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Correlating Qualitative Performance With Quantitative Performance:

**Investigating the financial benefit
of good corporate citizenship**

Neema Moghadam

University at Albany

The Honors College

2012

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SAP AG

Versus

ORACLE CORPORATION

This report is an extensive analysis between a target company and a benchmark company in the same industry. The target company, SAP AG, will be referred to as SAP. SAP's benchmark company will be referred to as Oracle. In order to analyze these two publicly traded companies, I have undergone a specific branch of applied research called Corporate Research. Corporate Research involves the process of gathering data that is current, correct, and complete. Once this data is converted into information, it gives the researcher an accurate assessment of the firm's performance, Top Management Team, and Corporate Board. Using the above specific approach to research, this paper will answer three broad questions (Van Ness 2012):

Did the company appropriately fulfill its social responsibilities?

Did the company position itself for future growth and prosperity?

Did the company adequately fulfill its financial objectives?

In order to most accurately answer the three basic questions of Corporate Research, both the qualitative and quantitative domains need to be analyzed. Qualitative data is generally not quantifiable and it includes any relevant and significant information related to a company's reputation, behavior, culture, and relationships. This paper will further break down qualitative data into the measurement of (1) Organizational Citizenship and (2) Strategic Positioning. (Van Ness 2012).

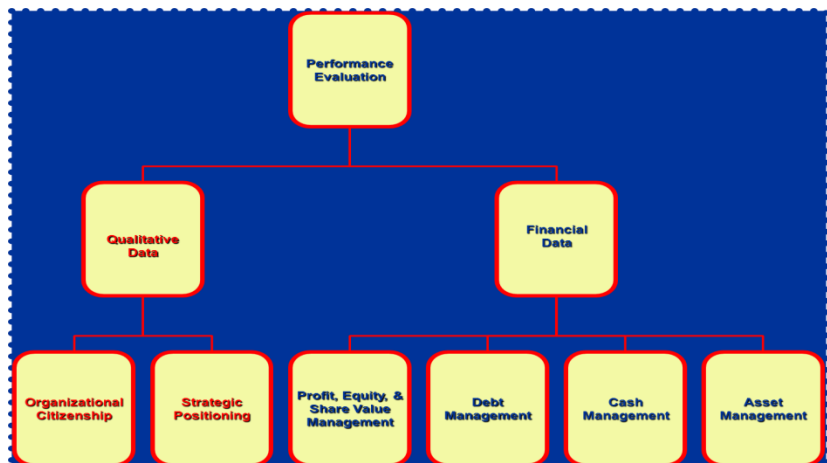
In addition to the crucial qualitative data that needs to be analyzed is the financial performance data. This quantifiable information pertains to an organization's profitability, share value, equity

growth, financial leverage, liquidity, operating leverage, and asset productivity. Financial data can essentially be broken down into four components (Van Ness 2012):

- (1) Profit, Equity & Share Value Management
- (2) Debt Management
- (3) Cash Management
- (4) Asset Management

Prior to going into depth in each of the 6 above categories, a brief overview of the target company, SAP, will be provided. It is essential to discuss relevant information regarding the company's performance, such as an investigation on the company's top corporate officers and board of directors. Furthermore, in order to disclose biases, it is important to note *why* the target and benchmark company were selected. Research will also be presented on the sector and industry in which these companies operate. A sufficient context needs to be presented in order for the reader to understand the particular relevance of the qualitative and quantitative analyses. This paper is generally segmented into the Introduction, central content, and summary.

The purpose of this professional summary is to completely and concisely report the research and evaluation of the current performance of the selected target company. The current performance will be compared with previous performance and compared to the selected benchmark company and its previous year's financial data as well.



HISTORY OF SAP AG

System Analysis and Program Development or SAP was founded in June 1972 by 5 former IBM engineers who wrote programs for mainframe computers to help industrial companies control their manufacturing process. Initially, SAP was headquartered in Weinheim Germany with an office in Mannheim Germany (sap.com). The founders' vision was to develop standard application software for real-time data processing. One can imagine just how cutting edge this vision was for the 1970's. The founders were on a mission to revolutionize the way businesses operated.

Three years later in 1975, the first traces of SAP's trademark began to emerge. Companies began to realize the value of the integration of all of the company's applications. These company customers of SAP were able to handle their purchasing, inventory management, and invoice verification with SAP's RM system (sap.com).

In 1967 "SAP GmbH" was founded, which stood for a company with limited liability. It was not until 1988 that SAP transformed from a private, limited-liability company into the publicly traded SAP AG. AG is a German term that refers to a corporation that is limited by shares (Wikipedia.org).

By 1977, SAP expanded beyond the borders of Germany and adapted its system for 2 companies in Austria. The vast potential for expansion began to surface at this point in the company's history. The company continued its rapid growth and in the early 1980s SAP software was adopted by about 200 companies (sap.com). SAP was diligent in working with their current customers to expand their range of products.

The period from 1982-1991 is referred to as the SAP R/2 Era. During this time, SAP developed solutions for cost accounting, production planning and control, and human resources. This allowed SAP

to expand the employee base to 300 and lead to revenues of DM 100 Million or 52 million in dollars (sap.com).

Shortly after reaching this milestone, IBM's new generation of servers made SAP's software available to midsize customers. In order to effectively support these new costumers, SAP established SAP Consulting. As alluded to previously, 1988 was the year that SAP AG had an initial public offering on the Frankfurt and Stuttgart stock exchanges (sap.com).

The Period between 1992 and 2001 is known as the SAP R/3 Era. In 1993, SAP began to form strategic alliances with Microsoft Corporation. It was not until 3 years later that SAP introduced its joint internet strategy with Microsoft. Through open interfaces, customers were able to connect online applications to their SAP R/3 systems. In 1997 SAP's workforce expanded to nearly 13,000 employees and in 1998 the company began to trade on the NYSE. In the same year, Dietmar Hopp and Klaus Tschira resign from the company's Executive Board. As a result, the Supervisory Board named Henning Kagermann co-CEO of the company alongside cofounder Hasso Plattner. In 2000 the e-business platform mySAP.com allowed employees, customers, suppliers, and other business partners to work together across company borders anytime, anywhere (sap.com).

Finally, the period between 2002 and 2012 can be viewed as a time of "overcoming limits." In 2002, SAP is named the third-largest independent software provider in the world. This was a time period when SAP experienced multiple shifts in the Top Management Team of the company. For example, in 2003, Hasso Plattner resigned from the Executive Board. In 2007 Leo Apotheker was named SAP's Deputy CEO then was co-CEO alongside Henning Kagermann until Kagermann retired in 2009. These obstacles were clearly overcome because SAP successfully acquired multiple companies during this period and reached total revenue of more than 14 Billion Euros (sap.com).

It is clear that over the course of three decades, SAP has transitioned from a small, regional enterprise into a world-class international company. Today, SAP is the market leader in enterprise application software. SAP applications and services enable more than 183,000 customers worldwide to operate profitably, adapt continuously, and grow sustainably. SAP has more than 55,000 employees and presence in more than 50 countries worldwide (sap.com).

SAP AG TOP CORPORATE OFFICERS:

- Bill McDermott: Co-Chief Executive Officer, Member of the Executive Board
- Jim Hagemann Snabe: Co-Chief Executive Officer, Member of the Executive Board
- Werner Brandt: Chief Financial Officer, Labor Relations Director (acting), Member of the Management Board
- Gerhard Oswald: Chief Operating Officer, Member of the Executive Board
- Vishal Sikka: Chief Technology Officer, Member of the Executive Board
- Jonathan D. Becher Chief Marketing Officer

SAP AG: SUPERVISORY BOARD:

Hasso Plattner (68 years of age)- Chairman of the Supervisory Board

Plattner is an outside director and is a co-founder of SAP AG. Hasso Plattner stepped down from his post as CEP in May 2003 after 30 years of service and is currently the Chairman of the Supervisory Board. Plattner has a specific expertise in technological research and information systems. Plattner received an honorary doctorate (1990) and an honorary professorship in Information Systems (1994) from the Saarland University, Saarbrücken. The same University named him an honorary senator in 1998. His Hasso Plattner Ventures, based in Potsdam, incubates promising technology companies (forbes.com).

Lars Lamadé (39 years of age)- Vice Chairman of the Supervisory Board

Lars Lamadé is an outside director. Lamadé has been the Deputy Chairman of the Supervisory Board and Employee Representative at SAP since May 10th 2007. He is a member of the Mediation Committee, General Committee, and Special Committee (macroaxis.com).

Pekka Ala-Pietilä (54 years of age)- Member of the Supervisory Board

Pekka Ala-Pietilä is an outside director and the Co-founder and CEO of Blyk Ltd., London, Great Britain. He is Member of the Technology and Strategy, Nomination and Special Committees. Ala-Pietilä was Executive Adviser to Chief Executive Officer of Nokia Corporation, until January 31, 2006.

He graduated from University of Tampere with a Doctorate of Science degree in Technology, in 1995, and from Helsingin kauppakorkeakoulu with a MS degree in Economics, obtained in 1985, and Doctorate of Science degree in 2001. He is Member of the Board of Directors of Poyry Plc, CVON Group Limited, CVON Limited, CVON Innovations Limited and Blyk Ltd., among others (forbes.com).

Thomas Bamberger (43 years of age)- Member of the Supervisory Board

Thomas Bamberger has been an outside director since May 10, 2007. He serves as the Chief Controlling Officer of Global Service & Support. Also, he is the Chief Controlling Officer of Research Breakthrough innovation (Forbes.com).

Panagiotis Bissiritsas (42 years of age)- Member of the Supervisory Board, Support Expert

Panagiotis Bissiritsas is an outside director and has an expertise in economics and Mathematics. He has been Member of the Compensation Committee, as well as Finance and Investment Committee since May 10, 2007. He is also the Employee representative (reuters.com).

Prof. Dr. Wilhelm Haarmann (60 years of age)- Member of the Supervisory Board

Haarmann is an outside director and is an Attorney at Law, Certified Public Auditor and Certified Tax Advisor. Until January 1, 2006 Willhelm Haarmann practiced as a partner of Haarmann Hemmelrath which served as special German tax counsel to SAP AG and counseled SAP with regard to other legal matters. On January 1, 2006 he founded HAARMANN Partnerschaftsgesellschaft in Frankfurt (forbes.com).

Peter Koop (44 years of age)- Member of the Supervisory Board

Peter Koop is an outside director and has been part of the Supervisory Board since 2007. He is the Industry Business Development Expert and is the member of the Technology and Strategy Committee, and General Committee (forbes.com)

Christiane Kuntz-Mayr (48 years of age)- Member of the Supervisory Board,

Kuntz-Mayr is an outside director and serves as the Vice-Chairperson of the Works Council of SAP AG. She served as Development Manager of SAP AG. Christiane Kuntz-Mayr has been a member of the Supervisory Board since 2009 (forbes.com)

Bernard Liautaud (48 years of age)- Member of the Supervisory Board

Bernard Liautaud is an outside director of the Supervisory Board and its Strategy Committee. In 1990 Liautaud founded Business Objects and was CEO for 15 years then Chairman of the same company until January 2008. He lead Business Objects to become the world leader in Business Intelligence and one of the 15 largest software companies in the world. In January 2008, Business Objects was acquired by SAP for \$6.8 Billion, making it the third largest software acquisition at the time (balderton.com)

Other board memberships: Board of Directors, Clinical Solutions Holdings Ltd., Basingstoke, Hampshire, Great Britain; Board of Directors, nlyte Software Ltd., London, Great Britain Board of Directors, Talend SA, Suresnes, France; Board of Directors, Cap Gemini, Paris, France; Board of Directors,

Quickbridge (UK) Ltd., London, Great Britain; Board of Directors, SCYTL Secure Electronic Voting SA, Barcelona, Spain.

Dr. Gerhard Maier (57 years of age)- Member of the Supervisory Board

Dr. Gerhard Maier is an outside director and has been Member of the Supervisory Board and Employee Representative since 1989. He is the Development Project Manager. He is a Member of the Compensation Committee and the Audit Committee.

Hartmut Mehdorn (69 years of age)- Member of the Supervisory Board

Dr. honoris causa Hartmut Mehdorn is an outside director and has been Member of the Supervisory Board at Sap AG since 1998. He has also served as a Member of the Supervisory Board of DB Netz AG until April 30th, 2009. Additionally, he has served on multiple other Supervisory Boards. Mehdorn is an independent consultant. He is involved with the Mediation Committee and the Finance and Investment Committee. He has been Member of the Board of Directors of Air Berlin PLC, since July 1, 2009, and Member of the Advisory Board of Fiege-Gruppe since August 1, 2009 (reuters.com).

Dr. Hans-Bernd Meier (60 years of age)- Member of the Supervisory Board

Dr Hans-Bernd Meier has been an outside director since 2011. He serves as an independent consultant for SAP projects. Meier's current term ends in 2012.

Joachim Milberg (69 years of age)- Member of the Supervisory Board

Joachim Milberg is an outside director and has held his position since 2007. He is Chairman of the Supervisory Board BMW AG. Milberg has been Member of the Compensation Committee and is Member of the Audit Committee, Technology and Strategy Committee, General Committee and Nomination Committee. He is Member of the Supervisory Board of Bertelsmann AG and Festo AG.

Milberg is Member of the Board of Directors of Deere & Company and Member of the Supervisory Board of ZF Friedrichshafen AG.

Dr. Erhard Schipporeit- (62 years of age)- Member of the Supervisory Board

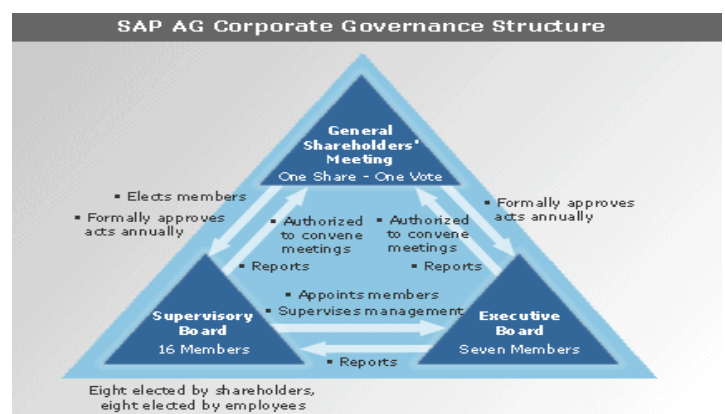
Dr. Erhard Schipporeit has been an outside director since 2005. He is the Chairman of the Audit Committee and Member of the Special Committee. Until 2009, Schipporeit served on the Supervisory Board of Career Concept AG. He also serves on the Board of Directors for TUI Travel PLC, London Great Britain.

Stefan Schulz- (41 years of age)- Member of the Supervisory Board

Stefan Schulz has been an outside director since April 9, 2002. He is also an Employee representative of SAP. He serves as a Member of the Mediation Committee, Technology and strategy committee, Finance and Investment Committee , and Special Committee. Schulz is Project Development Manager (reuters.com)

Klaus Wucherer- (66 years of age)- Member of the Supervisory Board

Klaus Wucherer has been an outside member of the Supervisory Board since May 10th, 2007. He is Member of Technology and Strategy Committee. Wucherer is Managing Director of Dr. Klaus Wucherer Innovations. In Addition to SAP, he is Member of the Supervisory Board of Infineon Technologies AG and Leoni AG. Wucherer has been Member of the Supervisory Board of Duerr AG since 2009 and Heitech AG since 2010 (forbes.com).



