

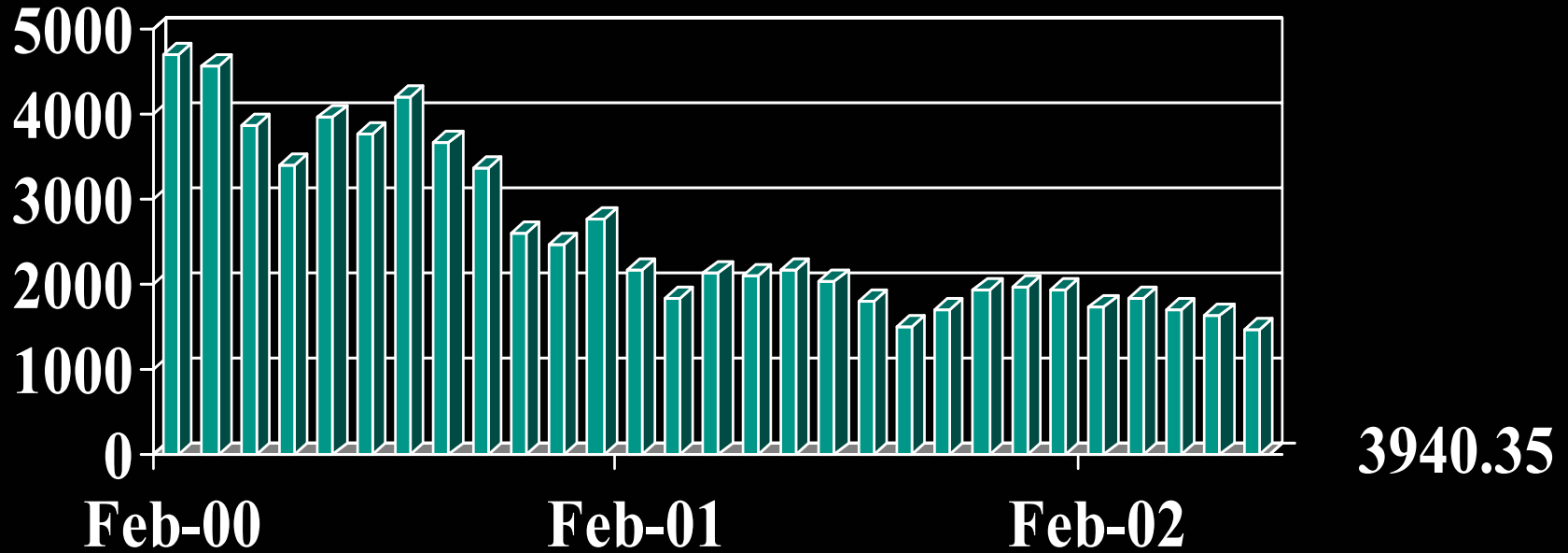
ORACLE®

# **Creating Business Prosperity in a Challenging Environment**

# Jeff Henley

Executive Vice President  
Chief Financial Officer

# Wild Ride



Nasdaq Two Year Chart, Nasdaq.com

# Managing Through the Ride

# Key Facts

- Largest Enterprise Software vendor
- Founded 1977; Public 1986
- 140+ Countries; 60+ Subsidiaries
- Over 41,000 Employees
- 51% of Total Revenue Non-US

# FY 2002 Financial Performance

<b>Revenue</b>	<b>\$9.6 B</b>		<b>12%</b>
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<b>Net Income*</b>	<b>\$ 2.3 B</b>		<b>9%</b>
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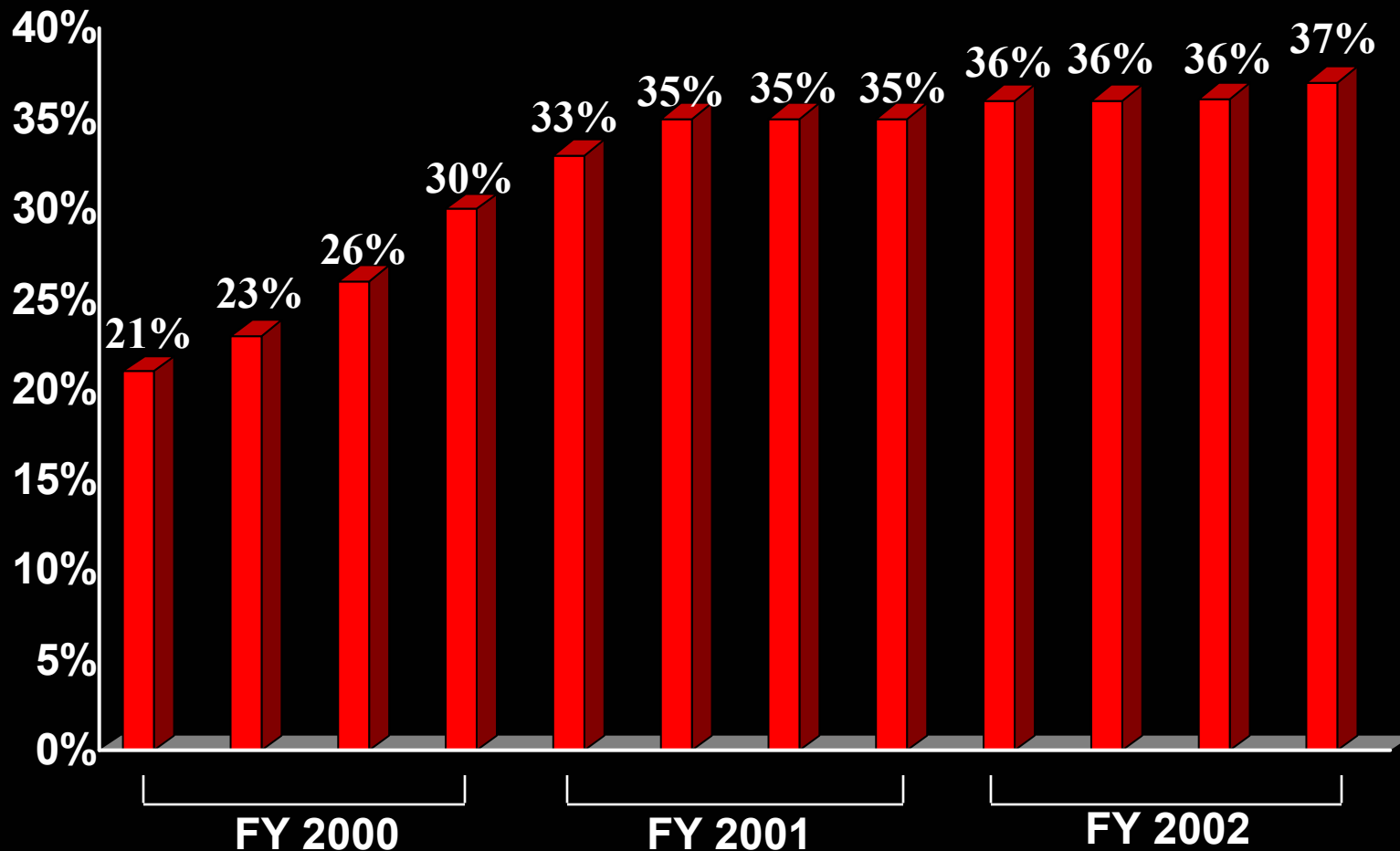
<b>Operating Margin</b>	<b>36.9% vs. 34.5 %</b>
-------------------------	-------------------------

\* Net income excludes investment gains from sale of market. sec.

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# Operating Margin Improvement

## *Trailing 12 Month Operating Margin Trend*



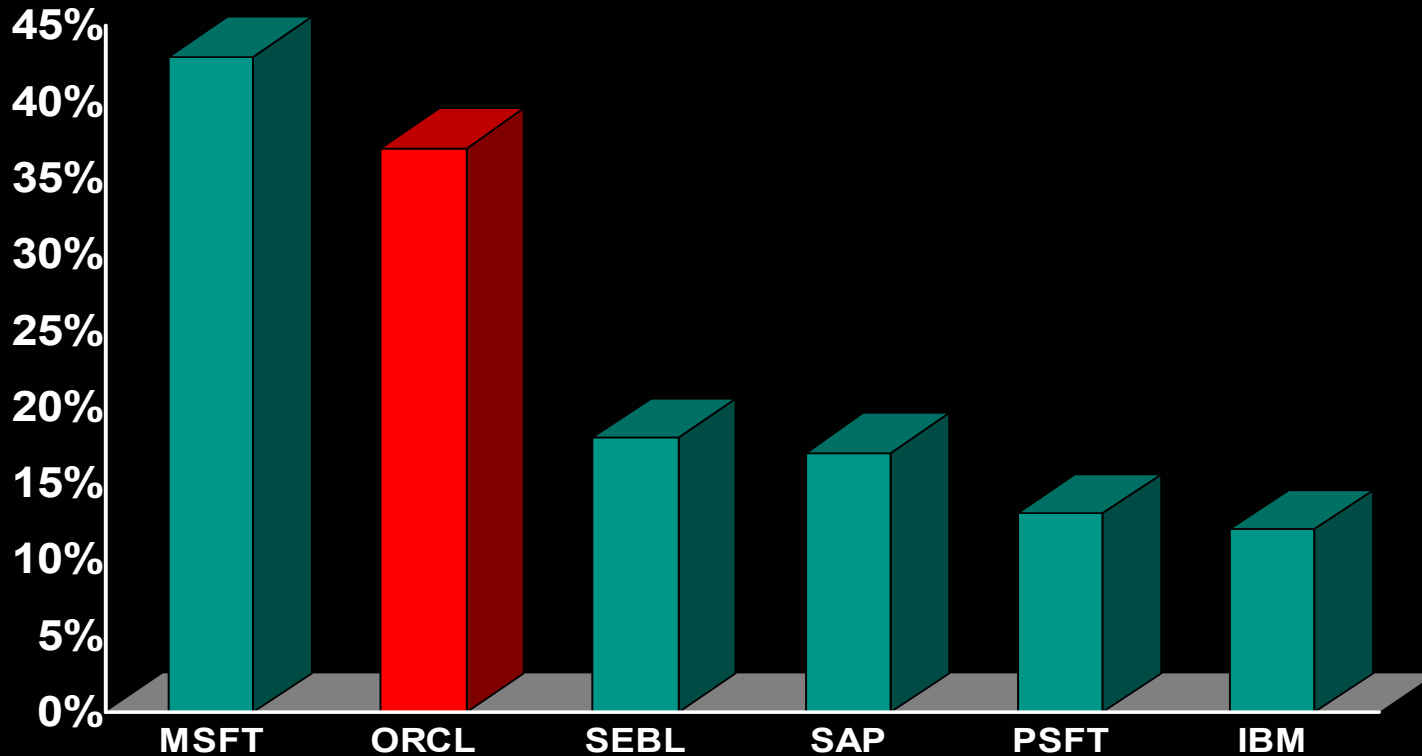
Note: Ending May 2002

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# Operating Margin Strength vs. Competitors

