

Ariba® Spend Management On-Demand Solutions for Companies of All Sizes

Business White Paper

November 2006

Sanjay Anne
Sr. Manager, On-Demand Solutions



Table of Contents

3	SOLUTION CONTEXT
3	ON-DEMAND SOLUTIONS: THE NEXT GENERATION IS HERE FOR COMPANIES OF ALL SIZES
4	VALUE OF ON-DEMAND SOLUTIONS TO THE BUSINESS
4	WHY ON-DEMAND
5	SPEND MANAGEMENT OVERVIEW
5	SPEND MANAGEMENT: OUR SOLE FOCUS
6	ARIBA'S FLEXIBLE ON-DEMAND PACKAGING OPTIONS
7	BENEFITS OF ARIBA'S ON-DEMAND SOLUTION INCLUDE
7	CHALLENGES OF TYPICAL ON-DEMAND SOLUTIONS
9	ON-DEMAND SOLUTIONS FOUNDATION
9	ON-DEMAND MODEL VERSUS TRADITIONAL SOFTWARE LICENSE
10	THE ON-DEMAND ROI FRAMEWORK
11	ON-DEMAND AND TOTAL COST OF OWNERSHIP
13	SUMMARY



Solution Context

Companies of all sizes share the same challenge: How to meet the growing pressures from inflation, globalization, and regulatory compliance on their business while effectively managing costs and delivering more savings to the bottom line. By providing a combination of low start-up costs, low IT resources required for startup through maintenance mode, rapid on-time implementation and quick access to the latest solutions, on-demand solutions are successfully meeting today's challenge.

This paper will focus on the core business aspects of the Ariba On-demand Spend Management solution. As the leading provider of spend management solutions, Ariba helps companies analyze, understand, and manage their corporate spending to achieve increased cost savings and business process efficiency. Ariba Spend Management Solutions comprise a unique, comprehensive blend of domain knowledge and expertise with technology that accelerate each customer's journey toward an improved bottom line.

On-Demand Solutions: The Next Generation is Here for Companies of All Sizes

There is a growing demand for more economical and efficient enterprise applications to an ever-expanding global market. On-demand solutions are among the fastest growing markets in the IT sector. On-demand delivers low total cost of ownership, more predictable costs, the ability to focus on their business' core competency, and risk mitigation, in addition to many others. Research firm IDC predicts that by 2008, subscription license revenues will hit \$43 billion worldwide, or 34 percent of the total software market. An on-demand solution, also known as software-as-a-service, is delivered as a service in a utility-like model. The software is a service that can be turned on much like the way you turn on a utility, like electricity or water, or walk up to an ATM for banking services. On-demand solutions are based on a true subscription model—you pay-as-you-go. There is no software to install. No hardware to buy. No maintenance or support costs. No need to hire consultants or tech specialists to install and manage the system.

For companies looking to start or expand their spend management initiatives, Ariba's On-demand delivery model provides a fast, flexible way to get quick access to Ariba's industry-leading Spend Management solutions. Ariba's solutions combine managed software with Ariba domain knowledge and expertise in three different solution packages, all available on a convenient subscription-based pricing basis. Together, these on-demand capabilities are ideal for organizations looking for faster time to results, a low-cost entry point, lower risk, and broader coverage with flexible options for growth.

Value of On-Demand Solutions to the Business

Why On-Demand

Companies of all sizes share the same challenge: How to meet the growing demands of their business while effectively managing costs. By providing a combination of low start-up costs, few IT resources required for startup and maintenance, rapid deployment, ease of use and increasingly robust functionality, on-demand solutions are successfully meeting this challenge.

