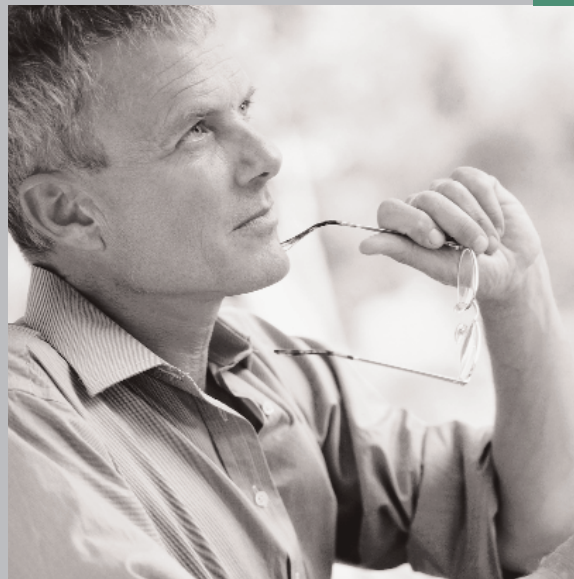


SAP Case Study



A BUSINESS VALUE
ASSESSMENT: mySAP™ ERP
HUMAN CAPITAL MANAGEMENT
AT TRANSALTA

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EXECUTIVE SUMMARY

TransAlta Corporation (TransAlta) was facing pressures due to the deregulation of the Canadian utilities industry. This deregulation prompted many companies to enter the utilities market, creating increased competition and cost pressures. TransAlta Corporation, a major North American utilities player, responded to these commodity cost pressures by implementing SAP software for human resources, which is available today as the mySAP™ ERP Human Capital Management (mySAP ERP HCM) solution. The purpose of this was to help the company both its near-term strategic goal of maintaining low-cost generation plants in the commodity-based utilities market and its long-term strategic goal of aligning human capital to support a brand image grounded in economic, environmental, and social sustainability.

This study focuses on the return on investment (ROI) of mySAP ERP HCM. mySAP ERP HCM enabled TransAlta to refocus its HR efforts on adding strategic value, such as:

- Hiring and retaining quality workforce
- Enhancing its long-term brand initiative through an emphasis on human capital management (HCM)
- Accurately forecasting salary budgeting
- Eliminating numerous manual processes to reduce HR operational costs
- Reducing business process cycle times
- Reducing manual tasks by moving to an automated environment
- Improving government compliance

The ROI calculated from the data collected at TransAlta was 102%. The payback period was 4.9 years, with a 10-year annual savings of CAD\$31 million.

Overall, TransAlta was able to realize significant cost and time savings through the implementation of mySAP ERP HCM. The most significant savings and the largest contributor to the overall ROI was within the salary planning business process. The driving forces for these significant cost savings were the accuracy in reporting and data, and a reduction in cycle time, leading to the reallocation of HR staff. Although reasonable business efforts were utilized to uncover an exhaustive list of the financial benefits associated with mySAP ERP HCM, it is unreasonable to suggest that all benefits have been identified; therefore, this ROI should be considered a conservative viewpoint.

STUDY OBJECTIVES

The case study is based on Gartner Consulting's ROI methodology, which evaluates explicit cost savings or revenue-enhancing benefits associated with human resources business processes. The objectives were to showcase progressive organizations whose HR teams have demonstrated thought leadership, a positive impact on the business, and potential quantifiable financial savings as the result of a mySAP ERP HCM implementation.

This case study was based on an ROI methodology researched and designed by Gartner. Gartner's methodology and its use by SAP should not be deemed to be an endorsement of any SAP product or service, data, or sales technique. Gartner expressly disclaims all warranties, expressed or implied, of the fitness of its methodology for a particular purpose. Gartner does not endorse the findings of this case study, and the model results may vary from published Gartner research.

INDUSTRY BACKGROUND

The North American utilities industry has moved from a regulated to deregulated market. Deregulation has caused an overabundance of unexpected entrants into the marketplace and, as a result, has created an aggregate oversupply of surplus power within the utilities industry. Oversupply by utilities producers has led to an increased commodity-based pressure to be the lowest cost provider. By definition, a commodity is a product or service that is differentiated only by price.

“Our key differentiator is quality people – they are absolutely fundamental to our business. We know if we consistently produce low-cost power, we can succeed. It is having the brightest people that can produce results that makes all the difference.”

Mike Williams, VP of Human Resources, TransAlta

COMPANY BACKGROUND

TransAlta has determined that it can differentiate itself by creating a brand presence that not only emphasizes low-cost power generation, but also focuses on environmental and social responsibility. Human capital is the enabler behind TransAlta's differentiation strategy.

Canada's largest, nonregulated electric generation and marketing (energy trading) company, TransAlta strives to achieve two main objectives:

- Operate low-cost power generation plants at high availability rates
- Enhance returns through profitable growth

The company has 2,500 employees in operations throughout Canada, the United States, and Mexico. In 2002, it posted cash flows from operations of CAD\$437.7 million, revenues of CAD\$1,723 million, and earnings per share (EPS) of CAD\$1.12.

TRANSALTA'S HR DIRECTION: SHIFTING FROM TRANSACTIONAL TO STRATEGIC

Historically, TransAlta's HR department focused on highly manual, paper-based transactional tasks that required substantial human interactions. In 1996, mySAP ERP HCM was implemented as an enabling tool to reduce these transactional HR activities and decrease operational costs. The goal of Phase 1 was to decrease costs in HR and strengthen TransAlta's low-cost competitive position within the increasingly commoditized utilities market.

“Enterprises must shift their focus from human resources (HR; the provision of traditional transactional support, such as benefits, personnel, and payroll services) to HCM as a strategy for workforce planning, acquisition, management, and optimization.”

Jim Holincheck, Gartner Analyst

In 2001, TransAlta began implementing Phase 2, which served as a mechanism to shift HR's focus to value-adding, strategic activities that enhance the long-term brand image of the firm. TransAlta began an extensive search for a portal product to replace its existing portal and provide a robust, scalable, and user-friendly environment that could support key business processes. There were numerous reasons why SAP® Enterprise Portal (SAP EP) was selected, including:

- Integration with the rest of mySAP Business Suite
- Ease of content uploading and delivery through predefined mechanisms in SAP's technology
- Reduction in development effort due to built-in Web applications
- Impact on core TransAlta business processes through an easy-to-use front-end portal, with a robust back-end database

TransAlta used the employee self-service (ESS) and manager self-service (MSS) capabilities found within SAP EP as the user interfaces for time management, training and events, and salary planning. This functionality has empowered the managers and employees and enabled TransAlta's HR organization to allow mySAP ERP HCM to handle the large majority of transactional activities, giving its people time to focus on more strategic activities, such as HCM, for the business.

As TransAlta looks to the future, SAP will help enable the way in which employees interact with the business workflow and with HR. For example, business workflows will be delivered to employees via a wired or wireless device in real time. The employee will then have the option to interact with HR-specific business processes via this same wired or wireless device. TransAlta believes that it can create a more agile and flexible organization through the use of intelligent process workflows delivered from the portal. In addition, TransAlta plans to implement the e-recruiting and performance management capabilities of mySAP ERP HCM, as well as SAP Business Information Warehouse (SAP BW), which provides data warehousing functionality.