SELECTION OF TARGET; SAP AG:

The target company was selected after learning about the sheer success of the organization for forty years. SAP remains the industry leader in ERP and core business processes. In order to achieve such high status, the company has been continuously innovating and, therefore, revolutionizing the business world. “SAP technologies help companies both big and small to not only run better, but fundamentally transform how they do business.” Chris Curry’s quote exemplifies SAP’s widespread impact (4-traders.com).

Many would agree that it is fascinating to analyze a company that is an integral part of the success of the most well-established organizations in the world. SAP has been at the forefront of the “Cloud” trend of the information technology industry. This will be further discussed in coming parts of the report.

SELECTION OF BENCHMARK; ORACLE CORP:

Oracle is SAP’s biggest competitor and they have been “going at it” for years. However, it was not always such fierce competition. In fact, from 1988 Oracle and SAP had a decade-long history of cooperation. The two companies worked together and integrated SAP’s application suite with Oracle’s relational database products. In 2004, Oracle became interested in the enterprise-application market and it grew into a competitor in the market where SAP had the leadership. Currently, SAP and Oracle compete in the third-party enterprise software maintenance and support market. In 2007, Oracle filed a lawsuit against SAP regarding a copyright infringement. This resulted in SAP paying Oracle \$1.3 Billion. (Wikipedia.org).

One can gain great insight about the corporate performance of SAP by comparing it to such a similar company, Oracle.

THE EXTERNAL ENVIRONMENT; SAP AG:

The text, *Management Strategy & Performance*, defined the external environment as, “the external environment is the context within which a business must function.” External environment or context data is simply information related to the target firm’s general and competitive environmental conditions. More specifically, a firm’s general environment is a factor in which the TMT has little or no control over. Instead, the firm’s management team must learn to adapt to the general environment. The competitive environment, in general, refers to factors such as intensity of competition, the aggressive level of direct competitors, the number of likely new entrants, selling prices (Van Ness 2012).

General Environment:

There are five factors to be considered when assessing a company’s general environment. They are: (1) Sociocultural (2) Demographic (3) Economic (4) Technological and (5) Political/Legal. Although the general environment is broken down into these five subsections, they should be considered “interactive, interrelated, and interdependent (Van Ness 2012).”

Sociocultural factors “relate to a country’s dominant religions, the population’s general desire for leisure-time, attitudes toward consumerism, environmentalism, and the role of gender in society and business.” This factor is particularly relevant to companies such as SAP that have a strong global presence.

Demographic factors “pertain to changes in the population size of a country, geographic distribution of people, ethnic mix, income distribution, average age, number of people in the family, etc...”

Economic factors “relate to a country’s inflation or deflation rates, interest rates, tariffs, balance of trade issues, growth of national economies, exchange rates, unemployment rates, labor availability, gross domestic products, saving rates, etc...”

Technological factors “pertain to a country’s innovative speed and application. More specifically, this factor relates to a country’s reception to technology. Obviously, SAP would only look to expand and do business in countries that have a high receptiveness to technological innovations. SAP’s global presence will be presented in the body of the report.

Lastly, Political/Legal Factors “center on the political stability of a country, its legal system and its general attitude toward business.” A thorough analysis will be later discussed regarding SAP’s most prominently challenging general environment factors.

Competitive Environment:

The competitive environment is a group of firms producing or providing similar products or services and attempting to market these to common set of customers. Typically, the competitive environment is viewed as a narrow influencing factor. However, when the TMT analyzes the competitive environment, 9 factors must be considered to assure thoroughness. These 9 factors include: 1) Customers (2) Suppliers (3) Unions (4) Associations (5) New Entrants (6) Interest Groups (7) Substitutes (8) Competitors and (9) Creditors (Van Ness 2012).

Customers are the ultimate determining factor in whether or not a particular business succeeds or fails. Suppliers “are fundamentally important to a firm’s ability to achieve competitive advantages.” Unions “can actually enhance a well-managed corporation in fulfilling customer needs.” Associations “have an impact on how business is conducted.” New Entrants “are always a threat to existing businesses.” Interest Groups “can force businesses to alter or eliminate practices that are frequently deemed essential to their strategies by the TMT.” Substitutes “can be an enormous challenge to the TMT.” Competitors “generally encourage and reward strength.” Creditors “are a crucial lifeline for most corporations and when their leverage is too great they are capable of demanding decision-making concessions from businesses that may be counterproductive to corporate strategies (Van Ness 2012).”

Having obtained a more thorough understanding of the concept of the External Environment, a more specific evaluation will later be conducted in response to the strategic positioning of SAP. SAP’s ability to responsibly assess and react accordingly to the changing external environment will be an extremely influential predictor of the company’s success. SAP’s Top Management Team must make smart decisions and take initiative in implementing effective plans and seeing to it that these plans are effectively executed.

INDUSTRY TRENDS & EVENTS

SAP AG is in the technology industry, but more specifically in the Enterprise Resource Planning industry. This industry includes SaaS or Software as a Service. According to the market watchers at Gartner, in 2011, \$12.3 billion was spent on SaaS software. This aspect of the software industry is expected to rise by 17.9 percent in 2012. Further investigation shows

that this figure will reach \$22.1 billion by 2015 (itjungle.com). The implications of these figures are clear. SAP is playing in an extremely high growth industry with huge potential.

The North American market has most widely adopted SaaS software. North American SaaS software sales to businesses are expected to hit \$9.1 billion this year, a 16.7 percent increase (itjungle.com).

Although billions have been spent on SaaS licensing, this is only a small dent in the \$3,798 billion market for hardware, software, IT services, telecom equipment, and telecomm services that Gartner projects companies will spend this year. Spending on SaaS is growing nearly three times as fast as the IT market overall and will represent 5.1 percent of the \$285 billion spent on enterprise software this year.

GENERAL INFORMATION; SAP AG (bloomberg.com):

- SAP AG is traded on the NYSE (NYSE:SAP)
- Headquarters: Dietmar-Hopp Allee 16 Walldorf, 69190 Germany
 - Company founded: 1972
- Activities: Multinational software company. Develops business software, including e-business and enterprise management software, consults on organizational usage of its applications software, and provides training services.
 - Stock has risen from 44.64 to 64.95 in the last 5 years

Qualitative Analysis

ORGANIZATIONAL CITIZENSHIP:

Organizational Citizenship embodies a firm's "people-sensitivity." It serves as a window into how the corporation views and relates to people and communities. The analysis will focus on the firm's behavior and how it perceives social responsibility. It is important to differentiate between actual actions rather than false promises and representations (Van Ness 2012). In such a particularly competitive industry such as Enterprise Resource Planning Software, firms may tend to put up a Socially Responsible façade just to stay competitive. One needs to be a professional when data mining, in order to get a sense of the company's true character.

To ensure that appropriate information is gathered, a researcher must take an approach of reliability and comparability. When investigating SAP's Organizational Citizenship, a vast amount of qualitative information was gathered and compared with one another. Also, similar data was collected on other organizations (Oracle) and compared to SAP's findings. By doing this, one observes if the target company is operating within or beyond the normative precedents.

The Organizational Citizenship of a company can be dissected into 11 categories which include: employees, customers, competitors, directors, government, environment, community, stockholders, communication, public persona, and vendors (Van Ness 2012). All of the preceding metrics will be discussed with the exception of vendors due to limited available information.

Employee Relations

Employees are a firm's most valuable resource. All too often, employees are referred to as important assets of a company. This is absolutely false. An asset is used up, thrown out and depreciates in value as years go on. An employee is a resource that gains value every year. This section will look at employee satisfaction, quality of work environment, and awards and recognition for employee sensitivity.

With more than 55,999 employees worldwide, it is the employees of SAP who define the company and provide the competitive edge. SAP focuses on innovation within their workforce. On the "Our People" page of the corporate website it states, "SAP seeks out the most talented individuals in the world to help create value and foster innovation for the benefit of our customers." By listing this as the very first sentence, one gets an initial idea of the employees at SAP. Further, the company values a corporate culture that gives employees the personal freedom they need to achieve their individual goals, while supporting the objectives of the company (sap.com).

In addition to innovation and flexibility, the employees enjoy a healthy inclusive work environment. There is no doubt that SAP embraces diversity and cultural wealth. Employees represent 124 nationalities worldwide. The TMT believes that diversity is a catalyst for innovative strength and allows SAP to better understand the needs of customers. 30 percent of SAP's employees are women (worldwide). The percentage of women in management positions is 18.2% (worldwide). In May 2011, SAP committed to increasing the number of women in management positions from the current level to 25% by 2017 (sap.com).

In order to develop, train, and educate the employee base, SAP has implemented several global and regional activities and events and Employee education programs. One of SAP's most notable Global initiatives is Global Diversity Days. This is a series of events, informational sessions, cultural activities, and networking opportunities at SAP locations around the world. Also, SAP offers on-site and online training sessions and educational courses on a number of diversity-related topics. One may question if employees actual attend these training sessions. In fact, more than 2,000 employees have taken part in gender training sessions for women and men (sap.com).

At SAP.com there is a sub section of the "Our People" page where SAP displays the company's employer awards. It shows awards from 2006 through 2010. Some of which include, a top 10 placement for SAP Argentina by the Great Place to Work Institute. Another one includes, SAP Hungary being listed as the "Best Workplace for Women" by the Association for Women's Career Development in Hungary. One may wonder why nothing has been listed for the year 2011 (sap.com. Does this mean that they did not receive any awards for the year of 2012? Or could this simply mean that they have not reported 2011 awards yet? It is important to raise such questions

The Business Insider ranked SAP within the top 25 best technology companies to work for. Businessinsider.com ranked SAP America number 13 and called it a disjointed work experience. It seems that the management style causes some employees to love their manager and their experience and some to hate it. There have also been some complaints about the travel required for sales and consulting people. The negative comments about sales and consultants travelling should not necessarily be held against SAP. The very nature of a sales position is

travel. There is no possible way SAP could be such a successful company if it did not require some of the employees to travel (businessinsider.com). On a 1-5 scale, 1 being the worst and 5 the best, SAP received a 3.5 based on 272 reviews on glassdoor.com.

Based on several awards, global and regional diversity events, education programs, and reviews, SAP is a “satisfying” place to work. Analysis shows that there are not enough women in management roles. It is healthy that this issue has been recognized by SAP, but it cannot go ignored. It is not apparent exactly how the company will increase the women employees of their workforce. A suggestion may be creating specific training programs empowering women to move into leadership roles within the company.

Customers

Another effective way of analyzing a company’s Organizational Citizenship is to view their customer relations. One needs to view the satisfaction of current and past customers and draw conclusions based on the level of success of the interaction. After conducting extensive research, it is clear that SAP is very proud of the customers that are able to gain value from their products.

On the corporate website there is a page dedicated to showcasing happy SAP customers. More than 183,000 customers of all sizes and in all industries are transforming their businesses with SAP solutions. On this web page, SAP displays 238 videos of SAP customer testimonials from 23 industries referring to 35 different SAP solutions. Additionally, there is a link that a potential client can click that will show 764 case studies and stories of satisfied customers (sap.com).

When compared to the benchmark, Oracle, SAP displays their successful customer relations in a more comprehensive manner. Oracle has similar case studies, as this is the industry standard, but SAP goes above and beyond. SAP offers a variety of videos for viewing such as, 360 Degree Customer, Customer Testimonial, Line of Business Customer, Meet our Customer, and Virtual Plant tour (sap.com).

In order to further strengthen the public perception of the customer relations of the company, SAP should reference external awards, recognitions and news articles. Similar to the awards section of the “Our People” page, it would be effective to reference third party praises.

A 2011 article by Leo King claimed that 43 percent of SAP customers are dissatisfied with the system’s response times across all components, according to a global survey. The issue seemed to be that the organizations (customers) were presented with serious potential financial risk due to dependence on the SAP solutions. Among large companies with over 2,000 users, a third were not satisfied with response times. Out of customers that were smaller firms, 48 percent were not satisfied with response times (computerworlduk.com). These numbers cannot be ignored, but there are not any other articles published that show similar results. In order to give heavy weight to such drastic findings, one must conduct cross comparisons with multiple sources.

Although not perfect, SAP customers are generally satisfied, and are willing to vouch for the company. Obviously, if customer relations were not strong, then SAP would not have grown to become the market leader. That is, with poor customer relations a company does not become the market leader.

Competitor Relations

The 2010 Oracle Corp v. SAP AG court case causes SAP to rank low in the Organizational Citizenship category of competitor relations. Oracle sued SAP alleging that SAP engaged in copyright infringement by downloading thousands of copyrighted documents and programs from Oracle's Customer Connection Website. This is not playing nice in the sandbox. Copyright material should obviously be respected and competition could be healthy for an organization. It is important to note that competition is not a "bad" thing, but if a company infringes on thousands of copyrights, enemies are created.

SAP admitted that its subsidiary TomorrowNow had infringed Oracle's copyrights and a jury awarded Oracle \$1.3 billion. In the lawsuit, it was said that this infringement took place in order to offer technical support to customers of companies that were acquired by Oracle. The intent was to lure customers to buy products from SAP, and to deprive Oracle of support revenue for future development. In an email statement from Oracle President Safra Catz it was said that the trial made it clear that SAP's most senior executives were aware of the illegal activity from the very beginning. This is extremely detrimental to SAP's reputation on the "ball field." In order for a company to be well respected and continue growth, it is essential that business is being carried out with the utmost integrity. SAP failed in this category (Bloomberg.com).

In September of 2011, a federal judge overruled the \$1.3 billion verdict and reduced it to \$272 million. Oracle has indicated that it will reject the lowered amount which will go to a new

trial. One can assume that this prolonging of the trial will lead to more battling between the two technology giants (huffingtonpost.com)

Director Relations

The relationship between the Supervisory Board and the rest of the corporation is crucial to the performance of the firm. Ideally, a company like SAP should have a large number of external directors that work seamlessly with the Executive Board. It would be counterproductive, if there was a sort of battle between the TMT and the Supervisory Board. SAP's 2011 Annual Report displays the cohesion between the two vital components of SAP. It states, "We [Supervisory Board] were involved whenever the Executive Board made decisions of fundamental importance to SAP." This shows the connectivity between the External Directors and the TMT (sapannualreport.com).

Government Relations

The metric of government relations is particularly relevant to SAP because SAP has established a whole sector of operations that are targeted towards the public sector. SAP for Public Sector solutions enables governments to optimize limited resources in public administration while delivering responsive front-office services. SAP solutions help governments leverage their finite time, money and personnel resources to fulfill mandated program and service requirements on a timely basis.

SAP's corporate website states that more than 1,500 public sector organizations worldwide Run SAP. One can even look through the testimonials of government customers.

Namely, the City of San Antonio, Erie County NY, and Colorado Department of Transportation run SAP software (sap.com).

The way SAP presents its governmental relations scores very high compared to other players in the field. Not only does SAP detail its capabilities in 9 different relevant public sector categories, but it also states the benefits of implementation. Further, the website lists customer references that show positive relations with SAP. The most notable section of the public sector page is the News & Events portion. It displays the news and events relating to SAP for Public Sector in three categories. These include Press Releases and Newsbytes, Events, On-Demand Webcasts, and Related Information (sap.com).

