

IBM Application Management Services helping to reduce the total cost of ownership





As the global economy continues to experience ups and downs, long-term corporate goals — increasing revenue and containing costs — remain constant. However, as the economic pendulum swings slowly back into expansion mode, industry executives are again contemplating growth and ways of gaining a leadership advantage. In doing so, many have carefully reexamined their business, giving serious consideration to its present value structure and primary focus. Today's C-level leaders see revenue growth, realized through delivery of new, differentiated products and services, as their primary business objective, with cost control running a close second in corporate priorities.¹

C-level executives are looking for ways to lower expenses and reinvest savings into revenue growth strategies that can transform the business and boost financial performance. Increasingly, companies are turning to outside experts like IBM to help manage and run non-core business applications and support functions. By optimizing and outsourcing non-core functions, corporate leaders can better focus on, and further develop, core business competencies, while lowering total cost of ownership.

Companies concentrate on core competencies to gain competitive edge

More and more, companies are re-deploying scarce resources, people, capital and, perhaps most important, management attention, to focus on core areas of business. Organizations must somehow strike a balance between driving revenue, improving operating margins, effectively executing fundamental business procedures, and, in parallel, making certain that non-core business areas run efficiently. In addition to all this, in the drive to extend value and benefits, operation optimization must now extend beyond the corporate four walls as companies engage directly with customers, consumers, partners and suppliers.

Just like other business organizations, companies like yours that depend on SAP enterprise resource planning (ERP) management tools must pit revenue growth desires against cost realities. You want to take advantage of procedures that will both differentiate your company from the competition and lower total cost of ownership. IBM Application Management Services for SAP can help your organization optimize cost savings, integrate information technology (IT) infrastructures and facilitate business process adaptation to unlock hidden value.

IT begins to live up to earlier promise by delivering new value

IT has always been viewed as a critical business enabler. Over the last 20 years, tremendous change has occurred in technology, software, and business process and organization support models. Companies no longer use IT just to facilitate basic business functions. Today, more organizations count on IT to both help ensure seamless integration over the extended value network and make information available for informed, proactive business decisions.

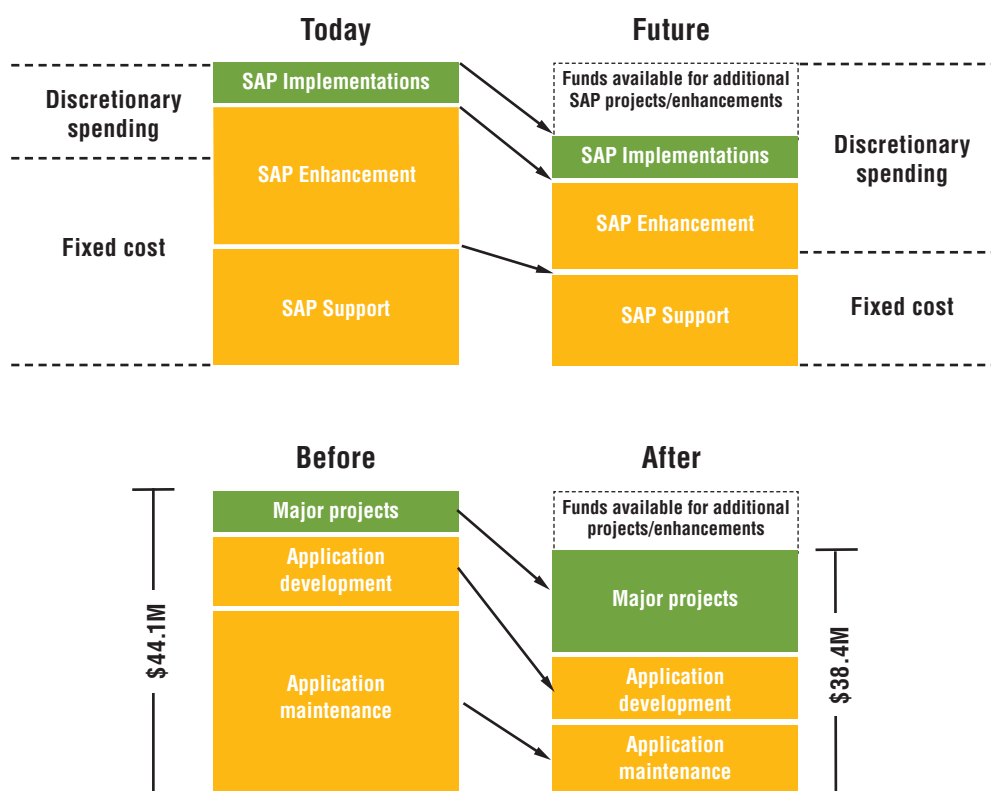
Companies rely on IT to reduce operating and support costs — without sacrificing quality — and to enable new business processes and functions, such as customer relationship management (CRM) and product lifecycle management (PLM). Increasingly, organizations are moving many back-office support functions, including customer, financial and human resource tasks, to either a shared services or third-party outsourcing provider. The role of IT to drive process, organization and technical change has never been more challenging and important.