## *Trailing 12 Months*



Note: Ending May 2002

ORACLE

# Creating Business Prosperity

**1**

*Consolidate  
& Simplify  
IT*

**2**

*Move To  
Shared  
Services*

**3**

*Adopt  
Self-  
Service*

**4**

*Automate All  
Processes*

**5**

*Leverage  
Low-Cost  
Computing*

**6**

*Ensure  
Visibility  
&  
Accountability*

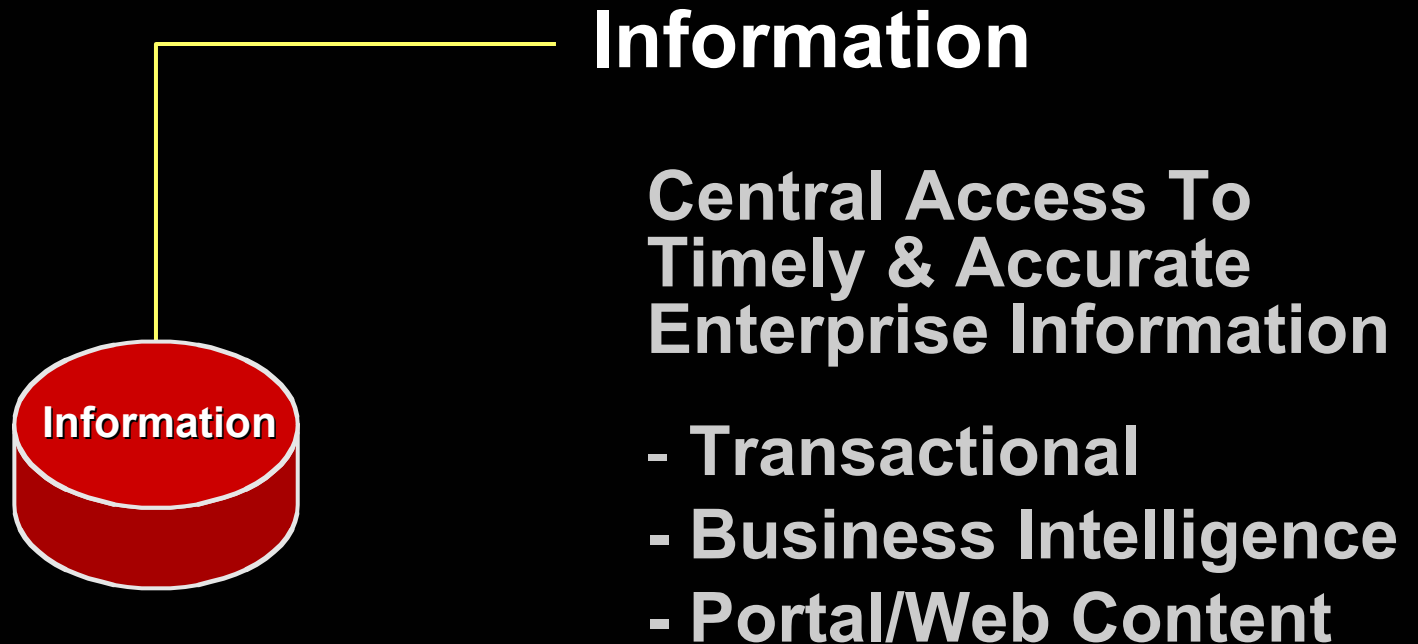
**7**

*Build A  
Culture  
Of Agility*

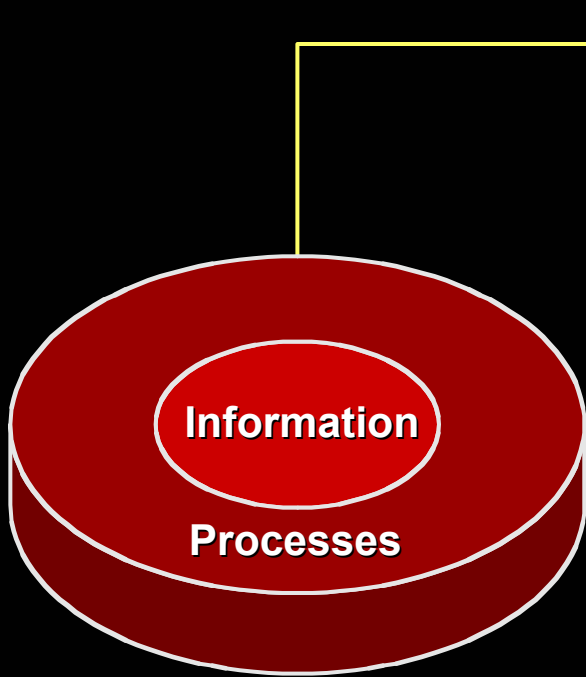
# 7 Tenets of Business Prosperity

# **1 Consolidate and Simplify *IT***

# Start with Information



# Automate Business Processes

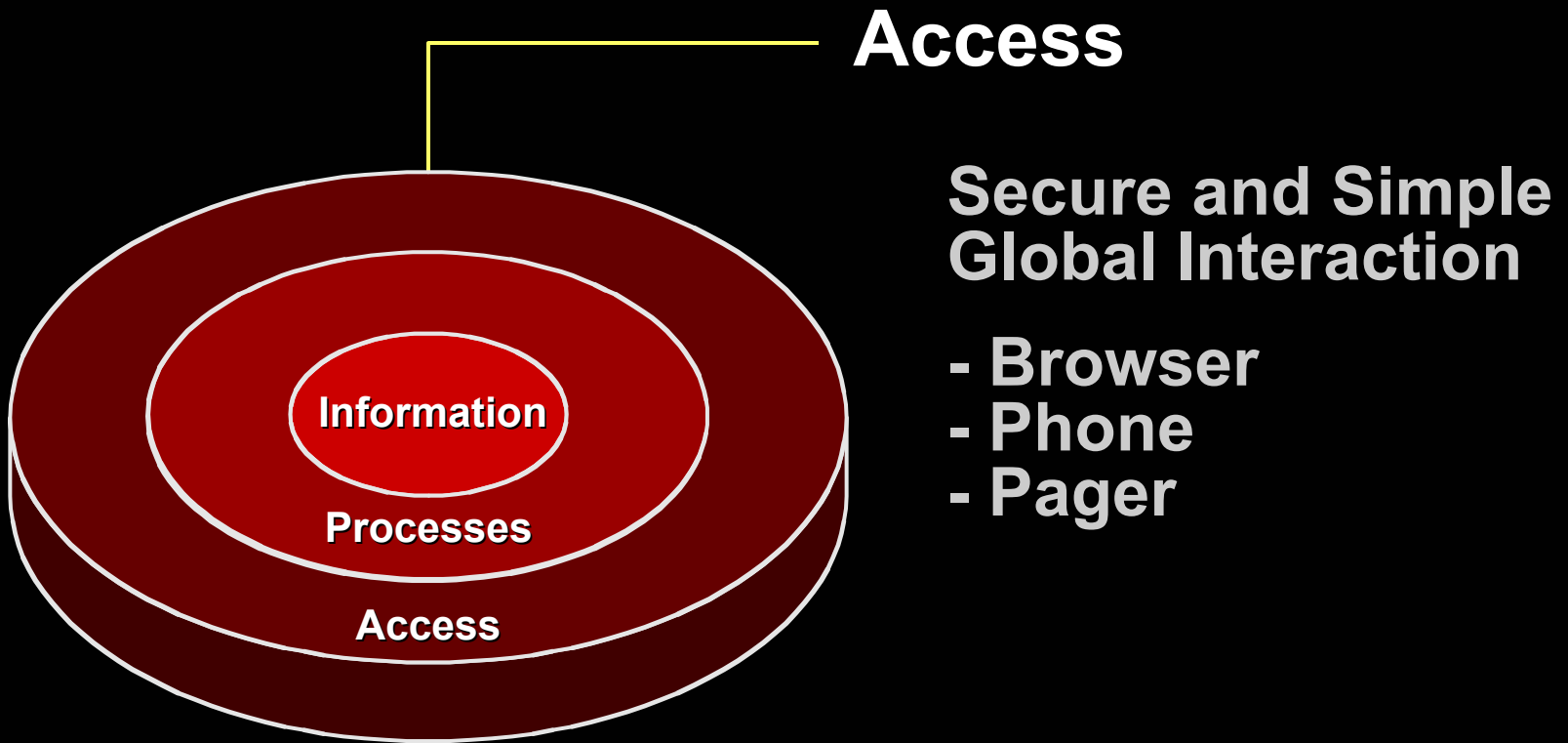


## Processes

### Drive Costs Down

- Enterprise Flow of Information
- Streamline Processes
- Build In Agility

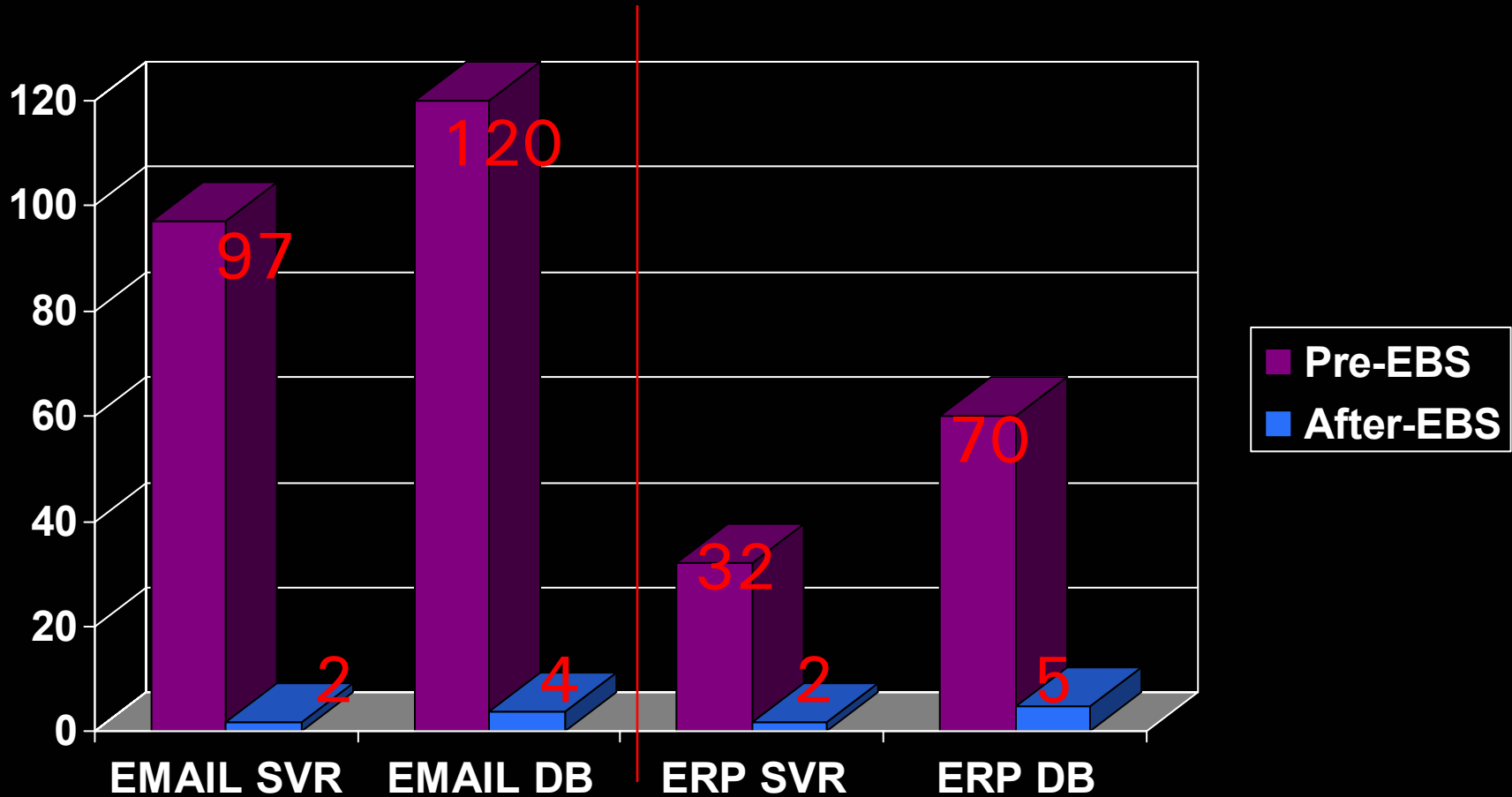
# Access From Everywhere



# IT Consolidation

*The Oracle Story*

Eliminate complexity  
Improve efficiency





# Oracle Information Technologies: *After* Consolidation

## Finances

- Spend: >\$500M
- View: Fragmented
- Decision Making: Not Coordinated

## Organization

- IT Staff: >2300
- Model: Dotted Line

## Practices

- Standards: some
- Common practices: few
- Knowledge sharing: some

## Systems & Applications

- Systems: Mixed
- Apps: >500  
Custom
- Support: \$\$\$
- De-centralized

# Oracle Information Technologies: *After* Consolidation

## Finances

- Spend: >\$500M → \$276M
