

BUSINESS BENEFITS SERIES

BUSINESS BENEFITS SERIES HIGHLIGHTS

- Consolidated six payroll instances to one
- Saved A\$2.9 million (US\$2.1 million) by enabling creation of shared services unit
- More efficient supplier sourcing projected to save A\$2.1 million (US\$1.6 million)
- Cut leave liability by A\$1.4 million (US\$1.0 million)
- Established uniform performance and compensation review program

COMPANY PROFILE

Santos

Santos Ltd

Adelaide, Australia
www.santos.com

Santos is a major Australian oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in the United States, Indonesia, Papua New Guinea, Vietnam, Kyrgyzstan and Egypt.

Industry

Oil & Gas

Annual Gross Revenue

A\$2.5 Billion (US\$1.9 Billion)

Chief Executive

John Ellice-Flint

Group Executive

Shared Business Services

Einar Vikingur

Employees

1,521

Santos Streamlines HR and Procurement on Shared Services Platform, On Track to Earn 47% Net Investment Returns

EXECUTIVE SUMMARY

With the oil and gas sector in the midst of a global boom, there are few companies better positioned in the market than Australia's Santos Ltd. Already Australia's largest on-shore gas producer, Santos holds significant interests in every major Australian oil and gas province, Indonesia, the U.S., Papua New Guinea, Vietnam, Kyrgyzstan and Egypt and extends its reach by participating in more than 140 joint ventures worldwide.

In an effort to maximize value from emerging opportunities, Santos launched a strategic initiative designed to reduce operating costs while simultaneously increasing the effectiveness of support functions. Key to the initiative was the establishment of a shared business services (SBS) group that consolidated and integrated core administrative functions. Santos's global enterprise-resource-planning (ERP) platform based on Oracle E-Business Suite applications was upgraded to version 11i and extended to support the formation of the new group.

A recent study conducted by Mainstay Partners documented a range of financial and operational benefits from Santos's recent investments in Oracle E-Business Suite applications (Oracle Human Resources, Payroll, Time and Labor, Internet Expenses, Learning Management and Sourcing). The study calculated total benefits of about A\$9.2 million (US\$6.8 million) from over seven years, translating into a net return on investment of 47% and an internal rate of return of 28%.

A significant share of the estimated benefits—about A\$2 million (US\$1.6 million)—consists of cost savings related to the shared-services project, and attributable to system functionality. Major savings have also come from Santos's new supplier-sourcing system, which simplified and standardized procurement programs globally. Benefits of A\$1.4 million (US\$1.0 million) will be realized from improved employee records management, contributing to a reduction in the company's leave liability.

Other savings projected by Mainstay are generated by reductions in payroll administrative costs, streamlined expense management, efficiencies in compensation review and recovery of joint-venture labor costs.

ORACLE PRODUCTS AND SERVICES

- Oracle Human Resources
- Oracle Self Service Human Resources
- Oracle Payroll
- Oracle Learning Management
- Oracle Time and Labor
- Oracle Internet Expenses
- Oracle HR Intelligence
- Oracle Sourcing
- Oracle Purchasing
- Oracle Inventory Management
- Oracle Order Management
- Oracle Financials
- Oracle Projects
- Oracle iProcurement

PROJECT BACKGROUND

As Santos began pursuing its growth strategy, the company wanted to keep costs contained and at the same time ensure that core business services would be able to scale quickly to meet rising demand from business units. In this strategic context, Santos launched a major initiative designed to standardize and integrate business processes worldwide.

In 2003 Santos launched its Shared Business Services (SBS) Group with the goal of centralizing and integrating core administrative functions such as human resources and training, employee and office services, procurement and logistics, accounting and reporting, and information technology. In preparation for this, the company had upgraded its Oracle E-Business Suite applications to version 11i in 2002, adding a number of new modules.

Executives knew the move to a shared services model would pose significant change-management challenges, but were convinced the potential for cost savings and strategic leverage significantly outweighed such risks.

ORACLE INVESTMENT

Preparation for SBS began by upgrading the company's existing backbone of Oracle applications (including Oracle Financials, Projects and Purchasing) to version 11i, and at the same time implementing Oracle solutions for human resources, payroll, time and labor, and expense management. Over a subsequent three-year period, Santos added Oracle applications for managing employee training programs (Oracle Learning Management) and compensation reviews (Oracle Compensation Workbench), deployed self-service capabilities for HR and launched Oracle Sourcing, a system for automating and standardizing procurement activities on a Web-based platform.

The Oracle system continues to be a catalyst for change at Santos, executives said, helping to formalize and enforce best business practices. As an example, they cited the recent rollout of a new management-reporting tool called MySantos Financials, which would not have been possible without an integrated business-process and information model spanning the organization. "We see Oracle as a strategic partner, and we invested in Oracle to support our goal of building a shared business services organization centered around a common ERP system," said Einar Vikingur, group executive, SBS.

