Business Integration Opportunity Assessment
& Total Cost of Ownership

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IBM software Group

Agenda

- IBM's business integration opportunity assessment

- Why IBM has the lowest total cost of ownership (TCO)

- Some case studies

- BIOA Methodology

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Analyst Quote: Cost Savings in the Real World...

Determining Return on Investment for Integration Brokers:

The results of this study indicate that an Integration Broker **reduces the average number of developer hours** per **simple** interface by **25%**. The average number of hours required to build **moderate** interfaces was reduced by **32%**, and the average number of hours required to build **complex** interfaces was reduced by **43%**.

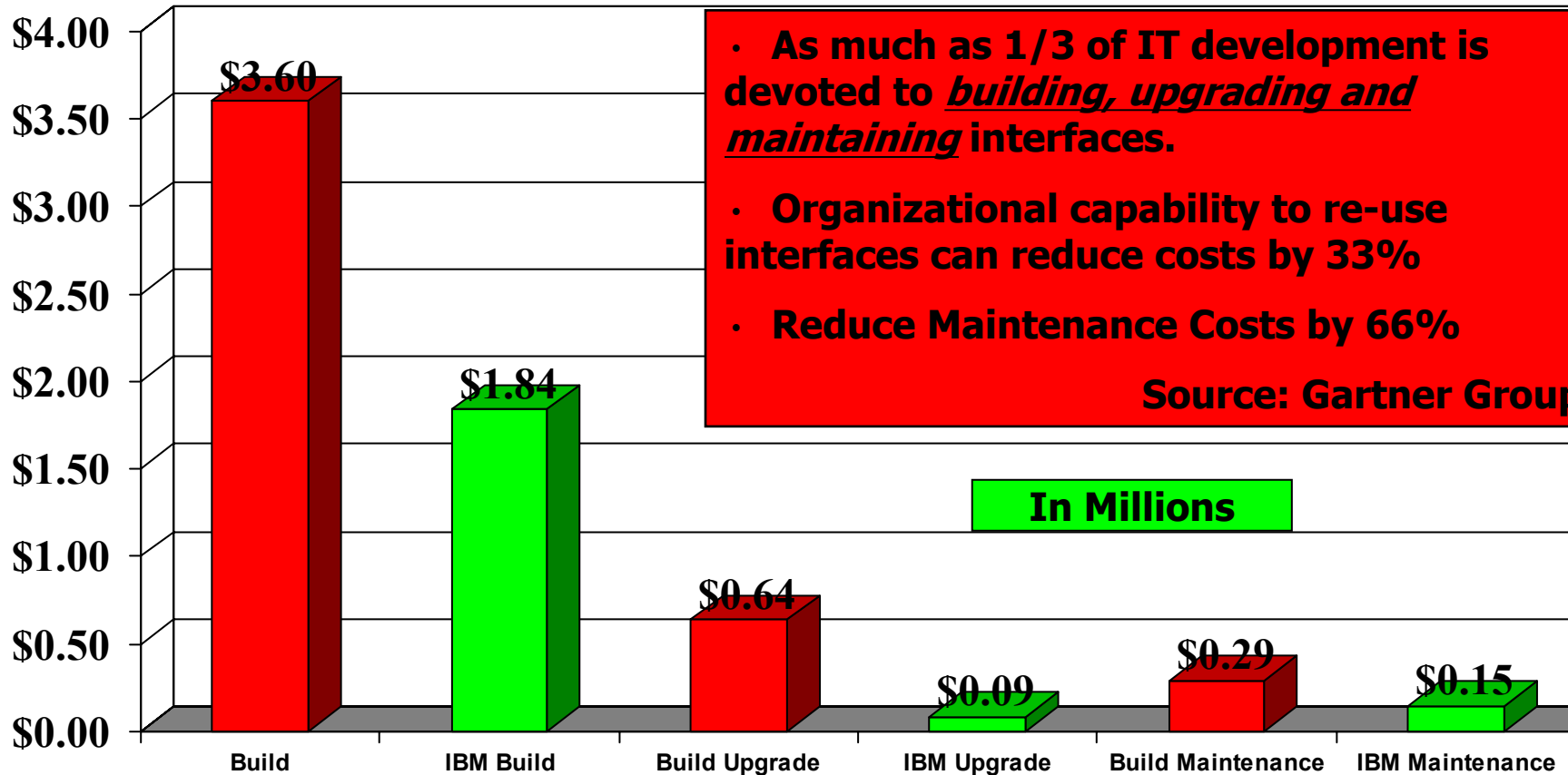**Source: Ross Altman, Gartner Research**