- + **Faster "time-to-value"**: Time is of the essence - an on-demand model removes the complexity of installing a new solution in-house by bundling software, hardware, systems development, integration and management into one offering, which gets deployed by Ariba. The on-demand model provides for a faster adoption. This ease-of use associated with the on-demand model promotes high user adoption rates which can result in significant productivity gains. This is further augmented by training services and best practices coaching that Ariba wraps around its on-demand solutions.
- + **Lower TCO and Quicker ROI**: On-demand solutions lower the TCO (total cost of ownership) by enabling the software to be used in a multi-tenant architecture, which amortizes the technology and service cost across all customers. On-demand solutions do not require installation of the software on the customer's premises.
- + **Lower Risk**: Ariba on-demand solutions are implemented by in-house consultants with deep expertise and experience. Ariba product experts manage the administration, maintenance and upgrades to the technology, offering measurable availability, reliability and performance based on service-level agreements. The data centers have infrastructure redundancy and disaster recovery to ensure application availability and business continuity.
- + Additional benefits associated with on-demand solutions are difficult to quantify but provide tremendous value to small and large companies alike. Plus, on-demand solutions are always on the current release of the software so all users have access to the latest functionality and features—promoting better, faster decisions based on the most up-to-date information.

Ongoing operational costs are where on-demand solutions have gained a significant total cost of ownership advantage over traditional on-premise licensed software. By reducing implementation, upgrade, hardware, data center and people-related costs, Ariba's on-demand solutions offer a lower TCO than licensed software solutions.

With raising support costs, enterprises benefit from a lower TCO with an on-demand solution. In addition, the overall value provided by on-demand solutions is significantly higher when you include the IT infrastructure and services infrastructure that is behind the on-demand solutions. In particular, SMBs and mid-market users can't replicate this value due to the prohibitive expense.



Spend Management Overview

As profit pressures in the procurement arena intensifies, it is critical that organizations dramatically improve their effectiveness by managing spend and accelerating process performance. Top-performing companies understand that this can only be achieved through a comprehensive spend management initiative—one that delivers cross-company spend visibility, promotes accurate decision making, and employs best practices on which to refine and grow an efficient procurement process.

The Ariba Spend Management Solutions include technology and expertise that enable companies to rapidly expand their management of spend and accelerate their journey toward bottom-line success—without costly customization or internal IT resource issues. Combined with our comprehensive, scalable Ariba Supplier Network, Ariba solutions manage more spend between buyers and suppliers than any other spend management system.

Spend Management: Our Sole Focus

Ariba is the recognized leader in spend management because it is our exclusive focus. With global operations in 21 countries, we incorporate more than 400 full-time sourcing specialists and 700 spend management professionals into one of the largest sourcing organizations in the world with over 6,000 projects executed and more than 500 categories sourced. This experience managing global spend for a variety of organizations has enabled us to avoid our clients' typical obstacles to success, particularly lack of resources or difficulty obtaining executive buy-in. As a result, we manage over \$60 billion in spend annually and help companies achieve measurable, sustainable bottom-line results, quarter after quarter.

At its core, spend management is about questioning how an organization approaches its entire "non-revenue" operations. It goes far beyond cost; rather, it is about getting the maximum value out of the money a company spends. This is why spend management is not just an extension of procurement or cost management, but rather a new way of thinking about building sustainable market advantage that can transform a business. It is about preemptively avoiding unnecessary costs and strategically locking down savings. This dictates that companies should place just as much emphasis on studying their competition and industry thought leaders to learn from their success and exploit opportunities just as they would do on the revenue side of the business.

Regardless of whether an organization is established or new, is based in an existing or emerging market, or has a strong history of procurement leadership or not, it is important to create and deploy the right spend management programs based on its own needs.

On-demand solutions include implementation, training, support services and application management services delivered by the application vendor such as Ariba to enable a quick and productive ramp-up. The end user accesses the applications through a web browser and pays subscription-based pricing.