Heightened technology capabilities have arrived just in time, as increased business complexity makes more demands on companies — demands that require increasingly precise business process implementation and follow-through. Additionally, in the wake of stricter international regulatory requirements, like those stipulated under the USA PATRIOT and Sarbanes-Oxley Acts, IT capabilities have become critical to integrating and performing repetitive and time-consuming processes

like data gathering, processing and presentation. Companies rely on IT to establish, maintain and meet basic regulatory agency rules.

These enhanced needs to drive profitable growth have focused attention on utilizing the integrated and enabling capabilities of SAP to rapidly drive business benefits in areas such as marketing, sales, product innovation and the supply chain.

Transforming the IT budget



IT outsourcing helps lower the total cost of ownership

For a variety of historical reasons, many large companies have implemented ERP in a piecemeal fashion, site-by-site and country-by-country or business unit by business unit. Typically, a large percentage of corporate IT spending goes toward maintenance costs.² Any remaining IT funds are generally insufficient to allow companies to achieve the business and technology transformations they desire.

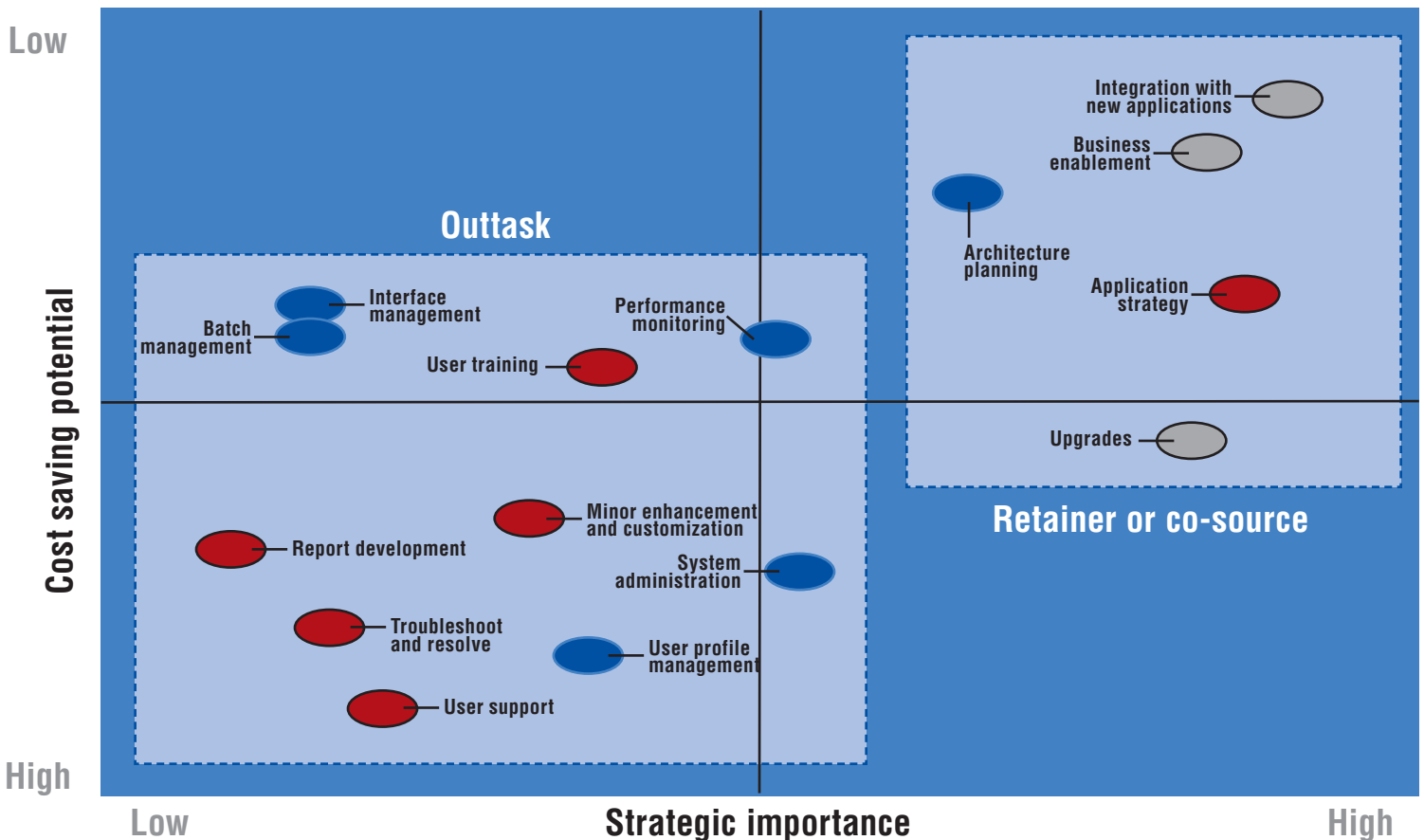
By streamlining processes and components, and outsourcing non-core business activities, your company can gain greater IT flexibility, and savings can be redirected to concentrate on business differentiation tactics. By refocusing

