Making the design of the HCM products even more intuitive.
- Introducing dashboards, such as a recruiter dashboard, that present summary information on specific activities in a single window and allow users to drill down for further information.

## **SECTION FOUR: CASE STUDIES**

### **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 in 2001. According to CIO Johnny Wong, there were several reasons behind that decision, including:

- PeopleSoft Enterprise provided the technology it needed to handle competency management.
- PeopleSoft Enterprise 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 online architecture that underlies PeopleSoft Enterprise. This architecture has generated a number of benefits, including reducing training costs for new hires.
- PeopleSoft Enterprise 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. The system was integrated with a number of other applications, including IBM's central recruitment website and time recording system. IIPC has also implemented Oracle's PeopleSoft Enterprise Global Payroll,

reducing HR resources in that area by 60 percent and shortening the payroll cycle from 11 to four days. In addition, it has begun to implement Oracle's PeopleSoft Enterprise collaborative self-service functionality.

Under Phase Two, IIPC is now concentrating on areas such as competency management. As a rapidly growing business with a relatively young employee base, one of its key concerns was to gather competency data about its workforce so that it could better handle its changing business environment. It did so by defining company-wide competencies, followed by a second tier related to specific functional needs in departments like IT or production, and a third tier related to specific positions. This data will be used to determine the skills required to meet pending business changes and will also be the basis for defining what courses should be developed in the IIPC University.

### **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—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 install. As Pierre Mollon, corporate HRIS manager, explains, they were a mix of technical and functional issues:

- PeopleSoft Enterprise is more flexible. The PeopleSoft Enterprise 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.

PeopleSoft Enterprise was able to meet STMicroelectronics' global requirements in 31 different countries.

- It's better to support a mixed IT environment rather than rely 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 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 eTraining enrollment and eJob-requisition creation, after upgrading to PeopleSoft Enterprise 8 at the end of 2002. Pierre Mollon acknowledges that for outsiders, the total implementation time may seem lengthy, but it was a deliberate tactical choice—it's keen to roll applications out slowly on a phased basis, allowing the application to accommodate the different rules and cultures of the various countries. From a practical perspective, the key issue relating to implementation time wasn't the PeopleSoft Enterprise software itself but the data conversion and the number of different countries involved.

Above all, though, it's the underlying design of PeopleSoft Enterprise that matters most. "The really key point was flexibility, and if I had to make the choice today I would do the same," Mollon says.

## CONCLUSION

Numerous factors come into play when organizations select their HCM applications, from technical compatibility to the software provider's track record in development and support. But for PeopleSoft Enterprise customers who face 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 the PeopleSoft Enterprise HCM suite provides the functionality that users need and support for key end-to-end business process. 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?** The PeopleSoft Enterprise analytics capabilities surpass SAP's, both in terms of the functionality bundled with the core HRMS application and its Workforce Analytics suite.
- **Can the HCM application easily integrate with any existing SAP applications?** Thanks to the unique requirements of the HCM market and the capability of the PeopleSoft Enterprise Process Integration Packs 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. Running PeopleSoft Enterprise HCM in an SAP environment brings proven business benefits.



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