- View: Fragmented → Global
- Decision Making: Not Coordinated → Centralized

## Organization

- IT Staff: >2300 → 1600
- Model: Dotted Line → Directed

## Practices

- Standards: some → high
- Common practices: few → high
- Knowledge sharing: some → high

## Systems & Applications

- Systems: Mixed → EBS
- Apps: >500 → <100  
Custom Bespoke
- Support: \$\$\$ → \$
- De-centralized → Centralized

# 2 Move To Shared Services

# Shared Services Benefits



**Efficiency,  
Control,  
and  
Quality**

- Blend of centralization and decentralization
- Standardization of common business practices
- Economies of scale

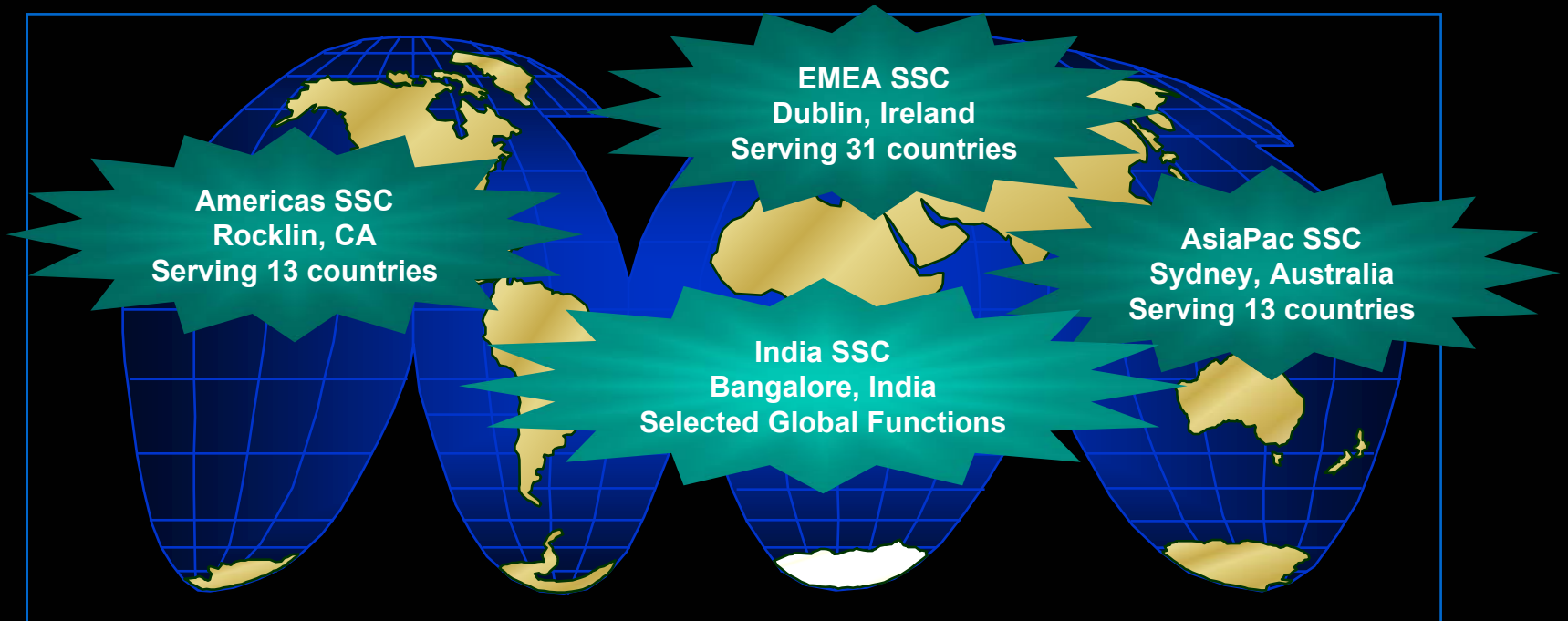
# Shared Services Benefits



**Cost**

- Elimination of redundant structures
- Standardization of common business practices
- Move to low-cost countries

# Oracle's Global SSC Network



# Oracle's Shared Service Functions

- Tactical Purchasing
- Accounts Payable
- Order Administration
- Accounts Receivable
- Cash Management
- Revenue Accounting
- Revenue Recognition
- General Accounting
- Collections
- Data Librarians

# By Becoming an E-Business

## Oracle's \$2 Billion Dollar Savings Target

	Previous Goal \$ Mil	New Goal \$ Mil
Consolidate IT	\$200	\$250
Sell Side	\$550	\$1,450
Buy Side	\$150	\$200
Inside	\$100	\$100
<b>Total</b>	<b>\$1,000</b>	<b>\$2,000</b>

Note: Based on Oracle estimates.