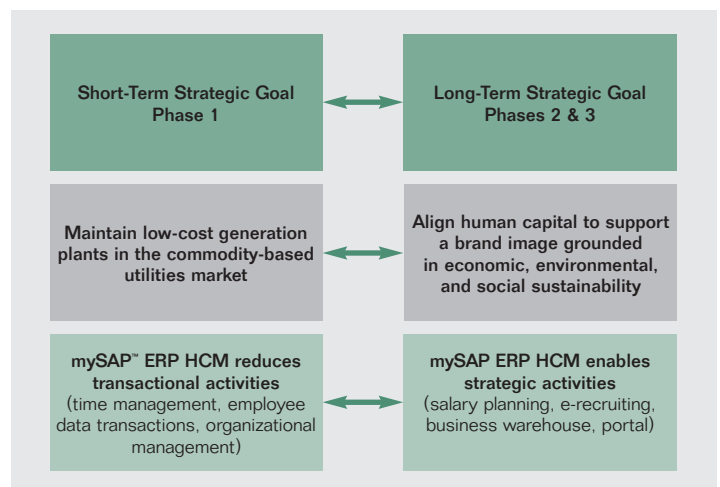


Figure 1: TransAlta's Move from Transactional to Strategic

THE IMPACT OF mySAP ERP HCM ON TRANSALTA'S BUSINESS PROCESSES

The ROI calculations undertaken as part of this ROI study took a 10-year useful life period into consideration. Direct and indirect cost-saving benefits associated with five business processes and IT operations were evaluated:

- Salary planning
- Employee data transactions
- Training and development
- Training compliance
- Time management
- IT operations

BUSINESS PROCESS: SALARY PLANNING

Before mySAP ERP HCM

Prior to mySAP ERP HCM, the salary planning process began when a compensation analyst downloaded static compensation data into a spreadsheet and then sent the master salary spreadsheet to an administrator in each business unit. The administrator then revised and confirmed the information. Next, the spreadsheet was sent to the line-of-business (LOB) managers to fill in the new salary plan. At this point, managers met in a group to rationalize salary decisions. Executive management

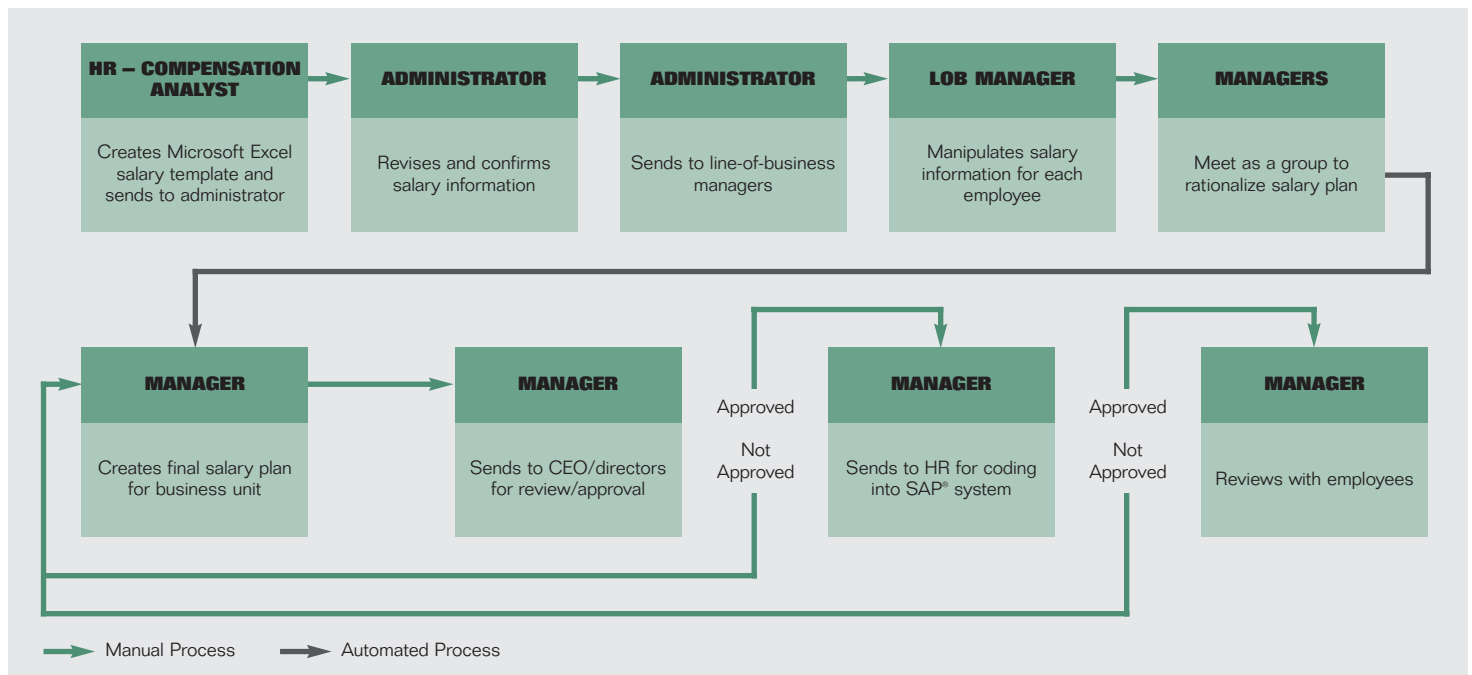


Figure 2: Salary Planning – “Before” Scenario

then reviewed the aggregated employee salary data for accuracy and consistency. Once approved, the manager sent a change-of-salary form (accompanied by the completed document) to HR for manual upload to the legacy system. Finally, managers met with employees and updated the spreadsheet to reflect compensation changes.

After mySAP ERP HCM

Today, managers access mySAP ERP HCM with the salary-planning tool through the MSS interface in SAP EP. The salary-planning tool in mySAP ERP HCM already has historical salary and imported performance data. The managers then access a Web-enabled spreadsheet delivered via the MSS functionality.

Managers are capable of running salary scenarios, such as increasing an individual’s salary by 3% to 4% or making final salary selections. There are business rules built into the system that ensure that all salaries comply with the forecasted salary budgets and performance criteria. Managers simply click an on-screen button and the information is easily routed to the next approving manager, if required via workflow. At a specified time, the executive management committee pulls the salary reports from mySAP ERP HCM for review and approval. Once approved and activated, the data flows directly to mySAP ERP HCM through its integrated payroll function, and the employee receives a compensation adjustment, if applicable.