Ariba's Flexible On-Demand Packaging Options

Ariba Spend Management Solutions offer flexible deployment options to companies looking to start or expand their spend management efforts. Ariba is no stranger to the on-demand model. Ariba has packaged its applications, implementation, support and training services into solution bundles designed to meet the procurement competence and IT budget and resources of individual companies. Ariba has mapped a logical migration path to transition customers, their process flows, and data between these delivery models as usage volumes and preferences change. Options include:

- + Basic: Enables small and mid-sized companies to rapidly, cost-effectively begin using the software, with domain expertise, training, support and best practices of the world's leading companies. Solutions include core spend management functionality with basic support and empowerment services to quickly enable online sourcing.
- + Professional: Provides sophisticated spend management capabilities in an on-demand delivery model. Solutions build on the Basic capabilities, with advanced functionality such as additional turnkey commodity templates, category-level management, flexible configuration capabilities, advanced project support, customer support and training services.
- + Enterprise: Delivers the full power of spend management to large enterprises. Available as a hosted on-demand solution. Includes prioritized support, 24x7 interactive training, expert management services, and extensive customization and control capabilities.





Benefits of Ariba's On-Demand Solution Include:

Accelerates Return on Investment (ROI) and Faster Time-to-Value

- + Accelerates customer savings and the benefits from using the application by delivering rapid, on-time deployment
- + Applications can be enabled on-demand as needed without extra infrastructure or personnel costs to select, design, install, configure, integrate and manage the software in-house
- + By automating the primary tasks involved in provisioning new services

Minimizes Total Cost of Ownership (TCO)

- + A 24x7x365 service requires additional personnel, power, security, and the on-demand offerings include all this infrastructure and labor
- + More predictable costs - e.g., no unexpected capital charges for upgrades. Systematic upgrades are performed as part of the on-demand offerings
- + Inbuilt workflows to automate the business process and to comply with fluctuating regulations
- + Includes all the support, application, tuning, etc. for an optimal environment

Maximizes Application Availability and Performance

- + On-demand environment is more secure, reliable and easy to access
- + Applications are on-demand in our own redundant and secure host data center
- + Expert technology management from Ariba with direct access to technical resources for speedy resolution of any type of problem
- + Best-in-class Service Level Agreements (SLAs)
- + Sophisticated monitoring technology and best-in-class issue resolution processes proactively address any minor issues before becoming major problems

Challenges of Typical On-Demand Solutions

- + **Security:** Security is a major concern for many reasons. First, data is now leaving and entering the enterprise across the internet and that means there is increased risk. The need to protect data and validate the identity of those accessing the systems is critical. These issues are being addressed by both technologies and regulations. Ariba recognizes that security is a critical component of effective electronic commerce architecture and takes advanced security measures to protect all information passed between buyers and suppliers. Ariba implements security using a variety of hardware, software, and procedural best practices and is independently certified by WebTrust.

- + **Customization:** On-demand is a one-to-many delivery model, so user perception is that the software implementations offered must be plain vanilla, although this is not the case with Ariba On-Demand. Ariba provides a rich set of delivery options—refer to the section "Flexible on-Demand Deployment Options". Companies with heavy customization requirements tend to think that on-demand can't work for them. Customization requirements can often be met by the configuration flexibility of the software product; Ariba on-demand, with over a decade of accumulated best practices, designed in the ability for customers to configure the most common customization tasks and, with Ariba guidance, extend the Ariba solution to maintain upgrades.
- + **Integration:** A second challenge is integration. That is, how an application that is housed off-site will be tied into internal, or legacy, applications. Ariba has developed integration strategies, tools and templates to address this requirement.
- + **Evolving the IT Thought Process:** Many times, the hardest challenge to overcome is the cultural one. Those of us in the IT world understand technology and use acronyms in one sentence more often than most people use in a month's worth of conversation. We also like to be very hands-on. The industry is moving away from technology silos to a more integrated business approach where IT is closely partnered with the business objectives. The first challenge is giving up control of the day-to-day operations; it is difficult to let others manage what we are used to managing. In an on-demand world, the business needs drive the IT needs, and the systems tend to be self-managing and highly automated. This frees up IT to focus on more strategic issues. Many IT professionals also tend to be reactive rather than proactive. An on-demand solution requires a proactive approach with a great deal of planning, primarily to design an environment that can react quickly as business needs change and adapt to integrate new technologies that may be beneficial to the company.