// We see Oracle as a strategic partner, and invested in Oracle to support our goal of an ERP centric and shared business services organization //

Einar Vikingur
Group Executive
Share Business Services
Santos

GLOBALLY INTEGRATED PAYROLL

The study documented early benefits resulting from the company’s adoption of a central payroll system. The move consolidated six legacy stand-alone payroll systems, eliminating the need for constant labor-intensive data compilation.

The consolidated system simplified the job of managing overtime and other pay adjustments, and made it easier for Santos to meet complex payroll-tax requirements. In the past, most tax-related analyses and reporting were handled outside the system and required significant extra labor.

Through HR self-service, the study found across-the-board reductions in manual employee records tasks, such as handling leave requests, which contributed to a reduction in administrative overhead. A number of records administrators were subsequently assigned to more value added work, Santos reported. Table 1 breaks out the labor savings within the employee records department.

Function	FTE Savings
Processing queries	.50
Producing pay slips	.25
Processing leave forms	.25
TOTAL	1.0

Source: Mainstay Partners/Santos

Significantly, by simplifying leave-balance and liability-reporting processes, the new HR and payroll system cut the likelihood of unreported leave, Santos said. So far, the company estimates it has reduced its overall “leave liability” by about A\$350,000 (US\$259,000) per year.

CENTRALIZED COMPENSATION PROGRAM

In a key improvement over the fragmented legacy environment, the integrated system has given management a clearer and more detailed understanding of the company’s overall workforce and compensation structure. “Oracle Payroll provides a single source of truth and a reliable, accurate and timely payroll,” said Chris Bonney, team leader, payroll & employee records, in SBS.

Santos added Oracle’s compensation workbench functionality in late 2004 in an effort to standardize how the company manages performance, bonus and salary reviews. The move gave managers real-time access to performance ratings and total compensation data and is helping the company introduce consistent standards for bonuses and salary increases.

// Compensation

Workbench has been well received by the organization as it provides managers with an easily updateable tool for reviews. //

Warren Corbett
Senior Human Resources
Adviser
Santos

“Compensation Workbench has been well received by the organization as it provides managers with an easily updateable tool for reviews,” said Warren Corbett, senior human resources adviser – remuneration, for Santos. In the past, he said managers typically completed these reviews using desktop spreadsheets, a time-intensive method that lacked the privacy safeguards now available in the centralized system.

STREAMLINED TRAINING ADMINISTRATION

With the addition of Oracle’s Learning Management module in early 2004, the Shared Business Services group set up a central employee-training database that is helping Santos monitor training costs and activities throughout the year. Managers are now able to track monthly expenditures against budgeted targets. In addition, they said the new system sparked a jump in training program participation, in part because it allowed Santos to publish an online training calendar.

ENHANCED JOINT-VENTURE TIME TRACKING

Santos’s business model relies on the smooth running of some 140 joint venture projects worldwide. To protect margins, it’s essential for the company to track and charge-through accurately the actual time and labor it spends on these projects. Consequently, the study sees Santos gaining major benefits from the Oracle time and labor module, which helps the company to capture project-related time and monitor expenses in real-time.

As a result of more detailed time tracking, Santos said it has recovered more than A\$529,000 (US\$391,000) in labor expenses that could be allocated to joint venture projects.

The new system introduced an online timesheet approval system that is leading faster approvals, managers said. Automated error checking on the front end of the process is also helping Santos reduce timesheet rework. In addition, the Oracle system maintains profiles for each employee that specify which types of allowances he or she can receive, helping to boost the accuracy of pays.

The study found that more than 92% of Santos employees regularly use the time-and-labor system, and managers said the system was capable of readily absorbing considerably more organizational growth. “Oracle time and labor has provided a much more efficient, integrated and scalable process,” said Nick Malbon, financial controller of SBS.

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Nick Malbon
Financial Controller
Shared Business Services
Santos

WEB-BASED EXPENSE REPORTING

As part of the implementation, Santos added a Web-based expense management solution (Oracle Internet Expenses), eliminating a legacy paper-based process. With the number of expense reports rising steadily in recent years—from about 6,000 in 2003 to nearly 10,000 in 2005—Santos wanted to reduce processing time, handling the additional volume without increasing costs.

Significant efficiency gains were realized in processing credit card expenses, in part because the system supported the direct online transfer of card statements to expense reports. Santos manages two credit-card systems with over 930 participants and says the new system allows it to add more card users without increasing costs or overhead.

The more efficient online system helped Santos reduce the number of staff responsible for processing expense reports. Employees appreciate the faster process and the company has seen fewer late submissions, the study found. In addition, by automating expense coding, Santos simplified its tax-compliance reporting tasks. New system capabilities should also give Santos more flexibility in managing of offshore taxes, executives said.

The Oracle system increases the accuracy of cost charges and provides easily auditable financial trails. “The strength of the financial system control environment is a pleasing result,” noted a Santos internal audit report in June 2005. “Based on this testing, no major control weaknesses have been identified.”