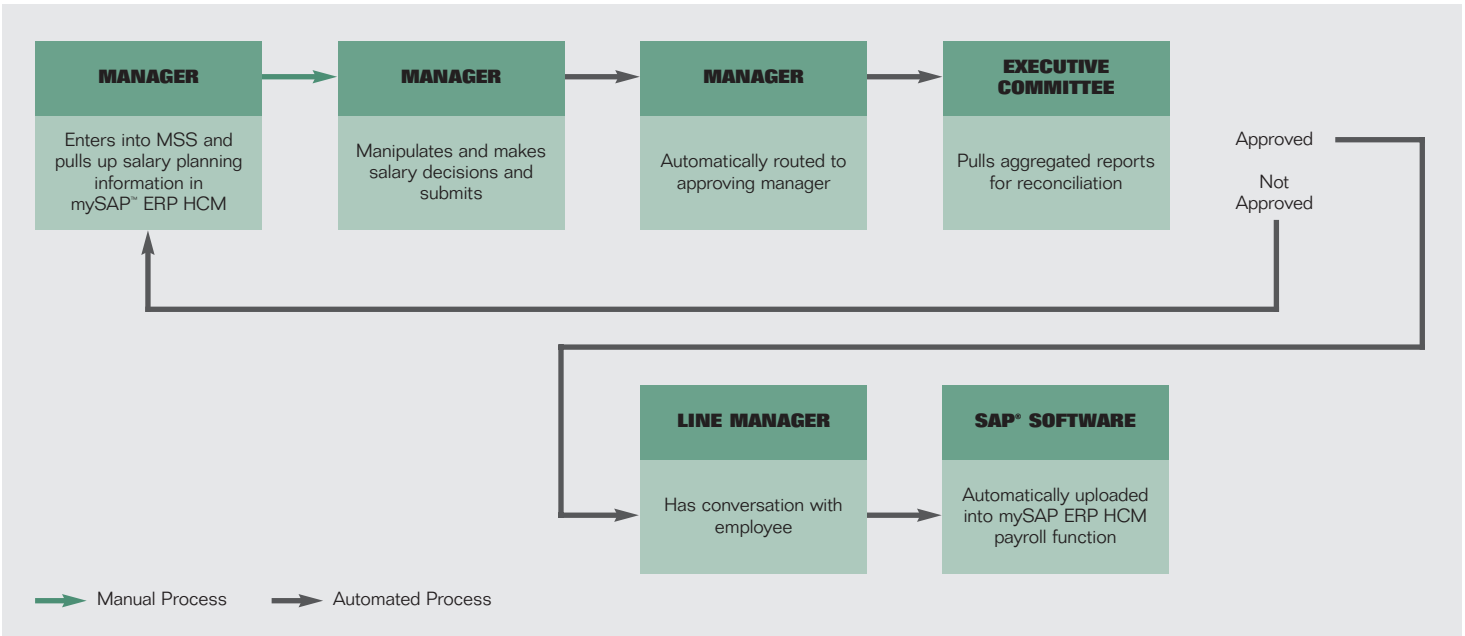


Figure 3: Salary Planning – “After” Scenario

Impact of mySAP ERP HCM

Historically, TransAlta underestimated its salary budget by 1%, which translated, on average, to CAD\$1.6 million in unnecessary costs annually. By leveraging the compensation management functionality of mySAP ERP HCM, TransAlta has been able to accurately meet payroll requirements in a timelier manner.

This cost savings is due primarily to a more accurate, dynamic cash position. By accurately isolating the payroll cash outflows, TransAlta has been able to avoid the costs associated with manipulating the corporate debt/equity structure, taking on last-minute immediate loans, realizing cash shortages, and potentially liquidating or issuing bonds or marketable securities.

“The value-add of mySAP ERP HCM and its compensation management functions is that the salary planning mechanism is able to really give us insight into our business, enabling us to better plan, forecast, and manage human capital against the needs of our company.”

Mike Williams, VP of Human Resources, TransAlta

TransAlta considers the salary-planning function in mySAP ERP HCM to be a tool that allows TransAlta to do a better job at hiring and retaining employees who are strategically aligned with the overall corporate vision. mySAP ERP HCM has helped TransAlta to accurately and appropriately compensate its employees. After entering the MSS interface, not only can managers view historical employee salary and performance data – they can also access competitive market wages for the same job descriptions.

This gives management a tool that can help it increase or decrease compensation packages that enable the following:

- Retain employees who are dedicated to the short-term, cost-cutting goals and/or aligned with the long-term brand image grounded in economic, environmental, and social sustainability.
- Reduce overpayment of less-than-satisfactory performers, by allowing managers to make salary decisions that are grounded in metrics rather than the negotiation skills of the manager.
- Attract new hires that have the intellectual capital and skills to improve the financial and brand position of the company by offering slightly above-market wages. This includes hiring employees that exhibit knowledge in emerging technologies, such as wind power and any other next-generation, environmentally friendly power sources that could positively impact TransAlta’s long-term vision.
- Reduce overpayment of new hires through the comparative market salary database linked to the mySAP ERP HCM salary-planning tool. The ability of mySAP ERP HCM to enable managers to access this salary information helps TransAlta control the costs associated with overpaying new hires.

“The way we can maintain a low-cost environment and differentiate TransAlta from the competition is by hiring and retaining the right resources that can be more creative and smarter than the competition.”

Mike Williams, VP of Human Resources, TransAlta

The automation of salary planning via MSS has reduced the total cycle of the salary planning process time from 226 to 141 total person days (see Table 1), which translates into a cost savings of CAD\$58,000 annually. Cycle-time reduction was measured by the ability to relinquish manually intensive tasks from HR’s objectives.

HISTORICAL STATE		CURRENT STATE		SAVINGS
Activity	Time Today	Activity	Time Today	
HR creates matrix template	5 days	Not required		5 days
Supervisors determine salary, attend salary planning meetings	750 hrs	Supervisors determine salary, attend salary planning meetings	750 hrs	No change
Create change forms to implement salary plans	330 hrs	Implement salary plans	2 hrs	41 days
Executive assistants compile data and prepare packages for meetings with senior executives	600 hrs	One person compiles dates and prepares package for meetings with senior executives	40 hrs	70 days
Conversations with employees	337.5 hrs	Conversations with employees	337.5 hrs	No change
Total person days	256.75	Total person days	140.75	116 days

Table 1: Cycle-Time Reduction to Salary Planning Process

Table 2 summarizes the financial benefits of mySAP ERP HCM on the salary planning business process.

Category	Description	mySAP™ ERP HCM Quantitative Impact Total Annual Savings
Improved salary planning accuracy	mySAP ERP HCM helped TransAlta to accurately forecast salary budgeting. The implications of poorly budgeted salary planning negatively impacted the free cash flows.	CAD\$1.6 million per year
Cycle-time reduction	The cycle-time reduction enabled by mySAP ERP HCM contributed to the reduction in burden on the HR staff, allowing for HR reallocation.	CAD\$58,000 per year
HR headcount reallocation	The ability to greatly reduce the manual tasks involved in salary planning has allowed TransAlta to reallocate HR personnel.	CAD\$1 million per year
Total annual savings		CAD\$2.1 million per year

Table 2: Quantitative Impact of mySAP ERP HCM

BUSINESS PROCESS: EMPLOYEE DATA TRANSACTIONS

Before Implementing mySAP ERP HCM

Changing employee data at TransAlta has historically been a highly manual and paper-intensive process. To initiate the process, an employee contacted an HR representative to obtain the appropriate form. Next, the HR representative sent the form, through interoffice mail, back to the employee.

After manually completing the form, the employee sent the completed document back to an HR representative, who determined if all required information was correctly populated. If the information was incorrect, the employee was notified via phone, interoffice mail, or e-mail. Once the information was verified, the HR representative hand coded the employee change data into the legacy system.

