

SAP Case Study



mySAP™ ERP HUMAN CAPITAL MANAGEMENT AT DOW CORNING

THE BEST-RUN BUSINESSES RUN SAP



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EXECUTIVE SUMMARY

Dow Corning initiated a cost-reduction strategy to maintain its market position in the increasingly cost-competitive silicone industry. Niche entrants in the silicone market have created a shift from large-scale, bundled product and service offerings to vertical-specific, value-priced offerings. To remain competitive amidst these new market dynamics, silicone manufacturers have needed to streamline processes, reduce costs, and rationalize global operations.

Dow Corning responded to market pressures by first implementing a global single instance of SAP® R/3® (now available as mySAP™ ERP). Dow Corning then took one of the solutions from this software, mySAP Human Resources – now available as mySAP ERP Human Capital Management (mySAP ERP HCM) – and implemented it globally. The global single instance of mySAP ERP HCM has enabled Dow Corning to transform itself from a decentralized organization to one that is tightly integrated, from a global and vertical perspective. SAP technology provides the technological foundation Dow Corning needs to support one of its strategic business objectives, operational excellence.

The fundamental components of operational excellence are:

- Reduction in global organizational barriers
- Decrease in redundant activities
- Reduction in cycle time for key business processes

The return on investment (ROI) calculated from the data collected at Dow Corning was 163%. The payback period was 3.8 years, with a 10-year savings of \$53.7 million.

mySAP ERP HCM has enabled Dow Corning to eliminate organizational and technological redundancies, streamline HR-related business processes, provide management visibility into the global organization, and use HR to support strategic globalization and cost saving objectives. The solution centralizes the firm's HR operations on one global database, while providing a multi-lingual environment that supports a wide range of currencies and country-specific legal requirements.

The largest contributors to the total business-process savings occurred as a result of improvements in global employee management – via both organizational management and personnel administration. These cost savings were derived from the reallocation of HR staff resulting from the introduction of a more streamlined, centralized global management model. Other cost savings were derived from the integration of time-management and payroll areas and the creation of a more heterogeneous and standardized IT environment. Although reasonable business efforts were utilized to uncover an exhaustive list of the financial benefits associated with mySAP ERP HCM, it is unreasonable to suggest that all benefits have been identified; therefore, this ROI may be considered a conservative viewpoint.

STUDY OBJECTIVES

Gartner Consulting Inc., was commissioned by SAP to conduct a third-party, unbiased assessment of the ROI of mySAP™ ERP HCM. The objectives were to showcase organizations whose HR teams have demonstrated thought leadership, a positive impact on the business, and potential quantifiable financial savings as the result of a mySAP ERP HCM implementation.

This case study applied the total value of opportunity (TVO) ROI methodology, designed by Gartner, to develop the results. The methodology-based results and their use by a client should not be deemed an endorsement of any client's product or service, data, or sales technique. Gartner disclaims all warranties, expressed or implied, of the fitness of results for a particular purpose. Methodology results should not be deemed as an industry average and may vary from published Gartner research.

THE SILICONE INDUSTRY

The silicone product market has changed significantly since its inception in 1943. Historically, silicone was viewed as a specialty product, which enabled manufacturers to sell bundled offerings that included a wide array of additional services such as testing, implementation, and support. However, in recent years the silicone market has become increasingly cost competitive. The onslaught of niche manufacturers has pushed silicone companies to concentrate on cost-cutting strategies that reduce operational overhead and allow for more competitive tactics.

Rather than offer bundled products that include full-service offerings such as testing and support, some silicone manufacturers have released vertical specific point offerings at lower prices. Dow Corning has placed tremendous emphasis on streamlining and restructuring its global organization in response to these new competitive pressures. The company has created a two-tiered branding approach that includes:

- The Dow Corning brand, which offers highly specialized bundled solutions that target complex vertical markets, such as aerospace and defense
- The XIAMETER brand, which offers point solutions with a value-pricing structure that targets vertical markets where silicone products are more difficult to differentiate, such as construction

DOW CORNING: COMPANY BACKGROUND

Dow Corning is a joint venture between Corning Glass Works (now Corning Incorporated) and the Dow Chemical Company for the production of silicone products for commercial applications. The company currently manufactures more than 7,000 silicone products and serves approximately 25,000 customers worldwide. Based in Midland, Michigan, it employs approximately 7,500 people at 40 manufacturing and service locations around the globe. In 2002, Dow Corning sales revenues were \$2.6 billion.

THE ENTERPRISE

PROBLEM: DECENTRALIZATION CREATED INEFFICIENCIES

Historically, Dow Corning has maintained a decentralized organizational structure (the silo model) supported by a similarly fragmented IT architecture. Company employees reported directly into a country, region, or division that maintained a certain level of autonomy. In this organizational structure, employees lacked insight, coordination, and understanding of HR-related global best practices and processes – the information needed to improve productivity and work behaviors. Figure 1 illustrates the decentralized IT environment.