and reinvesting in areas such as consumer marketing and innovation, as well as by aligning human and working capital with strategic priorities, businesses like yours can begin unlocking revenue and driving growth.

Many best-of-breed technology suppliers have attained and can offer outsourcing clients virtually unprecedented efficiencies and operating capabilities. Tier-1 solution providers — such as IBM — have emerged and are offering full-scale services in most major industry areas. Taking advantage of outsourcing partners allows you to better focus on core functions, reduce costs and leverage more flexible, scalable IT environments, all of which support new business model development.

Before you begin your own total cost of ownership (TOC) and IT value review, you should first differentiate between core and non-core business segments and identify areas where outside service providers can provide optimum savings. You also need to prioritize how to allocate IT resources across core business components. To achieve these imperatives, you should balance organizational effectiveness and efficiency.

Core versus non-core support activities



Value levers are key to enabling a full economy model

IBM Application Management Services for SAP has a variety of IT service and capability levers that can be employed to achieve your company's value transformation. While corporate needs vary, your company's unique situation dictates a different mix of levers, depending upon whether your goal is to:

- Generate operating cost savings of approximately 20-40% over a three- to five-year time frame.
- Enable your organization to focus on core business competencies while IBM focuses on operational efficiency
- Enhance IT effectiveness and drive new innovation
- Deliver flexible staffing and shared support resources when you need them, only when you need them.

Selecting the right lever is critical to determining the value that can be unlocked in your organization. Specific levers can be used to target opportunities within your organization. IBM helps by projecting benefit and cost savings for each combination of levers. You can choose to implement from one to all of the levers to help achieve benefits ranging from the tactical to enterprise wide transformation. Because each lever builds on the others, when you implement all of the levers you can realize the full economy of scale and achieve the greatest possible value proposition and cost savings over time.

IBM Application Management Services for SAP allows your management team to fund core initiatives by improving non-core business efficiencies, so you can reduce costs and potentially increase revenues. By unlocking multiple transformational goals in parallel and helping to revamp operations, IBM Application Management Services for SAP helps you drive competitive advantage and best-in-class innovation.

IBM Application Management Services for SAP can save a US\$7-billion company enough to fund their SAP implementations.

Based on our experience as one of the world's leading application management companies, IBM has found that a typical company spends the majority of its IT money on application and infrastructure support. Human efforts, as well as hardware

and software technology, are often duplicated throughout the enterprise, dramatically increasing overhead and total cost of ownership. Technology obsolescence, heterogeneous applications and application complexity, in addition to the difficulties of achieving core process functionality, are but a few of the myriad of problems such organizations face.