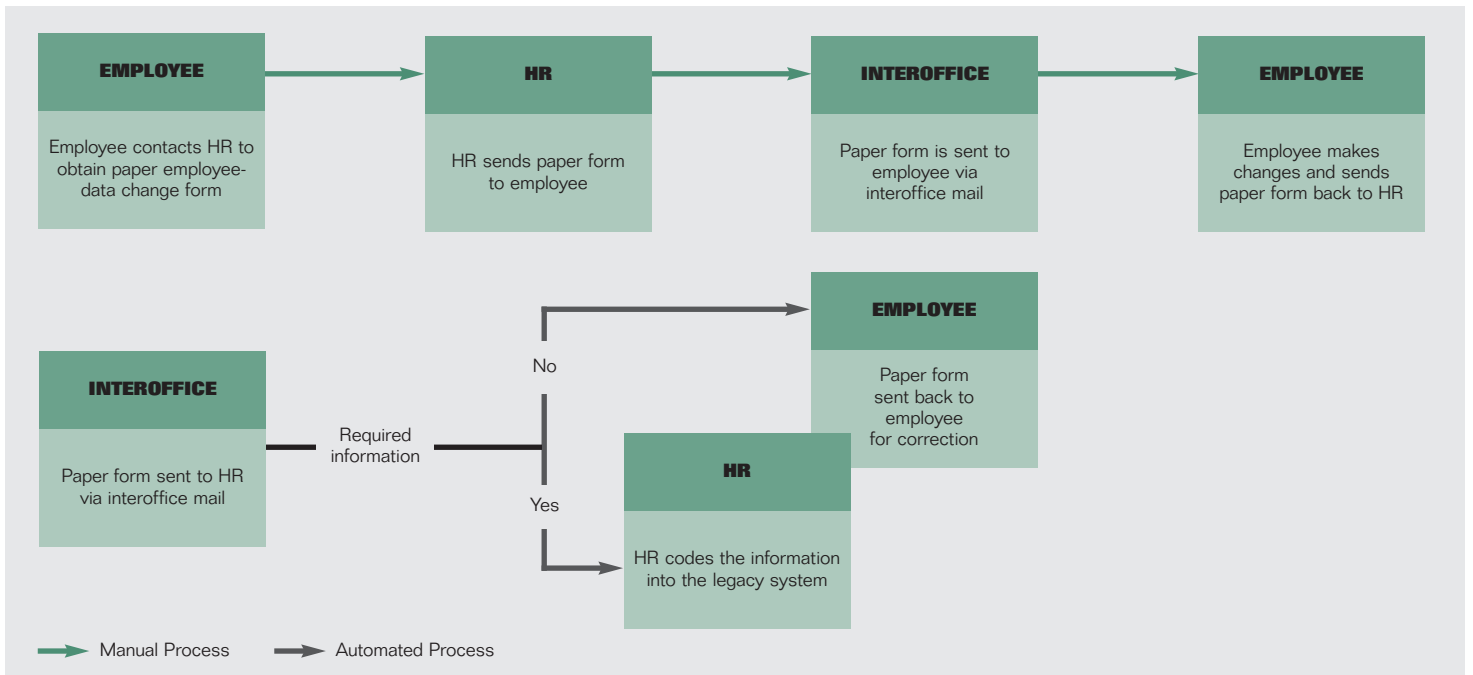


Figure 4: Maintaining Employee Information – “Before” Scenario

After Implementing mySAP ERP HCM

The implementation of the ESS capabilities of mySAP ERP HCM has significantly simplified the employee data transaction process. Today, employees complete personal data changes through the ESS mechanism in SAP EP. Changes are made electronically, and, once submitted, updates are made almost immediately to the back-end SAP database. Employee data changes can be tracked, audited, and viewed in real time.

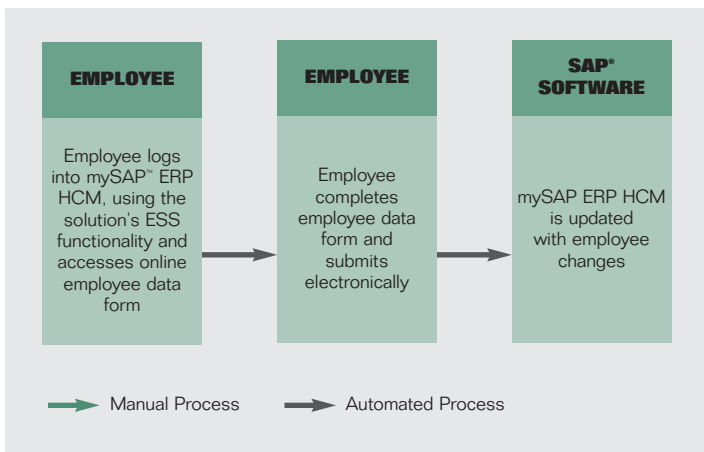


Figure 5: Maintaining Employee Information – “After” Scenario

Impact of mySAP ERP HCM

On an average annual basis, TransAlta has approximately 2,000 employee data transactions that occur via the ESS functionality. These transactions include permanent address changes, personnel data changes, and emergency contact information updates. The automation of the employee data transaction process has reduced the cycle time of this process from 35 minutes to 5 minutes, which translates into a cost savings of approximately CAD\$65,000 annually.

Employee Data Transaction Business Process	Total Time to Complete Transaction
Before mySAP ERP HCM	35 minutes
After mySAP ERP HCM	5 minutes
Total time savings per transaction	30 minutes

Table 3: Cycle-Time Reduction for Employee Data Transaction Process

In addition, mySAP ERP HCM has transformed this paper-based manual process into one that is highly automated, thereby allowing HR to focus on more strategic activities that contribute to the overall direction and vision of the company.

“This cycle-time reduction allows for HR to spend less time completing administrative tasks and more time focusing on strategic activities that are core to TransAlta’s business.”

Shandra Russell, Director of Human Resources, TransAlta

Table 4 summarizes the financial benefits of mySAP ERP HCM on the employee data transaction business process.

Category	Description	mySAP ERP HCM Quantitative Impact Total Annual Savings
Cycle-time reduction	Employee data transactions via the ESS functionality have reduced the cycle time per transaction by 30 minutes. The typical number of transactions per year is 2,000.	CAD\$65,000 per year
HR headcount reallocation	The ability to greatly reduce the manual tasks involved in personnel data change has allowed TransAlta to reallocate HR personnel.	CAD\$1 million per year
Total annual savings		CAD\$1.65 million per year

Table 4: Quantitative Impact of mySAP ERP HCM

BUSINESS PROCESS: TRAINING DEVELOPMENT

Before Implementing mySAP ERP HCM

Historically, training and development at TransAlta varied by location. In some cases, training was not tracked. For employees, training was mapped to the requirements of the job level.

When training was required, the line managers sent employees to training, and, once completed, the certification was filed at the location. There was no process in place to alert HR of required training.