June 1, 2001

IBM WebSphere Business Integration studies indicate that WebSphere BI reduces the average number of developer hours per **simple** interface by **44%.** The average number of hours required to build **moderate** interfaces was reduced by **47%,** and the average number of hours required to build **complex** interfaces was reduced by **52%.**

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IBM's Business Integration Opportunity Assessment

- **Evaluation of the benefits of IBM integration in solving business problems**
  - 3 day to 3 week study
  - Team of business integration experts
  - Working with line of business executives to measure scale of business problems
  - Determine best integration solution from IBM Websphere BI portfolio
    - Message broker, process broker, workflow, process modelling & optimisation

- **Outcome**
  - Total cost of ownership and ROI evaluation
  - Integration approach and solution scope
  - Integration priority assessment

TCO Savings Comparisons
Industry Averages—over Two Years

As much as 1/3 of IT development is devoted to _building, upgrading and maintaining_ interfaces.

Organizational capability to re-use interfaces can reduce costs by 33%

Reduce Maintenance Costs by 66%

Source: Gartner Group

Category	Value
Build	$3.60
IBM Build	$1.84
Build Upgrade	$0.64
IBM Upgrade	$0.09
Build Maintenance	$0.29
IBM Maintenance	$0.15

In Millions

TCO Model--Sample Industry Average

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Why Does IBM Have the Lowest Total Cost of Ownership?

> **Pre-Built Content:**
>> Business Process Modules
>> Connectors
>> Common Business Object Model

> **True Hub(s)-And-Spoke(s):**
>> Reduced number of integration points
>> Increased efficiencies to assist in conversion and migration

> **Integrated Development Environment(IDE)/Rapid Application Development (RAD):**
>> Faster time to benefit
>> Reduced development cost

> **Efficient Maintenance:**
>> Reduced FTE's to manage
>> Reduced time and cost to upgrade
>> Reduced backup/failover systems cost

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Example: Dow Chemical

Key business drivers

- ➢ Flexibility to adopt new business processes with improved time to market

- ➢ Interfaces to strategic and legacy systems to enable e-commerce

- ➢ Support corporate growth by providing quick integration capabilities to acquisitions, JVs, alliances

- ➢ Improving internal I/S productivity

- ➢ Extending existing applications' life cycle
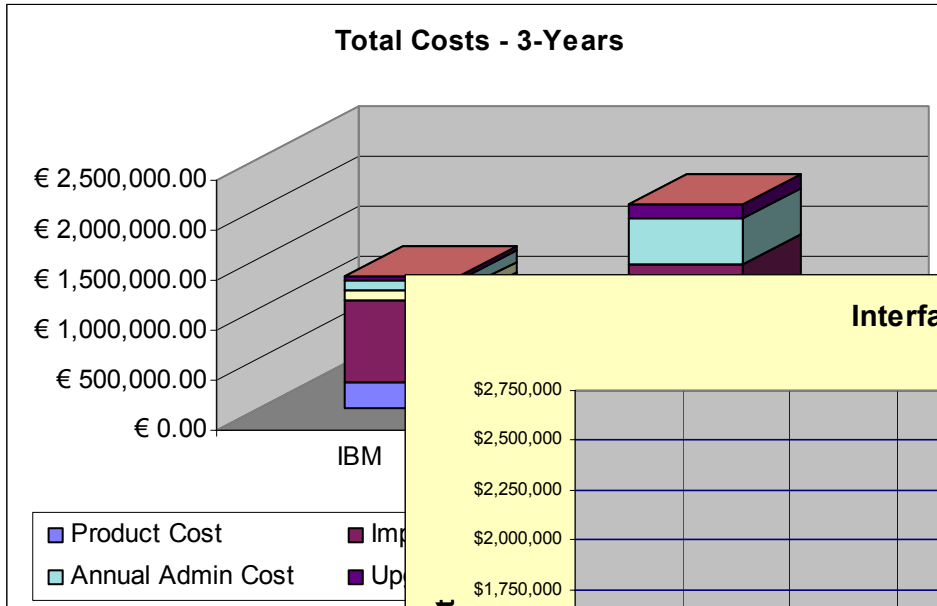
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Example: Dow Chemical