# The Oracle Experience

## Examples of Savings: Global IT Consolidation

- ✓ \$12M in ERP annual savings
- ✓ \$18M in CRM annual savings
- ✓ \$11M in e-mail annual savings
- ✓ \$60M in desktop simplification annual savings
- ✓ \$13M in annual maintenance reductions
- ✓ \$200M in Operating expense in 2 years

# 3 Adopt Self-Service

# HR Staffing

## *The Oracle Story*

HR Administrator Ratio	1:1000	➔	1:2000
HR Professional Ratio	1:350	➔	1:600
Overall HR:Staff Ratio	1:125	➔	1:225
HR Operations Staff	40	➔	9



- Employee satisfaction
- Overall effectiveness
- HR “quality of life”

# Procure to Pay (P2P)

## *The Oracle Story*







P2P transaction expense	\$150	➔	\$30-40
Cost savings per year	\$20 M	➔	\$40 M
Expense processing *	\$25	➔	< \$5
Travel *	\$45	➔	\$25
Travel (average ticket price) #		⬇	10%
Total Savings		⬆	\$115 M

\* Cost per transaction

# self-service altered purchase behavior

# Support

## *The Oracle Story (3 years ago - present)*

Phone Volume (per qtr.)	517,000		66,000
Online Requests (% of all requests)			> 78%
Headcount			14%
Total Support Activity			200%
Cost per request			60%
Resolution time			41%

# Marketing - Campaign To Lead *The Oracle Story*

Direct mail v E-mail	\$3.00	➔	\$0.01
Response rates	2%	➔	20%
On-Site v Web-seminars	\$1000	➔	\$2
Remote Demo's v. Onsite	1000's	➔	100's

- Drive Interactions To Least Expensive, Most Effective Channel
- Offer Customer Greater Value with Personalized Messages (e.g., email, seminar, demo)

# Sales - Opportunity To Order

## *The Oracle Story*

<b>Sales Person Productivity (Content)</b>			<b>+10-20%</b>
<b>Orders via web</b>	<b>\$2m/qtr</b>		<b>\$100 m/qtr</b>
<b>Cost of entering order</b>			<b>-80%</b>
<b>Forecasting efficiencies</b>	<b>12 hr</b>		<b>2 hr/month</b>
<b>Quota/Comp efficiencies</b>	<b>12 wk</b>		<b>1 wk/ year</b>

- **Implemented Global Forecasting And Improved Forecasting**
- **Improved Quota And Comp Plan Efficiencies**
- **Improved Sales Rep Productivity with Automation & Content**
- **Made It Easier To Buy From Oracle**

# Cost Reduction Summary

## *The Oracle Story*

**Expenses & Procurement → \$115 M**

**Self-Service Support Calls → \$250 M**

**Sales/Marketing Leverage → \$300 M**

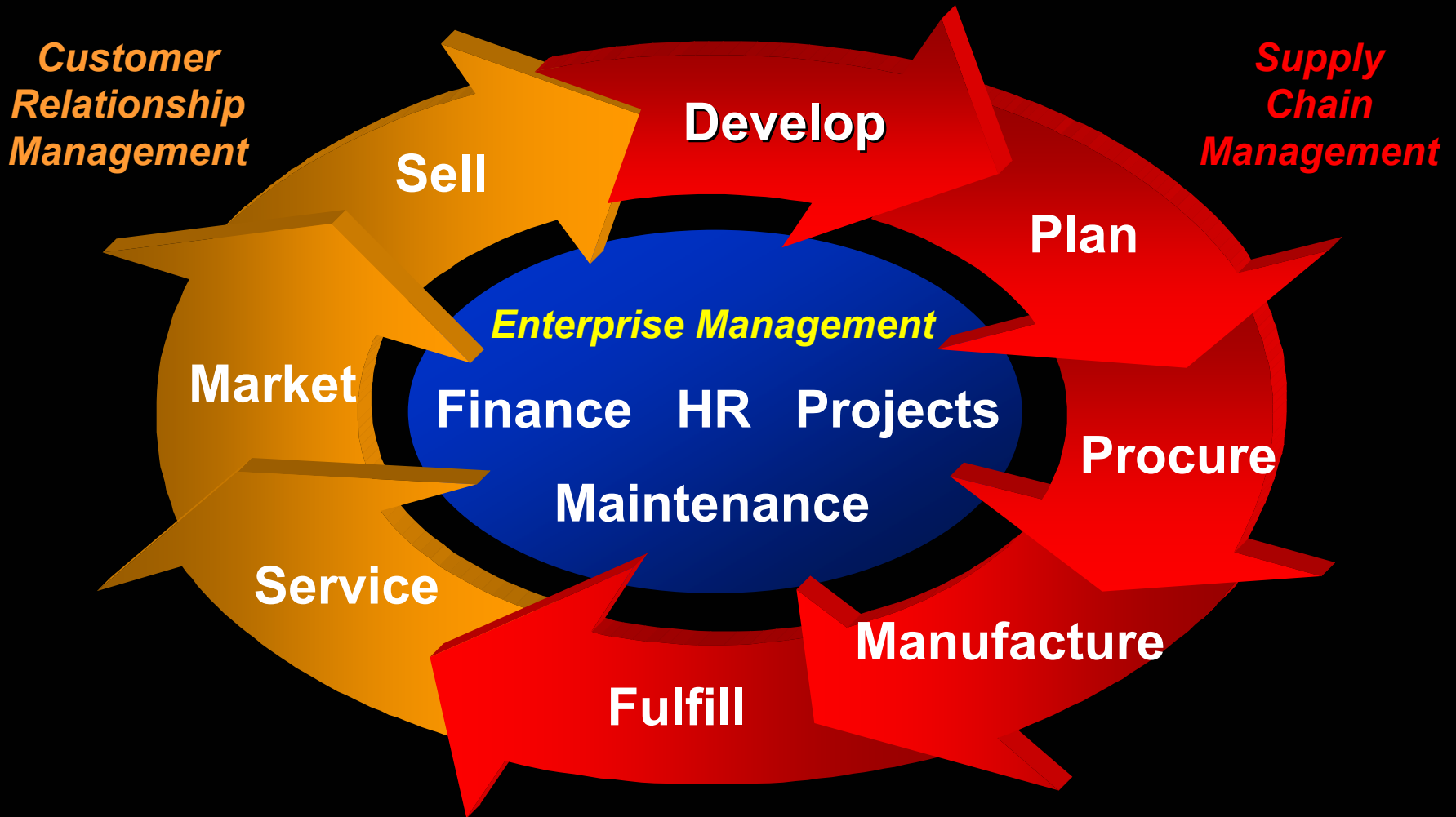
**Sales Force Productivity → +10 - 20%**

**Global Savings → \$665 M**



# 4 Automate all Processes

# Automate All Processes



# Automate All Processes

## *End-to-End Transactional Automation*

### Product Development

- Product Devel. Exchange
- Project Contracts
- Project Accounting
- Sourcing
- PD & PO Intelligence

### Order Fulfillment

- Order Management
- Inventory Management
- Advanced Pricing
- Configurator
- iStore
- Release Management
- Receivables
- Mobile Supply Chain Apps
- Warehouse Management
- Transportation
- Supply Chain Intelligence

### Planning

- Supply Chain Planning
- Demand Planning
- Advanced Supply Chain Plng
- Constraint-based Optimization
- Global Order Promising
- Manufacturing Scheduling
- Inventory Optimization
- Collaborative Planning
- Supply Chain Intelligence

### Procurement

- Sourcing
- iProcurement
- Purchasing
- Supplier Scheduling
- Payables
- iSupplier Portal
- Exchange Marketplace
- Purchasing Intelligence

### Manufacturing

- Discrete Manufacturing
- Bills of Material & Engr.
- Work in Process
- Cost Management
- Inventory
- Quality
- Project Manufacturing
- Flow Manufacturing
- Shop Floor Management
- Process Manufacturing
- Laboratory & Formula Mgmt
- Production Management
- Process Costing & Quality
- Process Inventory
- Regulatory Management
- Manufacturing Intelligence

### Asset Maintenance

- Enterprise Asset Mgmt

# Automate All Processes

## *End-to-End Transactional Automation*

### Finance

- Financials
  - General Ledger
  - Receivables
  - Payables
  - Assets
  - Cash Management
- Financial & Sales Analyzers
- Treasury
- Internet Expenses
- iReceivables
- Activity Based Management
- Balanced Scorecard
- Financials Intelligence

### Projects

- Project Costing
- Project Billing
- Internet Time
- Project Contracts

### Human Resources

- Human Resources
- Self Service HR
- Payroll
- Time Management
- Advanced Benefits
- Training Administration
- iRecruitment
- HR Intelligence

### Service

- iSupport
- TeleService
- Service Contracts
- Field Service
  - Wireless Option
  - Advanced Scheduler
  - Mobile Field Service
- Depot Repair

### Sales & Marketing

- Marketing Online
- Trade Management
- iStore
- Sales Online
- TeleSales
- Configurator
- Sales Contracts
- Partners Online
- Incentive Compensation
- Quoting

### Call Center

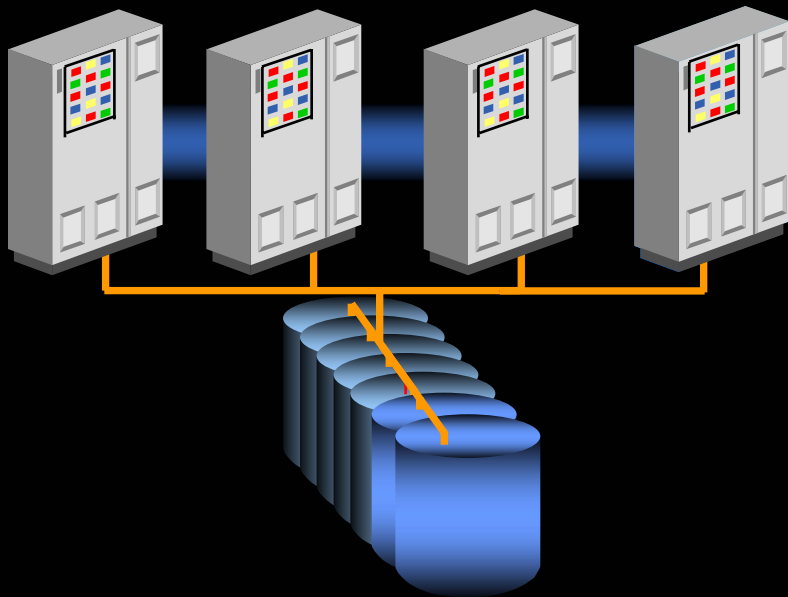
- Advanced Inbound
- Advanced Outbound
- Scripting
- eMail Center

# **5 Leverage Low-Cost Computing**

# Leverage Low-Cost Computing

## *Performance and Scalability*

### Oracle Real Application Clusters For Linux



- Lower cost of entry
- Lower cost of ownership
- Plug-and-play scalability
- Reliable

# Oracle9i RAC

Revolutionizes Enterprise Linux Economics

# of Nodes	Server Hardware	# CPUs	Price
2x	IBM zSeries z900: 2064-116 (16 CPUs @ ~750MHz, 64GB)	32	\$14.8M
8x	IBM zSeries z800: 2066-004 (4 CPUs @ ~600MHz, 16Gb)	32	\$3.6M
8x	Dell PowerEdge 6650 (4 CPUs @ 1.6GHz, 16GB)	32	<b>\$364K</b>