For most business processes, the benefits of applying best practices far outweigh the benefit of perpetuating a unique process.

"The majority of executives still believe that there are certain ways that things are "done around here" and, by definition, are the right ways. For the vast majority of businesses, this is simply not true. So, executives spend huge sums of money on sustaining the uniqueness (in part via the underlying supporting software that needs to be tailored to the individual process) of a vast array of activities that are not best in class and offer no competitive advantage whatsoever."

—Gartner Group

Ariba on-demand solutions are designed from the ground up to incorporate best-in-class business processes and support flexible configuration. Through this flexible configuration, companies can quickly adapt Ariba software to their requirements at a fraction of the cost and time required to customize traditional software.



On-Demand Solutions Foundation

On-Demand Model versus Traditional Software License

When a company buys enterprise software, it is typically making a significant purchase that carries with it a commitment not only for the software, but significant hardware, custom installation, user training, process reengineering, and support. In the past, there was only one major licensing model for buying enterprise software—the perpetual license with an annual maintenance fee, typically 15 to 25 percent of the original purchase price. The advantages of the perpetual license are that it does not have to be re-purchased in subsequent years and the ability to customize enables the maximum possible level of savings.

On the other hand, the process of evaluating and purchasing a major software solution can be very costly and time-consuming. Often, companies will over-purchase because of inaccurate use forecasting. The costs of deployment (services and customization) are estimated in a recent Merrill Lynch report at six to eight times the initial software costs and these costs are directly linked to increased value, but often what is required to achieve the promised value. Finally, in-house IT resources become responsible for the business risks associated with the proper functioning of the software. At the end of the product lifecycle, the sunk costs of a perpetual license often lead to paralysis when considering an upgrade to newer and more functional software packages.

In the most fundamental "on-demand" licensing model, Ariba manages one (single instance—dedicated instance) or many instances (shares instance—multitenant) of the software on their own servers. When customers want to use the software, they are using a fraction of the capacity of a shared server. For a yearly fee, the customer has access to the software for a given unit of work (which is defined). Naturally any demand that goes over this contracted amount would incur further costs. The software is offered in the same way that one might buy a utility, such as a telephone service or cable television.

There are many advantages to an on-demand software licensing model. To begin with, the corporation doesn't have to pay for infrastructure, hardware, installation, and ongoing maintenance costs. These are all taken care of by Ariba and the costs are shared across many customers. The customer gets the most up-to-date versions of the software as well.

The Ariba On-Demand Spend Management solution and the Ariba Spend Management On-Premise/on-site solution address different business situations. The table below highlights key factors to consider when selecting the best solution for your business today.

	On-Demand Ariba: Consider Ariba On-Demand When...	On-Premise Ariba: Consider Ariba On- Premise Edition When...
Deployment Time Frame	<ul style="list-style-type: none"> Need turnkey solution that can be immediately deployed for fast results 	<ul style="list-style-type: none"> Prefer to build a highly customized solution Willing to invest in 2-4 month implementation effort
Budget	<ul style="list-style-type: none"> Have limited/no capital budget Funding purchase out of operating budget 	<ul style="list-style-type: none"> Have allocated capital budget for hardware and software
Business Rule Configuration	<ul style="list-style-type: none"> Yes - UI driven 	<ul style="list-style-type: none"> Custom fit for the customer
Customization	<ul style="list-style-type: none"> Confined to Ariba parameters and best practices 	<ul style="list-style-type: none"> Custom fit for the customer
Upgrade Cycle	<ul style="list-style-type: none"> Regular automatic upgrades 	<ul style="list-style-type: none"> Depends on Customer
Product & Technical Support	<ul style="list-style-type: none"> Included Cost – 24x7X365 	<ul style="list-style-type: none"> Additional Cost – 24x7X365
Available IT Resources	<ul style="list-style-type: none"> Have limited/no IT resources Have expert IT resources, but do not want to allocate them to Spend Management 	<ul style="list-style-type: none"> Want to leverage existing in-house IT expertise Want to utilize existing hardware and software assets
Real-time ERP Integration	<ul style="list-style-type: none"> Confined to Ariba parameters and best practices 	<ul style="list-style-type: none"> Custom fit for the customer