STRATEGIC SOURCING DRIVES SAVINGS

About two years after going live with Oracle’s human resources, payroll and expense management applications, Santos added another Oracle E-Business Suite module—Oracle Sourcing—to automate and add discipline to the company’s procurement activities. The implementation of Oracle Sourcing created an online environment for managing all aspects of the sourcing and tender process—including bidding, vendor selection, contract negotiations and requisitioning—and established clear audit trails of supplier commitments.

Managers said that the Oracle sourcing system enabled Santos to define global rules and procedures for handling RFPs, requisitions and payments, leading to shorter turnaround times. “Sourcing made the refinement of our tendering processes standard for the team,” said David Henchcliffe, manager, procurement and logistics. “It has provided momentum to drive adoption across the company.” Santos staff also cited capabilities such as the ability to run the bidding process across multiple time zones.

Santos is using Oracle E-Business Suite applications to track the company’s purchases by vendor, analyze spending patterns and run “supplier planning scenarios”—all of which are contributing to better vendor and contract decisions, and cost savings,

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David Henchcliffe
Manager, Procurement & Logistics
Santos

executives said. In 2005, the company said the sourcing system directly contributed to hard cost savings of between A\$300,000 and A\$400,000 (US\$222,000 and US\$296,000).

BENEFITS SUMMARY

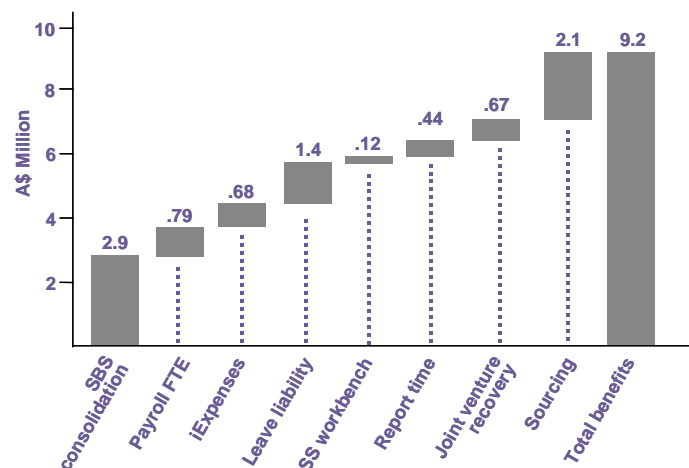
According to Mainstay, Santos is on track to realize total benefits of about A\$9.2 million (US\$6.8 million) over seven years. Santos will earn major savings—totaling A\$2.9 million (US\$2.1 million) over seven years—from system attributable benefits of establishing SBS (this cut costs by consolidating a range of administrative functions and resources in a central organization). Significant savings of A\$2.1 million (US\$1.6 million) over seven years will come from the new sourcing system, and A\$1.4 million (US\$1.0 million) will be realized from reductions in leave liability, the result of improved employee records management.

Other savings projected by Mainstay include reduction in payroll administrative costs (A\$796,000 or US\$589,000), streamlined expense management (A\$680,000 or US\$503,000), recovery of joint-venture labor costs (A\$671,000 or US\$497,000), faster report preparation (A\$438,000 or US\$324,000) more efficient compensation review processes (A\$120,000 or US\$88,800). Figure 3 summarizes these projected benefits by business area.

Factoring in project costs, Santos should realize net savings of approximately A\$4.4 million (US\$3.3 million). Mainstay estimates that Santos will realize a 47% net return on investment over five years, equating to an internal rate of return of 28%. According to the study, Santos should achieve payback on its investment in about 55 months.

FIGURE 3: BREAKDOWN IN TOTAL BENEFITS OVER SEVEN YEARS

Figures are in Australian dollars



Source: Mainstay Partners/Santos

ABOUT THE BUSINESS BENEFITS SERIES

This study is one of a series of investigations into the costs and business returns of IT investments, with a focus on Oracle technology and applications. It is intended to serve business executives and managers who are evaluating technology investment options.

Research and analysis for this study was conducted by Mainstay Partners, an independent consulting firm, and was based on interviews with executives at Santos, review of company planning documents, and searches of industry literature. ROI calculations use industry standard assumptions regarding the time value of money.

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For more information about Oracle's Business Benefits Series, visit www.oracle.com/customers/business-benefits.

ORACLE®

ROI METHODOLOGY

The Oracle Business Benefits Series uses industry-standard methodology to calculate the financial returns from implementing Oracle applications and technology. Key elements of the analysis include:

Net Present Value (NPV): calculated by discounting future net cash flow to the present at a pre-determined interest rate. For the ROI Series, the weighted average cost of capital (WACC) is used as the discount rate.

Return on Investment (ROI): calculated by dividing the project's net present value by the net present value of the project costs, multiplying the results by 100 and adding the cost of capital. An ROI greater than the enterprise's cost of capital is considered a value-creating project.

Weighted Average Cost of Capital (WACC): a calculation of a firm's cost of capital that weights each category of capital proportionately. Included in the WACC calculation are all capital sources, including common stock, preferred stock, bonds, and any other long-term debt.