

## VENDOR NEEDS AND STRATEGIES

### Oracle and SAP: Parallel Paths to GRC Supremacy

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#### IDC OPINION

The governance, risk, and compliance (GRC) market is gaining credibility, due in no small part to the product focus, acquisition strategies, and development paths being taken by the world's two largest enterprise applications vendors, Oracle and SAP. In addition:

- While organizations have invested in point solutions to solve immediate pains such as Sarbanes-Oxley (SarbOx), there has been an expectation that these major players will ultimately provide solutions for compliance.
- Oracle and SAP may have competing initiatives, but there are distinct differences in their offerings.
- As these vendors expand GRC offerings and flesh out integration points with enterprise systems, the GRC market will be reshaped from a reactive compliance-led approach to an integral technology strategy supporting the enterprise process of corporate governance and risk management.



## **IN THIS STUDY**

This study looks at the impact that enterprise giants SAP and Oracle are having on the GRC market and provides insight on their current strategies.

## **SITUATION OVERVIEW**

The governance, risk, and compliance market is gaining credibility, due in no small part to the product focus, acquisition strategies, and development paths being taken by the world's two largest enterprise applications vendors, Oracle and SAP. Both vendors continue to jostle for position, using their muscle to create an aura of credibility around the vision of a holistic view of corporate governance, risk management, and multiple compliance requirements.

That customers expect these giants to deal with compliance goes without saying. The catalyst for creating the GRC market was the passage of Sarbanes-Oxley in 2002, but the bigger opportunity is proving that risk mitigation and organizational efficiency can be created by leveraging process- and content-intensive compliance requirements for broader value. Both vendors see themselves as closing control gaps in the enterprise resource planning (ERP) environment, codifying a broad range of compliance processes, and from there creating a framework for managing enterprise risk across the enterprise.

Oracle got the earlier lead with targeted offerings in the area of financial compliance management and internal controls monitoring with the Oracle Internal Controls Manager (ICM) and PeopleSoft Internal Controls Enforcer (ICE) environments. SAP fell short with an early offering of its own Internal Controls Manager that failed to gain traction, which drove the recent acquisition of Virsa. However, the required market focus on compliance that only smaller boutique vendors could offer gave early momentum to those boutique vendors, whose expertise and solutions appealed to early adopters.

Both Oracle and SAP have had a difficult time balancing the selling and development strategies of their broader enterprise management platforms and applications with solutions that require deeper expertise, such as compliance and risk.

Well, the giants are back with a vengeance, and although these initiatives certainly have a competitive flavor, there are distinct differences in the strategies of SAP and Oracle.

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### **Oracle GRC: Content Centric**

Oracle had some early momentum with its internal controls management products, which appealed to installed base customers that recognized the value of integrated controls monitoring that connect their compliance solution and core Oracle systems. Oracle made an earlier, albeit limited, investment in more focused GRC personnel and had a clearer message. However, multiple products based on the Oracle and PeopleSoft platforms and attempts to tie this into the broader fusion strategy can be

confusing, especially for those companies that are trying to figure out longer-term GRC strategies and minimize throw-away investments.

About 50% of early compliance management solution adopters view document management capabilities as the most important part of their compliance initiatives. Oracle responded with a "content management lite" solution, integrated with its internal control solutions, which was headed in the right direction.

However, as Oracle has built out its fusion strategy for GRC, it has realized that in order to fulfill the promise of broad-based GRC that is expected from a large enterprise vendor, a fusion-based GRC strategy and applications needed to be available earlier.

Recently, Oracle announced a new GRC suite of solutions that includes GRC Manager, a broad process-based solution designed to manage risk and controls across the enterprise environment and initiate investigation and remediation. The GRC suite still includes both the Oracle and PeopleSoft internal control management capabilities, which remain intact yet integrate with the broader risk and compliance framework supported by the new GRC Manager application.

In addition, Oracle has incorporated technology from Stellant, which was acquired in November. This acquisition broadens Oracle's ability to integrate with a variety of legacy systems and demonstrates a strong commitment and understanding of the content management requirements of GRC.

Stellent had made some significant strides in the last two years as a content management vendor with a GRC vision. As a number of the content management vendors had done, Stellant developed a compliance management solution that leveraged the process and content capabilities of its platform — in reality, probably stronger capabilities than from many of the boutique compliance management vendors on the market. But, like other larger players, Stellant initially suffered a lack of focus and expertise in its GRC go-to-market strategy, and the solution got off to a slow start.

That changed when Stellant acquired e-Onehundred Group, a compliance consulting firm that in essence transformed the sales strategy, influenced the product strategy, and gave Stellant credibility in risk and compliance discussions with customers. Since that time, the Stellant compliance solution has seen a significant uptick in momentum.