"Our development cost data proves that on each successive project, the cost per interface dropped. It was because of the reuse -- not just the code, but also documentation, infrastructure deployment guideline and training reuse"

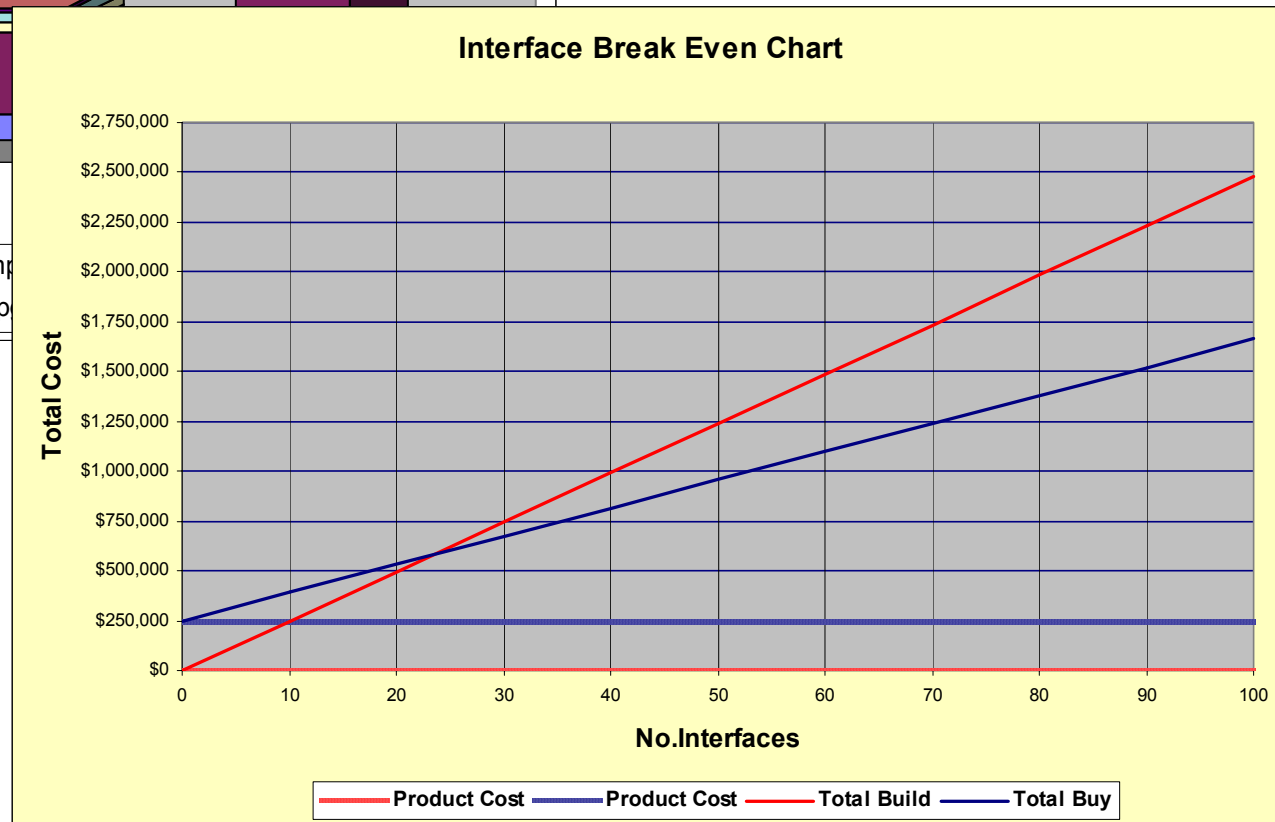**Brian bell, lead architecture specialist, Dow chemical**