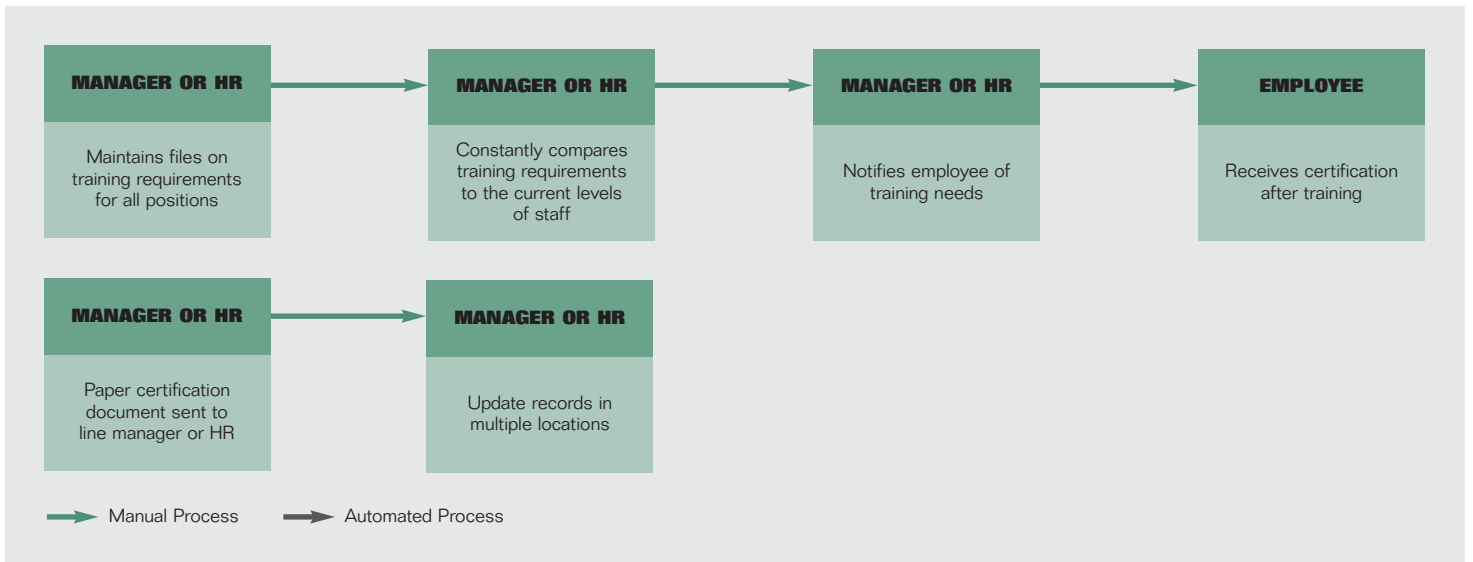


Figure 6: Training Tracking – “Before” Scenario

After mySAP ERP HCM

Today, TransAlta tracks training through the training and events management capabilities of mySAP ERP HCM. Employees enter into the ESS and pull up their file, which automatically maps training needs against their job requirements. The employee submits an application for the training, which sends an auto-

mated e-mail to the approving manager. By utilizing MSS, the employee’s management can either approve or disapprove the training. If and when a yes decision is initiated via MSS, the employee receives an electronic notification routed directly to their attention.

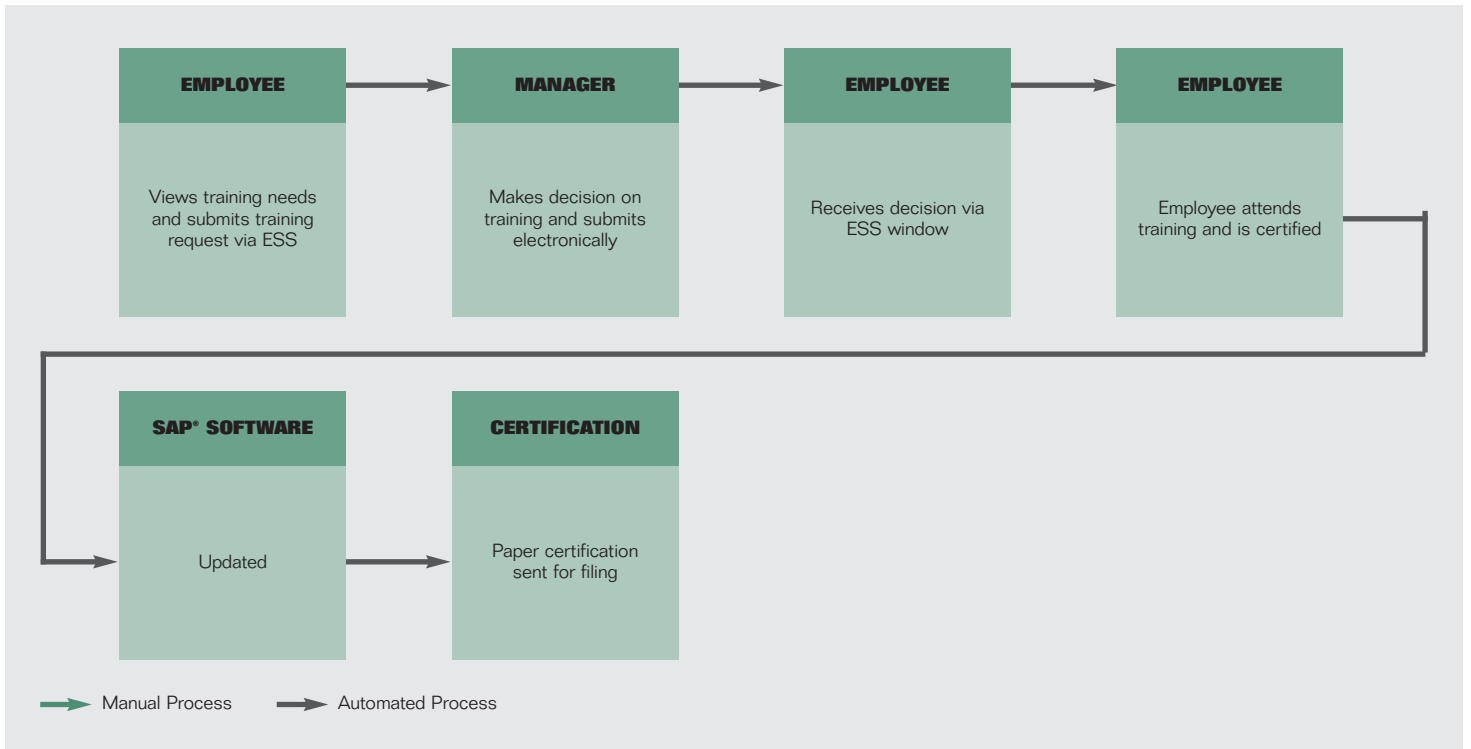


Figure 7: Training Tracking via ESS – “After” Scenario

BUSINESS PROCESS: TRAINING COMPLIANCE

Before Implementing mySAP ERP HCM

In the event of a government compliance audit, HR was required to provide paper documents of appropriate training completion upon request. In some cases, HR searched through multiple files in numerous locations for compliance certification.

After obtaining the documents, an HR person consolidated the training records. Then, the line-of-business (LOB) manager, employee, and government agent were contacted, and, if possible, they were provided with the documentation. On average, this occurred at least one time per month and required the time of three to four HR resources.