Along comes Oracle, acquiring Stellant to solidify its commitment to content management and to jump-start its GRC initiative, not unlike the SAP/Virsa scenario. The latest GRC launch is based on the fusion of existing products and acquired Stellant capabilities and aims to represent the GRC platform of the future, not to be a stopgap.

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## **SAP GRC: Process Centric**

SAP jump-started its GRC strategy last year, primarily with the acquisition of Virsa. This was a smart move on SAP's part: Virsa's ability to automate controls in the SAP environment is something SAP should have been able to do itself. The area of

continuous controls monitoring, a subset of a broader area of business assurance analytics and control process automation, helps organizations close control gaps and monitor potential risks at the transactional level, and it has been easy for end users to see the benefits and equate the solution with an attractive return on investment. However, this area is complementary to, yet separate from, basic compliance management capabilities that manage the process and documentation around internal controls. SAP's initial attempt to go to market with an ICM solution got lost somewhere in the SAP ERP value proposition from a sales perspective.

SAP has reported that GRC sales are exceeding expectations. This is predominantly because the former Virsa solution has gained even more traction under the ownership umbrella of SAP. The key to this success was the decision to keep the former Virsa organization intact, with a focused sales strategy that reaps the benefits of a boutique player's focus and expertise coupled with the credibility that SAP backing imparts.

SAP's GRC solutions are moving forward, with the Virsa platform as the basis for broader GRC offerings including new products: the GRC repository, GRC process control, and GRC risk analysis. However, GRC at SAP spans a myriad of solutions, some of which have been around for some time, such as Environmental Health and Safety (EHS) and Global Trade Services (GTS). The GRC capabilities that these solutions offer with integration to the SAP enterprise platform certainly meet the promise that the major ERP players should deliver: embedded compliance.

From an infrastructure perspective, SAP plans to integrate the GRC stack with Cisco's Service-Oriented Network Architecture (SONA) environment in order to address the IT control issues that have emerged as significant over the last several years. However, SAP needs to flesh out a broader strategy around IT governance that expands beyond Cisco and incorporates a wider spectrum of IT vendors.

As SAP builds out its vision of the enterprise risk management umbrella and ties together various areas of compliance and risk, these capabilities must be proved through customer implementation, which will clarify the road map to risk management and related benefits.

## **FUTURE OUTLOOK**

### **Oracle**

The Oracle GRC product set and vision have been recently relaunched and are ambitious. Oracle is not abandoning the early traction with SarbOx that the core ICM products support. However, Oracle has recognized that its customer base is moving beyond mere SarbOx and has increased focus on the common denominators of risk and performance management. Oracle took early steps to put together a customer council last year to help formulate strategy and product development around areas such as operational risk and fraud.

The input from this group has driven the launch of a next-generation Oracle GRC platform that has a strong core of content management and analytics, and the acquisition of Stellant considerably beefs up this platform. In addition, Oracle has

depth in a range of IT management solutions, which have been one of the most highly cited areas of control weaknesses through the first waves of SarbOx. For example, Oracle products such as Application Configuration Controls allow users to monitor controls in the ERP system, and provides over 400 controls out of the box. Application Access Control is designed to prevent segregation of duties (SOD) issues in the Oracle E-Business suite and contains more than 200 SOD rules in its initial release. At the infrastructure level, Oracle GRC offers database encryption to restrict access to authorized users. Oracle GRC will also enforce SOD with its Oracle Identity Management product.

Oracle is also creating a reporting and analysis layer, Fusion GRC Intelligence, which is in essence a dashboard with risk assessment and performance management capabilities. The GRC dashboard presents information in a clear way, with drill-down capabilities to transactional and control information. Of course, monitoring risk and the quality of decisions are only as good as the quality of data. The Oracle road map includes plans to extend risk capabilities with enhanced GRC analytics, SOD for non-Oracle ERP systems, and continuous transaction monitoring capabilities.

From an industry perspective, a vertical GRC strategy certainly makes sense. Oracle should focus on two industries in particular: public sector and financial services. With the launch of the federal government's SarbOx-like legislation, OMB Circular A-123, Oracle is considered a player with its installed base in the public sector and should work to leverage those relationships. The majority interest in i-flex<sup>®</sup> solutions, with compliance and risk management capabilities, gives Oracle the expertise to play credibly in the complex financial services arena, and integration with these solutions should be a priority.

Oracle has a broad GRC offering that will embroil it on a number of competitive fronts besides SAP and compliance management vendors, such as infrastructure vendors that offer IT management control capabilities, BI/Performance Management vendors that can deliver on the vision of integrated governance and performance, and business assurance vendors that specialize in compliance and offer detective controls monitoring for business processes. However, if Oracle can deliver on its ambitious product road map and acknowledge its strengths relative to the broader GRC ecosystem — when to compete and when to partner — GRC at Oracle will gain traction.