"For example, for business-to-business eCommerce the development hours per interface has decreased from 360 hours for the first marketplace to 36 hours for the most recent. This order of magnitude savings was largely achieved through reuse of interfaces into Dow's ERP systems and reuse of the external communication infrastructure"

SI Analysis

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European Aerospace Customer

Total Costs - 3-Years

€ 2,500,000.00
€ 2,000,000.00
€ 1,500,000.00
€ 1,000,000.00
€ 500,000.00
€ 0.00

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☐ Product Cost   ■ Imp
☐ Annual Admin Cost   ■ Up

Interface Break Even Chart

$2,750,000
$2,500,000
$2,250,000
$2,000,000
$1,750,000
$1,500,000
$1,250,000
$1,000,000
$750,000
$500,000
$250,000
$0

Total Cost

0   10   20   30   40   50   60   70   80   90   100

No.Interfaces

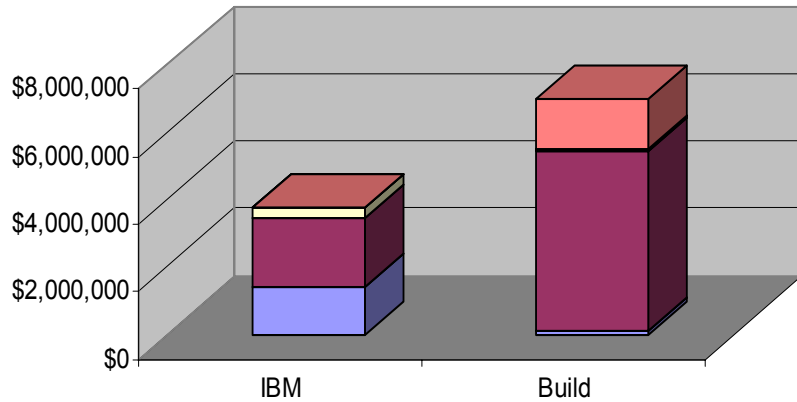—— Product Cost   —— Product Cost   —— Total Build   —— Total Buy

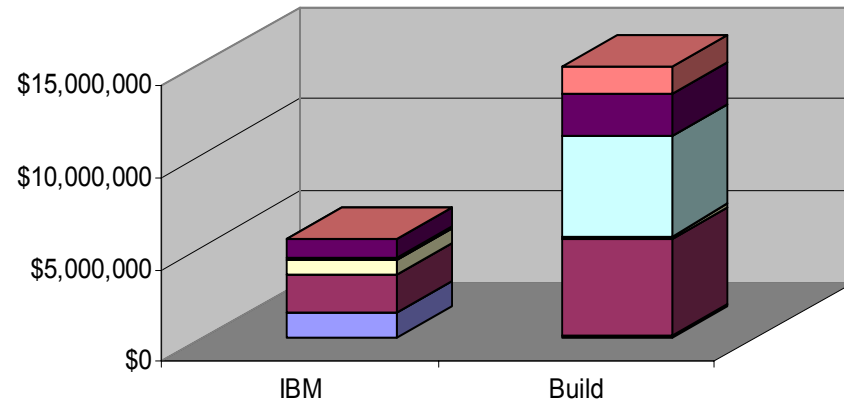**Break-even at 22 I/f -> falls to just 15 after upgrade**