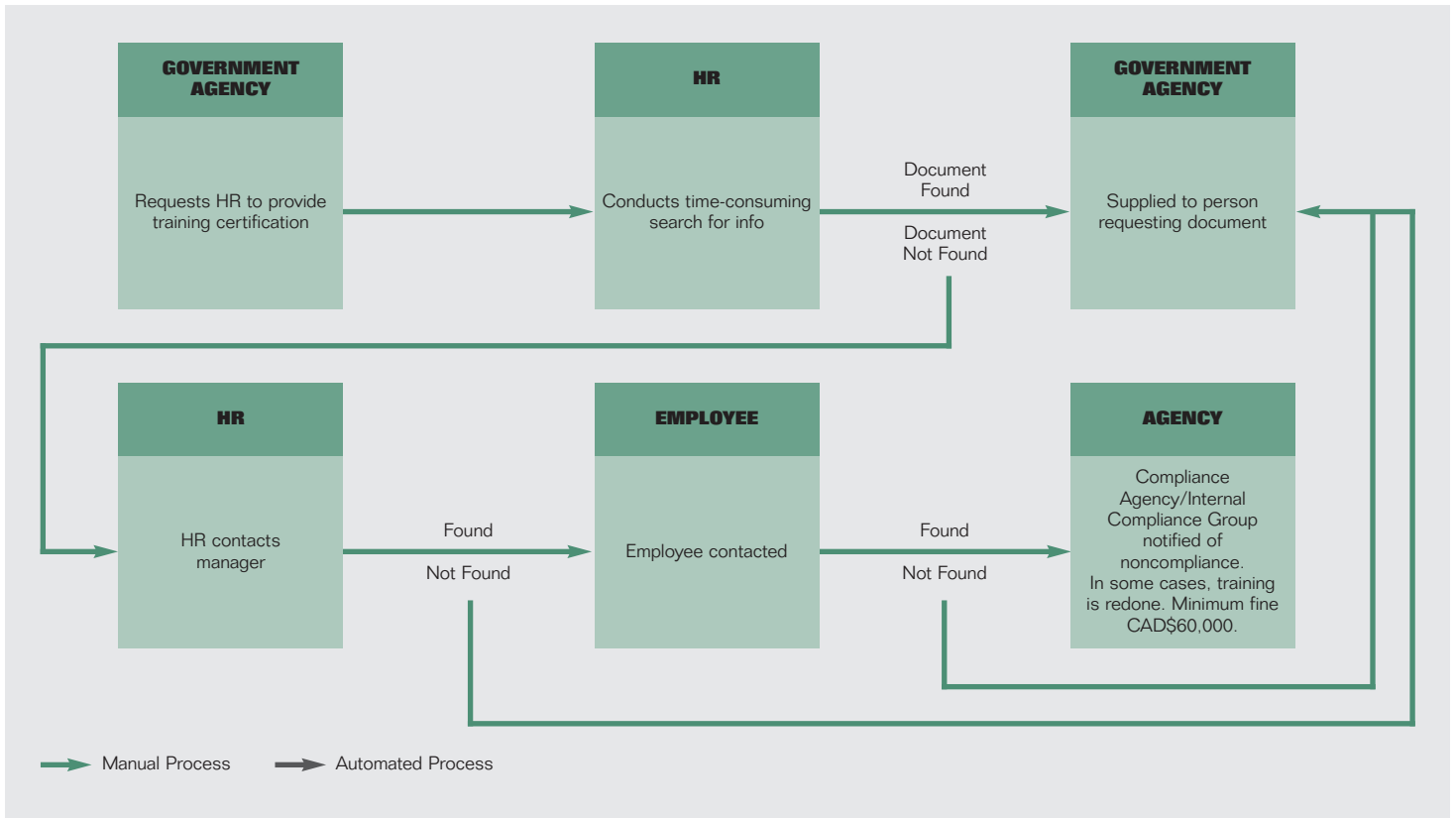


Figure 8: Training Compliance Before mySAP ERP HCM

After Implementing mySAP ERP HCM

In the event of a government compliance audit, one HR representative goes into mySAP ERP HCM and pulls an aggregated report. There are no manual processes related to obtaining this information.

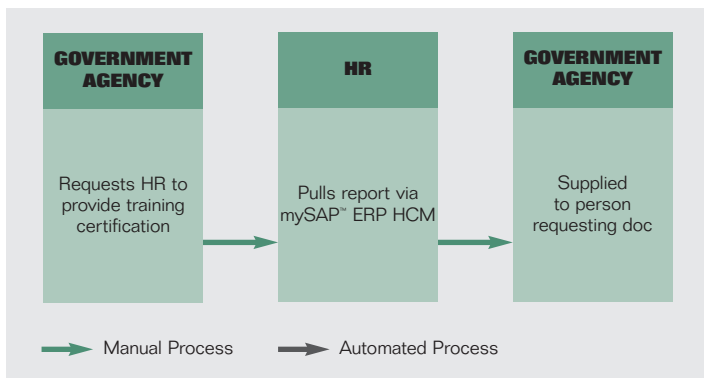


Figure 9: Training Compliance via ESS – “After” Scenario

Impact of mySAP ERP HCM

mySAP ERP HCM fundamentally changed the way that TransAlta tracked training and compliance. This strategic change not only led to significant cost savings, but also helped the firm align its training needs against the brand image of the company.

Through the improved tracking found in mySAP ERP HCM, TransAlta is able to plan more targeted training mapped directly to job requirements, which can translate into a reduction in noteworthy accidents. Noteworthy accidents, both physical and industrial, lead to costly financial payouts and, if not managed carefully, have the potential to tarnish the brand image and sustainability of the company. Since the implementation of mySAP ERP HCM, TransAlta has embarked on a campaign to measure the cost savings realized by reducing the incident frequency rate (IFR). TransAlta is focusing on the following IFR reduction cost savings:

- Government-mandated plant shutdowns
- Medicinal expenses due to accidents
- Litigation related to accidents
- Insurance premiums
- Lost employee productivity due to injuries

In addition, mySAP ERP HCM provides a mechanism through which TransAlta can more readily adhere to Canadian government compliance mandates. If TransAlta is unable to provide appropriate documentation during an audit, they are fined CAD\$60,000. TransAlta is also in the process of identifying the differential in the reduction in the number of compliance violations.

A corollary benefit of using mySAP ERP HCM to track training is the alleviation of several manually intensive tasks, which decreases cycle time per transaction. On an annual basis, TransAlta has approximately 650 transactions occurring in the ESS functionality for training tracking. The automation of training tracking via ESS has reduced the cycle time for this process from 5 hours to 40 minutes (see Table 5), which translates into a cost savings of CAD\$176,000 annually. Cycle-time reduction is measured by the ability to relinquish manually intensive tasks from HR's objectives.

Employee Data Transaction Business Process	Total Time to Complete One Transaction
Before mySAP™ ERP HCM	5 hours
After mySAP ERP HCM	40 minutes
Total time savings per transaction	4 hours, 20 minutes

Table 5: Cycle-Time Reduction for Training Development Process

Table 6 summarizes the financial benefits of mySAP ERP HCM on the training tracking and compliance business process.

Category	Description	mySAP™ ERP HCM Quantitative Impact Total Annual Savings
Decrease in IFR	Having better-trained people means fewer accidents due to human error or employees dealing with unfamiliar tasks.	No metrics available at this time. Will secure for future use.
Reduction in compliance penalties	A by-product of a reduction in IFR is that there will be a reduction in compliance penalties due to untrained employees working in areas outside of their skill base.	CAD\$600,000 for every reduction in the number of violations.
Reduction in training cycle time	A shorter duration to review course material and register online.	CAD\$176,000 per year
HR headcount reallocation	The ability to greatly reduce the manual tasks involved in training programs has allowed TransAlta to reallocate HR personnel.	CAD\$200,000 per year
Total Annual Savings		CAD\$376,000 per year

Table 6: Qualitative Impact of mySAP ERP HCM

BUSINESS PROCESS: TIME MANAGEMENT

Before Implementing mySAP ERP HCM

Prior to mySAP ERP HCM, time management consisted of a semi-automated, time-consuming set of tasks and input systems. The systems varied from a VAX based on TTS at the head office, while the plants and transmission groups utilized spreadsheets and paper respectively.

Since many hourly employees worked in the field or on the plant floor, they needed to leave their work areas to access a computer that allowed them to enter time. Given that many of the employees were not frequent users, it was common to have password-related spikes in the number of calls to the help desk on or around the day that employees submitted their time reports. After finally getting into the time management system, employees found it challenging and time consuming to maneuver through multiple pages. For each employee, the uploading process could take up to three minutes (excluding the time it took to locate a computer). In addition, HR personnel were required to constantly process the time information, which took up to one week.