Over the years, SAP has been extremely successful at building relationships with governments and attracting more public sector customers. The website thoroughly outlines how SAP could benefit a Government with a limited budget. The News and Events sub section really presents a see it for yourself attitude. It tells the potential client that SAP does not want someone to take their word for it. Overall, SAP scores high as far as government relations.

Environment

Since SAP services 80% of Fortune 500 companies its attention to the Environment expands far beyond the company itself. That is, SAP has the potential to help thousands of companies become more socially responsible when it comes to the environment. In response to stakeholders interest in what SAP can do to help with the challenge of climate change, SAP developed a specific portfolio. This portfolio consists of innovative enterprise management,

supply chain, and compliance solutions that are helping companies optimize their global operations and reduce their carbon footprint. The widespread effect of SAP's specifically socially responsible solutions is unimaginable.

As a software company, SAP naturally enjoys a relatively low impact on the environment. To reduce SAP's environmental impact further than what it already is, it has launched a program called sGreen. This internal campaign considers the environment by comprehensively measuring water, waste, energy and emissions (sapsustainabilityreport.com).

What is remarkable is that SAP is not satisfied with the company's low environmental impact. SAP has shown their commitment to help companies better manage their ecological impact through participation in multiple initiatives. These initiatives include the 3C-Combat Climate Change initiative, Carbon Disclosure project, and "Caring for Climate."

After an in depth analysis of the 2011 sustainability report, it was found that SAP emitted 8 percent more greenhouse gases in 2011 than in 2010. This was the first year-on-year rise of greenhouse gases since 2007. In order to put this rise into perspective, it is appropriate to put it side by side with the company's revenue. Its emissions per euro of revenue went down six percent. So this means that they are, in fact, improving their reduction of environmental impact.

In the sustainability report, SAP recognizes several areas that need improvement. Specifically, the site references a continuous increase in fuel consumption due to a larger car fleet. In order to combat this problem SAP is considering attractive solutions for car sharing, expanded use of public transportation, or greater flexibility to work from home. It is doubtful that SAP will allow greater flexibility to work from home solely to be more socially responsible.

One needs to keep in mind the business implications of “going green.” SAP will not take actions that may be detrimental to the open communication between employees just to reduce fuel consumption.

SAP should implement a parking system which will give parking priority to cars that are eco-friendly. Just as there are handicap parking spots in the SAP parking lots, there should be Green parking spots near the front entrance for Eco-friendly cars ONLY. This will create an incentive for the employees to purchase “green” cars in order to receive priority parking.

Community Sensitivity

SAP contributes to the larger community through multiple channels including employee volunteerism, strategic philanthropic funding and partnerships with nonprofit organizations.

In the SAP North America, employees participate in an initiative entitled the Month of Service. This is when employees participate in different community projects such as school renovations and tutoring programs. The Month of Service also celebrates employee commitment to year-round civic action. In 2011, more than 35 to 41% of all employees worldwide participated in volunteerism. Many companies, such as Green Mountain Coffee Roasters, allow employees to get paid for 50 hours of volunteer work instead of going into the office. By implementing a similar initiative, the 35-41% figure will certainly increase.

On the corporate social responsibility section of SAP’s corporate website, there are three links entitled, Corporate Citizenship Guidelines, Code of Business Conduct, and Principles of Corporate Governance. Unfortunately, all three links lead to an error on the SAP website. The server directs the guest to an SAP page that simply says, “WE ARE UNABLE TO LOCATE

THE PAGE YOU REQUESTED.” This is a major problem! Not only is the important information regarding these topics missing, but it also is extremely detrimental to the public image of SAP. These important links should not be down for one moment. One can be sure that the links to their software descriptions are *always* working perfectly. This issue speaks to the importance that SAP places on social responsibility.

Stockholder Satisfaction

Generally, SAP has had very healthy relations with its stockholders. The stockholders have been enjoying a climbing stock price and have been gaining high returns on their investments. When viewing the stock price history from 11/20/07 to 2/22/12 one can see that the stock price has increased from \$13.25 to 39.99. In order to get a frame of reference it would be beneficial to compare these numbers to the same historical prices of Oracle Corp. Oracle’s stock also increased but by far less. It went from 19.65 to 28.49. This speaks to the high growth and success compared to Oracle. (finance.yahoo.com).

Stockholders also receive an appropriate dividend per share of 1.10 which is a 50 cent increase from 2010. For three prior to this increase, the dividend remained at .50. When revenues began to increase significantly, the TMT realized that in order to keep the stockholders satisfied there needed to be an increase in the dividend.

As far as market share, SAP ranks number one. According to an April 2012 report issued by Gartner Inc. SAP is the market leader with 23.6 percent share of the worldwide market based on revenue in 2011. This percentage was a whopping 19.5 percent growth from 2010. Obviously, this instills a sense of confidence in SAP’s stockholders (marketwatch.com).

Due to a high percentage stock increase, an appropriate dividend, and a large increase in market share SAP has very healthy Stockholder relations.

Communication

The openness of a public company is necessary for long-term sustained success. It is important that the target company does not attempt to hide any information from the public. Generally, the perception should be that the company is honest and can handle probing questions. As with most public companies, SAP is, in general, open and honest to the public. It displays its earnings in a timely fashion. It is also important to note SAP's LinkedIn page, Youtube page, Facebook page, and twitter account. All these social media tools help the company interact with the public and answer any questions that may arise. Despite this, the deceitfulness that occurred during the TomorrowNow litigation cannot be ignored.

Public Persona

In order for a public company to rank high in the Public Persona metric, it must be considered by the public as a "good guy company." That is, it must have a positive public image including the views of both customers and non-customers. In this category the patent infringement case with Oracle cannot be ignored. A 2010 verdict against SAP severely tarnished the reputation of the company. Upon announcement of the verdict, shares of SAP witnessed a 1 percent fall to 35.84 Euros. This made the company one of the biggest losers in Germany's blue-chip index DAX. (topnews.us)

STRATEGIC POSITIONING

Vision and Mission

The vision and mission truly set the tone for a company. The vision is an inspirational comment about what the firm wants to be. The mission is what a firm does. The vision and mission of a company can be assessed by determining availability and understandability of these statements. They should clearly be displayed on the corporate website of any target company.

SAP's mission is to help companies of all sizes and industries to run better. SAP's vision is to help the world run better. When one selects the "Our company" tab on SAP's website the first page, "Overview," clearly includes the mission and vision statements of SAP. They are prominently displayed on the company website. Also, the two statements are very clear and somewhat focused. SAP's mission and vision statements are effective because they are very simple and easy to understand. All too often, companies try to conjure up these fancy visions and mission statements that are extremely hard to understand. SAP's two statements are effective because of their simplicity.

Competitive Advantage

When investigating a target company's competitive edge several factors need to be taken into consideration. Firstly, solid rapport with its primary customer base must be looked at. Then, the target company must have its products, services, and name widely recognized to be considered as possessing a competitive advantage. Last, the target company must show signs of innovation and successful strategies with other similar companies.

SAP passes all the above metrics and it is absolutely clear that SAP has a competitive advantage in the market place. As was stated previously in the report, SAP's is the market leader and continues to gain market share at an overwhelmingly fast pace. Due to the mere fact that SAP 80% of fortune 500 companies, it is obvious that it has a solid rapport with its primary customer base. Additionally, the willingness of hundreds of customers to participate in testimonials speaks to the customer loyalty that exists.

SAP takes great pride in its innovation and ability to continuously expand their product line. This expansion and ability to stay current give SAP a distinct competitive advantage. Under the innovation tab of SAP's website, there are multiple tabs that describe different components of SAP that allows them to remain competitive. Some of these tabs include SAP Labs, SAP Research, SAP innovation Center and SAP Ventures. SAP is the market leader and clearly enjoys a competitive advantage.

General Environment

The general environment consists of 5 factors that companies have little or no control over. Instead, one must analyze the ability of a company to anticipate and adapt to changes in the general environment. The 5 factors of the general environment are (1) sociocultural (2) demographic (3) economic (4) technological and (5) Political/legal (Van Ness 2012). The two most relevant factors to SAP will be analyzed, economic and technological.

When the recession hit in 2008 SAP was certainly affected, but also adapted to the general environment and made a quick recovery. In fact, after 2008 SAP ended up more successful in many factors, than before 2008. Bill McDermott of the executive board said,

“What we have to be mindful of in this environment is it’s just simply less predictable than it was in the past.” He goes on to explain how SAP will adapt its business approach to the general economic environment. Instead of realizing large deals upfront, SAP will phase or subscribe the large deals. Following the recession, SAP exhibited a long term attitude and started doing business the way their customers wanted to do business. (mycustomer.com).

The above example exemplifies how SAP adapted to a general environment factor that it could not control. Another general environment shift in SAP’s industry is the technological shift towards cloud computing or Software as a Service (SaaS). Research concludes that over the last few years, the market valuations of SaaS companies grew twice as much as the valuations of traditional software companies. The implications of this research are that there is a clear shift towards SaaS. It is predicted that this will continue for years ahead. In order to adapt to this technological shift, SAP declared that it will buy SuccessFactors for \$3.4 Billion in cash. SuccessFactors adds value with its SaaS-based human capital management expertise. This was done to bolster SAP’s cloud credibility. SAP anticipates and adapts to the general environment (gigaon.com).

Innovation

SAP was ranked 63 on the World’s Most Innovative Companies list. This list includes SAP’s 5-year Avg. Sales Growth (%), 7.9 and something called the Innovation Premium. The innovation premium is a measure of how much investors have bid up the stock price of a company above the value of its existing business based on expectations of future innovative results (new products, services, and markets). All members on Forbes’ list must have \$10 billion

in market capitalization, spend at least 1% of their asset base on R&D and have 7 years of public data.

SAP's Innovation Premium was 22.1. To put this in comparison, number one on the list, salesforce.com, was given an Innovation Premium of 75.1. The 100th company, ConAgra Foods was given a 16.0. It is widely known that SAP is an extremely innovative company that has a reputation for releasing new solutions and technologies (forbes.com)

Plans and Progress

When analyzing the plans and progress of a target company, the investigator must examine if the company has a history of successful expansion and acquisitions. One must also observe if the progress of the company seems appropriate. A progressive company is one that is clear about their plans and accomplishes its aggressive, but achievable goals.

After taking a look at SAP's acquisition history, one will quickly realize that SAP has a relatively aggressive one. SAP's total number of acquisitions has amounted to more than 30. These aggressive and overall successful acquisitions continue to position SAP to grab more market share and maintain its competitive advantage.

SAP's annual reports contain a clear and detailed explanation of future goals. The section entitled Outlook describes a strategy for profitable growth. This includes a goal to increase the number of people who use and benefit from SAP solutions to one billion by 2015. SAP plans to increase its market share in countries experiencing high growth such as Brazil, China, India, and Russia. The goals seem logical and attainable. Overall, based on SAP's high

growth and successful expansion, one can conclude that the plans and progress category of Strategic Positioning is excellent in comparison to similar companies

Quantitative Analysis

Profit Management

Profit Management is obviously a crucial responsibility for any company's sustained success. Profit management speaks to the attainment of achieving higher than average returns and maintaining a competitive advantage. When analyzing the target company's financials it is important to not only compare the 2011 numbers to the previous year, but to also compare them to the benchmarks 2011 and 2010 results.

The Gross Profit to Revenue or Gross Margin measures the relationship of a firm's earnings before deducting operating expenses. This ratio is necessary in order to assess a firm's long-term financial health. Obviously, an increasing number is desirable. From 2010 to 2011, SAP's gross margin increased from .688 to .694. On the other hand Oracle's Profit Margin decreased from .785 to .764 in respective years. Because SAP was able to increase its profits while its benchmark was not scores SAP a 5 on the likert scale. In order to increase its profits even more, SAP can look to reduce the Cost of Goods Sold by developing strategic partnerships.

The Operating Efficiency of SAP needs to also be compared with that of Oracle in order to analyze the profit management of the target company. This ratio compares the expenses of administering a company to the revenues the firm is able to generate. A decreasing number is desirable from year to year because this suggests that the company is increasing efficiency.

SAP's operating efficiency decreased from .480 to .403 from 2010 to 2011. Oracle's decreased from .447 to .426. Both companies experienced an increase in efficiency, but SAP's was a larger increase. This supports a rating of 5 on the likert scale.

Equity Management

Equity Management is a measurement of capital that a company acquires over a given year. The measurement of capital needs to be dissected into money that is earned and money that is received through investors. Equity management can be assessed using four ratios, Return on Equity, Paid in Capital to Total Capital, Earned Capital to Total Capital and Percent Change in Equity. Return on Equity is the rate of earnings for each Euro or Dollar of owner investment. It gives insight to whether or not shareholders investments are being used to generate profit.

SAP's ROE decreased from 2010 to 2011 from .153 to .150. Oracle's ROE, on the other hand, increased from .197 to .212. SAP can increase their ROE by making efforts to increase net income or decrease Shareholder's Equity. A decrease in ROE is concerning for investors and may lead to the decrease in SAP's stock price. Since SAP's ROE decreased while Oracle's increased and is higher than that of SAP, SAP receives a 1 in this category.

Paid in Capital to Total Capital and Earned Capital to Total Capital measure how much of a company's earnings are produced through investor contributions versus direct company profits, respectively. It is generally more desirable that Paid in Capital for the target company is relatively low and Earned Capital is relatively high. A firm does not want to rely heavily on investors to account for the majority of the company's earnings. SAP's Paid-in/ Total went from

.159 to .130 from 2010 to 2011. Oracle's ratio also decreased, but decreased from .256 to .251. Since a lower number is desirable SAP scores a 5 on this metric.

Earned Capital/Total of a highly profitable business that has retained a great share of profits will be very large. SAP's ratio is very large which shows its profitability. From 2010-2011, SAP's ratio increased from .841 to .870. Oracle's same ratio increased from .520 to .586. While both companies have healthy increasing ratios, the gap is clear. This allows for a ranking of 5.

Percentage of change in Equity capital relates to growth in total equity which is desirable. An increasing number is desirable for companies. SAP's percentage change from 2010-2011 was 29.3 percent and Oracle's increase was 29 percent. Possible reasons for this increase are an increase in profit, an issuance of more stock, or a combination of both. Since SAP increased its ratio and increased it more than its benchmark justifies grade of 5.

Share Value Management

When taking a look at the basic earnings per share of the target company, an increasing amount is desirable. An increase will likely mean that the stock price is also increasing. SAP's basic EPS from 2010-2011 increased from \$1.52 to 2.89 while Oracle's increased from \$1.22 to \$1.69. This increase makes aligns with the greater stock price of SAP when compared to Oracle. The most effective way that SAP can increase its basic EPS is to increase income by reaching out to new emerging markets. On its annual report, SAP stated the goal to increase business in countries such as Brazil and China. This will have a positive effect on EPS. Based on the data above, SAP receives a 5 on this metric.

Diluted Earnings per Share are added to the Basic Earnings per Share when a company chooses to exercise stock options. There should be a minimal difference between Diluted and Basic Earnings per Share. Extreme variance between these two variables often conveys increased risk. SAP has identical basic and diluted EPS for the years of 2010 and 2011. On the other hand, the diluted EPS for Oracle in 2010 was \$1.21 and in 2011 was \$1.67. Different than the comparative numbers for SAP, there is a gap between the Basic and Diluted EPS numbers for Oracle. That being said, SAP receives a 5 in this category.