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UK Oil & Petrochemicals Customer
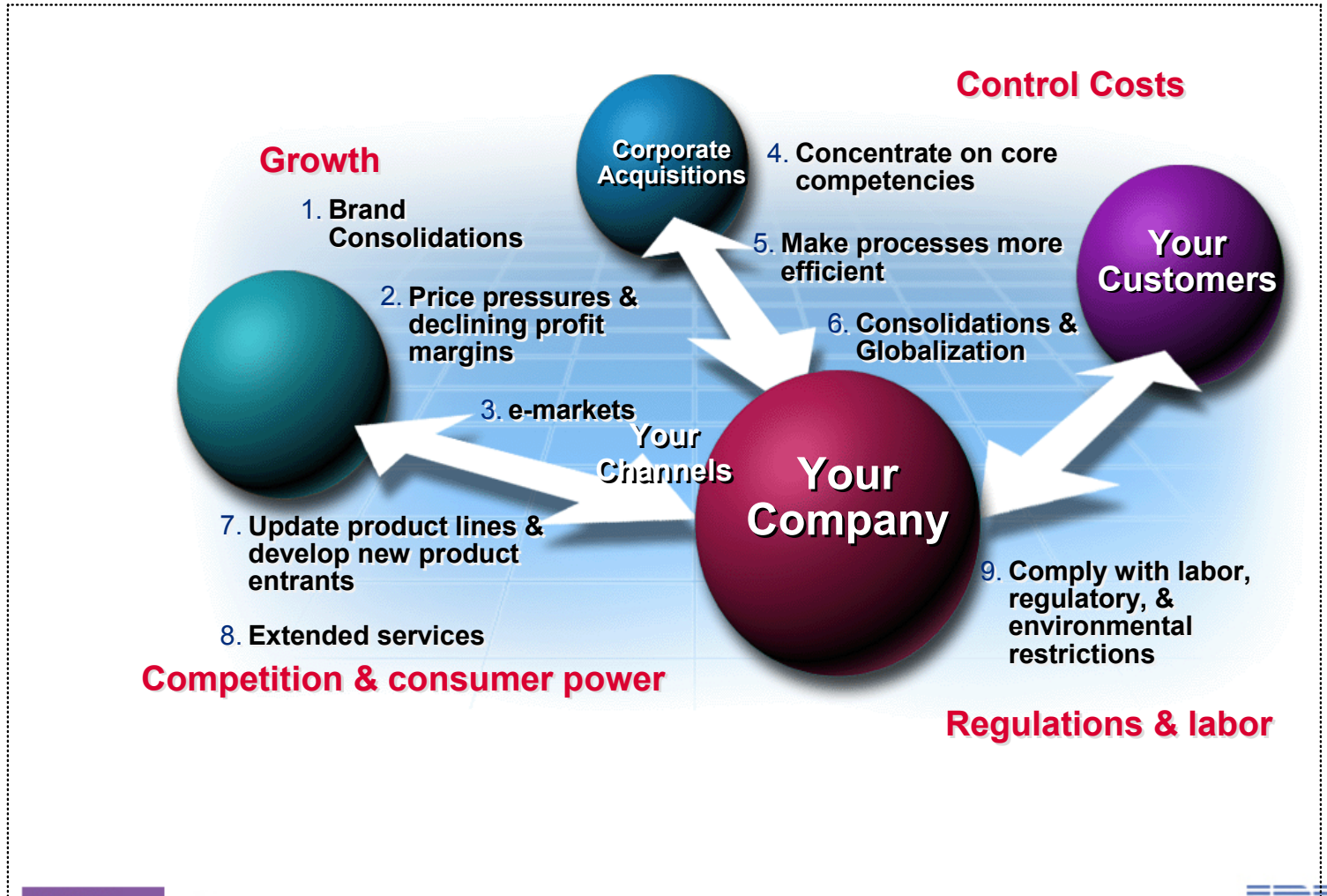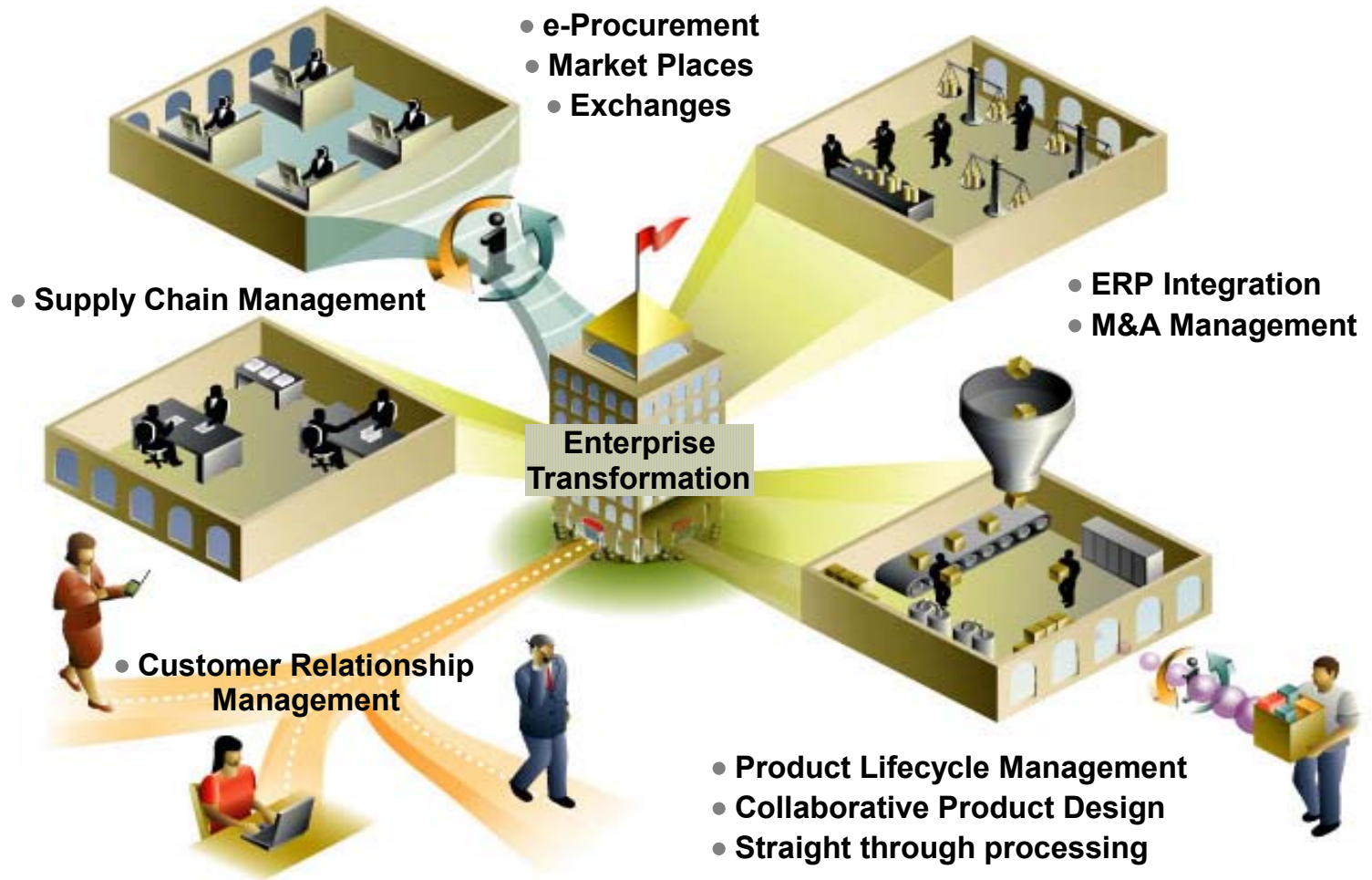
Total Costs - Year 1