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## **SAP**

SAP has been front and center in the GRC race since the launch of the GRC business unit and the jump start it received due to the acquisition of former partner Virsa in 2006. Even with a general slowdown of enterprise application sales in 2006, SAP claims, for GRC specifically, to have blown out its 2006 revenue expectations by almost 50%, showing an approximate 180% growth rate.

From a business perspective, the synergies between Virsa and SAP have been optimized, with SAP picking up as many new customers in one quarter as Virsa garnered in two years. SAP says it has more than 2,000 GRC customers, including the 500 customers it picked up from Virsa. The remaining customer base for GRC seems to be based on the redefinition of GRC at SAP. Existing solutions such as

EHS and GTS have been realigned with the GRC business unit and should increase visibility, understanding, and development focus on solutions that have become even more important under GRC scrutiny. An example would be the extension of the SAP EHS offering to support the European Union's RoHS-WEEE, which governs hazardous substance reporting.

SAP claims global GRC momentum on a number of fronts, hitting pain points such as J-SOX in Japan and tax notification issues in Brazil. No matter the compliance issue, these results mean that GRC is no fluke among SAP's extensive customer base. It also gives SAP the green light to continue to expand product development and marketing efforts in GRC areas that are paying dividends.

SAP has changed and expanded the GRC message and business model and has become a pacesetter in the GRC market. SAP has recently launched an Executive Advisory Council, which will span partners and customers and support an outside-in approach for keeping an eye on market requirements. SAP is lessening its emphasis on a point solution model and discusses and spotlights GRC at the executive and board level. This approach is reportedly creating six-figure deals (SAP claims five such deals in one quarter alone).

SAP will also continue to nurture the partnership with Cisco to address compliance issues around security, infrastructure, and service-level agreements (SLAs). Upgrades to networks will incorporate GRC requirements, and synergy from this partnership should have a positive impact on GRC sales.

Going forward, SAP should expand its GRC focus to align with its vertical go-to-market strategy, which will highlight the depth of its offerings and help the large base of manufacturing customers make sense of murky compliance requirements. SAP has recognized this, with initiatives such as the development, with partners, of risk profiles for the oil and gas industry. For SAP, the promise of extending a GRC umbrella through a combination of new applications, services, expert partnerships, and functionality extensions that leverage existing SAP investments is a vision that will continue to drive SAP GRC success.

## **ESSENTIAL GUIDANCE**

GRC is as much organizational as it is technology oriented. However, for organizations to embed and automate compliance and move to a broader platform for managing operational risk, technology is critical. SarbOx has provided a lay-of-the-land view for organizations that identify critical points in operational processes that pose risk. Organizations must balance these short-term challenges with IT investments that will allow them to address similar issues and legislation in the future.

Many are citing the cost of compliance, but in reality there is no ballpark figure that is meaningful to an individual enterprise, and citing the overwhelming size of the compliance market can be a scare tactic. Compliance depends on the business footprint, IT complexity, and an organization's degree of and appetite for process standardization across the enterprise. Organizations should focus not on the predicted size of this market as a driver to invest themselves, but on the cost of noncompliance coupled with the business benefits that automation can provide.

Technology investments should provide these initial benefits and also support a longer-term view of risk-based performance. Both SAP and Oracle are in a position not only to provide solutions, but to help articulate industry trends and best practices based on the intelligence gained from their installed customer base.

With insight into the operational and transactional issues that GRC poses for their customers, SAP and Oracle will clearly influence this market. They are both on the right track with broad-based GRC initiatives and need to ensure follow-on execution with focused sales and implementation efforts as well as a strategic leverage of partners. As long as GRC doesn't take on the tone of ambiguous NetWeaver or Fusion enablement, getting lost in the broad offerings of these two software stalwarts, market-changing success in GRC is attainable.

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### Related Research

- ☒ *Business Intelligence and Performance Management Consolidation Round Two: Oracle Acquires Hyperion* (IDC #lcUS20585607, March 2007)
- ☒ *A Logical Extension for GRC* (IDC #lcUS20578507, February 2007)
- ☒ *Worldwide Information Access 2007 Top 10 Predictions: The Last Great Computing Platform Arrives* (IDC #205154, January 2007)
- ☒ *The Simplification Imperative: SAP Looks to Complete Its Services-Based Solution* (IDC #205056, January 2007)
- ☒ *OpenPages Extends Its Reach* (IDC #203438, September 2006)
- ☒ *SAP and Cisco Team for GRC Platform Based upon Expanded Offering* (IDC #lcUS20346106, September 2006)
- ☒ *Governance, Risk, and Compliance: SAP and Virsa Move Toward Prime Time* (IDC #202256, June 2006)
- ☒ *Worldwide Financial Compliance Applications 2006–2010 Forecast: Leading Market Trends* (IDC #201974, June 2006)

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