The Share Price or Market Price is the selling price of the stock on the last date of the year end. This number can be found on the annual report. It will be the adjusted closing price on the last “trading day” nearest the last day of each company’s fiscal year. Obviously, an increasing and high share price is desired. From 2010-2011 SAP’s share price increased from \$49.93 to \$52.95. Oracle’s share price also increased, but increased from \$22.23 to 33.95. Stock price management is illegal, but SAP can participate in share value management by increasing ratios such as EPS. SAP receives a grade of 5.

Another relevant ratio to Share Value Management is the Price Earnings Ratio. The Price Earnings Ratio indirectly represents the level of confidence instilled in a particular stock. An increasing Price Earnings Ratio means that the price of a stock is becoming increasingly expensive and a decreasing ratio represents a less expensive price. From the perspective of investment potential, the analysis will consider a lower number more desirable. SAP’s Price-Earnings Ratio decreased from 2010 to 2011 from 32.8 to 18.3. Oracle’s same ratio increased from 18.2 to 20.1. SAP’s grade is a 5.

Debt Management

Debt Management refers to a company's ability to simultaneously account for the current and future health of an organization. It is extremely important for companies to manage debt in order to maintain control over their company. A company's nightmare is for creditors to gain too much control over the company's operations due to poor debt management. The company's financial leverage or borrowed capital should be sufficient to satisfy current financial requirements, amplify shareholder returns, and facilitate corporate growth and expansion. Debt management is best assessed by comparing the following ratios: Current Debt to Total Debt, Non-current Assets to Total Assets, Times Interest Earned, Current Cash Coverage Ratio, and Total Debt to Total Assets.

The Current Debt to Total Debt ratio is, perhaps, the most important ratio in regards to realizing a TMT's debt strategy. This ratio should be put side by side with the Non-current Assets to Total Assets ratio. If the two increase this may be a very bad sign for the company's strategy. SAP's Current to Total Debt ratio rose from 46.8 percent to 59.6 percent from 2010 to 2011. SAP's non-current assets to total assets ratio decreased from 65.7 percent to 58.4 percent in the same years. In this analysis, a reduction in this ratio is viewed as being indicative of a positive management strategy. The two relative ratios referred to above are not both increasing, so this does not cause a red flag in the analysis. The increase of the Current to Total Debt ratio compared to Oracle's decrease causes SAP to receive a grade of 1.

Due to the decrease of SAP's non-current Assets to Total Assets ratio decreasing from 2010-2011 it will be in the 4-5 range. The benchmark company, Oracle, had a lower ratio and greater decrease. Therefore SAP receives a 4 in this debt management metric.

The Times Interest Earned ratio is a measure of a firm's ability to cover its cost of capital. It represents the number of times the firm's earnings exceed its financing costs. Clearly, an increasing number is desirable. SAP's ratio leaped from 9.5 to 19.1 from 2010 to 2011. Oracle's times interest earned ratio increased from 11.9 to 15.1. Since SAP's ratio increased and is higher than that of its benchmark, SAP receives a grade of 5.

Next, the Current Cash Coverage Ratio assesses the ability of a firm to generate enough cash from operations to cover current debts. A negative number would not be a good sign. This means that the firm is *using* cash rather than producing cash from its operations. An increasing number is desirable from year to year. SAP's ratio increased from .57 to .60 from 2010 to 2011. Oracle's ratio increased from .59 to .79. Since SAP's ratio increased, but not as much as that of Oracle, the appropriate grade would be a 4.

Lastly, the Total Debts to Total Assets need to be analyzed. This ratio relates to financial leverage. It is another way of evaluating a company's borrowing strategy. The greater the percentage is, the greater the reliance on creditors to support the firm. As the number increases so does the potential for creditor influence over company strategies. Despite the value of financial leverage, this analysis considers large increases in the percentage to be undesirable, particularly if they are materially different from the benchmark. SAP's financial leverage decreased from 52.9 percent to 45.3 percent from 2010 to 2011. Oracle's ratio decreased from 49.3 percent to 45.3 percent in respective years. Both companies were able to decrease their ratios, but SAP decreased by a larger percentage. Therefore, SAP's grade of 5 is justified.

Cash Management

Cash is often a misunderstood asset. Contrary to some perceptions that it is the least productive asset because it yields little or no returns to the firm, it serves as a “service” asset. That is, it services the needs of the organization as opposed to contributing in a direct way to its profitability. Of course, excessive accumulation of cash can have a number of detrimental consequences to a firm. To get a good sense of the Cash Management strategies of SAP, the following ratios will be analyzed: Current ratio, Quick Ratio, Cash Flow from Operating Activities to Revenue, and Cash & Cash Equivalencies to Total Assets.

Current Ratio is used to measure a firm’s ability to pay its bills as they are currently falling due. It is often considered a dependable assessment of the company’s risk of insolvency. Ideally, a firm wants an increasing current ratio from year to year. SAP’s ratio increased from 1.5 to 1.4 from 2010 to 2011. Meanwhile, Oracle’s current ratio increased from 1.8 to 2.8. Since SAP’s current ratio increased, but not as much as that of Oracle, the grade of 4 is most appropriate. If any of the current ratios were under 1 that would be alarming and require further investigation.

The Quick Ratio or sometimes called the acid test ratio is a measure that is similar to the current ratio, but removes inventory and other similar current assets. An increasing percentage is desirable. SAP’s quick ratio increased from 1.3 to 1.5 from 2010 to 2011 and Oracle’s increased from 1.7 to 2.6. Due to the same justification that was used for the current ratio comparison, SAP receives a 4.

The Cash Flow from Operating Activities to Revenue percentage is a measure of the relationship between a firm's revenue and the cash it generates from its normal business activities. This report's analysis considers an increasing percentage to be desirable. SAP's percentage increased from 23 percent to 27 percent, but Oracle's percentage decreased from 32 percent to 31 percent. The cross comparison between the target company and the benchmark company shows that SAP deserves a 5 in this metric.

Cash & Cash Equivalencies to Total Assets or Cash Emphases is the measure of the relative importance the TMT places on cash. It is the percentage of total assets committed to cash assets. If this number increases or decreases significantly from the preceding period it should be considered a red flag and requires further investigation. SAP's Cash Emphasis increased about 26 percent from 2010 to 2011. This is a generally modest increase and is probably not a red flag. However, Oracle's Cash Emphasis increased by 36 percent from 2010 to 2011. This is certainly a red flag and is undesirable. This may suggest a change in management strategy or hidden adverse operating issues that are beginning to reveal themselves. SAP deserves a 4 in this category because it is right on the boarder of desirable and undesirable increase, but it is less of a jump than Oracle's numbers.

Asset Management

Asset Management refers to the detailed oversight of all classes of assets except Cash. Both current and noncurrent assets are within the domain of asset management. Mistakes with asset management could potentially hinder revenues or cause a burden on the cost of operations. Occasionally, companies do run the risk of obtaining too many non-current assets. Asset

management is measured by examining four ratios: Revenue to Total Assets, Net Income to Total Assets, Average Collection Period and Age of Inventory.

Revenue to Total Assets measures the amount of revenue that is generated for each dollar of assets invested in the business. Overall, it is a measure of asset utilization/ productivity. SAP's ratio increases from .598 to .613 from 2010 to 2011. Oracle's ratio increases from .426 to .484 in the same years. SAP receives a 5 in this asset management metric.

Net Income to Total Assets is a similar measurement to Revenue to Total Assets because it refers to each dollar of assets invested in the company. The difference is that it is a measure of profitability rather than revenue. An increasing number is desirable for a firm. SAP's ratio increased from .598 to .613 from 2010 to 2011. Oracle's ratio increased from .436 to .484 from 2010 to 2011. Since SAP increased from year to year and has a higher ratio than Oracle, it deserves a 5.

How long it takes a company to receive money from its customers once an item is sold is referred to as the Average Collection Period. This is a measurement uses days as a unit of measure. This number has strong implications on the cash flow strategies of a company. Obviously, a decreasing number is desirable. SAP's Average Collection Period decreased from 91 to 91 from 2010-2011. Oracle's same metric decreased from 76 to 68. Since SAP's average collection period decreased but is still higher than that of Oracle, it deserves a 4.

Another way of examining a company's inventory management capabilities is to look at the Average Age of Inventory. TMT has the intent to reduce the number of days inventory is held while continuing to keep production flowing efficiently and serving customer needs

appropriately. Similar to the previous metric, a decreasing number is a sign of improved inventory management. SAP's measurement in days decreased from 17 to 16 from 2010 to 2011 while Oracle's decreased from 16 to 13. Since SAP's Average Age of Inventory decreased, but not as much as that of Oracle, a grade of 4 is justified.

SUMMARY

The breakdown analysis presented above has conveyed a thorough sense of SAP in relation to the designated benchmark, Oracle. The Corporate Research technique used above has utilized data that is current, correct, and complete. In general 3 questions have been answered.

Did the company appropriately fulfill its social responsibilities?

Did the company position itself for future growth and prosperity?

Did the company adequately fulfill its financial objectives?

In order to answer the first of the above questions 10 metrics were used to probe into each one of the categories of Organizational Citizenship. Once all the data collected was filtered down, a score of 1-5 was awarded for SAP in each one of these categories. As seen in the attached documents, a score of 5 is ideal and a score of 1 is poor.

Next, SAP's strategy for future growth and prosperity was analyzed. It is important to not only see what a company has done, but to also see where they are going. That is, to scrutinize the strategy for sustainable growth and the attainment of above average returns. The Strategic Positioning of the document was broken down into 5 categories. The Vision and Mission, Competitive Advantage, General Environment, Innovation, and Plans versus Progress

were also each given a score from 1-5 on a likert scale. The analysis shows that the answer to the above second question is yes. SAP is certainly positioned for future growth and prosperity.

Finally, to answer the final question above, the report presents 4 financial metrics. These included, Profit, Equity and Share Value Management, Debt Management, Cash Management, and Asset Management. SAP was granted the scores of 5,5,4,5,4 in the respective categories. These numbers indicate that SAP is, indeed, fulfilling its financial objectives.

Prior to the assessment of the Qualitative and Quantitative components of SAP, the stage was set. When conducting Corporate Research, it is important to learn the overall picture before taking a magnified look at the target company. To do this, the report gives a history of SAP AG, presents its top corporate officers and Supervisory Board, the reason for selection of both the target and the benchmark, the external environment, industry trends and events, and other relevant background information.

Qualitative Assessment

Organizational Citizenship reflects a company's behavior and is a direct perception of a firm's social responsibility. It really gives an inside look at the firm's personality or character. It is important that social responsibility is viewed as personality and not "DNA" as sometimes referred to. DNA indicates that the firm cannot change its social responsibility. Personality, like Organizational Citizenship, can be changed throughout time. SAP's overall grade as calculated by the attached Performance Score Card is a 3.82. A proper explanation of this average score is best seen through the closer look at 2 Organizational Citizenship metrics. These two are Environment which received a 4 and Competitor Relations which received a 1. When

interpreting the average score is it essential to note the inconclusive evidence in the Vendors Category.

Environment; Score: 4

Through the interpretation of available data, it can be concluded that SAP AG certainly exhibits a concern for the Environment. Through different initiatives such as sGreen and Carbon Disclosure project, it is obvious that SAP has made and continues to make strides towards improving the environment. What is remarkable is that SAP also has innovated and created software to help thousands of other companies with their “go green” initiatives.

Although SAP is extremely conscious of the environment, there are some issues that cannot go ignored and cause SAP to receive less than a perfect score. Namely, SAP has been experiencing a continuous increase in fuel consumption. This is a major problem for the environment if such a large company is increasing its fuel consumption.

To combat the problem, SAP should implement a parking system which will give parking priority to cars that are eco-friendly. Just as there are handicap parking spots in the SAP parking lots, there should be Green parking spots near the front entrance for Eco-friendly cars ONLY. This will create an incentive for the employees to purchase “green” cars in order to receive priority parking.

Competitor Relations; 1

Because of the 2010 Oracle Corp v. SAP AG court case, SAP receives a 1 in the Competitor Relations category. SAP has experienced negative publicity about the bad blood that

exists between the two competitors. The two companies have constantly gone at it in a vicious matter. Due to the fact that a huge lawsuit arose out of this unhealthy competitiveness, SAP deserves a poor grade.

Overall, the TomorrowNow lawsuit has had a lasting negative effect on the Organizational Citizenship of SAP. It is even worse that the initial trial found that the TMT was aware of the fraudulent activity that was being carried out. It is essential for a company to not get so caught up with the competition that it will break the law to get the upper hand. There are other ways SAP could have handled the situation. More specifically, SAP could have made efforts to work with Oracle just as they did 30 years ago. Perhaps the two should have embarked on a joint venture. A full partnership may be excessive, but to at least entertain the thought of seeing where the symmetries lie would have been beneficial.

SAP AG received an overall Organizational Citizenship Grade of 3.82

As described previously, Strategic Positioning determines how effective management has been in demonstrating vision, imagination, ingenuity, creativity and adaptability. SAP's overall calculated grade for Strategic Positioning is 4.60.

- Vision and Mission-5
- Competitive Advantage- 5
- General Environment-4
 - Innovation-5
- Plans versus Progress-4

Vision and Mission, Competitive Advantage, Innovation, and Plans versus Progress; Score 5

After viewing the corporate website of SAP, it is clear that the Vision and Mission is appropriately displayed. Additionally, the both statements are focused clear and logical. It is important that the mission states what the company does while the vision sets sight to what the company will do. SAP's vision and mission statement are unique in their simplicity. All too often, companies of the same magnitude overcomplicate these important statements. It is essential that they are clear and easy for *everyone* to understand.

When using the scale of 1-5 to rate the metric of Competitive Advantage, two extremes were considered. A grade of 1 is indicative of a company that has a diminishing market share. This company would be behind the curve and frequently caught off guard by competition. In general, this grade shows that the company is very vulnerable. The opposite extreme, which is the case of SAP, is when the target company appears to have a solid rapport with its primary customer base. Its strong customer loyalty is obvious and its services are widely recognized. A 5 would have an expanding market share. The below quote embodies SAP's competitive advantage.

"SAP is regaining market share more quickly than we had expected. For the first time in seven quarters, SAP's organic license growth has outpaced that of Oracle, we estimate," said Rajeev Bahl at Matrix Research (reuters.com).

As far as Innovation goes, it is very clear that SAP deserves a 5 in this category. As analyzed in the main portion of the report, SAP has a long tradition of promoting new thoughts and ideas. It is innovative and has a reputation for new discoveries and/or acquisitions of new

technologies, systems, copyrights and patents. Technology research and innovation is taken extremely serious by SAP. With over 20 research locations worldwide, SAP explores areas such as IT trends and cloud infrastructure for mobile (sap.com).

The Plans versus Progress metric deserves a 4 as well. SAP has certainly put forth a viable expansion strategy. More specifically, outlines clear strategies to reach their goals of entering into three new trends. These trends include in-memory technology, mobile computing, and On-demand and Cloud computing. Due to the clear and specific portrayal of long term company goals, SAP deserves a 5.