Total Costs - 3-Years

- **Build vs Buy in complex SAP-JDE-CRM environment**
- **>150 instances of SAP & >70 of JDE**
- **Costs translates to time and speed of implemenation**
- **ICS uses 2/3 less resources**

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BIOA Methodology

First Step ... Integration Business Drivers

Growth

1. Brand Consolidations

2. Price pressures & declining profit margins

3. e-markets

7. Update product lines & develop new product entrants

8. Extended services

Competition & consumer power

Corporate Acquisitions

Control Costs

4. Concentrate on core competencies

5. Make processes more efficient

6. Consolidations & Globalization

Your Customers

Your Channels

Your Company

9. Comply with labor, regulatory, & environmental restrictions

Regulations & labor

Second Step ... Identify a Specific Project Initiative

- e-Procurement
- Market Places
- Exchanges

- Supply Chain Management

- ERP Integration
- M&A Management

Enterprise Transformation

- Customer Relationship Management

- Product Lifecycle Management
- Collaborative Product Design
- Straight through processing

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Third Step ... Identify the WebSphere BI Components

Business Process Management & Optimisation

Workflow Management & Integration

Process Integration

Partner Integration

Information Connectivity

Pervasive

Telemetry

| CRM | ERP | Supply Chain | Workforce Mgmt | EDI-INT Web-Services |

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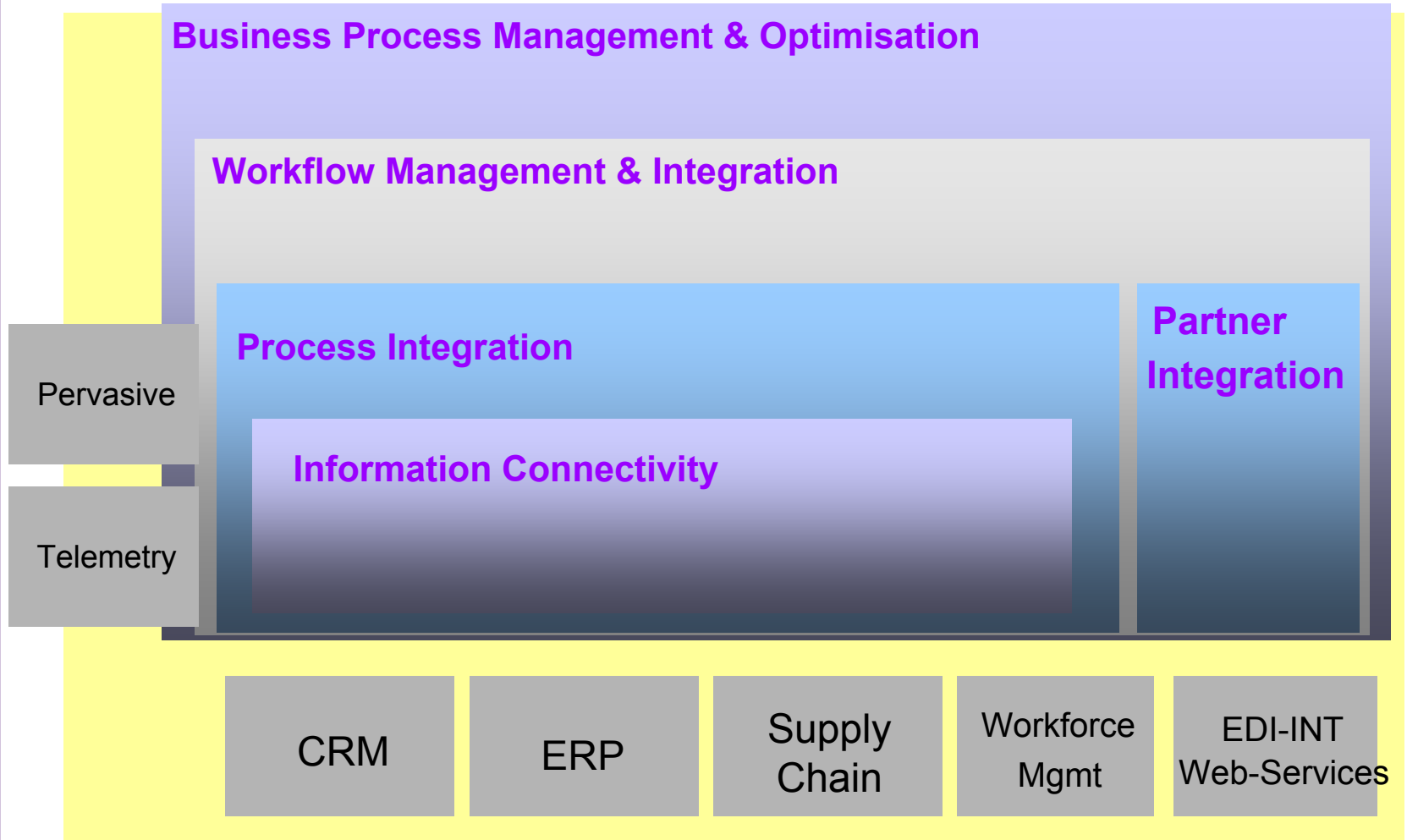
Fourth Step ... Build the TCO Model