# Global Messaging Environment

	Mid-1997	End-1998	End-1999	Current
<i>Server Count</i>	97	37	25	1 *
<i>DB Instances</i>	120	80	80	4
<i>Employees</i>	31,000	41,000	43,000	> 45000
<i>Mailkeepers</i>	60	30	30	13

\* Cluster of three servers

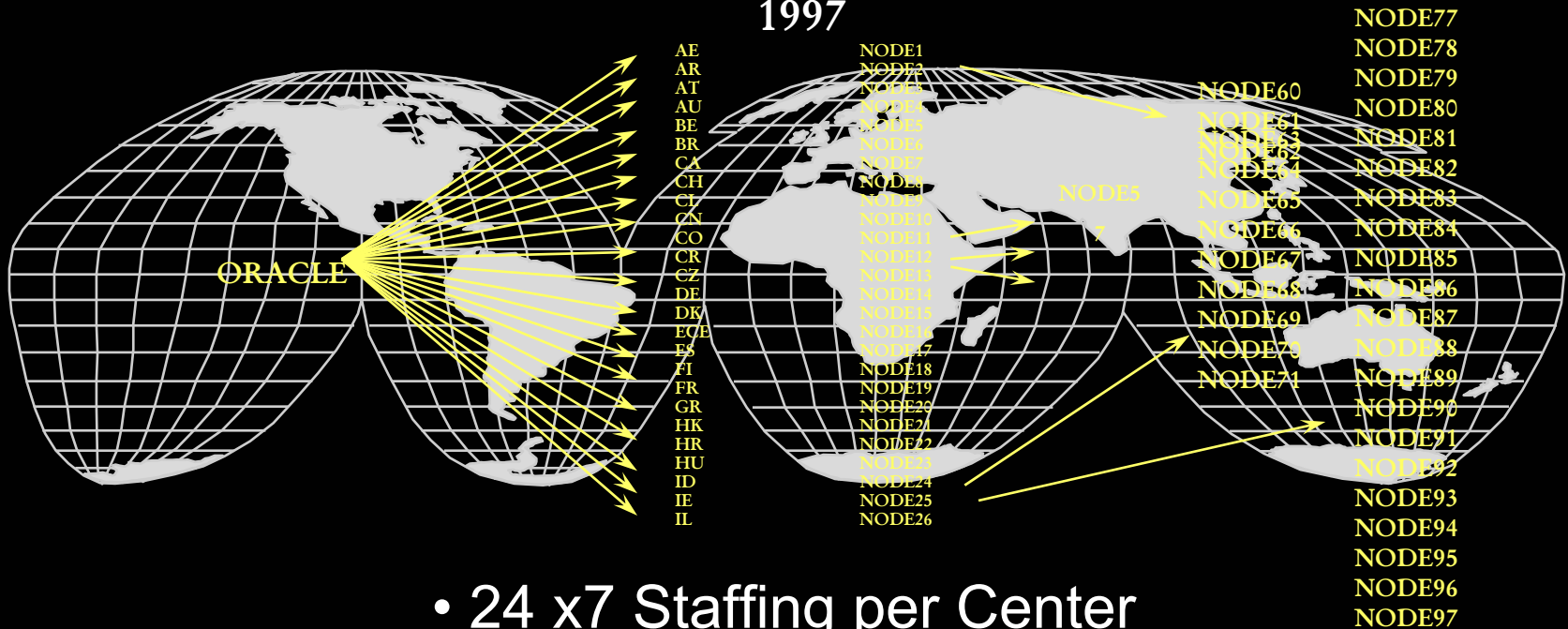
**Email Consolidation saves Oracle \$11 Million/year.**



# Oracle Case Study: “Before”

## 97 Servers Worldwide; Multiple Domains

1997



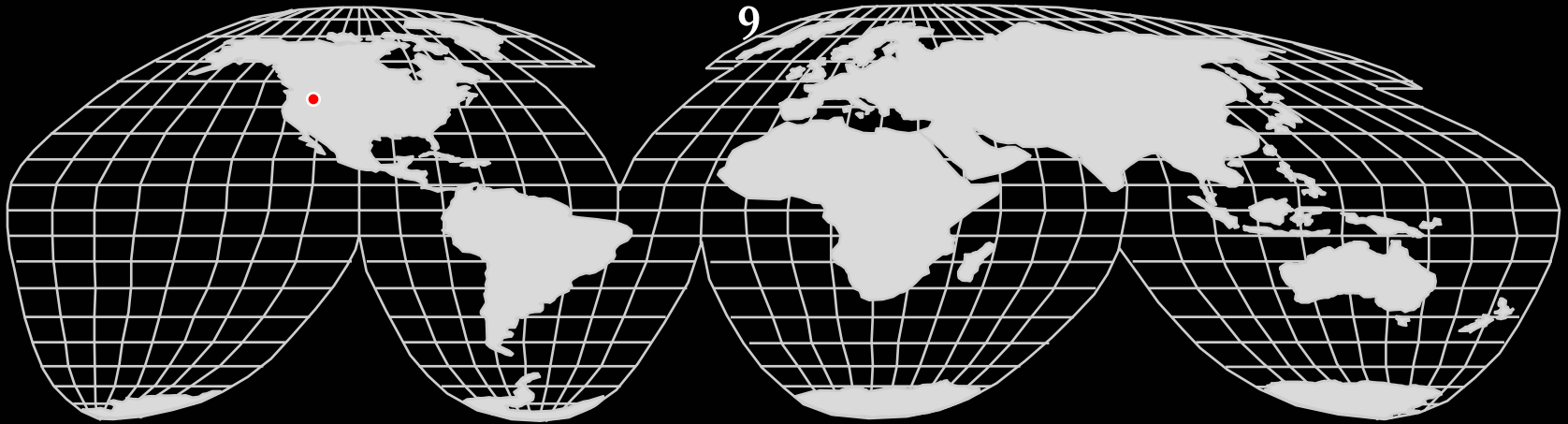
- 24 x7 Staffing per Center
- Duplication of Tasks
- Servers Underutilized
- Data Replication

# Oracle Case Study: “After”

Single 2xServer Cluster; Single Domain

199

9



- Saved \$13M First Year, \$11M Subsequent Years
- Easier Administration
- Improved Availability, Reliability
- Lowered Hardware Costs

# Outsourcing

## Offline

## Online

Software

e-businesssuite

e-businesssuite

Support

ORACLE®

ORACLE®

App Admin

Customer

ORACLE®

DB Admin

Customer

ORACLE®

Sys Admin

Customer

ORACLE®

HW Admin

Customer

@Customer

@Oracle

50% Lower Cost  
50% Better Service



# Kvaerner Pulping Inc.

Industry: Process Manufacturing

- Decreased inventory costs by \$1 million
- Immediately saved over \$76,000 in salaries, hardware investments and systems maintenance
- Eliminated 3-5 week lag between ship date and invoicing

Financials, Order Management, Purchasing, Discoverer, Inventory, E-Business Suite Outsourcing



# Maple Optical

Industry: High Technology

- Realized first year IT cost savings of 59%
- Cut end-of-month closing turnaround time by 50%
- Streamlined business processes

Financials, Purchasing, iProcurement, Discrete Manufacturing, Manufacturing Intelligence, Internet Expenses, Oracle9iAS - Standard Edition, E-Business Suite Outsourcing

# British American Group

Industry: Financial Services

- Global monthly consolidation reduced 87%
- Low service entry costs and monthly service costs--saving up to \$500,000 per year
- Single data model for all ERP implementations
- Fixed management and support costs

Financials, Financials and Sales Analyzers, Property Manager, Internet Expenses, Purchasing, Oracle Projects, Financials Intelligence, E-Business Suite Outsourcing

**6 Ensure  
Visibility and  
Accountability**

# You are Accountable

- to your shareholders or constituencies
- to your CEO and Board of Directors
- to your employees
- to the SEC or other regulatory agencies



# Accountability at Oracle

- Cultural shift 10 years ago—need more than new technology purchases
- Technology for information visibility
  - Close books in 4 days vs. 13 days
  - Support local regulations in 64 countries from a single instance
- Mandatory business ethics training for every employee

# Manage By Fact

## *Corporate Performance Management*



# ORACLE Manufacturing Management

Apr-8, 2002 Q4 FY02 Day: -23 | Plant **Seattle** | Week **Month** Quarter Year | Year/Year **Sequential** | USD

## Manufacturing Management KPIs Customize

Name	MTD Change	Rank of 5	Comparative Performance
Forecast Accuracy	81.2%	2.2	2
Performance to Schedule	79.9%	1.2	4
Gross Margin	33.8%	0.1	3
Inventory Turns	6.9	1.3	2
WIP Days on Hand	22.5	4.0	2
Order to Ship Cycle Time	7	-1	5
On-Time Shipment	81.8%	2.3	4
Resource Utilization	89.0%	-2.0	2
Returns	0.6%	-0.3	1
Scrap	2.1%	-0.3	2
Unplanned Absence	4.1%	0.3	4
Overtime			

Best

Performance Measures

## Links Customize

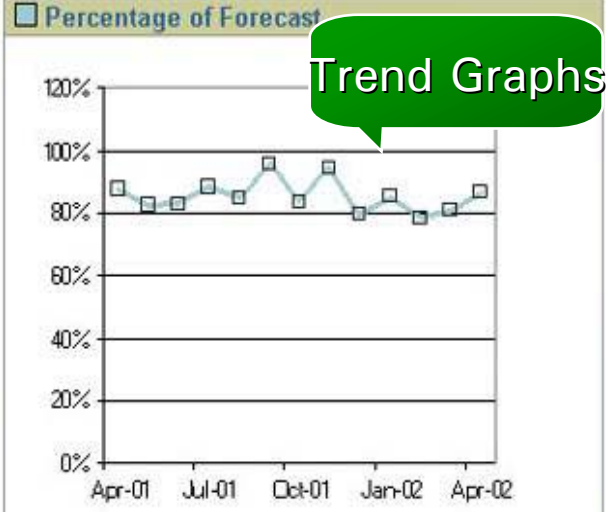
- [Manufacturing Status](#)
- [Expense Management](#)
- [HR Management](#)
- [Issue to Resolution](#)
- [Order Management](#)
- [Order Volume](#)
- [Order Lines Shipped](#)
- [Order Fulfillment Analysis](#)
- [Backorders by Organization](#)
- [Bookings Trend](#)
- [Bookings, Billing & Shipping Analysis](#)
- [Returns & Cancellations](#)
- [Onhand Inventory Value](#)
- [Onhand Inventory Quantity](#)
- [WIP Days On Hand](#)
- [Inventory Analysis](#)

