

S U D D E N L Y ,

S A P

For a global company whose clients include 600 banks in 32 countries—21 of the world's 30 largest banks among them—SAP doesn't get much respect in North American banking circles. Long considered too "old world" in its business practices and unskilled with the regulatory environment, especially in the U.S., SAP now may be on the verge of a major breakthrough, thanks in part to the ambitious plans of one Canadian institution. Ken Casey, svp of Canada's ATB Financial, has chosen SAP to swap out the institution's core banking platform to the tune of \$100 million. With so many banks mulling replacement of their decades-old core systems, Casey says IT executives from around the industry are eyeing the project from afar. Success could catapult Germany-based SAP in North America and help it give chase to longtime rival Oracle.

BY MICHAEL DUMIAK PHOTOS BY GERARD YUNKER

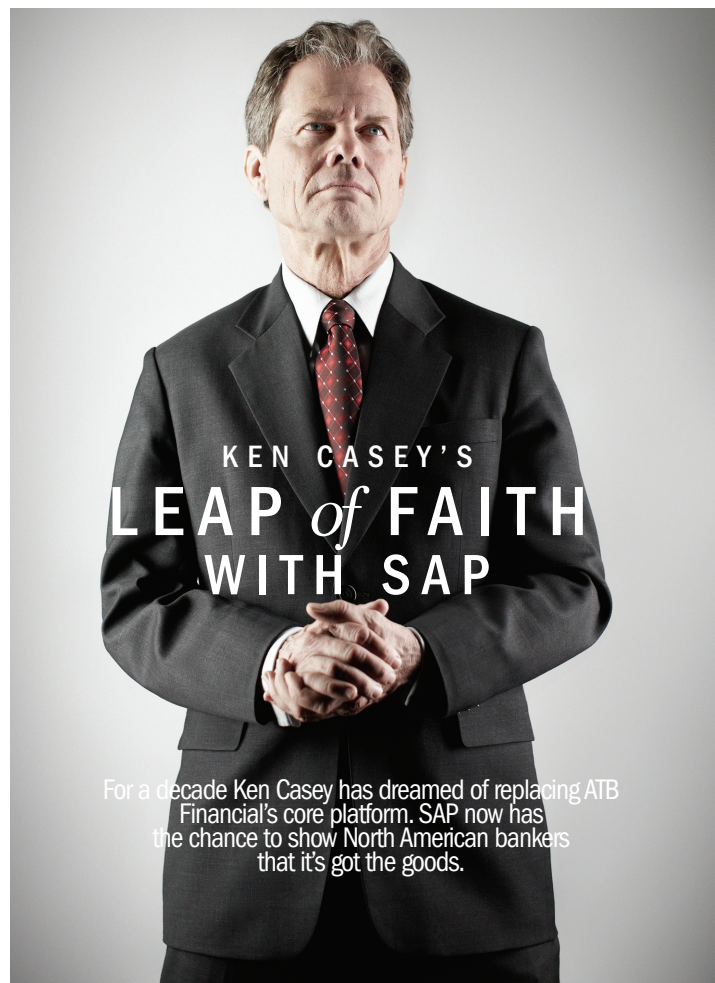
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en Casey's \$100 million job, replacing the vital core banking platform at the heart of his institution, is a pressing matter under the broad prairie skies of Alberta. Answering that call is a German enterprise application giant. ¶ That this once-unlikely scenario is now moving smartly ahead says much about the fast pace of the financial technology market and daunting decisions facing bankers. It just might also mark

the start of SAP as a player to be reckoned with in North American financial circles. ¶ Casey's bank, \$23.5 billion-asset ATB Financial, has been thinking about swapping out its aging core banking system and data centers for years now. The programs, routers, platform software and servers that carry and store ATB's customer transactions and form the institution's vital internal infrastructure—keeping track of loans, accounts, commercial customers and settlements, etc.—date to the mid-'80s, running on a platform designed in the 1970s.