General Environment; Score 4

In regards to the General Environment metric of Strategic Positioning, SAP receives a score of 4 in this analysis. The target company reacts to the general environment in time to take advantage of some opportunities and minimizes some threats. However, SAP has had some trouble in the past with thwarting all threats. A January 2012 Forbes article stated that, SAP twice tried and failed to launch supposedly nimbler Web software, called Business ByDesign, which was dubbed kludgy.” SAP has a very healthy position in the General Environment, but does not deserve a 5 (forbes.com)

SAP received an overall Strategic Positioning Grade of 4.80

Quantitative Analysis

Each of the financial four categories, (1) Profit, Equity and Share Value Management (2) Debt Management (3) Cash Management and (4) Asset management, received an overall average grade according to the same 1-5 scale used for the Qualitative Analysis. These overall grades are provided below along with support to justify the grade which was produced.

Profit, Equity, and Share Value management

- In the ratio of Earnings Productivity, SAP experienced an increase from 2010 to 2011 from 12.1% to 13.4%. The Benchmark, Oracle, also increased, but went from 22.9% to 24% in the same years. Grade 4
- SAP's Gross Margin increased from 68.8% to 69.4% while Oracle's decreased from 78.5% to 76.4%. This represents healthy long-term financial growth and justifies SAP receiving a grade of 5.
- The Operating Efficiency of SAP decreased by a larger amount than Oracle's from the years 2010 to 2011. Since this shows SAP is becoming more efficient, it receives a 5.
- From 2010 to 2011 SAP's ROE decreased .3% while Oracle's increased 1.5. In this category, SAP ranks a 1.
- In regards to Derivation of Financial Worth, SAP's 2010 Earned increased from 84 to 87 percent. SAP's Contributed went from 16% to 13%. When comparing this to the benchmark, both metrics receive a 5.
- SAP's Percent Change in Equity was calculated to be 29.3% which Oracle's was 29.0%
- Basic EPS increased from \$1.52 to \$2.89 for SAP from 2010 to 2011. The benchmark's Basic EPS went from \$1.22 to \$1.69. SAP grade: 5

- Since SAP's Diluted Earnings per Share is the same as the Basic Earnings per share and Oracle's is not, SAP received a 5.
- SAP's stock price increased from \$49.93 to \$52.95 (2010-2011) while Oracle's Market Value of Stock went from 22. 23. Therefore, SAP's grade is 5.

Finally, the Price of Stock as Multiple of Earnings or PE Ratio decreased from 32.8 to 18.3 for SAP from 2010 to 2011. Oracle's ratio went from 18.2 to 20.1. Since a lower number is desirable, SAP received a 5.

SAP received a Profit, Equity, and Share Value Management grade of 4.64

Debt Management

- SAP's Short Term Debt increased from 47% to 60% while Oracle's decreased from 48% to 43%. This shows a sign of a bad credit card strategy. SAP Grade: 2
- SAP's Long Term Debt decreased from 53% to 40% from 2010 to 2011. Oracle's increased from 52% 57%. SAP Grade: 1
- SAP's Short Term Assets increased from 34.3% to 41.6% from 2010 to 2011. SAP's Long Term Assets decreased from 65.7% to 58.4%. In comparison to Oracle. SAP's grades in both categories are a 4.
- SAP's Current Cash Coverage Ratio increased from .57 to .60. Oracle's Ratio also increased, but increased to .79. Therefore, SAP receives a 4.
- SAP's average Payment Period decreased from 86 to 78 days from 2010 to 2011. Oracle's decreased from 49 to 30. SAP Grade: 4

SAP received a Debt Management Grade of 3.8

Cash Management

- SAP's Current Ratio increased from 1.4 to 1.5 from 2010 to 2011 which is desirable.

However, Oracle's increased from 1.8 to 2.8. SAP Grade: 4

- SAP's Quick Ratio showed the same pattern so SAP's grade in this category was also a 4.
- SAP's Cash flow from Operations / Revenue increased from 23% to 27% from 2010 to 2011. Oracle's, on the other hand, decreased from 32% to 31%. SAP Grade:4
- SAP's Cash Emphasis from 2010 to 2011 went from 16.9% to 21.4%. Oracle's went from 16.1% to 22.0%. SAP Grade: 4.

SAP received a Cash Management Grade of 4.17

Asset Management

- SAP's Revenue to Total Assets Ratio increased from .598 to .613. Oracle's same ratio increased from .436 to .484. SAP Grade: 5
- Net Income to Total Assets or ROA increased from .072 to .082 from 2010 to 2011. Oracle's ROA increased from .100 to .116. SAP Grade: 4
- From 2010 to 2011 the Average Age of Inventory in days for SAP decreased from 17 to 16. Oracle's Average Age of Inventory decreased from 16 to 13. SAP Grade: 4

➤ ***SAP received a Asset Management Grade of 4.17***

Final Words

It has become clear that SAP is a healthier company than Oracle both Qualitatively and Financially. That is, SAP would be a better investment if an investor was presented with the option to put money on either company. This thorough and systematic analysis of the target company compared to the benchmark company revealed the true character of SAP. SAP is clearly the market leader in the industry and is constantly improving in most financial measurements.

Additionally, SAP has a very experienced Supervisory Board that works seamlessly with the Top Corporate Officers. The Annual Report sets optimistic and achievable goals for SAP and details how to attain the goals. The company is certainly a leader in innovation which has tremendous implications for society as a whole. That is, society is a beneficiary to SAP's utilization of resources to perform research and Design.

The 2010 lawsuit between Oracle and SAP was a major setback on SAP's progress and public persona. Since then, it has improved its reputation and is still working through the appeals of that trial. Through the use of Social Media, SAP has opened the lines of communication between the company and its stakeholders. SAP's community network has 2 million members from over 200 countries (socialmediaexaminer.com).

Overall, SAP AG has fulfilled its social responsibilities, financial objectives and has positioned itself for future growth. SAP is most definitely an encouraged investment.

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Exhibit 1: Benchmark Balance Sheet

BENCHMARK Company Oracle	2011	2010			
Hold cursor on red triangle ———>					
Balance Sheet	Current Yr	Prev Yr	Current	Prev %	%
	\$	\$	%		Change
Assets					
Current Assets					
Cash/Cash Equivalents	16163	9914	22.0%	16.1%	63.0%
Accounts Receivable	6,628	5,585	9.0%	9.1%	18.7%
Inventory	303	259	0.4%	0.4%	17.0%
Marketable Securities	12,685	8,555	17.3%	13.9%	48.3%
Deferred tax assets	1,189	1,159	1.6%	1.9%	2.6%
Prepaid expenses and other current assets	2,206	1,532	3.0%	2.5%	44.0%
			0.0%	0.0%	0.0%
Total Current Assets	39174	27004	53.3%	43.9%	45.1%
Non-current Assets					
Property, Plant & Equipment "NET"	2,857	2,763	3.9%	4.5%	3.4%
Intangible Assets <i>PLUS</i> Goodwill	29413	29746	40.0%	48.3%	-1.1%
Investments			0.0%	0.0%	0.0%
Deferred tax assets	1,076	1,267	1.5%	2.1%	-15.1%
Other assets	1,015	798	1.4%	1.3%	27.2%
			0.0%	0.0%	0.0%
			0.0%	0.0%	0.0%
Unallocated assets (control)	0	0			
Total Long-Term Assets	34361	34574	46.7%	56.1%	-0.6%
Total Assets	<u>73,535</u>	<u>61,578</u>	100.0%	100.0%	19.4%
Liabilities					
Current Liabilities					
Accounts Payable	701	775	1.0%	1.3%	-9.5%
Notes Payable (Short Term)	1,150	3,145	1.6%	5.1%	-63.4%
Other Short-term debt:	3,219	2,976	4.4%	4.8%	8.2%
Deferred revenues	6,802	5,900	9.3%	9.6%	15.3%
Accrued compensation and related benefits	2,320	1,895	3.2%	3.1%	22.4%
			0.0%	0.0%	0.0%
			0.0%	0.0%	0.0%
Total Current Liabilities	14192	14691	19.3%	23.9%	-3.4%
Non-current Liabilities					
Notes payable and other non-current borrowings	14,772	11,510	20.1%	18.7%	28.3%
Income taxes payable	3,169	2,695	4.3%	4.4%	17.6%
Deferred tax liabilities	59	424	0.1%	0.7%	-86.1%
Other non-current liabilities	1,098	1,059	1.5%	1.7%	3.7%

			0.0%	0.0%	0.0%
Unallocated liabilities (control)	0	0			
Total Long-Term Liabilities	19098	15688	26.0%	25.5%	21.7%
Total Liabilities	33290	30379	45.3%	49.3%	9.6%
Equity					
Stockholders' Equity					
Common Stock	16653	14648	22.6%	23.8%	13.7%
Additional Paid-In Capital			0.0%	0.0%	0.0%
Preferred Stock			0.0%	0.0%	0.0%
Other Comprehensive Income	542	4	0.7%	0.0%	13450.0%
Other Additions to Equity			0.0%	0.0%	0.0%
Other Comprehensive Loss			0.0%	0.0%	0.0%
Other Deductions from Equity			0.0%	0.0%	0.0%
Treasury Stock			0.0%	0.0%	0.0%
<i>Minority Interest</i>	469	401	0.6%	0.7%	17.0%
Paid-In Capital - NET	16653	14648	22.6%	23.8%	13.7%
Retained Earnings - NET	23592	16551	32.1%	26.9%	42.5%
Retained Earnings - REPORTED	22,581	16,146	30.7%	26.2%	39.9%
Total Equity	40245	31199	54.7%	50.7%	29.0%
Total Liabilities+Equity	73535	61578	100.0%	100.0%	19.4%
Common Shares Outstanding	1189	1188			

Exhibit 2: Benchmark Income Statement

BENCHMARK Company Oracle Corp		2011	2010			
Do not use minus signs on this statement		Current Yr	Prev Yr \$	%		
		\$		Curr %	Prev %	Change
REVENUE OR (NET SALES)		35622	26820	100.0%	100.0%	32.8%
Cost of Items Sold		8398	5764	23.6%	21.5%	45.7%
Gross Profit		27224	21056	76.4%	78.5%	29.3%
Operating Expenses: List						
Research and Development		4519	3254	12.7%	12.1%	38.9%
Software license updates and product support		7549	5991	21.2%	22.3%	26.0%
Non Recurring		695	776	2.0%	2.9%	-10.4%
Others		2428	1973	6.8%	7.4%	23.1%
				0.0%	0.0%	0.0%
				0.0%	0.0%	0.0%
				0.0%	0.0%	0.0%
Total Operating Expenses		15191	11994	42.6%	44.7%	26.7%
Operating Income		12033	9062	33.8%	33.8%	32.8%
Interest Expense		808	754	2.3%	2.8%	7.2%
Other Non-Operating Expenses				0.0%	0.0%	0.0%
				0.0%	0.0%	0.0%
			65	0.0%	0.2%	-100.0%
Other Income		186		0.5%	0.0%	0.0%
Other additions to Income				0.0%	0.0%	0.0%
Net Income Before Taxes		11411	8243	32.0%	30.7%	38.4%
Minority Interests				0.0%	0.0%	0.0%
Income Taxes		2864	2108	8.0%	7.9%	35.9%
Unallocated expenses & income		0	0			
NET INCOME		8547	6135	24.0%	22.9%	39.3%

Estimated Interest Expense

832

759

Minus signs may be necessary in Cash Flow

Cash Flow from Operating Activities	11214	8681
Cash Flow from Investing Activities	-6081	-10219
Cash Flow from Financing Activities	6249	919

Exhibit 3: Target Company Balance Sheet

TARGET COMPANY (SAP)	2011	2010			
Hold the cursor on red triangle					
	Current Yr	Prev Yr	Current	Prev	%
Balance Sheet	\$	\$	%	%	Change
Assets					
Current Assets					
Cash/Cash Equivalents	4965	3518	21.4%	16.9%	41.1%
Accounts Receivable	3493	3099	0.0%	14.9%	0.0%
Inventory	187	181	0.0%	0.9%	0.0%
Other financial assets	817	158	3.5%	0.8%	417.1%
			15.0%	0.0%	0.0%
			0.8%	0.0%	0.0%
tax assets	207	187	0.9%	0.9%	10.7%
Total Current Assets	9669	7143	41.6%	34.3%	35.4%
Non-current Assets					
Property, Plant & Equipment "NET"	1551	1449	6.7%	7.0%	7.0%
Intangible Assets <i>PLUS</i> Goodwill	10733	10804	46.2%	51.8%	-0.7%
Investments			0.0%	0.0%	0.0%
Other financial assets	538	475	2.3%	2.3%	13.3%
Trade and other receivables	84	78	0.4%	0.4%	7.7%
Other non-financial assets	39	31	0.2%	0.1%	25.8%
Tax assets and Deferred tax assets	611	859	2.6%	4.1%	-28.9%
Unallocated assets (control)	0	0			
Total Long-Term Assets	13556	13696	58.4%	65.7%	-1.0%
Total Assets	23225	20839	100.0%	100.0%	11.4%
Liabilities					
Current Liabilities					
Accounts Payable	937	923	0.0%	0.0%	0.0%
Notes Payable (Short Term)	1331	142	5.7%	0.7%	837.3%
Other Short-term debt:	1981	1726	8.5%	8.3%	14.8%
			4.0%	4.4%	1.5%
Tax liabilities	409	164	1.8%	0.8%	149.4%

Provisions	562	1287	2.4%	6.2%	-56.3%
Deferred income	1046	911	4.5%	4.4%	14.8%
Total Current Liabilities	6266	5153	27.0%	24.7%	21.6%
Non-current Liabilities					
Trade and other payables	43	30	0.2%	0.1%	43.3%
Tax and financial liabilities	3333	4818	14.4%	23.1%	-30.8%
Other non-financial liabilities	92	85	0.4%	0.4%	8.2%
Provisions	266	292	1.1%	1.4%	-8.9%
Deferred tax liabilities and deferred income	518	637	2.2%	3.1%	-18.7%
Unallocated liabilities (control)	0	0			
Total Long-Term Liabilities	4252	5862	18.3%	28.1%	-27.5%
Total Liabilities	10518	11015	45.3%	52.9%	-4.5%
Equity					
Stockholders' Equity					
Common Stock	1228	1227	5.3%	5.9%	0.1%
Additional Paid-In Capital	419	337	1.8%	1.6%	24.3%
Preferred Stock			0.0%	0.0%	0.0%
Other Comprehensive Income			0.0%	0.0%	0.0%
Other Additions to Equity			0.0%	0.0%	0.0%
Other Comprehensive Loss			0.0%	0.0%	0.0%
Other Deductions from Equity	37	142	0.2%	0.7%	-73.9%
Treasury Stock	1377	1382	5.9%	6.6%	-0.4%
<i>Minority Interest</i>	8	17	0.0%	0.1%	-52.9%
Paid-In Capital - NET	1647	1564	7.1%	7.5%	5.3%
Retained Earnings - NET	11060	8260	47.6%	39.6%	33.9%
Retained Earnings - REPORTED	12466	9767	53.7%	46.9%	27.6%
Total Equity	12707	9824	54.7%	47.1%	29.3%
Total Liabilities/Equity	23225	20839	100.0%	100.0%	11.4%

Exhibit 4: Income and Ratios

Target Company SAP	2011	2010			
Do not use minus signs on this statement	Current Yr \$	Prev Yr \$	Current %	Prev %	% Change
REVENUE OR (NET SALES)	14233	12464	100.0%	100.0%	14.2%
Cost of Items Sold	4355	3894	30.6%	31.2%	11.8%
Gross Profit	9878	8570	69.4%	68.8%	15.3%
Operating Expenses: List					
Cost of software and software related services			0.0%	0.0%	0.0%
Cost of professional services and other services			0.0%	0.0%	0.0%
R+D and Sales and Marketing	5020	4374	35.3%	35.1%	14.8%
General and administration and restructuring	719	633	5.1%	5.1%	13.6%
TomorrowNow litigation		981	0.0%	7.9%	-100.0%
Other income/ expense net.			0.0%	0.0%	0.0%
			0.0%	0.0%	0.0%
Total Operating Expenses	5739	5988	40.3%	48.0%	-4.2%
Operating Income	4139	2582	29.1%	20.7%	60.3%
Interest Expense	263	275	1.8%	2.2%	-4.4%
Other Non-Operating Expenses	75	186	0.5%	1.5%	-59.7%
Other finance costs	169	128	1.2%	1.0%	32.0%
			0.0%	0.0%	0.0%
Other Income	1103	357	7.7%	2.9%	209.0%
Other additions to Income	33	-12	0.2%	-0.1%	-375.0%
Net Income Before Taxes	4768	2338	33.5%	18.8%	103.9%

Minority Interests	1536	311	10.8%	2.5%	393.9%
Income Taxes	1329	525	9.3%	4.2%	153.1%
Unallocated expenses & income	0	0			
NET INCOME	1903	1502	13.4%	12.1%	26.7%

Estimated Interest Expense	263	275
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Minus signs may be necessary in Cash Flow		
Cash Flow from Operating Activities	3775	2922
Cash Flow from Investing Activities	-1226	-3994
Cash Flow from Financing Activities	-1176	2520

Look
 Be sure to arrow down!!
 For Financial Analysis Output

Chart Colors
Target (Curr)
Target

Important!
 The PSC expresses an opinion about the ratios that may not agree with your opinion. You should in no way think that your opinion is incorrect. Each situation is different and your opinion may be correct and the opinion of the PSC may be incorrect.