Analysis

## Forecast Accuracy Customize

Category	Forecast	Orders	Forecast Accuracy	Change
<a href="#">Pinion Gear</a>	420	200	47.6%	-3.6
<a href="#">Shaft</a>	395	220	55.7%	-2.0
<a href="#">Crank</a>	350	240	68.6%	-1.8
<a href="#">Spindle</a>	50	35	70.0%	-1.6
<a href="#">Brace</a>	150	112	74.7%	-1.4
<a href="#">Frame</a>	250	192	76.9%	0.2
<a href="#">Cable Housing</a>	350	270	77.1%	0.3
<a href="#">Engine Mount</a>	400	316	78.9%	0.5
<a href="#">Electrical Assy</a>	425	340	80.0%	3.2
<a href="#">Cover</a>	470	420	89.4%	2.1
<b>Grand Total</b>	<b>3,500</b>	<b>2,842</b>	<b>81.2%</b>	<b>2.2</b>

## Forecast Accuracy Customize



Trend Graphs

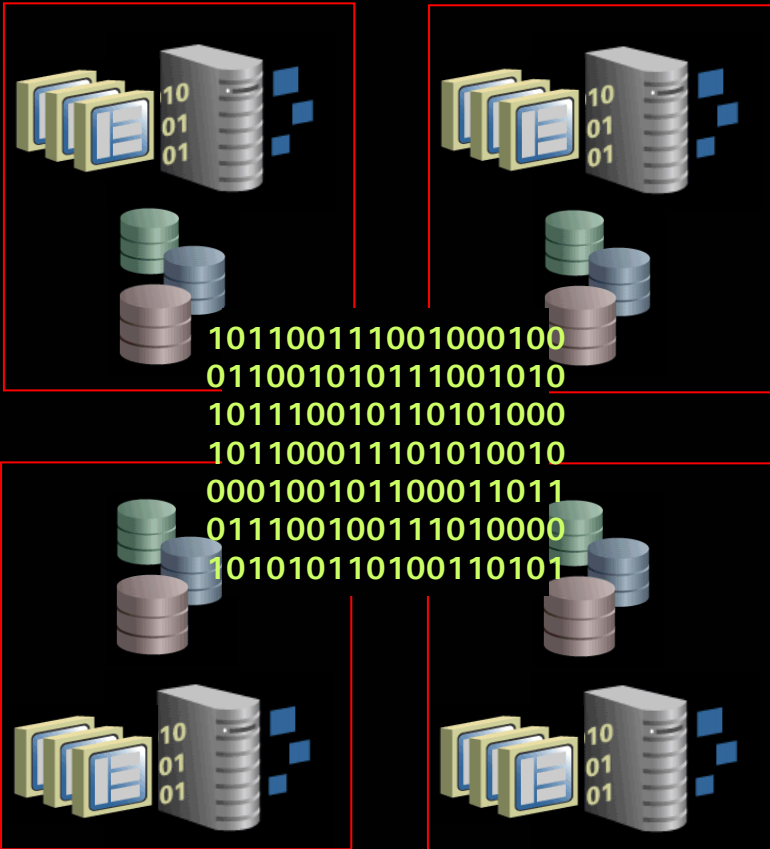
## Links Customize

- [Campaign to Order](#)
- [Forecast Summary](#)
- [Revenue by Customer Analysis](#)
- [Revenue by Sales Representative Analysis](#)
- [Revenue by Country Analysis](#)
- [Order Volume](#)
- [Order Lines Shipped](#)
- [Order Fulfillment Analysis](#)
- [Onhand Inventory Quantity](#)
- [Backorders by Organization](#)
- [Cancellations](#)
- [Bookings Trend](#)
- [Bookings, Billing & Shipping Analysis](#)
- [Forecast Error Percentage](#)
- [Forecast Error Percentage by Demand Class](#)
- [Forecast Analysis](#)

# 7 Build a Culture of Agility

# The Role of Technology

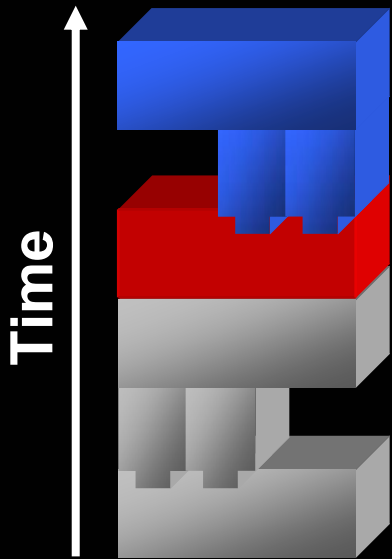
## *Technology As A Barrier To Change*



- Deep silos require disruptive replacements
- Interdependencies hinder change
- Expensive
- No enterprise workflow
- Limited, Inconsistent information

# The Role of Technology

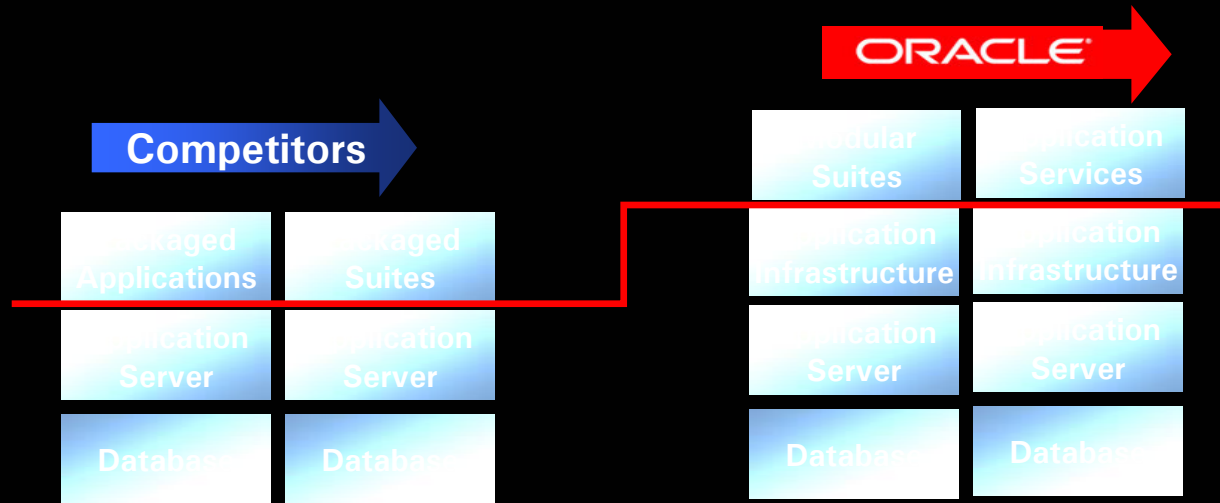
## *Open & Modular Technology Facilitates Change*



- Implement by Business Flow
  - Implement based on your business priorities
  - Start with one flow, demonstrate initial success
  - Add more flows to expand business coverage
- Flows are Seamlessly Integrated
  - Replace disparate systems
  - Eliminate data synchronization
  - Decrease time and cost to implement

# The Role of Technology

## *Raising The Bar on Infrastructure*



### Infrastructure benefits:

- Enables agility
- Facilitates innovation (where it adds value)
- Enables global execution
- Provides global information

**1**

*Consolidate  
& Simplify  
IT*

**2**

*Move To  
Shared  
Services*

**3**

*Adopt  
Self-  
Service*

**4**

*Automate All  
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**5**

*Leverage  
Low-Cost  
Computing*

**6**

*Ensure  
Visibility  
&  
Accountability*

**7**

*Build A  
Culture  
Of Agility*

# 7 Tenets of Business Prosperity





# POSCO - Background



- World's largest steel manufacturer
- Established in 1968
- Annual crude steel production capacity of 28 million tons
- 82,000 products

**“The most sustainable company  
in the steel industry”**

*Morgan Stanley*



## POSCO - Approach

- Enterprise-wide standardization
- No customizations
- Completely redesigned business processes to accommodate software
- Proposed savings of \$1.2BN over 10 years

**Order Management, Manufacturing, CRM,  
iProcurement, HR, Financials, SS Expenses**



# POSCO - Benefits

Sales planning lead time	↓	75% (60 -15 days)
Delivery lead time	↓	53% (30 -14 days)
Customer inventories	↓	20%
Month-end closing time	↓	83% (6 to 1 day)
New product develop.	↓	62.5% (4 to 1.5 yrs)
Enterprise budgeting time	↓	73% (110 to 30 days)



# Alcoa - Background



- World's largest producer of aluminum
- Annual revenues of \$24BN
- 142,000 employees
- 350 locations
- Operates in 37 countries



# Alcoa - Approach

- Phased approach
  - 22 sites live, planned 300 more by Y/E 2002
- Enterprise-wide standardization on internet business practices
- Limited customizations
- Worldwide implementation using 4 instances

**Order Management, Supply Chain Planning, Financials  
iProcurement, HR, Discrete & Process Mfg.**



# Alcoa - Benefits

- Reduced organizational complexity
- Reduced costs
- Streamlined business processes
- Built the infrastructure to absorb acquisitions rapidly

# Trusted Advisor to Over 10,000 Customers

## Saving Millions And Improving Efficiencies

- POSCO plans to save **\$120 Million** each year
- Xerox predicts **\$10 Million** savings annually
- Telia Networks expects to save **\$3.4 Million** annually
- Kelly Staff Leasing increases efficiencies by more than 60%
- CGE&Y cuts costs by 40%
- William Beaumont Hospital saves millions
- Classmates Online cuts time to close books by 50%