That kind of antiquated architecture is not unusual for financial institutions, and it's why ATB is far from alone in taking a hard look at its core banking system. According to a Forrester Research poll in March, of 55 IT managers in the financial sector, more than half are pressing forward with an overhaul of core financial services applications. Twenty-seven percent plan to do so soon. Dan Drechsel, a former CheckFree and S1 executive, who is now svp and general manager for SAP America's banking group in charge of strategic sales direction, marketing, consulting and services, says SAP has seen more RFPs for core banking systems in the last six months than in the prior three years. "There's an eye toward expanding the platform, helping them eliminate vendors, eliminate systems over time. To simplify. To streamline."

The reasons to upgrade are legion. Legacy systems, patched together over years of acquisitions and growth, are creaky, inflexible, redundant. They can't keep up with fast-paced product and service creation over multiple channels. Replacing them, how-



ever, is like fixing the plane while it's still flying.

It's a complex, delicate task and one might assume that North American banks would naturally turn to Walldorf, Germany-based SAP—it does, after all, have more than 600 banks in 32 countries running its software, including most of the world's largest banks. Yet, due to the complexities of the North American banking market, particularly in the U.S., financial services has never been SAP's strong suit. It is much better known state-side for bean-counting software keeping track of "pencils, process and toilet paper" in the back offices of large manufacturers.

That's changing, however, as SAP makes a concerted push into the Americas (Drechsel was just hired in November, for instance), aggressively pitching itself to smaller financial companies. In the Americas, SAP has recently been tapped to replace the entire core banking system at Banco De Cordoba and Banco Columbia in Argentina, Chile's Los Horoes, and in Canada, besides ATB Financial, Farm Credit Canada. How SAP has become increasingly competitive in the Americas—amid ongoing competitive clashes and acquisition one-up-manship with *bete noir* Oracle—is a corporate chronicle worth telling.

Just look north.

ALBERTA: A TECH OPERA IN FOUR DECADES. “With the banks I talk to, and I talk to quite a few, there’s a real following of how we’re doing,” Casey says. “We’re all in the same boat.” ATB’s COBOL-based platform Synergy was designed in the ’70s and installed at the firm in the mid-’80s; it’s worked and could, even now, still scale to meet the 4,800-employee and 660,000-customer company’s needs. The problem is flexibility and redundancy. “Years and years ago we’d come to the realization it was going to be quite difficult to build within that system. It’s tightly integrated and contained,” says Casey, who is ATB’s svp for major initiatives. ATB had to start building outside of Synergy. “When we put in our call center, we brought in Siebel and it had its own server,” he says. Human resources, the same. Internet banking, the same. “We ended up with a very large distributed server farm connected to the core system creating, for us, many possible points of failure.”

Casey took his first look into the marketplace for help in the mid-1990s. He didn’t like what he saw. In 2003, Casey took another look, saw more promising avenues, but nothing

that couldn’t wait. ATB at the time was busy building a business data warehouse and a teller front end. It wasn’t until 2006 that Casey’s team came together and put out a call to get rid of Synergy. In February, more than a decade after first testing the waters and after having vetted five competitors, ATB became—for the first time—an SAP customer. ATB will install a complete core suite, encompassing both SAP for Banking Solutions and SAP Business Suite applications on the SAP NetWeaver technology platform.

How did SAP pull it off? As Casey recalls, it went beyond SAP’s ability to show it can design fundamental core banking software for a North American playing field. That was baseline. For him, it came down to SAP’s open approach, letting the ATB team talk to senior executives and key software engineers in configuring the products. The final deciding factor was SAP’s competencies in business process software, which will run throughout ATB.

But first Casey needed to be certain that German products would work in a Canadian bank. SAP is the dominant business

SILICON SLUGGERS

LARRY ELLISON’S ACQUISITION TEAR OVER THE last few years is well documented. The bitter, but ultimately successful takeover of PeopleSoft. The Siebel acquisition. And, last spring, Hyperion, at the time one of the five, large independent players in business intelligence. The Hyperion buy put pressure on SAP to make a move against type and go for a big purchase. And buy big SAP did with Business Objects. While that blow-by-blow between SAP and Oracle can be (and indeed thoroughly was) parsed as attack-counterattack, analysts say what’s going on in these transformations is more than meets the eye.

For years SAP and Oracle caricatured one another: Oracle was the “database company” and SAP was the “inflexible, large-footprint applications company.”