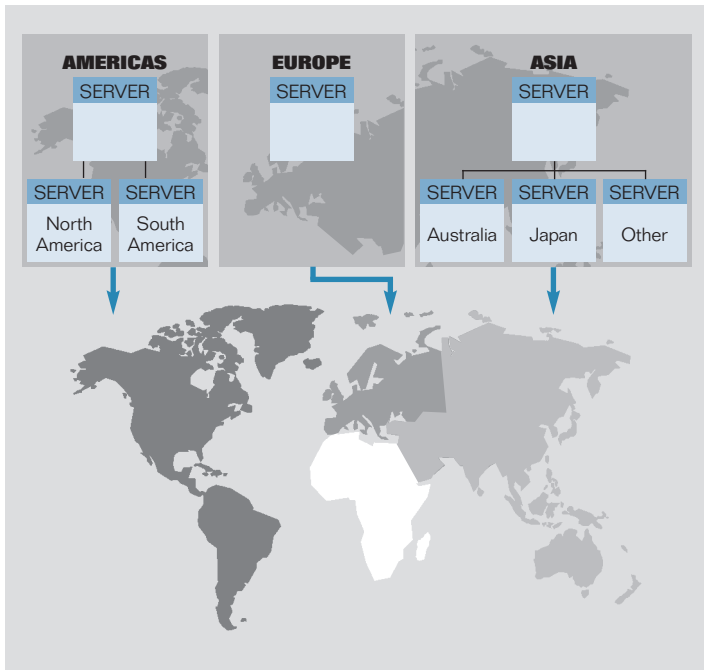


Figure 1: Decentralized Organizational Model

This fragmented organizational model was supported by an IT architecture that not only maintained each region on its own database server but also allowed independent selection of business applications. The architecture ran on multiple platforms including Amdahl MVS mainframes, IBM VM mainframes, IBM AS400 servers, and other application-specific servers. This decentralized environment led to an inefficient organizational and technological structure that placed significant strain on operational and fixed costs. The environment also prevented executives – who lacked insight into existing resources and assets – from making informed decisions on the global organization. In addition to overspending on redundant decentralized systems, Dow Corning was unable to fully leverage its global assets.

SOLUTION: mySAP ERP GLOBAL SINGLE INSTANCE

In 1995, Dow Corning decided to shift its business strategy fundamentally by embracing the notion of an integrated, cross-functional global organization – an organization where people, processes, technologies, and assets are leveraged to create an agile, cost-effective firm. To enable this strategy, Dow Corning purchased an enterprise version of SAP® R/3® from which it could implement a global single instance of SAP R/3. This global single instance enabled Dow Corning to implement best-practice workflows and cross-functional business processes worldwide – via the broad spectrum of solutions available in mySAP Business Suite.

“The global single-instance database has been the best thing that has ever happened to Dow Corning’s global strategy.”

Jeff Scherting, E-Business and Finance Process Specialist,
Dow Corning

To date, Dow Corning is running all of its mySAP ERP Human Capital Management (mySAP ERP HCM) applications on one global instance of mySAP ERP, which supports 9 languages, 7,500 users, and 50,000 materials. This global single instance is running on a robust infrastructure including Sun Microsystems servers and Oracle databases.

By moving towards a global single-instance database, Dow Corning has been able to drive efficiencies into global processes and create a more agile global organization, thereby reducing operational costs and enabling the company to compete more effectively in the price-sensitive silicone industry.

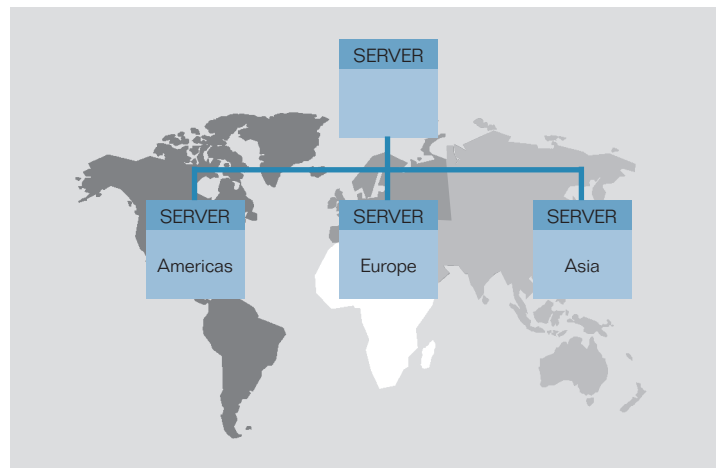


Figure 2: Global Platform – Centralized Model

mySAP ERP HCM: IMPACT ON DOW CORNING HR ORGANIZATION AND PROCESSES

Dow Corning implemented mySAP ERP HCM (formerly known as mySAP Human Resources or mySAP HR) in 1998. The mySAP ERP HCM solution provides a specific example of how Dow Corning was able to reap significant benefits from the mySAP ERP global single instance. This case study focuses only on the impact of mySAP ERP HCM.

Historically, HR activity at Dow Corning was divided into three geographic areas – the Americas, Europe, and Asia. Each location was supported by multiple on-site HR and payroll resources responsible for fulfilling HR-related process requirements for that site or region. HR was required to respond to the needs of the region, which in many cases included the creation of customized, regional, or site-specific reports.