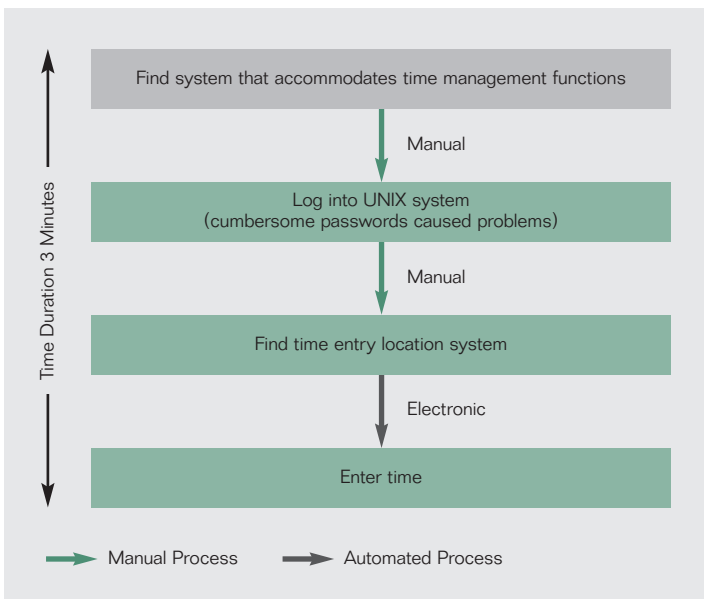


Figure 10: Time Management with mySAP ERP HCM – “Before” Scenario

After Implementing mySAP ERP HCM

Today, approximately 1,750 employees sign into a readily available portal by using their employee identification number. Employees enter data via a kiosk or personal computer.

Once the employee types in his or her ID number, an easily identifiable, personalized icon appears on the screen. Next, the employee clicks on the icon and the current week’s blank time grid appears. After populating a cell for each day of the week and clicking the “submit” button, the time is uploaded into mySAP ERP HCM through the time management function. The entire process takes approximately 45 seconds. In addition to the time saved per employee, HR was able to automate the process of payroll notification and report generation.

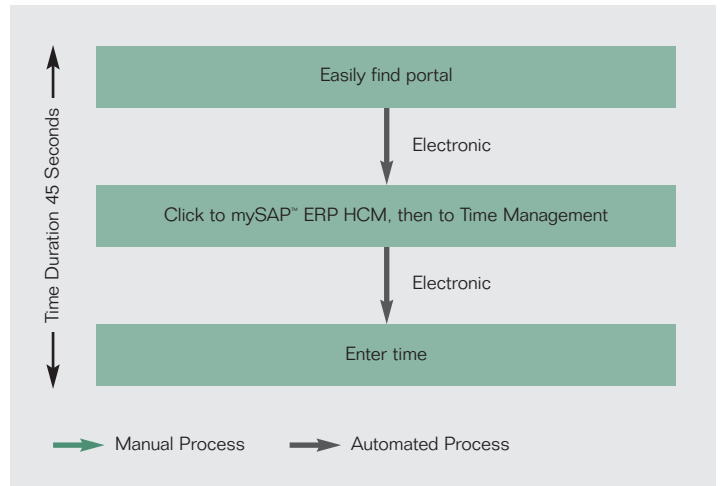


Figure 11: Time Management with mySAP ERP HCM – “After” Scenario

Impact of mySAP ERP HCM

mySAP ERP HCM and its time management capabilities enable TransAlta to collect and use key data in a highly mobile, decentralized, and often distributed environment, by providing tracking, monitoring, record keeping, and analysis of time-related data. By supporting complex pay policies, including incentive wage routines, time-off and allowed policies, and shift planning, mySAP ERP HCM helps to minimize the administrative burden of time reporting while distributing accurate time information.

Since mySAP ERP HCM relieved TransAlta’s HR staff of many of the time-consuming, manual tasks involved in time management, the company was able to reallocate some of the staff to more strategic activities. TransAlta estimates that the ability to reallocate a portion of the staff saved the company approximately CAD\$1.6 million.

In addition to the cost savings and strategic benefits of mySAP ERP HCM, TransAlta was also able to realize a productivity benefit. Integration functionality within mySAP ERP HCM helped reduce the cycle time by approximately 2 minutes and 15 seconds per employee, thereby creating 3,412 hours of extra productivity per year. Not quantified, but still noteworthy, was the additional help-desk productivity due to the reduction in password-related phone calls as a result of the ability to use the employee identification number.

Time Management	Total Time to Complete One Transaction
Before mySAP™ ERP HCM	3 minutes
After mySAP ERP HCM	45 seconds
Total time savings per transaction	2 minutes, 15 seconds

Table 7: Cycle-Time Reduction for Time Management

TransAlta’s key productivity measure of the ratio of the number of HR staff to employees has improved from 1:46 to 1:119, or 158%. Absolute total costs of HR employees have also improved by 45%, even without inflation.

Category	Description	mySAP™ ERP HCM Quantitative Impact
Headcount reallocation	Reduction in time-consuming manual tasks involved with time management	Based on the portion of the day HR worked on time management prior to mySAP ERP HCM vs. now, it is estimated that the cost savings is CAD\$1.5 million per year.
Productivity increase	The time required to upload time by 70% of the 2,500 employees was reduced from 3 minutes per week to 45 seconds.	3,412 additional hours of employee productivity

Table 8: Quantitative Impact of Time Management

BUSINESS PROCESS: IT OPERATIONS

The use of the ESS and MSS capabilities of mySAP ERP HCM has enabled TransAlta to reduce developer time through the use of a Web application. TransAlta is given a catalog that allows developers to pick functionality from a “shopping list,” rather than hand coding this functionality into the system.

In addition to developer reduction time, the use of mySAP ERP HCM has enabled improved integration of business-unit business processes. For example, built-in functionality enables finance and HR to be linked together.

“The ease of integration and user-friendliness that SAP gives through its Web application gives us the ability to basically turn on or turn off business processes, which saves our developers at least 50% of coding time.”

Paul Kurchina, Program Manager, TransAlta

SUMMARY OF BUSINESS PROCESS FINDINGS

Overall, TransAlta was able to realize significant cost and time savings through the implementation of mySAP ERP HCM. The most significant savings and the largest contributor to the overall ROI on an annual basis within the salary-planning-via-MSS business process. Cost savings were also obtained from other business processes, including training compliance, training and development, time management, and employee change form.

In addition to the quantifiable benefits realized after the introduction of mySAP ERP HCM, TransAlta was able to refocus its HR efforts on adding strategic value. These projects focused on hiring and retaining quality personnel. Since the introduction of mySAP ERP HCM, TransAlta has been able to hire and retain many of the noteworthy forward thinkers within the electricity-generating industry. This strategic focus on human capital visionaries is the backbone of what TransAlta believes is a necessary step in developing a long-term brand initiative based on economic, environmental, and social sustainability.