But both firms have labored mightily to remake themselves. One element is to build far-reaching suites of integrated or modular products and functionalities: not exactly a one-stop shop, given differing core competencies, but at least something resembling a department store. The other element is gaining new and multiple points of access to key decision makers. And to move from the back to the revenue-producing front office. With PeopleSoft, Ellison bought a sales army with access to the high-level human resources executives that use the software. With Siebel came access to svps of sales and marketing, and a nice base in the financial services industry. With Hyperion, Oracle opened the door further to the CFO’s office. Though the volume isn’t where it needs to

be year, Oracle has core banking capabilities in Oracle Financial (formerly i-Flex). As for SAP, it follows a less-acquisitive path—though that’s changed in recent years—relying on its NetWeaver platform. NetWeaver can slot everything from core banking to business optimization software.

At the same time, SAP is pouring resources into Business ByDesign, its foray into software as a service (SaaS) for smaller and mid-size customers. If it successfully integrates Business Objects, SAP gains entree to clients with a market-leading business intelligence offering. Though service-oriented architecture has its skeptics, Business Objects is being sold as “open and agnostic” to any technology. Business Objects has thousands of partner-sellers, says Jonathan Becher, the company’s svp of marketing. “That network is one of the key assets Business Objects brings in the U.S.” — MD

application provider throughout Europe across many different market sectors: retail, industrial and financial. The regulatory environment in North America is different, posing a challenge for those considering SAP technology. “There was a need to adapt to the North American market,” Casey says.

SAP was founded in 1972 and has an extensive continental history. But, as Casey points out, it didn’t have easy history with bank products like home equity lines of credit. Revolving loans and lines of credit are done differently in Canada and the United States than in other markets. Payments are definitely done differently: Paper checks are rarely seen now in Europe—not true across the Atlantic.

Thomas Balgheim, the overall head of SAP’s financial services group, got involved in pursuing ATB Financial early on, and Casey recalls that Balgheim welcomed ATB’s approach to SAP engineers. “We needed to get beyond the proposals and the sales teams, into the architecture group,” Casey says. “When you talk with someone writing code, and explain what you want to do—you get to the ‘a-ha’ with them.”

OKAY, NICE PLAN. BUT WILL IT WORK? The close of last year was a raucous one for SAP. It saw the firm’s biggest-ever acquisition: the \$7 billion purchase of Business Objects. It’s a market leader in business intelligence, one of the few European software success stories in the U.S. Quieter was the November addition of Drechsel, a former CheckFree and S1 executive, as svp and general manager. Both are hallmarks, analysts say, of a determined push to penetrate the U.S.

SAP now boasts some 43,700 employees around the world with more than 1,400 focused solely on the banking sector. Total revenues for the firm last year overall rang in at €10.2 billion (\$15.6 billion at current exchange rates) with pre-tax earnings of €3 billion (\$4.7 billion); worldwide, the figures are split roughly equally among licenses and services.

Over the last three years, SAP has seen steady growth in revenue in the Americas region: from €2 billion in 2005 to €2.4 billion last year. SAP figures show first-quarter software and software-related service revenue in the United States at \$437 million, \$589 million for the Americas overall. Steadily the U.S. part of the pie is growing.

There are bears and bulls alike for SAP, but to analysts of all stripes it’s evident that SAP is in the early stages of an aggressive campaign in North America to push its breadth of offerings to smaller and medium-sized enterprises and tap fractured verticals like health care, public services and, most importantly, finance. SAP is running a well-received marketing campaign featuring a young woman entrepreneur saying “Yeah, that’s great. Because we’re going global. Right after we go national.” It’s a clear, brightly scripted play for smaller and medium-sized enterprises.

CIBC World Markets analyst Brad Reback, who considers SAP competitive with anyone out there, says: “There’s no doubt that SAP’s made a big push into financial services, especially here in the U.S. And they will use the Business Objects tools to go after the business productivity suite. It’s an effort to get SAP on more and more desktops, out of the back office.”