**But Does This Work  
For Government?**



## Goals of Booz Allen Hamilton Study:

1. Analyze the nature of Oracle's \$1 billion savings
2. How this can apply to government agencies



**Study allocated benefits to four areas within Oracle . . .**

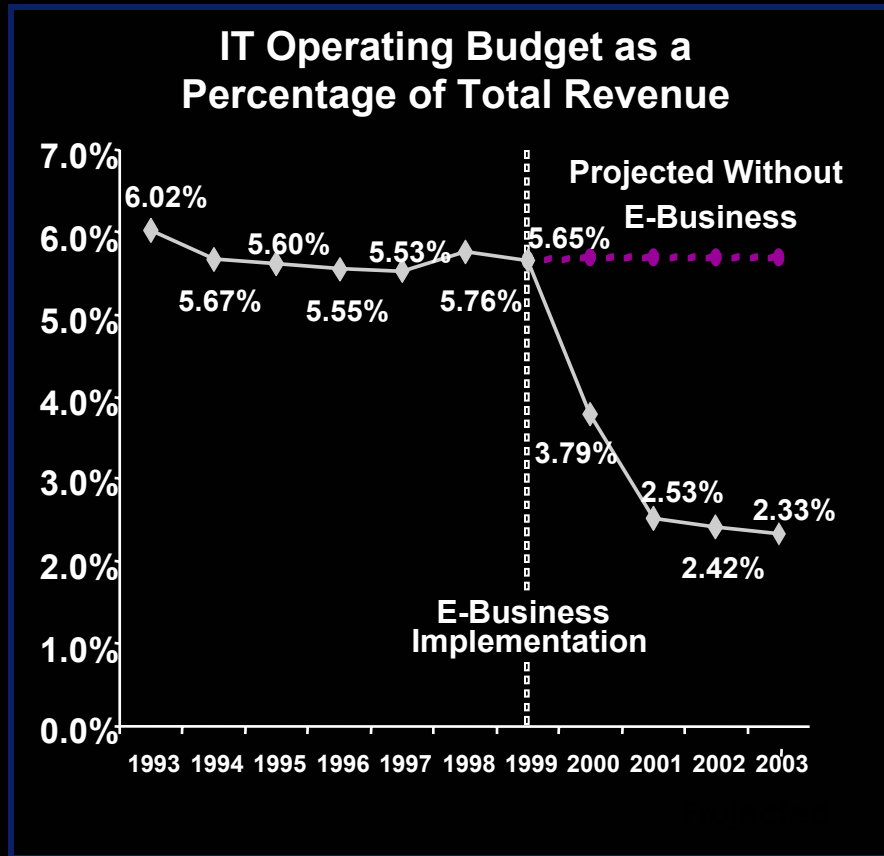
**Technology  
Infrastructure**

**Customer  
Management  
(sell side)**

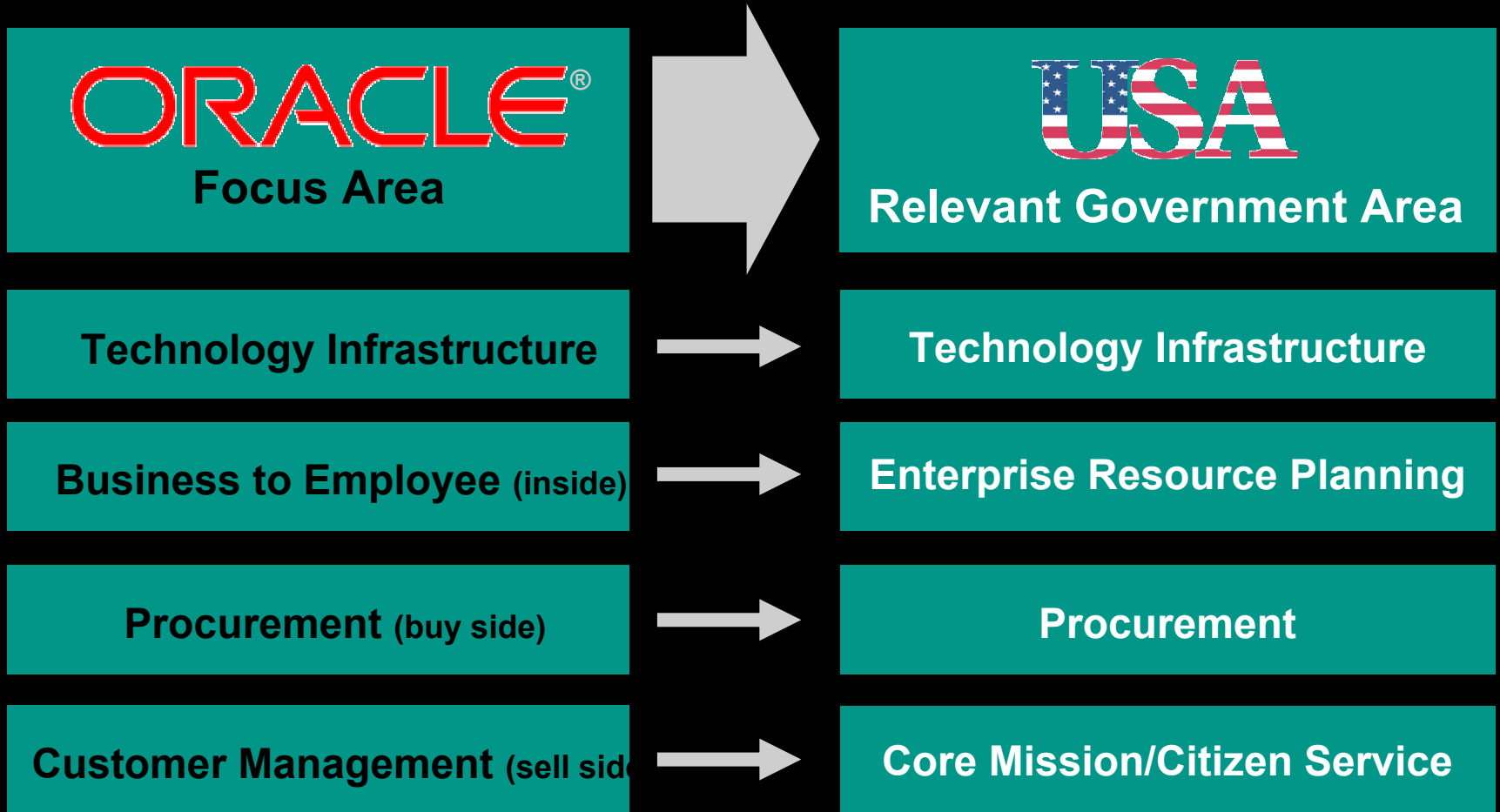
**Procurement  
(buy side)**

**Business to  
Employee  
(inside)**

... and estimated benefits by comparing revenue and expense trends before and after e-business

