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

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>12%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$9.6 B</td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong>*</td>
<td>$2.3 B</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Operating Margin</strong></td>
<td>36.9% vs. 34.5%</td>
<td></td>
</tr>
</tbody>
</table>

* Net income excludes investment gains from sale of market. sec.
Operating Margin Improvement

Trailing 12 Month Operating Margin Trend

FY 2000: 21%
FY 2001: 26%
FY 2002: 37%

Note: Ending May 2002
Operating Margin Strength vs. Competitors

Trailing 12 Months

Note: Ending May 2002
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

Central Access To Timely & Accurate Enterprise Information
- Transactional
- Business Intelligence
- Portal/Web Content
Automate Business Processes

- Drive Costs Down
  - Enterprise Flow of Information
  - Streamline Processes
  - Build In Agility
Access From Everywhere

Secure and Simple Global Interaction
- Browser
- Phone
- Pager
IT Consolidation

The Oracle Story

Eliminate complexity
Improve efficiency

Pre-EBS vs After-EBS

- EMAIL SVR: Pre-EBS 97, After-EBS 2
- EMAIL DB: Pre-EBS 120, After-EBS 4
- ERP SVR: Pre-EBS 32, After-EBS 2
- ERP DB: Pre-EBS 70, After-EBS 5

ORACLE
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

- **Americas SSC**
  - Rocklin, CA
  - Serving 13 countries

- **EMEA SSC**
  - Dublin, Ireland
  - Serving 31 countries

- **India SSC**
  - Bangalore, India
  - Selected Global Functions

- **AsiaPac SSC**
  - Sydney, Australia
  - Serving 13 countries
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

<table>
<thead>
<tr>
<th></th>
<th>Previous Goal $ Mil</th>
<th>New Goal $ Mil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidate IT</td>
<td>$200</td>
<td>$250</td>
</tr>
<tr>
<td>Sell Side</td>
<td>$550</td>
<td>$1,450</td>
</tr>
<tr>
<td>Buy Side</td>
<td>$150</td>
<td>$200</td>
</tr>
<tr>
<td>Inside</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,000</strong></td>
<td><strong>$2,000</strong></td>
</tr>
</tbody>
</table>

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*

<table>
<thead>
<tr>
<th>Category</th>
<th>Current Ratio</th>
<th>Improved Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Administrator Ratio</td>
<td>1:1000</td>
<td>1:2000</td>
</tr>
<tr>
<td>HR Professional Ratio</td>
<td>1:350</td>
<td>1:600</td>
</tr>
<tr>
<td>Overall HR:Staff Ratio</td>
<td>1:125</td>
<td>1:225</td>
</tr>
<tr>
<td>HR Operations Staff</td>
<td>40</td>
<td>9</td>
</tr>
</tbody>
</table>

- Employee satisfaction
- Overall effectiveness
- HR “quality of life”
## Procure to Pay (P2P)  
*The Oracle Story*

<table>
<thead>
<tr>
<th>Category</th>
<th>Current Cost</th>
<th>Future Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2P transaction expense</td>
<td>$150</td>
<td>$30-40</td>
</tr>
<tr>
<td>Cost savings per year</td>
<td>$20 M</td>
<td>$40 M</td>
</tr>
<tr>
<td>Expense processing *</td>
<td>$25</td>
<td>&lt; $5</td>
</tr>
<tr>
<td>Travel *</td>
<td>$45</td>
<td>$25</td>
</tr>
<tr>
<td>Travel (average ticket price) #</td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>Total Savings</td>
<td></td>
<td>$115 M</td>
</tr>
</tbody>
</table>

*Cost per transaction  
#self-service altered purchase behavior
Support

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

<table>
<thead>
<tr>
<th>Metric</th>
<th>3 years ago</th>
<th>Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone Volume (per qtr.)</td>
<td>517,000</td>
<td>66,000</td>
</tr>
<tr>
<td>Online Requests (% of all requests)</td>
<td></td>
<td>&gt; 78%</td>
</tr>
<tr>
<td>Headcount</td>
<td></td>
<td>14%</td>
</tr>
<tr>
<td>Total Support Activity</td>
<td></td>
<td>200%</td>
</tr>
<tr>
<td>Cost per request</td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>Resolution time</td>
<td></td>
<td>41%</td>
</tr>
</tbody>
</table>
## Marketing - Campaign To Lead

*The Oracle Story*

<table>
<thead>
<tr>
<th>Comparison</th>
<th>Direct mail v E-mail</th>
<th>Response rates</th>
<th>On-Site v Web-seminars</th>
<th>Remote Demo’s v. Onsite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$3.00</td>
<td>2%</td>
<td>$1000</td>
<td>1000’s</td>
</tr>
<tr>
<td>Response rate</td>
<td>$0.01</td>
<td>20%</td>
<td>$2</td>
<td>100’s</td>
</tr>
</tbody>
</table>