Reading Red Triangles
HINT TO MAKING READING EASIER
Right click on cell that contains **RED** triangle
 Then **Left click** select **EDIT COMMENT**

		Target	Target	Target	Benchmark	Benchmark	
		Current Yr	Prev Yr	Grade	Current Yr	Prev Yr	
1.0	1	Net Income to Revenue (Net Margin)	0.134	0.121	4.0	0.240	0.229
1.0	2	Gross Profit to Revenue (Gross Margin)	0.694	0.688	5.0	0.764	0.785
1.0	3	Operating Efficiency	0.403	0.480	5.0	0.426	0.447

1.0 4	Income Tax / Pretax Earnings	0.411	0.259	5.0	0.251	0.256
1.0 5	Return on Equity	0.150	0.153	1.0	0.212	0.197
1.0 6	Capital: Paid-in / Total	0.130	0.159	5.0	0.414	0.470
1.0 7	Capital: Earned / Total	0.870	0.841	5.0	0.586	0.530
1.0 8	Capital: % of Change	29.3%		5.0	29.0%	
1.0 9	Basic EPS	\$2.89	\$1.52	5.0	\$1.69	\$1.22
1.1 0	Diluted EPS	\$2.89	\$1.52	5.0	\$1.67	\$1.21
1.1 1	Share Price (Market Price)	\$52.95	\$49.93	5.0	\$33.95	\$22.23
1.1 2	Price-Earnings Ratio	18.3	32.8	5.0	20.1	18.2
1.1 3	Diluted EPS / Basic EPS	1.000	1.000	5.0	0.988	0.992
1.1 4	Book Value Per Share	\$ 10.69	\$ 8.27	4.0	\$ 33.85	\$ 26.26
1.1 5	Book Value Per Share / Market Value	20.2%	16.6%	5.0	99.7%	118.1%
1.1 6	Dividends Per Common Share (\$)	\$1.10	\$0.60	5.0	\$0.21	\$0.20
1.1 7	Dividend Payout Ratio	0.381	0.395	4.0	0.124	0.164
1.1 8	Dividend Yield Ratio	0.021	0.012	5.0	0.006	0.009
1.1 9	Investment Productivity	0.083		5.0	0.537	
1.2 0	Projected Time to Investment Payback	13.3	23.6	5.0	17.9	15.7
1.2 1	Price Potential	\$101		5.0	\$47	
1.2 2	Beta	1.21		4.0	1.08	
2.2 3	Current Debt to Total Debt	59.6%	46.8%	2.0	42.6%	48.4%
2.2 4	Non-current debt to Total Debt	40.4%	53.2%	1.0	57.4%	51.6%
2.2 5	Total Debt to Total Assets	45.3%	52.9%	5.0	45.3%	49.3%
2.2 6	Current Assets to Total Assets	41.6%	34.3%	4.0	53.3%	43.9%
2.2 7	Non-current Assets to Total Assets	58.4%	65.7%	4.0	46.7%	56.1%

2.2						
8	Times Interest Earned	19.1	9.5	5.0	15.1	11.9
2.2						
9	Current Cash Coverage Ratio	0.60	0.57	4.0	0.79	0.59
2.3						
0	Accounts Payable Turnover	4.7	4.2	4.0	12.0	7.5
2.3						
1	Average Payment Period (days)	78	86	4.0	30	49
2.3						
2	Total Debt to Equity	0.828	1.121	5.0	0.827	0.974
3.3						
3	Working Capital	\$3,403	\$1,990	4.0	\$24,982	\$12,313
3.3						
4	Working Capital / Total Revenue	23.9%	16.0%	4.0	70.1%	45.9%
3.3						
5	Current Ratio	1.5	1.4	4.0	2.8	1.8
3.3						
6	Quick Ratio	1.5	1.3	4.0	2.6	1.7
3.3						
7	Cash Flow Op Act to Revenue	27%	23%	5.0	31%	32%
3.3						
8	Cash Emphasis	0.214	0.169	4.0	0.220	0.161
4.3						
9	Revenue / Total Assets	0.613	0.598	5.0	0.484	0.436
4.4						
0	Net Income to Total Assets (ROA)	0.082	0.072	4.0	0.116	0.100
4.4						
1	Accounts Receivable Turnover	4.1	4.0	4.0	5.4	4.8
4.4						
2	Average Collection Period (days)	90	91	4.0	68	76
4.4						
3	Inventory Turnover	23.3	21.5	4.0	27.7	22.3
4.4						
4	Average Age of Inventory (days)	16	17	4.0	13	16
5.2						
9	Employee		Citizenship	5.0		
5.3						
0	Customer		Citizenship	5.0		
5.3						
1	Competitor		Citizenship	1.0		
5.3						
2	Directors		Citizenship	5.0		
5.3						
3	Government		Citizenship	4.0		
5.3						
4	Environment		Citizenship	4.0		
5.3						
5	Community		Citizenship	5.0		

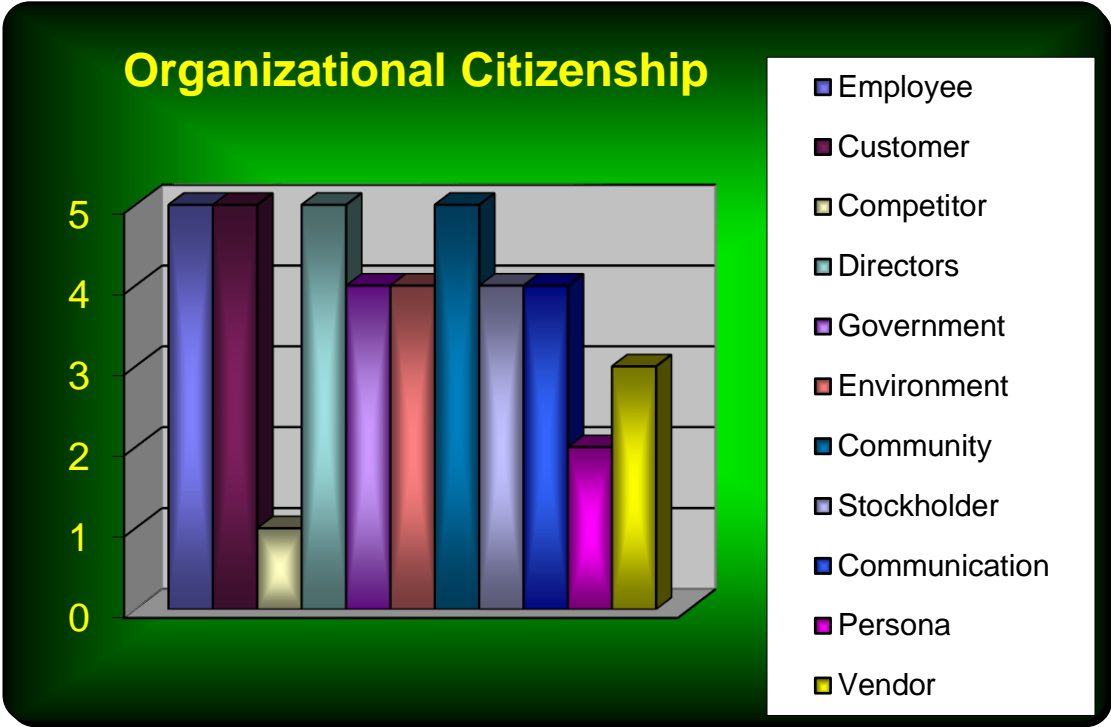
5.3 6	Stockholder		Citizenship	4.0
5.3 7	Communication		Citizenship	4.0
5.3 8	Persona		Citizenship	2.0
5.3 9	Vendor		Citizenship	3.0
6.4 0	Vision and Mission		Positioning	5.0
6.4 1	Competitive Advantage		Positioning	5.0
6.4 2	General Environment		Positioning	4.0
6.4 3	Innovation		Positioning	5.0
6.4 4	Plans and Progress		Positioning	5.0

Exhibit 5: Q Grade Chart

Organizational Citizenship		Grade 1-5
Note: You MUST insert a number for every category		↓
Employee		5.0
Customer		5.0
Competitor		1.0
Directors		5.0
Government		4.0
Environment		4.0
Community		5.0
Stockholder		4.0
Communication		4.0
Persona		2.0
Vendor		3.0

Strategic Positioning		
Vision and Mission		5.0
Competitive Advantage		5.0
General Environment		4.0
Innovation		5.0
Plans versus Progress		5.0

Exhibit 6: Q Graph



Strategic Positioning

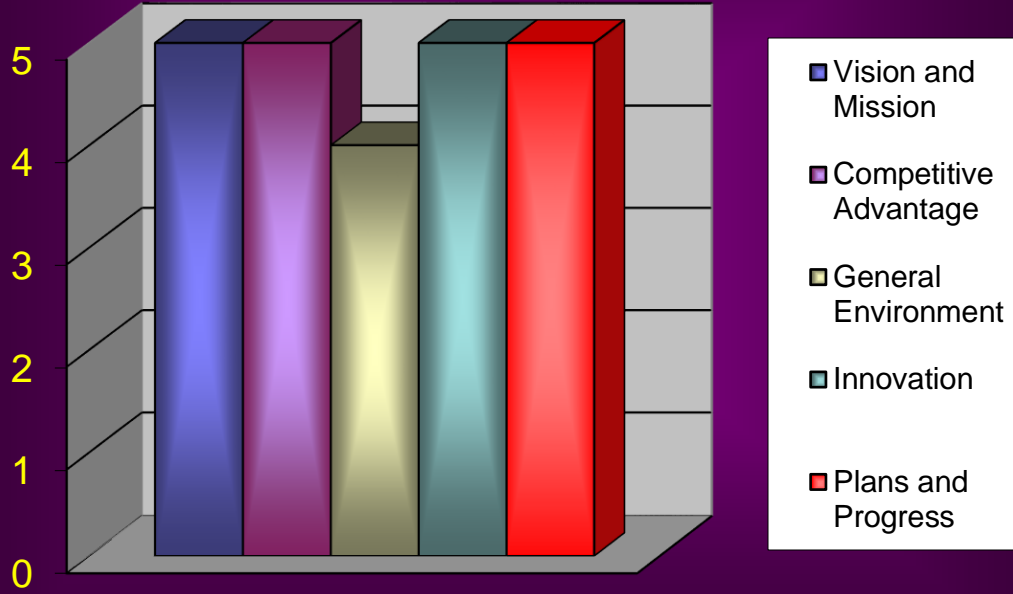
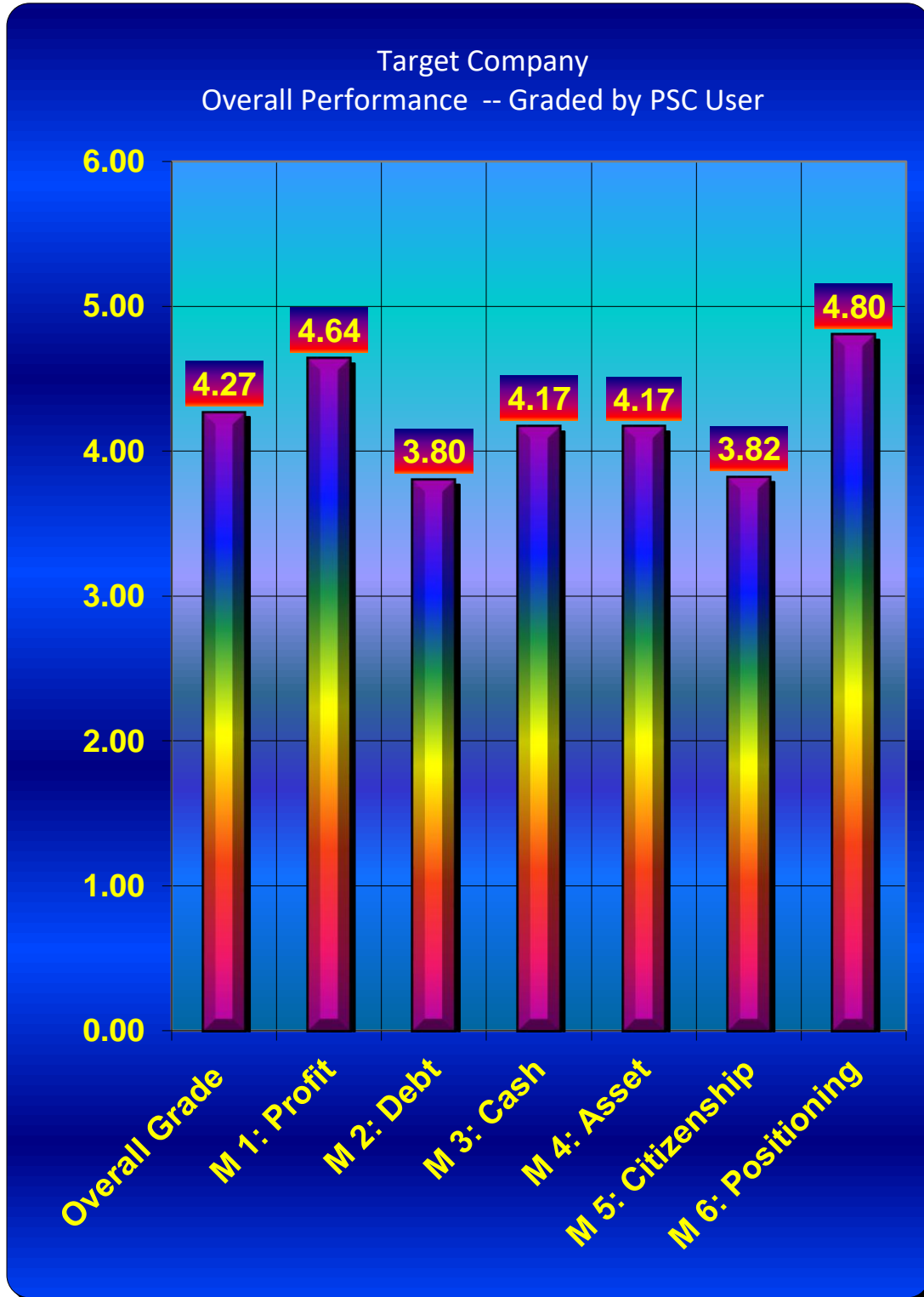


