NUCLEUS RESEARCH

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TCO CASE STUDY
SAP VERSUS ORACLE JD EDWARDS BIOTECHNOLOGY FIRM

THE BOTTOM LINE

It is extremely rare to be able to compare total cost of ownership (TCO) of two competing applications within the same company. Nucleus found that, in the case of this publicly traded biotechnology firm, both Oracle JD Edwards and SAP were chosen and championed – and a merger brought them together. In this dual ERP environment, SAP is more than four times more costly than JD Edwards EnterpriseOne.

THE COMPANY

The company profiled in this case study is a global biotechnology tools company. It was created by a merger of two firms in 2008. Since then, the company has continued on both an organic and acquisitive growth strategy and had total revenues of more than $3 billion in 2009.

THE SITUATION

When the two firms merged in 2008, each company already had existing, well-entrenched, fully operational ERP systems: One had been using Oracle JD Edwards for a number of years and had already upgraded from JD Edwards World to EnterpriseOne; the other had used SAP since 1997 and had already undertaken a hardware refresh and a significant upgrade.

The company considered a migration strategy for one of the applications but decided a consolidation would be too expensive and disruptive. Instead, the company chose to use Oracle Fusion AIA to integrate the two applications as needed. Another factor in this decision was the company's strategy to continue to grow by acquisition: the company could integrate other acquired company's ERP applications to the service bus.

Unlike total cost of ownership (TCO) comparisons of fictitious deployments or laboratory settings, this situation presented Nucleus Research with a unique opportunity to compare the real-world TCO of two leading ERP solutions used in a similar manner in the same organization.

Oracle JD Edwards profile

Nucleus estimates the initial cost of the company's JD Edwards deployment including software, hardware, consulting, personnel, and training, was approximately $53 million. Significant upgrades, changes in staff, acquisitions, and

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the time lapsed since the deployment make it difficult to validate the exact figure, but Nucleus believes this estimate is materially accurate.

Today, the company uses JD Edwards EnterpriseOne primarily to support approximately 80 percent of its ERP-based business transactions. Approximately 2600 employees actively use EnterpriseOne modules including sales order management, procurement, manufacturing, inventory management, finance, case management, e-requisition, planning, and CRM. The ongoing annual cost per user is $1,210.

Table 1. Ongoing support costs – JD Edwards

Cost area	Annual expense	Description
Software	$620,000	Annual license maintenance fees
Consulting	$425,000	Annual consulting support
Personnel	$2,100,000	14 full-time support staff @ $150,000 annual fully loaded cost
Total	$3,145,000	

SAP profile

Nucleus estimates the initial cost of the company's SAP deployment including software, hardware, consulting, personnel, and training, was approximately $103 million. As in the JD Edwards deployment, changes in versions and staff, acquisitions, and time elapsed since the initial project make it difficult to determine an exact budget. However, Nucleus believes this estimate is materially accurate and is within the same scope of reliability as the JD Edwards estimate.

The company uses SAP R3 to support approximately 20 percent of its ERP-based business transactions. Approximately 2400 employees actively use SAP modules including financial accounting, human resources, materials management, production planning, sales and distribution, supplier relationship management, global trade services, and service management. The ongoing annual cost per user for SAP is $5,313.

Table 2. Ongoing support costs – SAP

Cost area	Annual expense	Description
Software	$4,500,000	Annual license maintenance fees
Consulting	$0	Annual consulting support
Personnel	$8,250,000	55 full-time support staff @ $150,000 annual fully loaded cost
Total	$12,750,000	

ANALYZING THE DIFFERENCES

Although the two parts of the company were sold different ERP modules that contained some different functionality, with minor exceptions EnterpriseOne and SAP were being used to support similar tasks and accomplish similar business objectives. The company is also running a separate instance of SAP Human

Resources (HR); the cost figures and user counts of HR were not included in these calculations.

On an ongoing annual basis, the company spends approximately $16 million to support its two ERP environments. SAP is approximately four times more costly to support than JD Edwards EnterpriseOne — even though the applications support approximately the same numbers of users.

The software license maintenance fees paid by the company had a significant impact on the ongoing TCO. All software companies recognize that, unless they're selling software as a service, software license maintenance fees are their only recurring revenue stream. This is particularly true in a situation such as ERP where applications, once operational, tend to become entrenched in the business, leaving the organization with little recourse should the vendor raise license maintenance fees.

Differences in support personnel also factored in the ongoing TCO. Neither application requires a casual commitment to support; however, the deployments differed in the amount of support needed. At this company, SAP requires four times more IT resources to support than JD Edwards. Put another way, SAP required one IT resource for every 44 users; JD Edwards required one IT resource for every 186 users.

CONCLUSION

The data sheds considerable light on the cost differences between the two leading ERP vendors. Obviously no two ERP application deployments are the same, but this analysis presented an opportunity to compare the cost structures of two mature, fully operational ERP applications with fully trained users that followed fairly traditional upgrade paths. The applications were independently chosen and championed by different business units brought together by acquisition and are now running, loosely integrated, within the same business.