Although Dow Corning supported a human resources management system (HRMS), each country had the option to choose whether or not they wanted to use it and to what degree. This option to use or not to use led to a series of disparate “islands of HR information.” To achieve its corporate cost-cutting goals, Dow Corning had to consolidate its business processes by moving HR to a centralized, shared-services location.

As part of this ROI study, several business processes and operations were evaluated, including:

- Global employee management (via both organizational management and personnel administration)
- Time management
- Payroll management
- IT operations

ROI calculations are based on a 10-year useful life period. Most HR-related technology purchases are expected to last the organization at least 10 years (including upgrades), which is longer than can be expected for typical technology purchases.

BUSINESS PROCESS: MANAGING GLOBAL EMPLOYEES Before Implementing mySAP ERP HCM

Prior to implementing a change in organizational structure, each line manager at Dow Corning completed a paper form for manual delivery to the local HR representative. These paper forms were compiled and filed by the local HR representative, who made changes to the employee personnel record in the legacy HRMS system. Each country maintained its own version of the HRMS system, which gave managers limited visibility into the global organization. The cycle time required for this business process was approximately 10 business days.

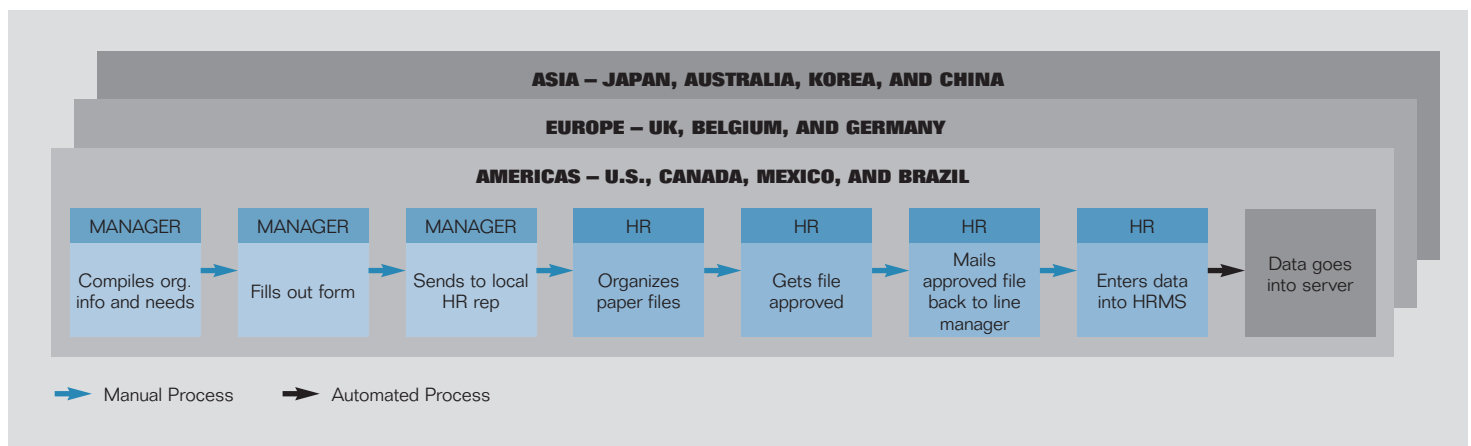


Figure 3: Organizational Management – Before mySAP ERP HCM

After Implementing mySAP ERP HCM

Today, the Dow Corning organizational management business process is running on a blended, integrated, and global single instance of mySAP ERP HCM, which offers both organizational management functions and personnel administration. The company has established a global request system, which allows each line manager to make an electronic request via an intranet application routed directly to the shared-services HR department. The HR representative enters changes directly into the central database. Once the process is completed, workflow automatically notifies the line manager by e-mail.

Managers are now able to pull accurate organizational analytics from the central database. The cycle time for this business process is approximately three days.

Impact of mySAP ERP HCM

mySAP ERP HCM enables the Dow Corning HR organization to support the firm's internationalization objectives as well as lower the cost and risk of potential noncompliance issues. In addition, mySAP ERP HCM has multiple language and currency capabilities and is fully euro compliant.

A major strategic benefit resulting from the changeover to mySAP ERP HCM is the reduction in global organizational barriers. By integrating personnel administration and organizational management across the globe, mySAP ERP HCM helps Dow Corning eliminate many organizational redundancies.

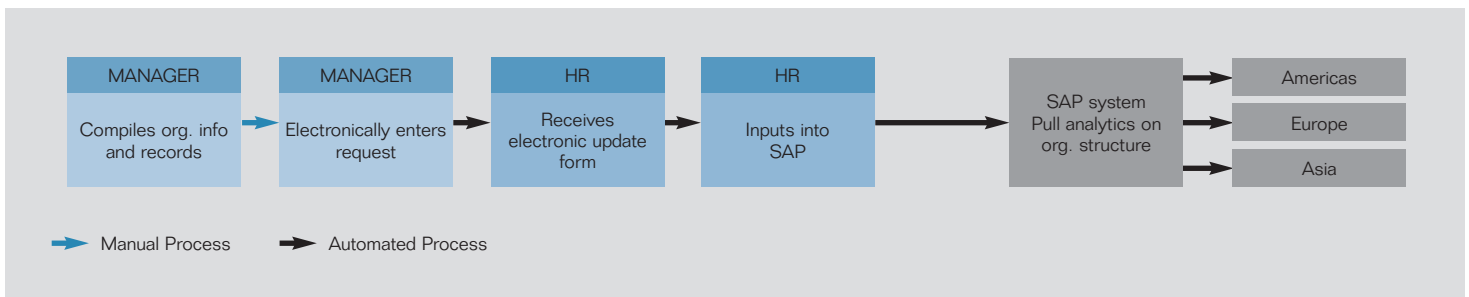


Figure 4: Organizational Management – After mySAP ERP HCM

The solution affects two business processes related to managing the global employee:

- Personnel administration – management of the individual
- Organizational management – management of the enterprise

“A global single instance for HR enables an enterprise to have a complete data-base of global employee information, which reduces the costs of maintaining accurate and consistent information. In addition, the single global HR repository allows enterprises to more easily understand the demographics and capabilities of the workforce and to make better decisions about how to structure the organization.”

Jim Holincheck, Research Director, Gartner

To see how mySAP ERP HCM impacts business, one need only look at the cycle-time reduction it has effected in the personnel administration business process. Personnel administration is now standardized across the globe, with all information flowing into a centralized HR organizational structure. The centralization and automation of personnel administration processes has reduced HR cycle time from 10 days to 3.

Personnel Administration Business Process	Total Time to Complete Transaction
Before mySAP ERP HCM	10 business days
After mySAP ERP HCM	3 business days
Total time savings per transaction	7 business days

Table 1: Cycle-Time Reduction for Personnel Administration

Over the past few years, Dow Corning’s HR workforce has been reduced by approximately 60%. Thus mySAP ERP HCM resulted in reallocation cost savings to each business process area. The savings attributable to the organizational management business process is \$2.3 million (approximately 30% of total HR reallocation savings); the cost-savings attributable to the personnel administration business process is \$2.7 million (approximately 35% of total HR reallocation savings).

Because mySAP ERP HCM offers an insight into the company’s worldwide organizational structure, it reveals redundancies that exist across the organization. This insight helped Dow Corning personnel administrators and organizational managers scale departments to meet the global needs of the company while adhering to the specific configuration requirements of each single-country installation.

Dow Corning worked to achieve globalization and cost savings while it dismantled or reallocated numerous business units. In the past, this would have required the HR team to realign the organizational structures manually by going into individual personal profiles. But with mySAP ERP HCM, the team could simply “drag and drop” features needed to realign the structure, saving time.

Category	Description	Annual Cost Savings
HR headcount reallocation resulting from new organizational management	Percentage of time freed up, which provided Dow Corning with the option to reallocate part of the HR staff. Represents 30% of total HR reallocation savings.	Approximate savings of \$2.3 million
HR headcount reallocation resulting from new personnel administration	Percentage of time freed up, which provided Dow Corning with the option to reallocate part of the HR staff (35%). Represents 35% of total HR reallocation savings.	Approximate savings of \$2.7 million
Total annual cost savings		\$5.0 million

Table 2: Quantitative Impact of mySAP ERP HCM

BUSINESS PROCESS: TIME MANAGEMENT

Before Implementing mySAP ERP HCM

Prior to implementing mySAP ERP HCM, Dow Corning used a variety of time-collection methods. Once time entry was completed, the time data was manually delivered to a local HR representative for coding into the HRMS system. As part of the coding process, the HR representative matched pay/time codes against time worked, identified inconsistencies, and corrected errors manually. Once the time was reconciled manually, an HR representative uploaded the data into payroll.

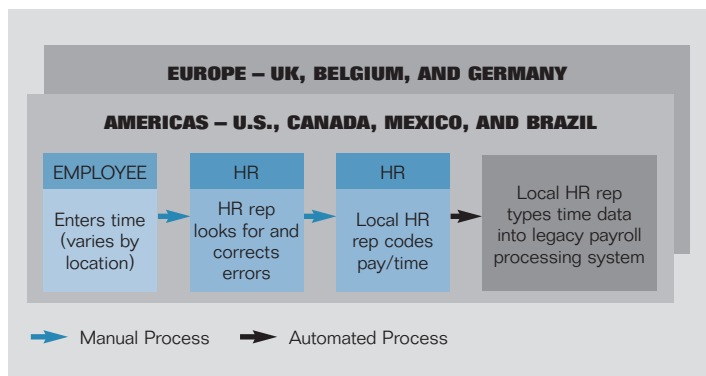


Figure 5: Time-Management Process – Before mySAP ERP HCM

After Implementing mySAP ERP HCM

Today, Dow Corning employees can enter time via two methods – card/badge readers or direct entry via SAP Employee Self-Service, an application available in mySAP ERP HCM. All data, regardless of collection method, is uploaded directly into the time-management module. At a specified time each day, time data is reconciled. mySAP ERP HCM has built-in intelligent business rules that allow for the automatic evaluation of pay/time codes against Dow Corning work rules.