Exhibit 7: Grade Graph



Target Company
Overall Performance -- Graded by PSC User

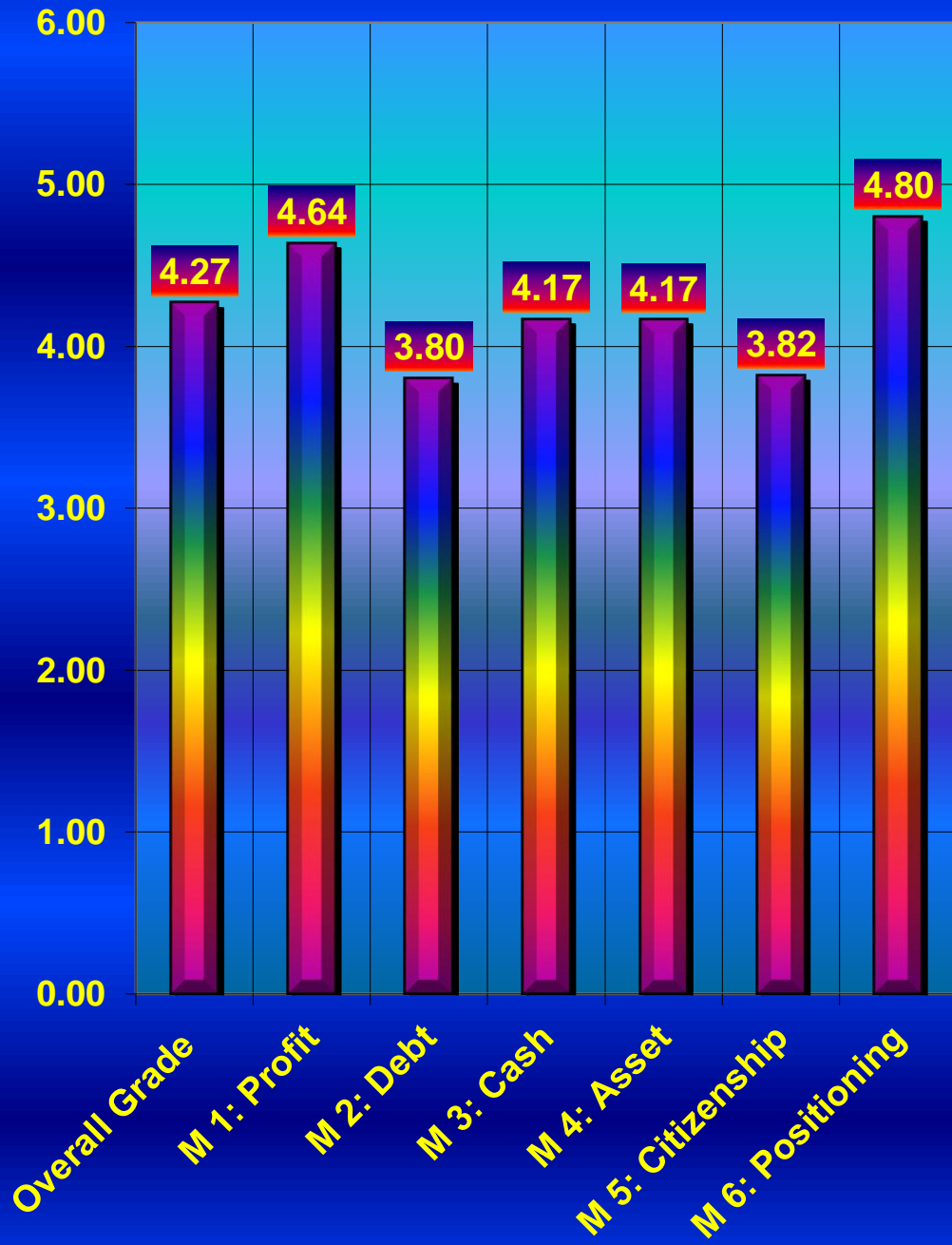


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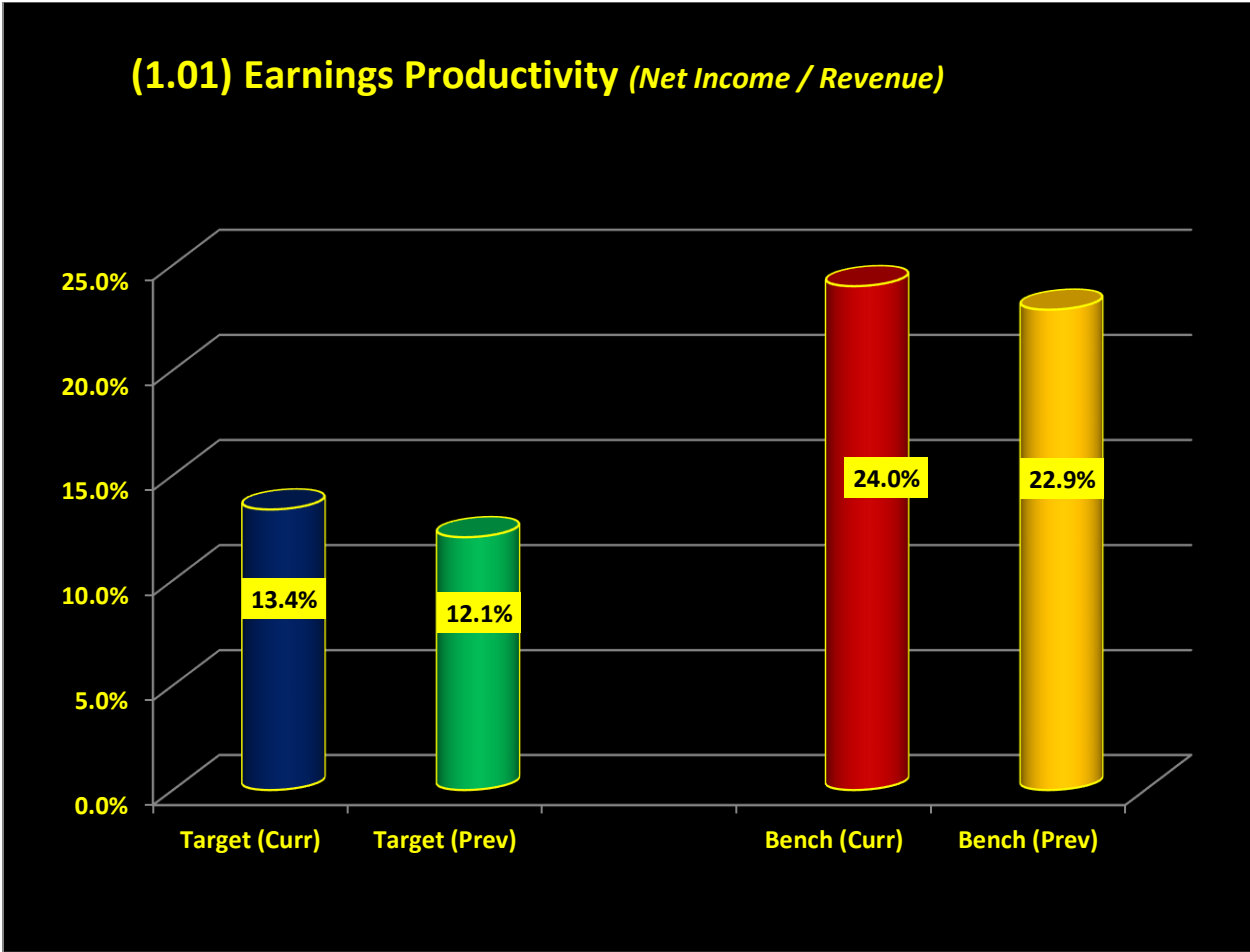


Exhibit 9



Exhibit 10

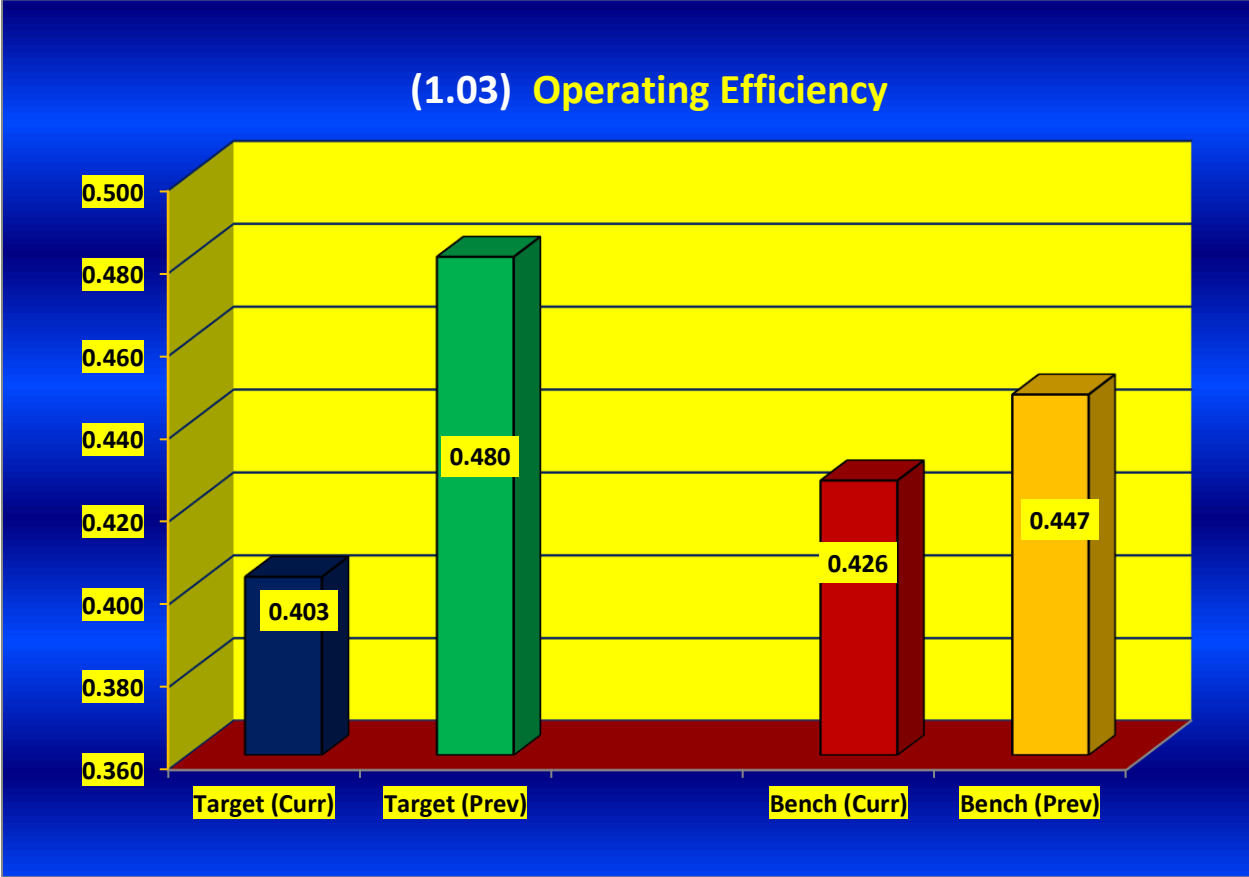


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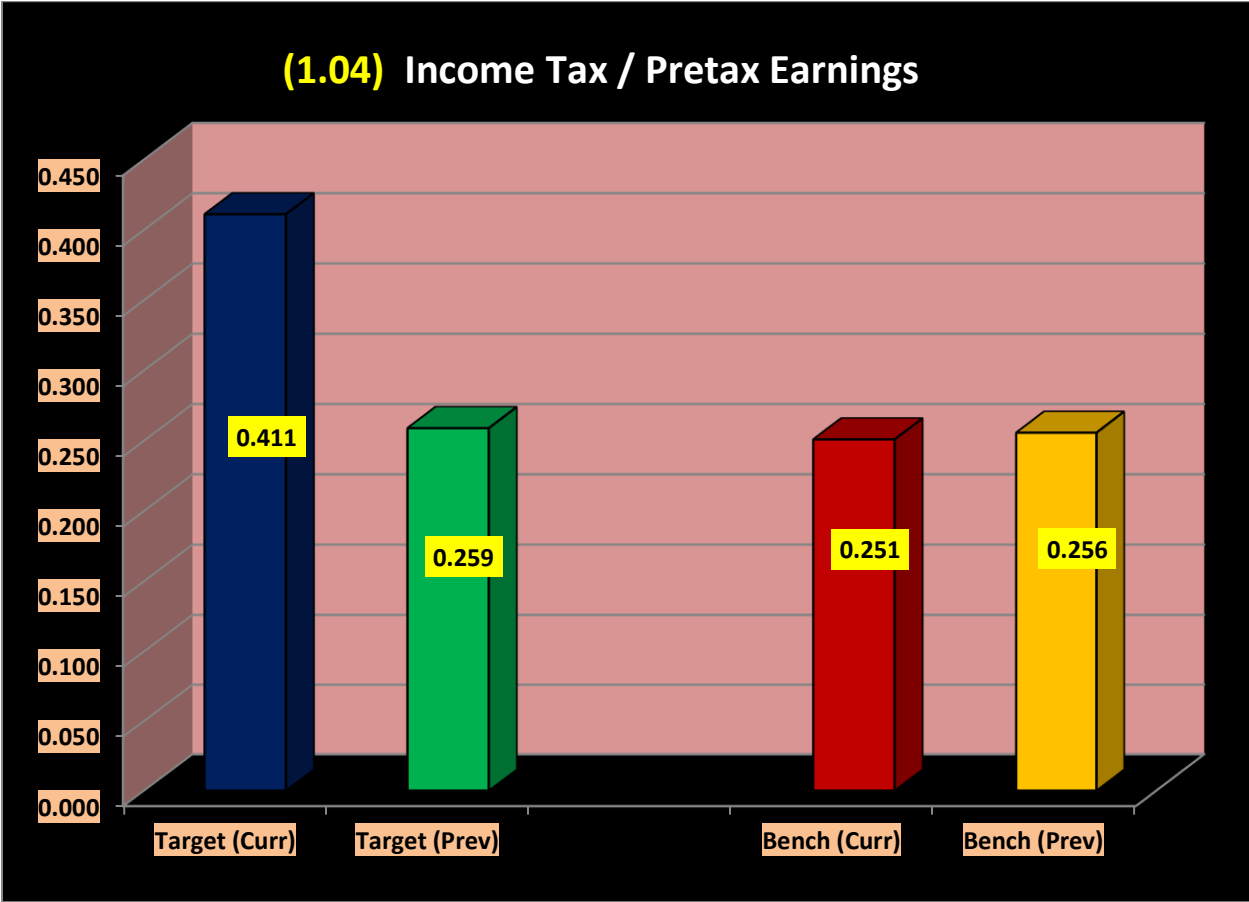


