Overview on ROI (Return on Investment) From SAP

Applies to:
SAP Consulting Professionals

Summary
There is no standard method of measuring the ROI however it is possible to measure ROI from SAP Implementation to some extent if we have current system figures. We have Information systems benefits have been classified with respect to several frameworks: tangible Vs quantitative

Author: Kedar B Kulkarni
Company: Accenture
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I have been working in SAP for over 4 years with my areas of consulting being in Materials Management, Supplier Relationship Management and Warehouse Management. I have also worked in the purchase domain for over 10 years in the areas of Purchase, vendor development. My SAP experience, have worked on implementation, roll outs and support projects. I am currently working in Accenture where I am instrumental in designing solutions for the client’s requirements.
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Introduction

Return on Investments (ROI) Estimation is very tricky in the case of SAP Projects. More so in the case when an ERP system becomes the entire Foundational Backbone of an organization's functioning.

Something very interesting facts about ROI

- Significant increase in ROI can be achieved if the software application is appropriate to the needs of the organization. In the long term, an application that is flexible, and can adapt to changing business requirement, will reduce the cost of change and increase the ROI.
- Once SAP has been implemented there is a stabilization phase, which typically lasts between six months and a year. After that, organizations will try to calculate ROI in definite terms. But many are not able to quantify ROI on ERP for certain reasons.
- Today the main challenge is the organizations are not able to quantify their ROI from ERP implementation because at the beginning of the project the KPI (Key performance indicators) and measurement criteria not defined.
- Some SAP Clients fail to realize the ROI as they think about it only after implementing ERP. There are certain business metrics that need to be considered well in advance. This could be inventory levels, number of days for customer outstanding, the type of reports, the number of people in a particular function etc. For instance if out standings were X number of days, we planned to reduce it by 50 percent within two years. This can be done with SAP.
- SAP implementation changes the existing business processes in favor of ones that are streamlined to the best ones followed in the industry. It changes the way business is done. The work profile at the end user level also changes. The productivity gains resulting both from improved processes and integration of financial, business and transaction data are huge.

The best thing to do is to identify the objective or purpose of ERP before implementation, and then compare the achieved benefits to those desired.

When do you start with SAP Return on Investment or SAP ROI?

SAP Implementation is an Investment not just event. How much is it going to cost and how long is it going to take? That is the classic approach to SAP implementations. Today it’s not enough and the marketplace is demanding more from their IT dollars. Now there are questions about measuring cost reductions, process improvements.

Before SAP Implementation start it is good idea to know following

- current legacy systems cost,
- You know what your man hours are (staffing, personnel, benefits, overhead, etc., etc., etc.),
- process cycle times,
- per transaction costs for things like purchase orders, sales orders, production orders, etc.,
- competitor transaction cost benchmarks,
- current application license and maintenance costs,
- Inventory levels etc., etc., etc.
ROI can be measureable?

Tangible and Intangible benefits from SAP

Tangible benefits:

- Improves the productivity of process and personnel
- Lowering the cost of products and services purchased
- Paper and postage cost reductions
- Inventory reduction
- Lead time reduction
- Reduced stock obsolescence
- Faster product/service look-up and ordering saving time and money
- Automated ordering and payment, lowering payment processing and paper costs

Intangible benefits:

- Increases organizational transparency and responsibility
- Accurate and faster access to data for timely decisions
- Can reach more vendors, producing more competitive bids
- Improved customer response
- Saves enormous time and effort in data entry
- More controls thereby lowering the risk of mis-utilization of resources
- Facilitates strategic planning
- Uniform reporting according to global standards

Calculation of ROI

There is no standard method of calculation of ROI for an ERP project but a structured method of analysis is achievable. It may be too cumbersome and subjective to factor in intangible benefits. But these factors are important for creating an overall business case and in many instances, where ROI is not calculated, form a base line objective for the project.

First step is to determine cost of various components of the project such as consulting fees, license fees, modification and implementation cost, hardware cost etc. Maintenance fees for a pre determined period (say for three or five years) should be added to arrive at Total Cost of Ownership over the specified period. The estimated expenditure should be time phased over the period, used to calculate TCO.

Next step is the more difficult part which is to estimate expected benefits over a period of time. For estimating these figures, there should be wide consultation and reference to statistics emanating from various survey reports. Benefits will largely occur from the reduction of inventory level, operation cost, labor cost and improved production. Whereas the last three elements will have a direct impact on profit and loss account, the reduction in inventory will cause release of additional cash which can be assigned to a yearly value of saving, based on organization’s standard internal rate of return.

Relationship between time phased cost and benefit will project a time phased ROI, which will be negative at the outset and will turn positive over the pay back period.
Framework of Tangible benefits

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>sub dimensions</th>
<th>Tangible</th>
<th>Quantifiable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Cost reduction</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Cycle time reduction</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Productivity improvement</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Customer service Improvement</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Managerial</td>
<td>Better resource Management</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Improve Decision making and Planning</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Performance Improvement</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Strategic</td>
<td>Support business growth</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Generate product differentiation</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>IT Infrastructure</td>
<td>IT cost reduction</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Organizational</td>
<td>Support organizational Changes</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Build common visions</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

The benefits associated with inventory were measured as a function of inventory turns—the inverse of the cycle time of an inventory unit. If turns improve, then inventory cycle time decreases, and the amount of inventory in process will decline. The ERP system was assumed to provide a one-time inventory reduction of 10% that would result from better management of parts inventories, and this was assumed to occur one year after implementation. The better management of parts inventories is the result of the availability of real-time information about current inventory levels and tighter integration with suppliers.

Sample Items Customer satisfaction Survey

<table>
<thead>
<tr>
<th>Item</th>
<th>Current System</th>
<th>SAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter pricing Data</td>
<td>5-80 Days</td>
<td>5 Min</td>
</tr>
<tr>
<td>Committed Ship Date</td>
<td>1 Day</td>
<td>Real Time</td>
</tr>
<tr>
<td>Schedule Orders</td>
<td>Over Night</td>
<td>Real time</td>
</tr>
<tr>
<td>Credit Check</td>
<td>15-20 Mins</td>
<td>Real Time</td>
</tr>
<tr>
<td>Enter Order</td>
<td>30 Mins</td>
<td>5 Mins</td>
</tr>
<tr>
<td>Inquiry Response</td>
<td>15-20 Mins</td>
<td>Real Time</td>
</tr>
<tr>
<td>Ship and Bill</td>
<td>Over Night</td>
<td>Real time</td>
</tr>
</tbody>
</table>
Key Challenges in achievement of Positive ROI from SAP

- Lack of breadth and repeatability
- High personnel costs
- Excessive customization

To accelerate ROI the scope of their deployment, limited customization of the solution, and ensured broad user adoption

Conclusion:

There is no standard method of measuring the ROI however it is possible to measure ROI from SAP Implementation to some extent if we have current system figures. We have Information systems benefits have been classified with respect to several frameworks: tangible Vs quantitative.
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http://www.sap.com/services/roi.epx
http://nucleusresearch.com/research/notes-and-reports/the-real-roi-from-sap/
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