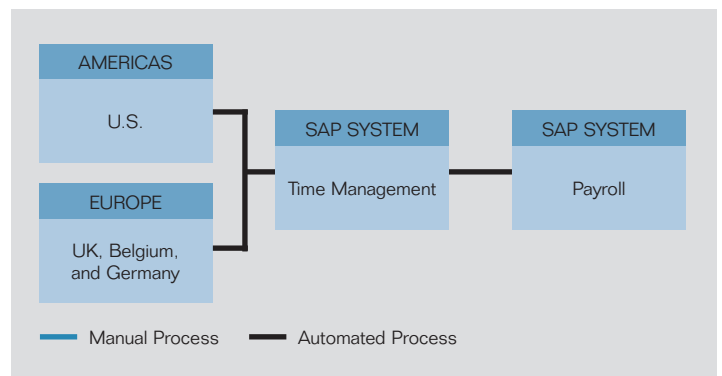


Figure 6: Time-Management Process – After mySAP ERP HCM

Time management is now integrated with payroll. The solution's automated business rules not only streamline the process but also create more accurate time-management and payroll systems (because the rules are being applied consistently).

Impact of mySAP ERP HCM

The solution’s time-management capability has enabled Dow Corning to reduce redundant and manual activities, leading to the reallocation of a portion of the HR staff. This reallocation saved the company approximately \$1.9 million. One of the most compelling benefits of mySAP ERP HCM is its ability to apply work rules in a consistent and automated fashion, which increases the overall accuracy of both time management and payroll. In the past, HR representatives had to account for pay/time codes on a manual basis, which led to error-prone time accounting, thus an inaccurate payroll. Today, mySAP ERP HCM handles all of these integrated transactions.

Category	Description	Annual Cost Savings
HR headcount reallocation resulting from new time-management process	Percentage of time freed up, which provided Dow Corning with the option to reallocate part of the HR staff. Represents 25% of total HR reallocation savings.	Approximate savings of \$1.9 million

Table 3: Quantitative Impact of mySAP ERP HCM on Time-Management Process

BUSINESS PROCESS (PHASE 1):

NET PAYROLL OUTSOURCED

Dow Corning is using the payroll function implemented in the United States to demonstrate how one country benefited from mySAP ERP HCM technology. The solution’s payroll function has since been implemented in other countries including Germany, Belgium, and the United Kingdom. The net results and benefits of these implementations are similar; however, slight modifications were made based on country-specific requirements. As part of an ongoing process, Dow Corning will continue to evaluate payroll processes worldwide and to implement the new payroll module in countries where a business case is justified.

“The complexity of payroll is underestimated by everyone but HR. mySAP ERP HCM has helped Dow Corning manage this complexity on a global scale.”

Kent Philpot, HR Business Process Leader & HR Service Center Manager, Dow Corning

Before Implementing mySAP ERP HCM

Prior to mySAP ERP HCM, the payroll process at Dow Corning was entirely manual – with the exception of the actual calculation of the payroll. The process began when the payroll-site representative reconciled and loaded time into the payroll system. Next, the payroll was run and third-party requests and payments completed. Finally, Dow Corning issued checks or direct deposits to its employees. The cycle time for this process was approximately four days.

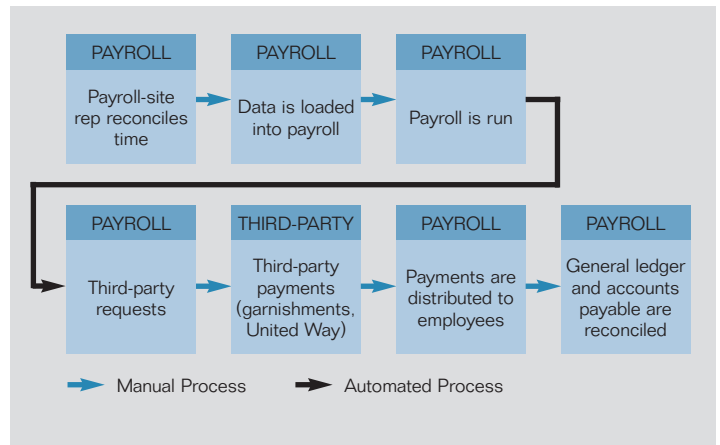


Figure 7: Payroll Process – Before mySAP ERP HCM

After Implementing mySAP ERP HCM

Dow Corning implemented the gross payroll capabilities of mySAP ERP HCM in 1999 but for many reasons, including Y2K, the company decided to outsource its net-payroll process. Because of the payroll automation functions built into mySAP ERP HCM (including time management and gross payroll), the company was able to automate several process steps. But because Dow Corning was using a third-party payroll outsourcer, several

manual steps remained, and many interfaces were needed to ensure effective communication between the outsourcer and Dow Corning. In addition, the synchronization required to compare the master data could take more than 24 hours. As a result, the potential cost savings derived from the new payroll capabilities were offset by the highly manual processes needed to outsource the net payroll. Thus the cycle time remained the same – four days.