- 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*

<table>
<thead>
<tr>
<th>Category</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Person Productivity (Content)</td>
<td></td>
<td>+10-20%</td>
</tr>
<tr>
<td>Orders via web</td>
<td>$2m/qtr</td>
<td>$100 m/qtr</td>
</tr>
<tr>
<td>Cost of entering order</td>
<td></td>
<td>-80%</td>
</tr>
<tr>
<td>Forecasting efficiencies</td>
<td>12 hr</td>
<td>2 hr/month</td>
</tr>
<tr>
<td>Quota/Comp efficiencies</td>
<td>12 wk</td>
<td>1 wk/year</td>
</tr>
</tbody>
</table>

- 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**

<table>
<thead>
<tr>
<th>Category</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses &amp; Procurement</td>
<td>$115 M</td>
</tr>
<tr>
<td>Self-Service Support Calls</td>
<td>$250 M</td>
</tr>
<tr>
<td>Sales/Marketing Leverage</td>
<td>$300 M</td>
</tr>
<tr>
<td>Sales Force Productivity</td>
<td>+10 - 20%</td>
</tr>
<tr>
<td>Global Savings</td>
<td>$665 M</td>
</tr>
</tbody>
</table>
4 Automate all Processes
Automate All Processes

Customer Relationship Management

Supply Chain Management

Enterprise Management

Finance  HR  Projects  Maintenance

Develop  Plan  Procure  Manufacture  Fulfill  Service  Market  Sell
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
- iPurchasing
- 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

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

**Projects**
- Project Costing
- Project Billing
- Internet Time
- Project Contracts

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

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

**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**

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

<table>
<thead>
<tr>
<th></th>
<th>Mid-1997</th>
<th>End-1998</th>
<th>End-1999</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Server Count</strong></td>
<td>97</td>
<td>37</td>
<td>25</td>
<td>1*</td>
</tr>
<tr>
<td><strong>DB Instances</strong></td>
<td>120</td>
<td>80</td>
<td>80</td>
<td>4</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>31,000</td>
<td>41,000</td>
<td>43,000</td>
<td>&gt;45000</td>
</tr>
<tr>
<td><strong>Mailkeepers</strong></td>
<td>60</td>
<td>30</td>
<td>30</td>
<td>13</td>
</tr>
</tbody>
</table>

* 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

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

Offline

Software
Support
App Admin
DB Admin
Sys Admin
HW Admin

Online

50% Lower Cost
50% Better Service

@Oracle
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

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
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

- **Strategy Formulation and Communication**
  - Balanced Scorecard
  - Activity Based Management
  - Performance Analyzer

- **Analysis, Planning, Simulation**
  - Sales Analyzer
  - Financial Analyzer
  - Demand Planner

- **Daily Business Intelligence**
  - Real-time, Operational Intelligence
  - Role Based
Analysis

Performance Measures

Trend Graphs
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
7 Tenets of 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
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
<table>
<thead>
<tr>
<th></th>
<th>↓</th>
<th>75%</th>
<th>(60 -15 days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales planning lead time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery lead time</td>
<td></td>
<td>53%</td>
<td>(30 -14 days)</td>
</tr>
<tr>
<td>Customer inventories</td>
<td></td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Month-end closing time</td>
<td></td>
<td>83%</td>
<td>(6 to 1 day)</td>
</tr>
<tr>
<td>New product develop.</td>
<td></td>
<td>62.5%</td>
<td>(4 to 1.5 yrs)</td>
</tr>
<tr>
<td>Enterprise budgeting time</td>
<td></td>
<td>73%</td>
<td>(110 to 30 days)</td>
</tr>
</tbody>
</table>
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
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

Focus Area

Technology Infrastructure

Business to Employee (inside)

Procurement (buy side)

Customer Management (sell side)

Relevant Government Area

Technology Infrastructure

Enterprise Resource Planning

Procurement

Core Mission/Citizen Service
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

![Discounted Costs and Benefits](image_url)
To illustrate another way . . .

Break-Even Scenarios
Mid-Cost Estimate

Cumulative $ in Millions

Year 1 Year 2 Year 3 Year 4 Year 5 Year 6 Year 7 Year 8 Year 9 Year 10

FOC

75% of Oracle Benefits

40% of Oracle Benefits

25% of Oracle Benefits

15% of Oracle Benefits

Costs

75% of Oracle Benefits

40% of Oracle Benefits

25% of Oracle Benefits

15% of Oracle Benefits

Costs

75% of Oracle Benefits

40% of Oracle Benefits

25% of Oracle Benefits

15% of Oracle Benefits

Costs
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.

Direct Customer (User) Value
Social (Non User/Public) Value
Government Financial Value
Government Operational/Foundational Value
Risk
Strategic/Political Value

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

**Direct Customer (user) Value**

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

**Strategic/Political Value**

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

- 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
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