THE FRENCH CONNECTION. The funny thing is, there was a brief moment when Business Objects could’ve been Oracle’s for a song. Bernard Liautaud’s first job was with Oracle in Paris in the late ’80s. Though the then-27-year-old engineer enjoyed his work, he always wanted to start a company. Oracle’s database was legion, but required a command of complex SQL programming language to query and manipulate. “I met a French engineer who built a prototype of an easy-to-use, easier way to access Oracle data,” Liautaud recalls, by treating sets of data as maneuverable objects.

“I saw this engineer working on this prototype; he was trying to get Oracle to buy the prototype, and Oracle was not interested.” Liautaud seized the opportunity with the engineer and a friend, and that prototype became the foundation for Business Objects—a firm now possessing a 20 percent share of a \$12 billion business.

Business Objects is one of very few European software firms to make it in the U.S. market. Liautaud followed the Silicon Valley model, raising venture capital, using share options, focusing on sales before building company infrastructure. Business Objects focused on the U.S. as the most important software market but rotated personnel between the two hubs of Menlo Park and Paris, so competitive tension and dysfunction

wouldn't build between the European and American operations. Business Objects went public after four years, in 1994, and was the first European software firm on the Nasdaq.

As part of SAP's purchase agreement with Business Objects, Liautaud will stay on the SAP board and he expects his old firm to transfer its energy, approach and stateside success to SAP, which has in the past been accused of bringing something of an old world mindset to the game. Liautaud fully expects overall business intelligence to become a \$25 billion industry—on its own.

Jonathan Becher, svp of marketing for Business Objects, which for now will run as a standalone unit within SAP, says there's already been a great deal of cross-pollination. Becher comes from the SAP side, as does former PeopleSoft exec Doug Merritt, who takes up a post at Business Objects heading up the business intelligence platform. All told, about 1,000 people have been moved from Business Objects to a post in SAP or vice-versa. Nine Business Objects solutions are already re-skinned under SAP covering governance, financial risk management and compliance.

NO CAKEWALK, THOUGH. Analysts say SAP's future as an invigorated stateside competitor headed downmarket and into financial services, however, faces plenty of real short-term risks and obstacles. The American economy still looks pretty dire, and Citi's recent announcement that it wants to cut IT spending by 20 percent sent alarm bells ringing. SAP's first quarter numbers disappointed, especially in North American software revenues. But the difficulties go beyond immediate economic hardships. JMP Securities' Patrick Walravens considers SAP's product strategy already outdated, and that its pipeline is "relatively weak." He did, however, join CIBC's Reback and UniCredit's Knut Wollers in saying that nobody in enterprise software is having an easy time of it. Oracle's numbers previous to SAP's hardly set the world on fire.

Most troubling, however, is SAP's decision to pull back on its highly touted and expensive-to-develop Business ByDesign on-demand software-as-a-service suite, which is supposed to debut at \$149 per head per month. SAP officials say it isn't quite ready for rollout and wouldn't be profitable enough.

This caused some real hand-wringing in the analyst community, because—as Becher himself points out—Business ByDesign is supposed to be the main vehicle to get SAP into the smaller and mid-size markets. However, Reback and Wollers are much more sanguine, saying that to delay its debut is much better than rolling out bad product. "We have to be fair," Wollers says. "It would be a higher risk to come out with a product only for everyone to realize it didn't work properly."

"The U.S. market is tougher than expected," says Evan Welsh, an SAP spokesman. "However, I am not pessimistic. The number of deals is healthy, but deal size has become smaller. Given the tougher conditions we are doing well in the U.S. Fifty percent of our business in the U.S. in the first quarter came from new customers."

Adding to SAP's headwinds is a potentially embarrassing lawsuit from outside the financial services realm. In March, Waste Management, a huge player in trash hauling and an SAP customer, filed an angrily-written lawsuit. The suit says the hauler spent more than \$100 million on SAP systems that were supposed to work in the U.S. with no required customization—software covering logistics, billing and container management. And that "this 'United States' version of the Waste and Recycling Software was undeveloped, untested and defective."

But none of these concerns are weighing on ATB Financial's Casey, who is looking forward to his SAP delivery. What he's after is flexibility and speed: the ability to create, say, a new mortgage product that can be dropped across all channels but with the consumer data residing in a central location, with marketing, sales and tracking software in place to set goals, measure risk, market the product and calibrate it on the fly.

There's a lot riding on his choice—for ATB and SAP.