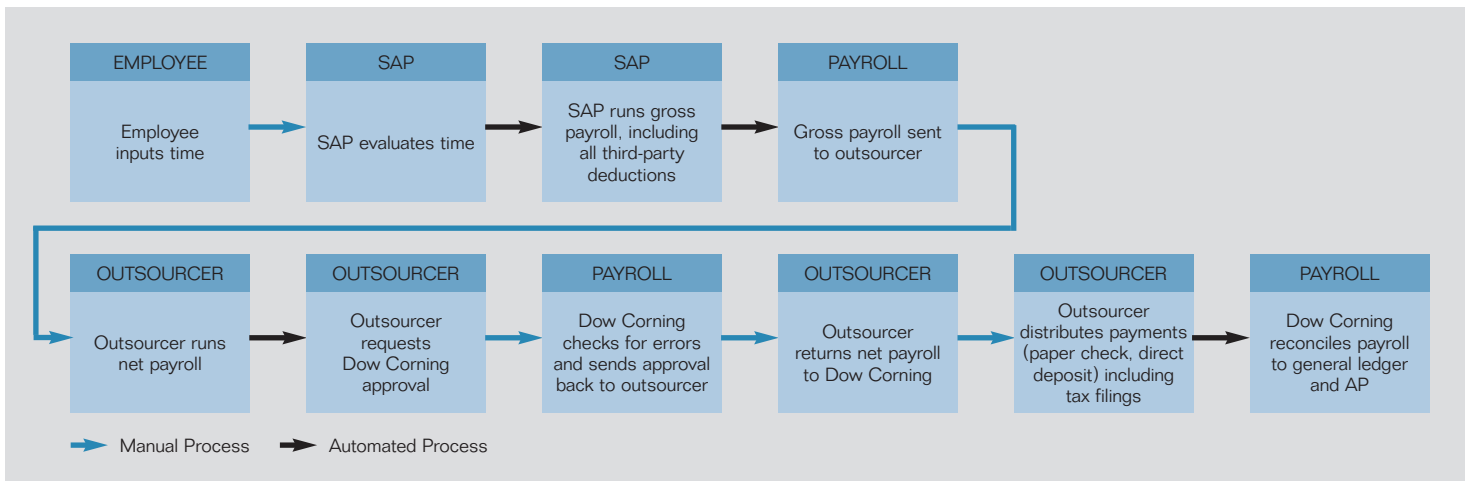


Figure 8: Phase 1 Implementation: Net-Payroll Process Outsourced

BUSINESS PROCESS (PHASE 2):

NET-PAYROLL PROCESS BROUGHT IN-HOUSE

After Implementing mySAP ERP HCM

Today, the solution's time-management and payroll capabilities are being fully implemented, and payroll outsourcing has been nearly eliminated. The tightly integrated payroll process, which includes net-payroll functions, allows for the automatic flow of data between the systems and eliminates the time-consuming and paper-intensive manual tasks that existed prior to full implementation. Payroll-management functions at Dow Corning are now run on a global single instance; however, the payroll system is run separately within each country because of local legal requirements. mySAP ERP HCM has enabled Dow Corning to bring its total payroll process back in-house and to use third-party sources only for selected activities. The total cycle time for payroll is now one-and-a-half days.

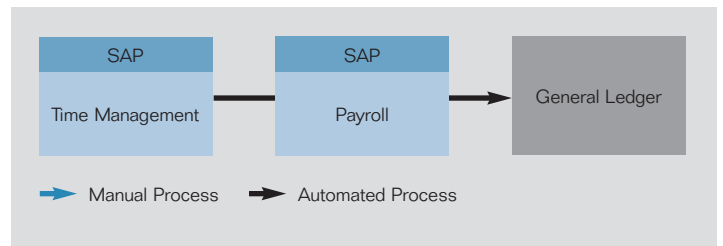


Figure 9: Phase 2 Implementation: Net-Payroll Process Brought In-House

Impact of mySAP ERP HCM

The solution’s payroll capabilities provide Dow Corning with numerous benefits including:

- Integration with time-management functions
- Improved quality and accuracy of pay slips
- Reduction in number of interfaces
- Reduction of complexity involved in the process
- Reduction in use of outsourcers
- Transfer of both gross and net-payroll processes in-house
- Improved control over payroll process

Key to the success of the new payroll component is its integration with time management. This integration allowed for a completely automated, accurate, and near-real-time direct-loop feedback between the time-management database and the payroll business process. Automation efficiency has enabled Dow Corning to bring payroll back in-house while reducing staff from six to two, leading to cost savings of approximately \$700,000 per year. A major driver behind this cost-saving staff reallocation was the reduction in payroll cycle time from four days to one-and-a-half days.

Payroll Business Process	Total Time to Complete One Transaction
Before implementation of mySAP ERP HCM	4 days
After phase 1 implementation of mySAP ERP	4 days
After phase 2 implementation of mySAP ERP HCM	1.5 days
Total time savings per transaction	2.5 days

Table 4: Time Saved by Using mySAP ERP HCM in the Payroll Process

Dow Corning estimates that the cost savings gained by bringing the payroll process in-house are \$700,000 per year, a figure that includes both the United States and Belgium. In 2002, Dow Corning implemented electronic pay stubs within the employee self-service application in the United States, which allows employees to view pay stubs electronically. This pay-stub capability led to cost savings in paper, printing, and mailing equaling \$100,000 per year in the United States. Currently, Dow Corning is investigating electronic pay stubs in Europe, which will reduce the company’s overall costs even more.