Business Process	Annual Savings Contribution	Annual Total in CAD\$	10-Year Savings Contribution	10-Year Total in CAD\$	Commitment to Short-Term Cost Savings	Commitment to Brand Development Initiatives
Time management	28.1%	1.6 million	49.6%	15.4 million	Elimination of manual processes allows for reallocation of HR staff	Reduction in transactional activities, allowing HR to focus on strategic activities aligned to brand strategy
Employee data transaction	18.7%	1.1 million	6.1%	1.9 million	Cycle-time reduction, leading to reduced headcount	Reduction in transactional activities, allowing HR to focus on strategic activities aligned to brand strategy
Training development and compliance	6.6%	367,000	6.4%	2.0 million	Reduction in IFR costs, compliance issues, headcount	Better-trained people devoted to safety and compliance
Salary planning	46.6%	2.7 million	37.9%	11.8 million	Accurate salary planning alleviates 1% swing per year; headcount reduction	Hire forward thinkers at competitive rates; retain top performers
Total	100%	5.8 million	100%	31 million		

Table 9: Summary of Business Process Findings

ROI AND PAYBACK PERIOD

Calculation

ROI entails isolating and adding the net present value (NPV) cost-reducing and revenue-enhancing benefits introduced by mySAP ERP HCM, and then dividing this sum by the present value of the total investment. Though there are definitely revenue-enhancing benefits associated with HR automation, because of the nature of the HR function, we are not able to isolate any of these benefits with the same confidence level as the cost-reducing benefits.

For the purposes of this study, the time period investigated was a 10-year useful life period. Although there are industry discrepancies regarding anticipated useful life periods, because of the nature of enterprise software and the expectations of customers, this period proved to be the most useful life period to be used in the calculation of the ROI and payback period.

The payback period is essentially a ratio-and-proportion calculation that compares all of the financial benefits realized in 10 years to the time it would take to have that investment returned (for example, financial benefits/1 year = investment/X years, then solve for X).

The investment estimate includes all of the costs involved in licensing, deploying, debugging, and maintaining mySAP ERP HCM software and services, although this estimate does not include any indirect, soft, or overhead costs. In most cases, the indirect and soft costs would either be negligible or too difficult to quantify, while the overhead costs would be consistent regardless of the HR automation strategy implemented.

ROI and Payback Period Range

The ROI calculated from the data collected at TransAlta was 102%. The payback period was 4.9 years, with a 10-year savings of CAD\$31 million.

Overall, both the ROI and payback periods calculated above represent very positive and realistic numbers. Although reasonable business efforts were utilized to uncover an exhaustive list of the financial benefits associated with mySAP ERP HCM software and services, it is unreasonable to suggest that all benefits have been identified. Therefore, it is reasonable to assume that there are additional benefits that have not been identified in the course of this study; hence, the ROI and payback period could be even more favorable than illustrated here.

CONCLUSIONS

mySAP ERP HCM is helping TransAlta deal with the very challenging task of moving upstream from a commodity-based product to one that is differentiated in the marketplace. By reducing the many manual tasks within the HR and payroll functions, TransAlta has reduced operational costs, allowing the company to compete against newer, low-cost entrants. mySAP ERP HCM has also freed up TransAlta's HR staff to focus on high-level strategic activities, such as recruiting and retaining key employees.

Given this backdrop, enterprises must take into account the significant ROI and fast payback of SAP solutions and services prior to making their HR automation buying decision. Enterprises should invest in an HR automation strategy aggressively, because of the increasing need to cut costs and retain and recruit scarce, qualified intellectual capital.

CONTACT INFORMATION

mySAP ERP Human Capital Management
www.sap.com/erp

Gartner Consulting – Market and Business Strategies
www.gartner.com/3_consulting_services/practice/mbs.jsp

METHODOLOGY

QUESTIONNAIRE DESIGN

The figure below depicts the review of secondary research from various sources, which formed the foundation for designing the questionnaire. Included in the questionnaire were underlying hypotheses around the specific business processes within the target firm. The objective of the questionnaire was to test the business-process hypotheses and isolate measurable qualitative and quantitative benefits.

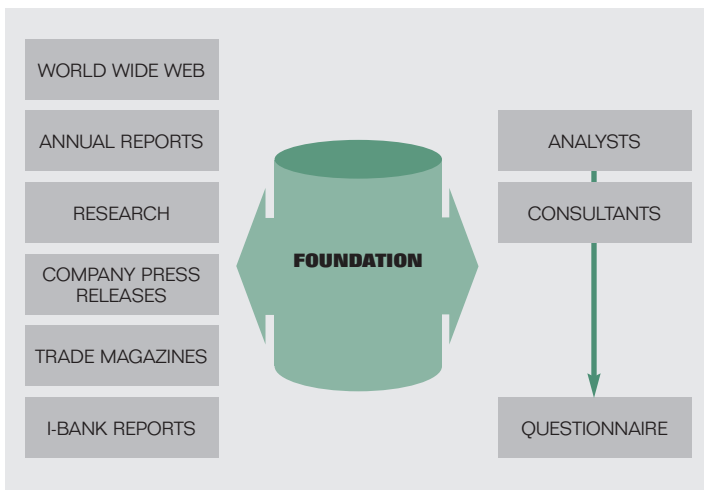


Figure 12: Questionnaire Design Process

DATA COLLECTION

The questionnaire was administered to collect data from the following two scenarios:

- Before a company deployed the technology
- After a company deployed the technology

On-site interviews were conducted at the target firm. The goal was to have an interactive session enabling the identification of qualitative and quantitative benefits for each business process. We interviewed various constituents including representatives from HR, finance, line management, information technology, and employees of the firm. The HR representative interviewed has specific responsibilities for the business processes isolated in this case study. In a few instances, respondents were unable or unwilling to answer some questions because they did not actually know the answer or they thought they would be divulging proprietary information.

DATA ANALYSIS

Upon completion of data collection, the information was reviewed for accuracy and consistency. Spreadsheets were created to separate the qualitative and quantitative data and categorize it into the before and after scenarios. The qualitative data was examined to extract the overarching nonquantitative benefits. The quantitative data was then analyzed for cost and revenue changes realized after the introduction of the technology.

APPENDIX – DEFINITIONS

The case studies were based on Gartner Consulting's ROI methodology and definitions, which evaluate explicit cost savings or revenue-enhancing benefits associated with HR-related business processes.

Annual Savings

Assessing the savings for the first year that the technology component is operational.

Ten-Year Savings

For the purposes of this study, the time period investigated was a 10-year useful life period. Due to the nature of HR-specific enterprise software and the expectations of customers, this period proved to be the most useful life period for the calculation of the ROI and payback period for this study.

In many cases, the financial benefits are introduced at different periods of time. Measuring the total cost savings over the 10-year useful period of the product can provide additional visibility into cost savings. One cannot simply multiply the annualized cost savings by 10. But rather, one must take into account the staggered introduction of products and various growth rates of each benefit. Cash flows are corrected for present value financial accuracy. Again, in the end, total cost savings will be far different than multiplying any of the annual cost savings by 10 (the useful life period).

ROI

The present value of the net financial gain or loss expressed as a percentage of the present value of the funds invested to generate that gain or loss. In other words, NPV of the cash inflows divided by the present value of the cash outflows. The cash inflows are usually in the form of cost decreases or revenue enhancements. Cash outflows are usually in the form of licensing fees, upgrade costs, maintenance, debug, hardware, and so on. Once the time period of each cash inflow and outflow are understood, these flows can be put in present value by using the prevailing debt rate. Taking the present value ensures that the value of a currency today is corrected for future consideration.

In most cases, cash inflows (cost savings and revenue enhancements) are estimated to grow (or decline) with the anticipated growth rate of the company. Since growth rates are difficult to estimate, or as in some cases it is considered proprietary information, it is financially sound to assume that cash inflow remains constant (zero growth) throughout the useful life period of the product.

Payback Period

The length of time required recovering the cost of an investment. This is calculated as the cost of project/solution divided by the annual cash flows. All other things being equal, the better investment is one with the shorter payback period.

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