However, application outsourcing offers a tremendous opportunity to improve cost efficiencies. A US\$7-billion company might begin by refining their focus and identifying savings in any number of places, whether reducing headcount, rationalizing their application portfolio or restructuring applications and enabling core process functionality.

By applying some of the levers after project expenditures, a US\$7-billion organization can generate approximately US\$28 million in IT savings — enough to fund a major SAP implementation. Utilizing the levers, savings can be generated by:

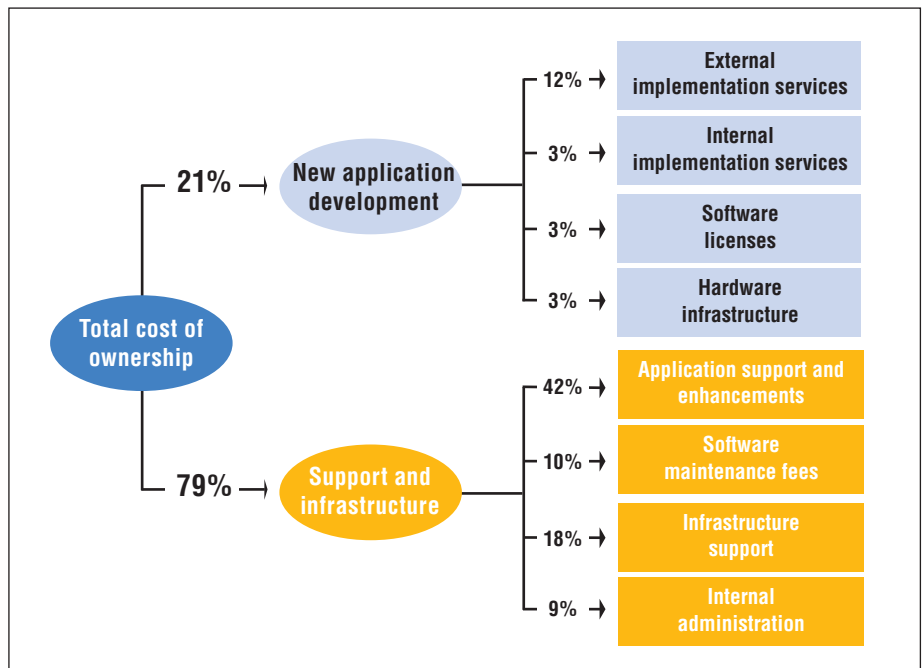
- Reducing and consolidating applications
- Applying an aggressive care and maintenance program to “sunset” applications

- Focusing client retained staff on strategic functions
- Transferring all non-core functions to IBM shared services
- Utilizing rapid SAP application development and deployment technique.

Ultimately, significant savings can be realized no matter how many application management levers are

implemented. The key remaining questions become where and when do you want to begin transforming your business's core competencies and how are those non-core operations best addressed to generate cost reduction and gain efficiencies?