Category	Description	Annual Cost Savings
Payroll headcount reallocation	Reallocation of payroll personnel	\$700,000 per year
Outsourcing cost reductions	Outsourcing costs no longer needed because in the United States and in Belgium all payroll functions are now in-house	\$300,000 per year for Belgium and the United States
Pay-stub cost reductions in the United States	Reduction in mailing, printing, and paper costs resulting from the switch to electronic pay stubs in the United States	\$100,000 per year in the United States only
Total annual cost savings		\$ 1.1 million

Table 5: Quantitative Impact of mySAP ERP HCM on Payroll Process at Dow Corning

BUSINESS PROCESS: IT OPERATIONS

Dow Corning was able to realize exceptional IT-related benefits from implementing mySAP ERP HCM globally. Most of these benefits were driven through the centralized architectural design of the solution, its ability to integrate with other robust back-end applications in mySAP Business Suite, and the consistent use of global business processes. The implementation of mySAP ERP HCM created a more heterogeneous and standardized IT environment, decreasing the maintenance and support associated with the previous, decentralized environment and reducing the pressure on the company's IT department. In HR alone, IT has moved from maintaining five systems to maintaining only one.

As a result of the global change to a new environment, the Dow Corning IT department was reorganized on a federalized model, centrally managed. This structure has enabled the company to take a more disciplined approach to IT processes and to reduce the number of local IT resources needed to maintain the system.

Based on before-and-after studies conducted at Dow Corning, it was estimated that the IT operational/support cost savings realized by the introduction of mySAP ERP HCM are approximately \$1.6 million per year.

By integrating its global business processes with mySAP ERP HCM, Dow Corning was able to achieve the following:

- Reduced IT organizational barriers
- Increased global consistency (internal and external) for IT activities
- Reduced redundant development and maintenance activities
- Improved management of global updates
- Eased customer/supplier collaboration through consistent IT infrastructure
- Reduced the time required to introduce new features and functionalities

SUMMARY OF BUSINESS PROCESS FINDINGS

Dow Corning was able to realize significant cost savings through the implementation of mySAP ERP HCM. The greatest savings occurred as a result of improvements in global employee management – via both personnel administration and organizational management. These cost savings were derived from the reallocation of HR staff, resulting from the introduction of a more streamlined, centralized global management model. The integration of time management and payroll led to a reallocation of resources, elimination of outsourcers, and online delivery of pay stubs. Additionally, Dow Corning witnessed a significant cost reduction within IT operations, due to the implementation of the global single instance.

Business Process	Overall Cost Savings Contribution per Year	Cost Savings per Year	10 Years Overall Cost Savings Contribution	10 Years Cost Savings Contribution
Organizational Management	21.9%	\$2.3 million	22.3%	\$12.0 million
Personnel Administration	25.7%	\$2.7 million	26.3%	\$14.1 million
Time Management	18.0%	\$1.9 million	18.6%	\$10.0 million
Payroll	10.5%	\$1.1 million	10.2%	\$5.5 million
IT Operations/Support	15.3%	\$1.6 million	15.2%	\$8.1 million
Other Efficiency Savings	8.6%	\$9 million	7.4%	\$4.0 million
Total	100%	\$10.5 million	100%	\$53.7 million

Table 6: Annual and Ten-Year Cost Savings

ROI AND PAYBACK PERIOD

Calculation

ROI entails isolating and adding the net present value (NPV) cost-reducing and revenue-enhancing benefits introduced by mySAP ERP HCM, and then dividing this sum by the present value of the total investment. Though there are definitely revenue-enhancing benefits associated with HR automation, because of the nature of the HR function, we are not able to isolate any of these benefits with the same confidence level as the cost-reducing benefits.

For the purposes of this study, the time period investigated was a 10-year useful life period. Although there are industry discrepancies regarding anticipated useful life periods, because of the nature of HR enterprise software and the expectations of customers, this period proved to be the most useful life period for the calculation of the ROI and payback period for HR applications.

The payback period is essentially a ratio and proportion calculation that compares all of the financial benefits realized in 10 years to the time it would take to have that investment returned. For example, $\text{financial benefits}/\text{one year} = \text{investment}/X \text{ years}$, then solve for X.

The investment estimate includes all of the costs involved in licensing, deploying, debugging, and maintaining mySAP ERP HCM software and services, although this estimate does not include any indirect, soft, or overhead costs. In most cases, the indirect and soft costs would either be negligible or too difficult to quantify while the overhead costs would be consistent regardless of the HR automation strategy implemented.

The ROI calculated from the data collected at Dow Corning was 163%. The payback period was 3.8 years, with a 10-year cost savings of \$53.7 million.

Overall, both the ROI and payback periods calculated above represent very positive and realistic numbers. Although the consultants made reasonable efforts to uncover an exhaustive list of the financial benefits associated with mySAP ERP HCM, they could not be expected to identify all of them. Therefore this ROI may be conservative.