Cost to Build

41% less
59% less

Cost (millions): $8, $7, $6, $5, $4, $3, $2, $1, $0

Non-EAI   Other EAI   IBM-BI

Ongoing Costs

55% less
63% less

Annual Cost (millions): $1.4, $1.2, $1.0, $0.8, $0.6, $0.4, $0.2, $0.0

□ Maintenance
■ Upgrade

Non-EAI   Other EAI   IBM-BI
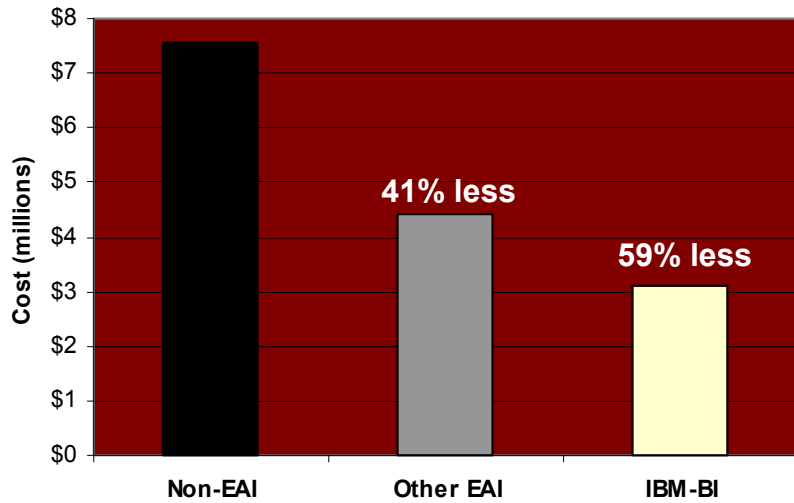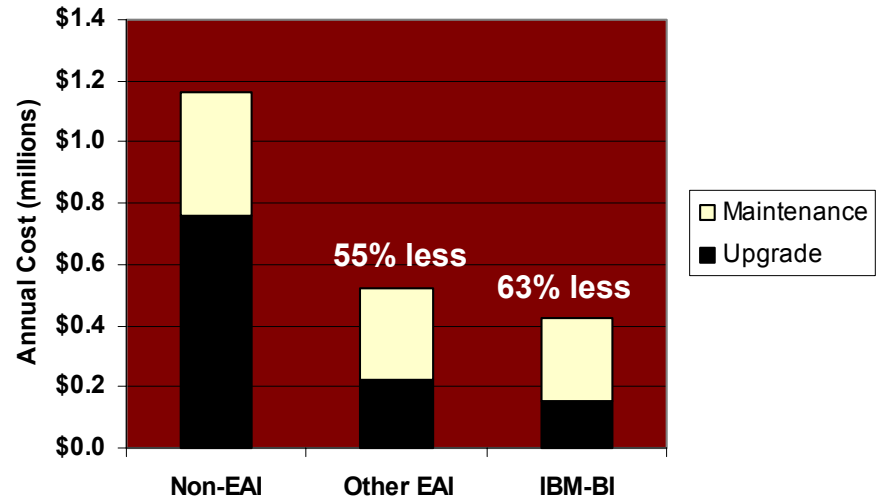
Key Assumptions:
- 75 interface points @ 30% reuse
- Simple/moderate/complex interface ratio = 20/50/30
- Simple/moderate/complex interface developer hrs required using IBM-BI = 100/225/350
- Analysis based on 6 packaged applications and 2 legacy systems
- 2 package upgrades per year

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Fifth Step …. Contribution to ROI

- TCO increases ROI by reducing costs
- Other factors
  - Reducing Inventory in Supply Chain
  - Faster Throughput
  - New services
    - Wealth Management
  - STP
  - Improved global procurement

- Note: ROI calculations are most difficult to prove and to gain credibility.
  - Also, our integration competitors could argue the same benefits (other than TCO gains)

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Summary

- BIOA is a solution based approach to solving real business problems

- IBM Websphere's extensive portfolio of integration solutions used to solve business problems

- IBM Websphere BI aims to halve the cost of integration over time

- BIOA can be supported by SI's

- Success rate is HIGH!

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