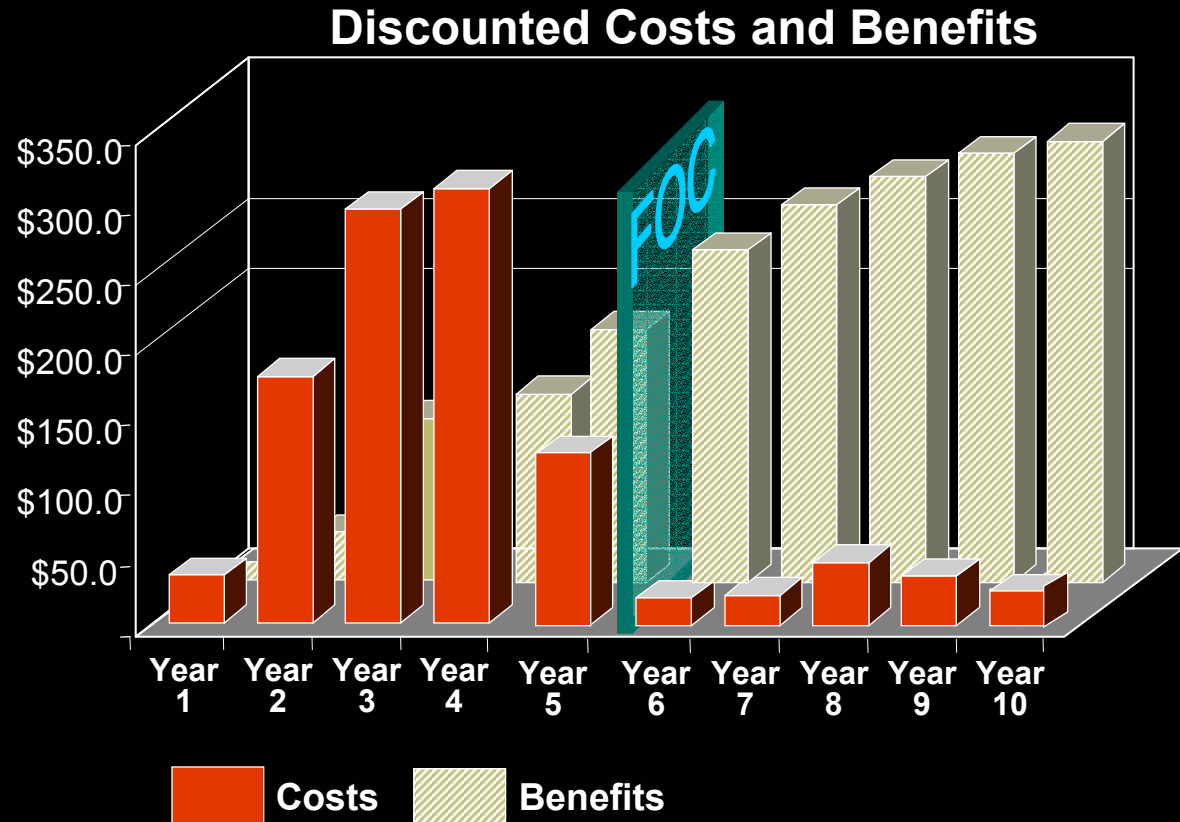


# We mapped Oracle features to a “notional” agency

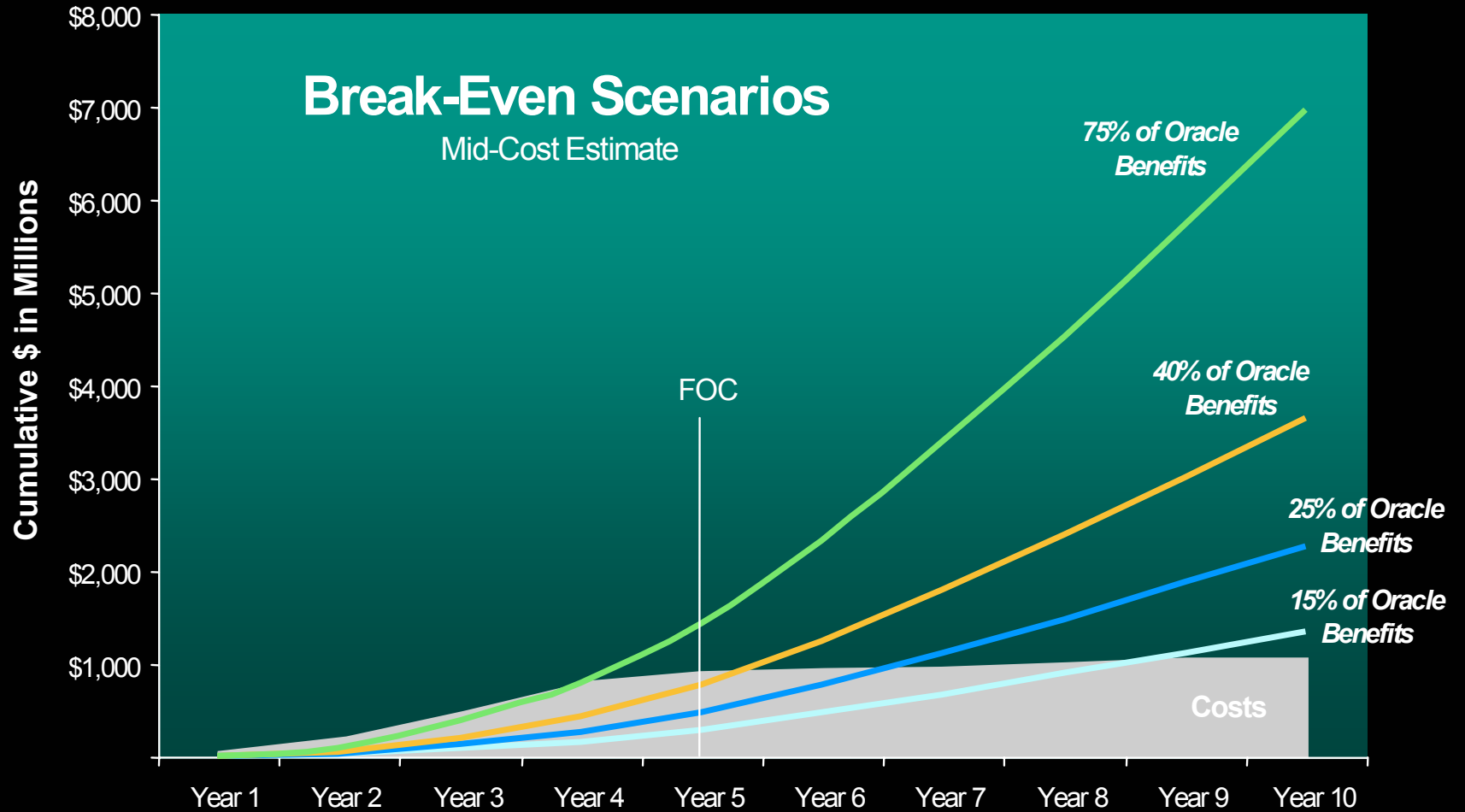


## But achieving only a small fraction of the Oracle benefits would still produce significant results

- If only 50% of “customer management” benefits are relevant to fed environment
- If the agency achieves only part of the Oracle benefits
  - 50% of procurement
  - 35% of IT
  - 25% of ERP
  - 10% of remaining CRM
- The project would still break even 3 years after FOC



To illustrate another way . . .

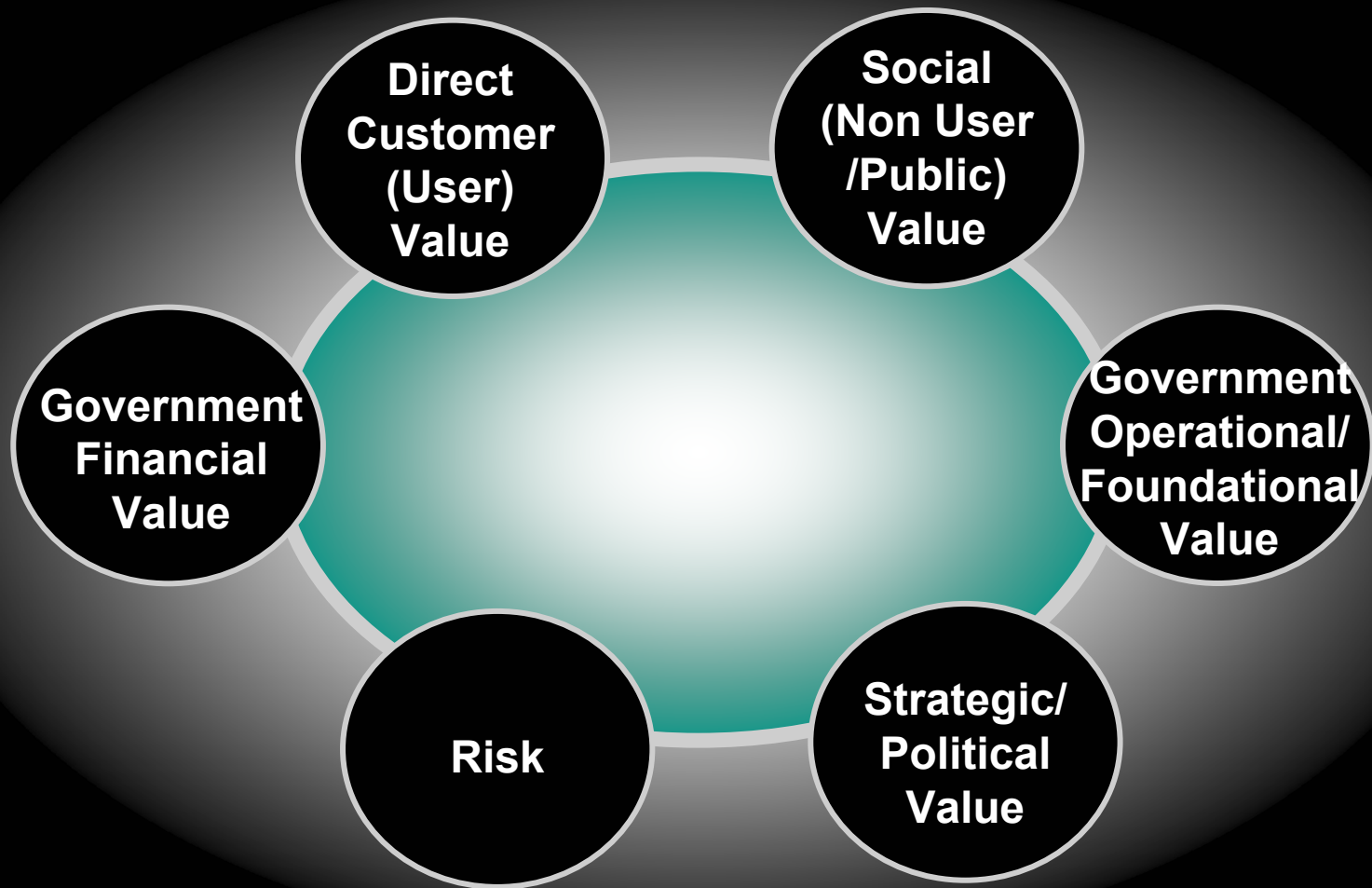


**Financial return is an important metric, but insufficient to understand the full value of e-transformation**

**Costs & benefits for government processes  
*ARE NOT* measured in strictly monetary  
terms**

*Department of Justice, Direction on  
Implementation of Government Paperwork Elimination Act*

**We incorporated six *essential factors* into the analysis**



*Source: January 2002, Booz Allen Hamilton study sponsored by the Social Security Administration in cooperation with the General Services Administration*



## To illustrate . . .

### Direct Customer (user) Value

**ORACLE®**

- 15% customer satisfaction improvement in one year
- Increased partner satisfaction

**USA**

- 24 x 7 access
- Increased customer satisfaction
- Reduced customer frustration
- Creation of communities of interest

### Strategic/Political Value

**ORACLE®**

- ▶ Advancement of core mission (profitability)
- ▶ New product suite/increased public satisfaction
- ▶ Improved brand positioning

**USA**

- ▶ Advancement of mission (efficiency/effectiveness)
- ▶ Improved political image
- ▶ More business processes e-enabled (e-quotient)

## Investment in e-Government similar in scope to Oracle's would yield significant results

- Extremely attractive *financial returns*
- Significant impact on *organizational performance*

# City of Arvada, CO

Industry: Government



- Comprehensive Annual Financial Reporting done 2 months faster
- Project system tracks 441 projects with 17,886 chargeable, lower-level tasks; 113 expenditure types
- No more paper time sheets to be reentered into separate systems

Public Sector Budgeting, General Ledger, Payables, Payroll, Purchasing, Human Resources,, Tutor

# City of Las Vegas

Industry: Government



- Immediately saved 15% of supplies cost
- Significantly reduced month-end close process

General Ledger, HR, Payables, Payroll, Purchasing



# City of Oakland

## Industry: Government

- Accurately and easily generate 100s of reports monthly
- Enables better management decisions
- Users have access to accurate vital data

Government versions of General Ledger, Purchasing, Accounts Receivables, Accounts Payables, Projects,

# How You Can Get There

- Think global
- Build a 3-5 year plan
- Obtain top management commitment
- Manage change
- Simplify business processes
- Standardize, don't customize
- Automate all business flows

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