CONCLUSIONS

The global single instance of mySAP ERP HCM (supported by the global single instance of mySAP ERP) enabled Dow Corning to better meet its strategic objective of operational excellence by:

- Eliminating organizational and technology redundancies
- Streamlining HR-related business processes across the global organization
- Providing management visibility into the global organization
- Enabling HR to support the firm's strategic globalization and cost-saving objectives

mySAP ERP HCM allowed Dow Corning to centralize HR activities on one global platform while supporting country-specific issues such as language, currency, and legal/compliance requirements. By reducing the redundant, manual tasks involved in HR time-management and payroll functions, the global single instance of mySAP ERP HCM also helped Dow Corning reduce operational costs, streamline its HR organization, and improve its position in the cost-competitive silicone market.

CONTACT INFORMATION

mySAP ERP Human Capital Management
www.sap.com/hcm

Gartner Consulting – Market and Business Strategies
www.gartner.com/3_consulting_services/practice/mbs.jsp

METHODOLOGY

QUESTIONNAIRE DESIGN

The figure below depicts the review of secondary research from various sources, which formed the foundation for designing the questionnaire. Included in the questionnaire were underlying hypotheses around the specific business processes within the target firm. The objective of the questionnaire was to test the business-process hypotheses and isolate measurable qualitative and quantitative benefits.

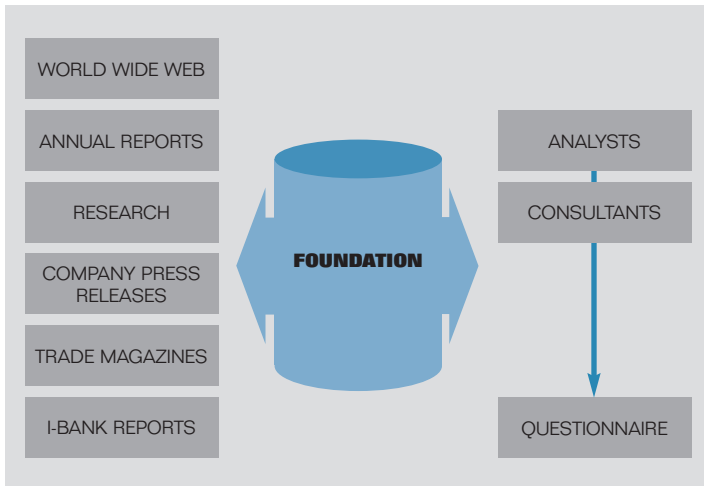


Figure 10: Questionnaire-Design Process

DATA COLLECTION

The questionnaire was administered to collect data from the following two scenarios:

- Before a company deployed the technology
- After a company deployed the technology

On-site interviews were conducted at the target firm. The goal was to have an interactive session enabling the identification of qualitative and quantitative benefits for each business process.

We interviewed various constituents including representatives from HR, finance, line management, information technology and employees of the firm. The HR representative interviewed has specific responsibilities for the business processes isolated in this case study. In a few instances, respondents were unable or unwilling to answer some questions because they did not actually know the answer or they thought they would be divulging proprietary information.

DATA ANALYSIS

Upon completion of data collection, the information was reviewed for accuracy and consistency. Spreadsheets were created to separate the qualitative and quantitative data and categorize it into the before-and-after scenarios. The qualitative data was examined to extract the overarching nonquantitative benefits. The quantitative data was then analyzed for cost and revenue changes realized after the introduction of the technology.

APPENDIX – DEFINITIONS

The case studies were based on Gartner Consulting's ROI methodology and definitions, which evaluate explicit cost-savings or revenue-enhancing benefits associated with HR-related business processes.

Annual Savings

Assessing the savings for the first year that the technology component is operational.

Ten-Year Savings

For the purposes of this study, the time period investigated was a 10-year useful life period. Due to the nature of HR-specific enterprise software and the expectations of customers, this period proved to be the most useful life period for the calculation of the ROI and payback period for this study.

In many cases, the financial benefits are introduced at different periods of time. Measuring the total cost savings over the 10-year useful period of the product can provide additional visibility into cost savings. One cannot simply multiply the annualized cost savings by 10. But rather, one must take into account the staggered introduction of products and various growth rates of each benefit. Cash flows are corrected for present value, and a 35% corporate tax rate is applied to the savings. Again, in the end, total cost savings will be far different than multiplying any of the annual cost savings by 10 (the useful life period).

ROI

The present value of the net financial gain or loss expressed as a percentage of the present value of the funds invested to generate that gain or loss. In other words, NPV of the cash inflows divided by the present value of the cash outflows. The cash inflows are usually in the form of cost decreases or revenue enhancements. Cash outflows are usually in the form of licensing fees, upgrade costs, maintenance, debug, hardware, and so on. Once the time period of each cash inflow and outflow are understood, these flows can be put in present value by using the prevailing debt rate. Taking the present value ensures that the value of a currency today is corrected for future consideration.

In most cases, cash inflows (cost savings and revenue enhancements) are estimated to grow (or decline) with the anticipated growth rate of the company. Since growth rates are difficult to estimate, or as in some cases it is considered proprietary information, it is financially sound to assume that cash inflow remains constant (zero growth) throughout the useful life period of the product.

Payback Period

The length of time required recovering the cost of an investment. This is calculated as the cost of project/solution divided by the annual cash flows. All other things being equal, the better investment is one with the shorter payback period.

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