Table 2: Comparison of Ariba on-demand to on-premise edition

"On Demand" is essentially talking about how IT will increasingly be available for use on an as-needed, as-used basis. In the on-demand model, customers accelerate their time to financial benefit. With a low start-up investment, they realize faster return on investment (ROI) and lower total cost of ownership (TCO). Such a capability provides flexibility for businesses to grow and change, and to compete effectively while managing expenditures on more of a "utility" basis. While this represents a major shift in the way that IT projects are funded, deployed and managed-the potential benefits go beyond dramatically reducing capital and operating costs. Instead, the promise is one of delivering higher business ROI, being more responsive to changing business needs and accelerating how quickly the business benefits of technology can be realized.

The On-Demand ROI Framework

Initial ROI deployment comparison between Software licenses vs. on-demand model

Three key points of differentiation:

1. Lower initial cash outlay
2. Faster deployment and adoption
3. Quicker time-to-value

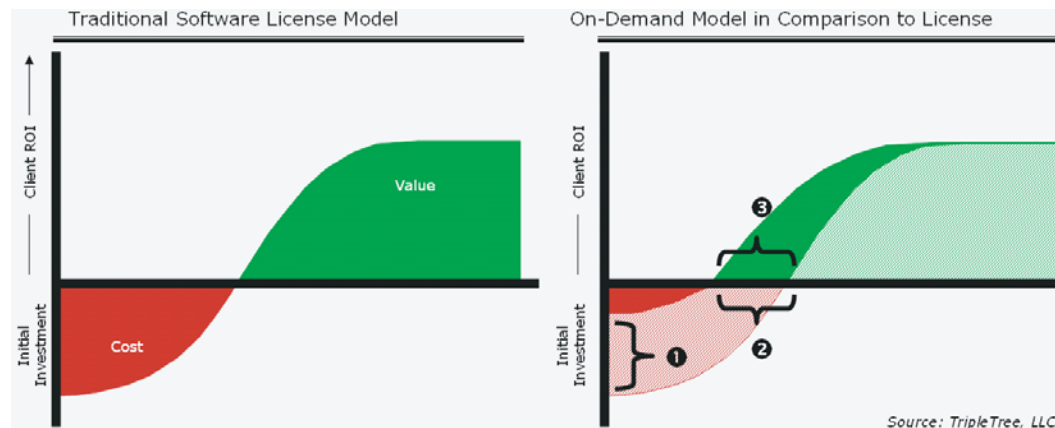


Figure 2: ROI framework for an On-Demand delivery

On-Demand and Total Cost of Ownership

IT Cost Savings

Most organizations that are considering whether to bring an application in-house or to utilize on-demand delivery justify their investment on the basis of technology costs—specifically in-house development and deployment versus the on-demand model.

Although the costs of managing software as an in-house application can seem out of proportion (see Table 2), the IT cost savings that companies realize through on-demand delivery can be significant. IDC's body of research on the cost savings of on-demand demonstrates that these savings go beyond technology equipment to include avoiding the costs associated with hiring and retaining internal IT staff and the opportunity costs of spending resources on non-strategic activities. Numerous studies have found that many organizations do not see IT as a core competency and are best served by leaving the IT maintenance and management legwork to a true on-demand provider like Ariba. Organizations with internal IT resources can rely on on-demand for IT maintenance tasks so that the customer's technical resources are free to focus on strategic revenue-generating business activities.