Total cost of ownership

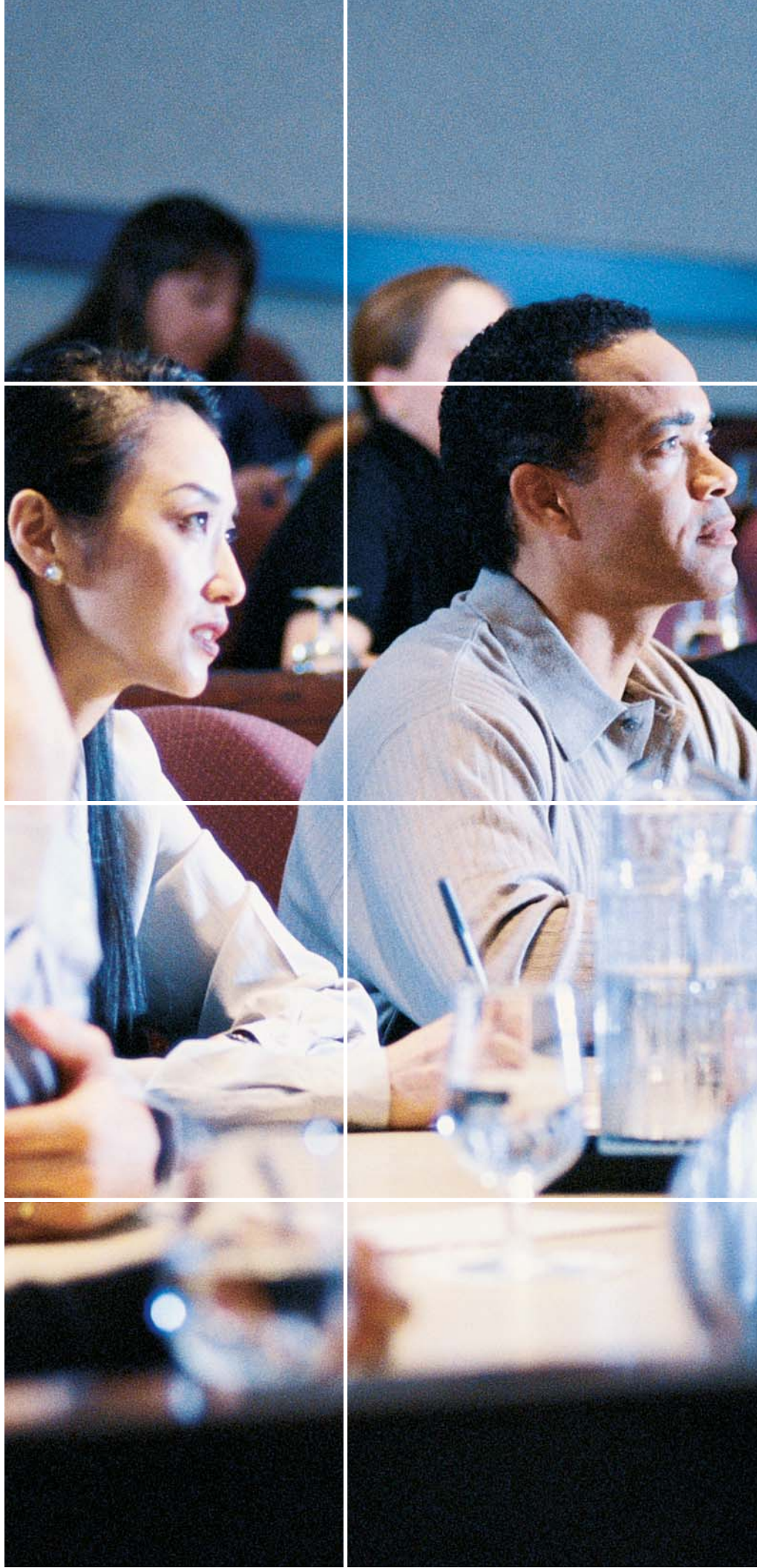


Why IBM?

By combining our broad understanding of how technology can be used to facilitate your company's business process with our leadership position in SAP application support and SAP specific consulting services, IBM is in a prime position to create solutions that can unlock the value of your enterprise's SAP investments. We can enable your business to become more efficient and effective and can help you on your drive toward business growth.

With our extensive industry expertise and in-depth understanding of business processes and information technology, we are uniquely qualified to work with companies that want to get out of the IT business and return their focus to core business competencies. IBM Application Management Services for SAP helps tailor the infrastructure and applications required to provide the flexibility necessary to successfully meet new challenges and customer needs, supports future growth and , helps enable your company to become more responsive to market demand and more resilient to market change.

IBM can help SAP clients realize currently untapped cost-savings potential. IBM and SAP have had a relationship in excess of 30 years, and we share more than 8,000 clients at 10,000 sites worldwide. Our Application Management Services for SAP practice has over 400 clients worldwide and we support over 350,000 of their users. Our experience and expertise mean we can deliver cost-effective solutions capable of enhancing your company's competitive advantage — so you can get back to business.



For more information

To learn more about IBM Business Consulting Services and IBM Application Management for SAP, please contact your IBM representative, or visit:

ibm.com/bcs

References

- ¹ IBM Business Consulting Services. IBM Strategy and Change Practice. 2004. *Your Turn: The Global CEO Study 2004.*
- ² IBM Business Consulting Services. 2004. *Total cost of ownership improvements through on demand for SAP customers.*



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