IT Costs Are Only Part of the Picture

But there's more to consider than just IT costs. Limiting decision criteria to IT costs can undermine the value-added services and business understanding offered by on-demand—an understanding that could potentially make the difference between mediocre and meteoric overall cost savings. This approach not only ensures that the decision criteria (i.e., the "hurdle rate" for deciding to invest in an application) include the whole picture, but it also gives senior management a handle on the key requirements for success (i.e., what specifically needs to be well managed to maximize organizational impact). Much lower risk and linking the expense to the value are two major advantages of the on-demand approach.

When deploying technology, most organizations are very astute at identifying and managing incremental costs but not nearly as adept at managing and measuring incremental benefits. In fact, many organizations do not measure incremental benefits at all. For many, the initial cost savings attract them to an on-demand offering, and the intangible benefits are discovered and recognized afterwards. From an on-demand perspective, this means that IT cost-based measures are insufficient to truly understand the financial impact. Business productivity enhancements and business process benefits should also be considered.



Figure 3: Costs associated with traditional software licenses

Cost of Managing Software In-House Compared with the Software Purchase Price by Company Type (% of Respondents)

Q. Considering the enterprise software that your company manages in-house please complete the following statement: "Over the life of the software the cost of managing the software is ..."

	Total	Small Business	Medium-Sized Business	Medium-Sized/ Large Business	Nonprofit/ Govt./School
Less than the purchase price of the license	16.8	19.8	11.6	8.8	19.3
Equal to the purchase price of the license	9.9	12.3	7.0	5.3	8.8
2x or 3x the cost of the software	26.3	25.3	36.1	28.1	14.0
4x or 5x the cost of the software	10.8	8.3	17.5	19.3	3.6
More than 5x the cost of the software	7.9	8.3	5.8	14.0	3.5
Not sure	28.3	26.1	22.1	24.6	50.9
Total	100.0	100.0	100.0	100.0	100.0

n = 453

Source: IDC's Software as a Service QuickLook IT Survey, May 2004

Table 2: Cost of Managing Software In-house (On-Premise) in Comparison to On-Demand



In 2001, AMR Research found that 45 to 59 percent of IT services budgets were spent on application implementation, maintenance, and custom development. An Ariba on-demand solution greatly reduces these hidden costs of implementation, infrastructure and customization.

Summary

In an era where success is defined by how quickly and successfully your organization delivers results to ever-increasing member expectations, cost pressures and how "to do more with less," on-demand solutions help you rise to meet these challenges. On-demand customers accelerate their time to financial benefit. With a low start—up investment, they realize faster return on investment (ROI) and lower total cost of ownership (TCO).

As a result, you can focus on your core business - and not to the management of technology. Ariba provides flexible spend management solutions to meet the needs of organizations of any size, may it be via on-demand or via on-premise delivery models based on the business needs of the end user.

About Ariba® Inc.

As the leading provider of on-demand Spend Management solutions, Ariba helps companies analyze, understand, and manage their corporate spending to achieve increased cost savings and business process efficiency. Ariba Spend Management Solutions comprise a unique, comprehensive blend of domain expertise, operational services, and technology that accelerate each customer's journey toward an improved bottom line.

Ariba delivers sourcing, procurement, and commodity expertise that enables organizations to optimize their Spend Management processes and supplier relationships. We help companies get the critical buy-in and support required at all levels of their organization, then work with them to plan, build, and integrate a customized, effective Spend Management solution. We leverage a broad technology platform that makes our solution benefits repeatable in the long term. ABN AMRO, BMW, Chevron, Cisco Systems, Hewlett-Packard, and Unilever are among the Fortune 100 companies that put their trust in Ariba solutions.