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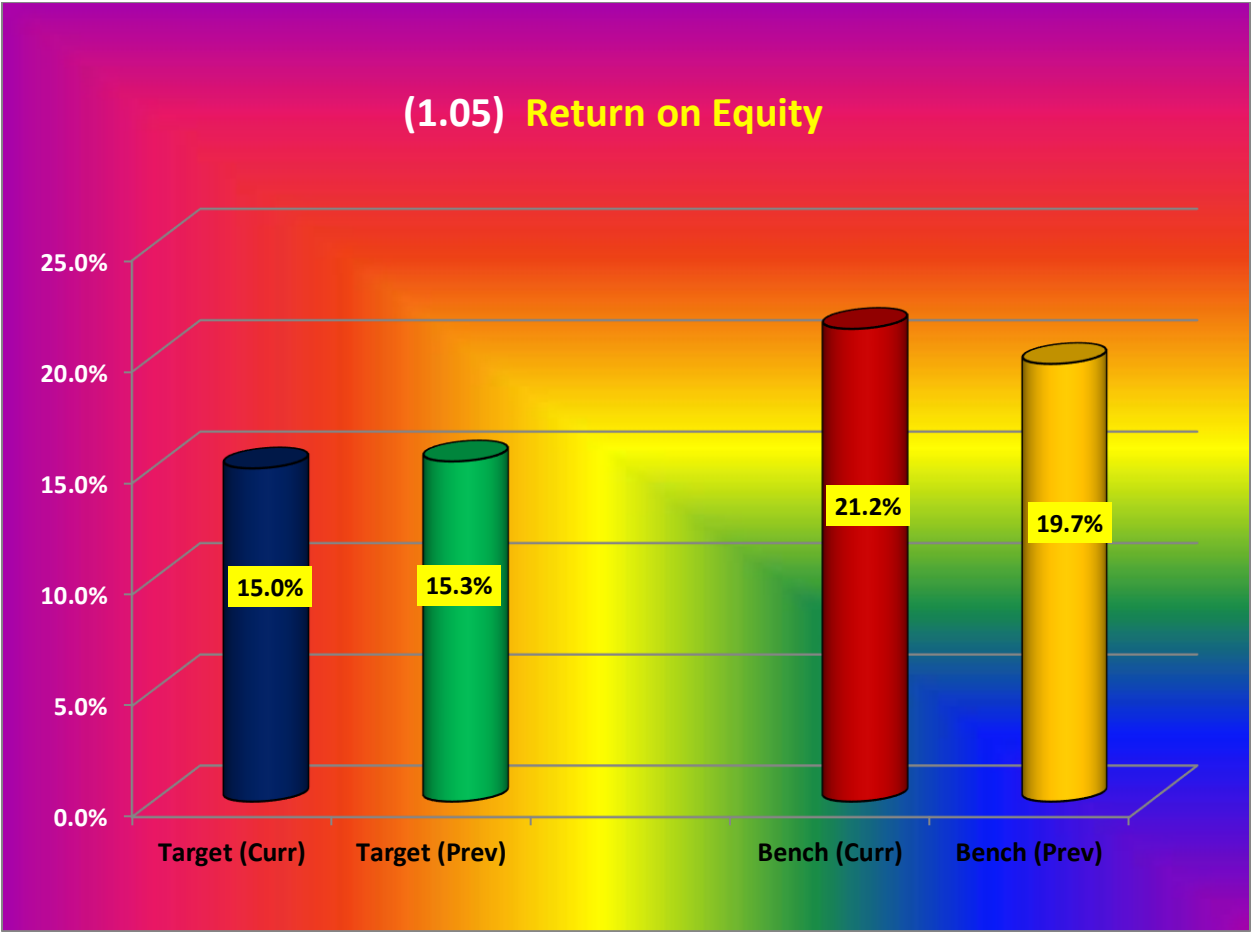


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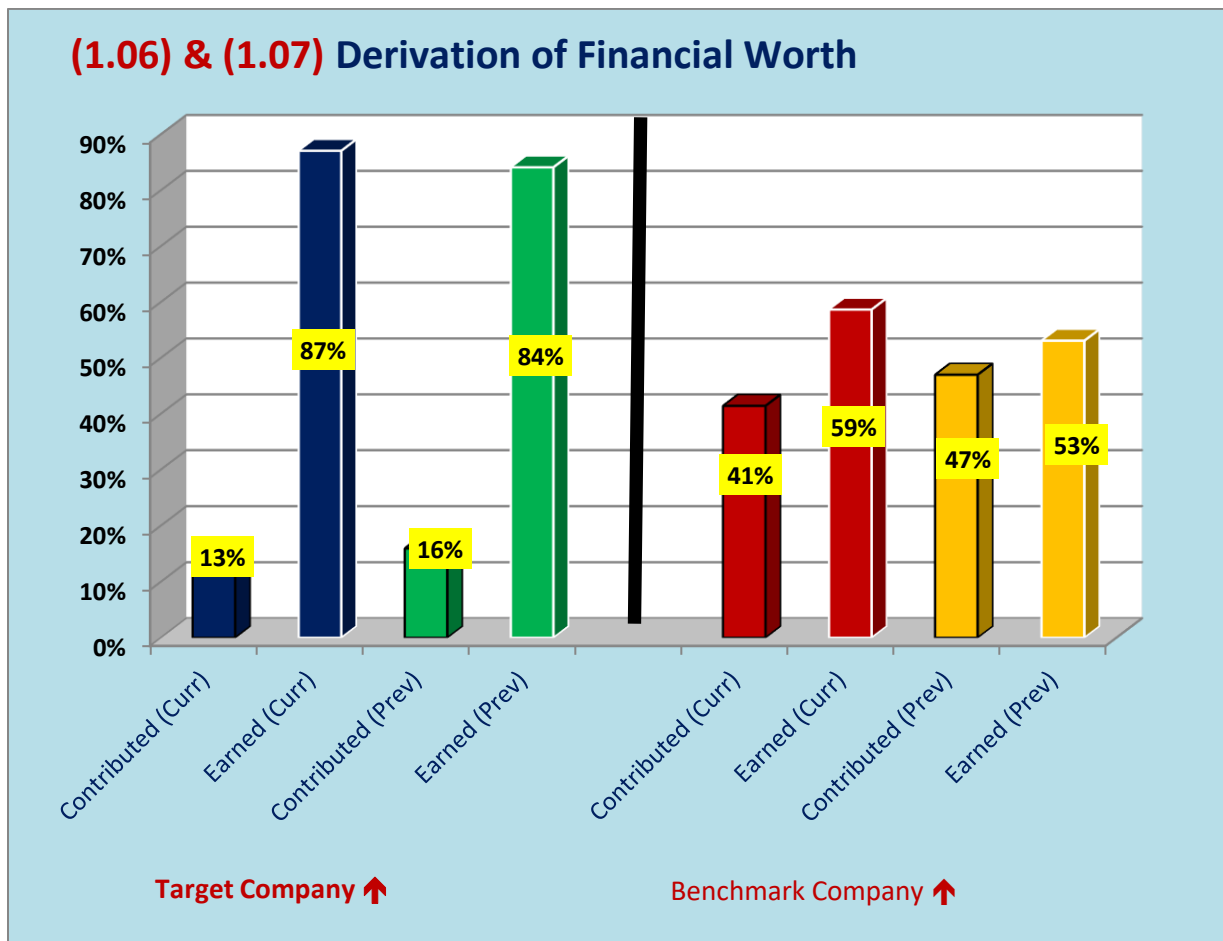


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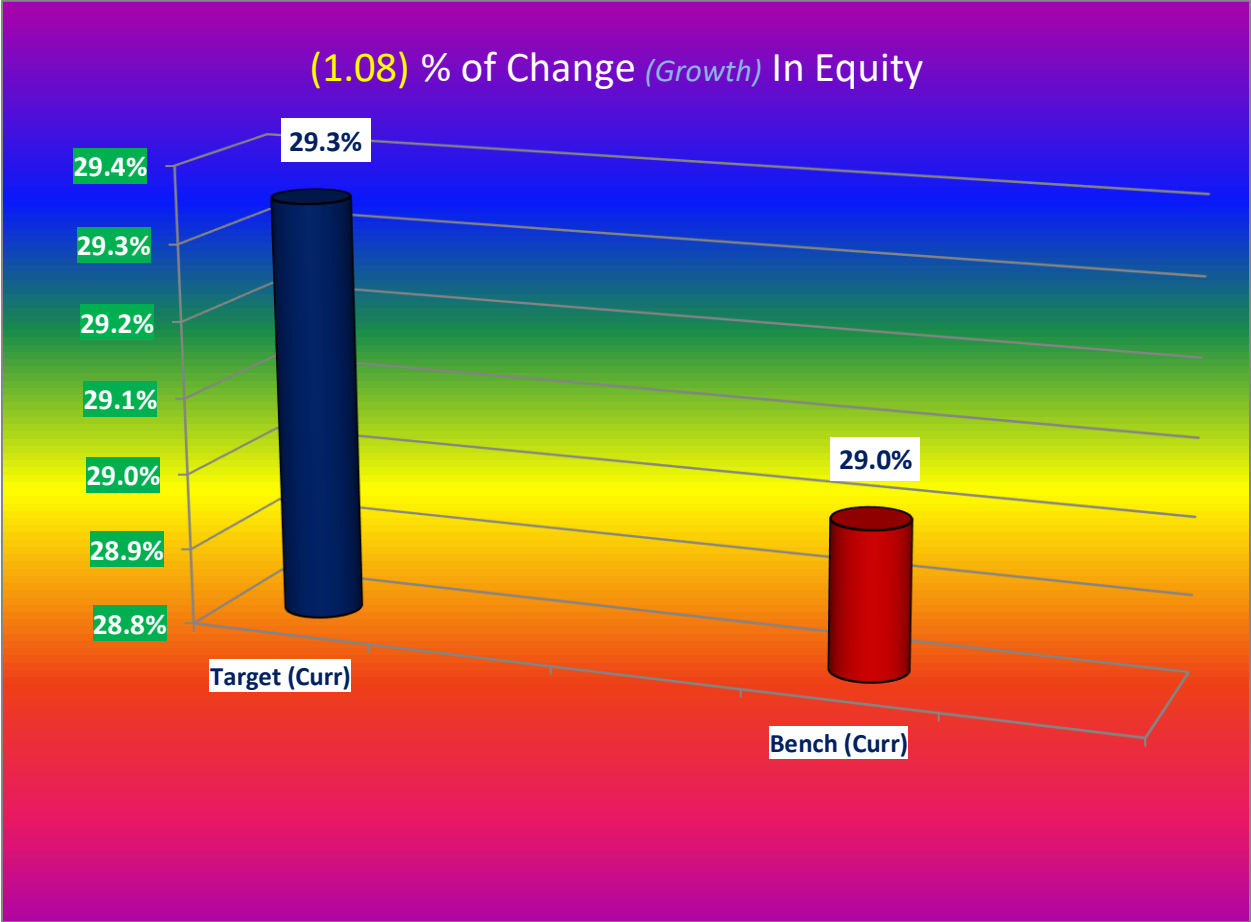


Exhibit 15



Exhibit 16

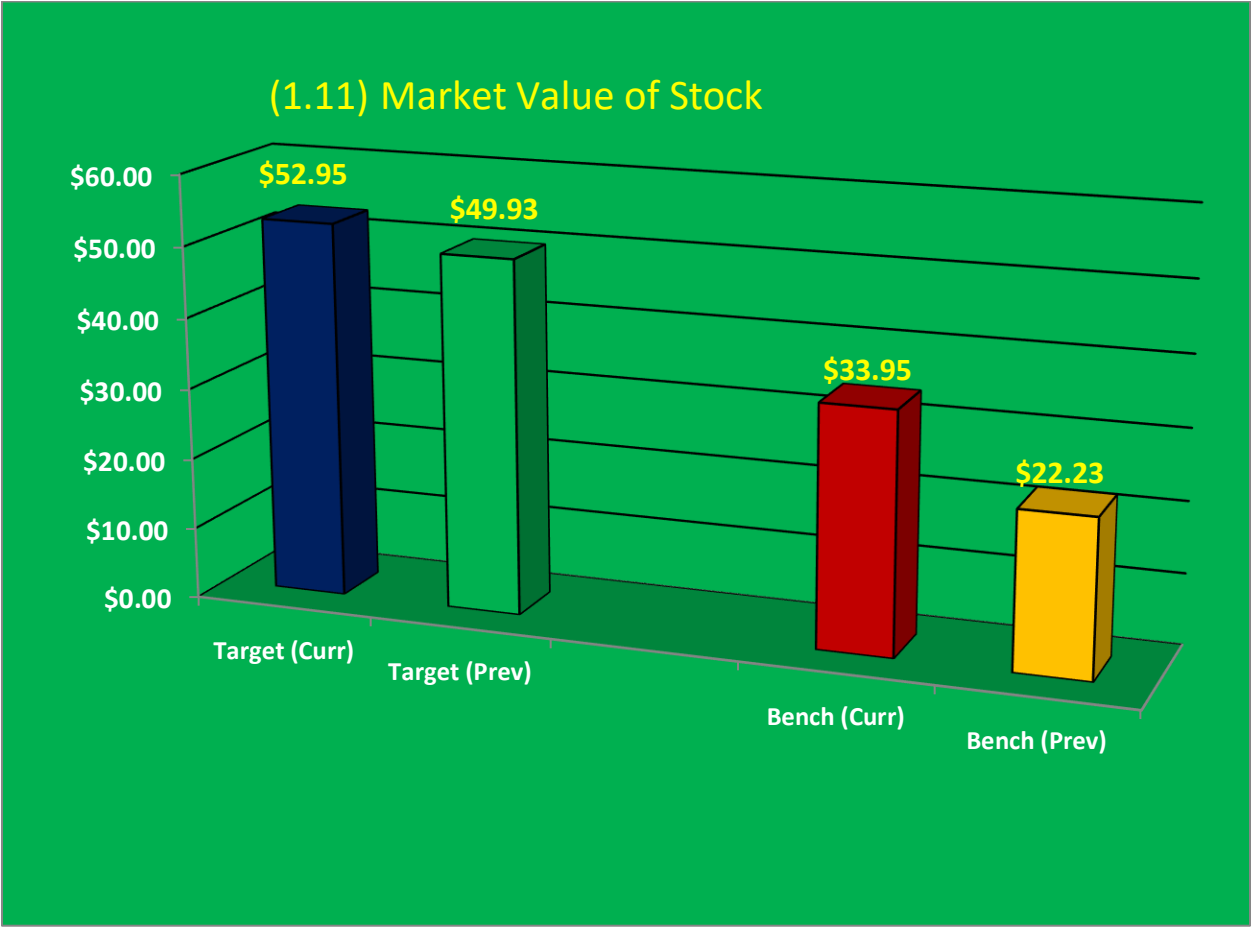


Exhibit 17



Exhibit 18

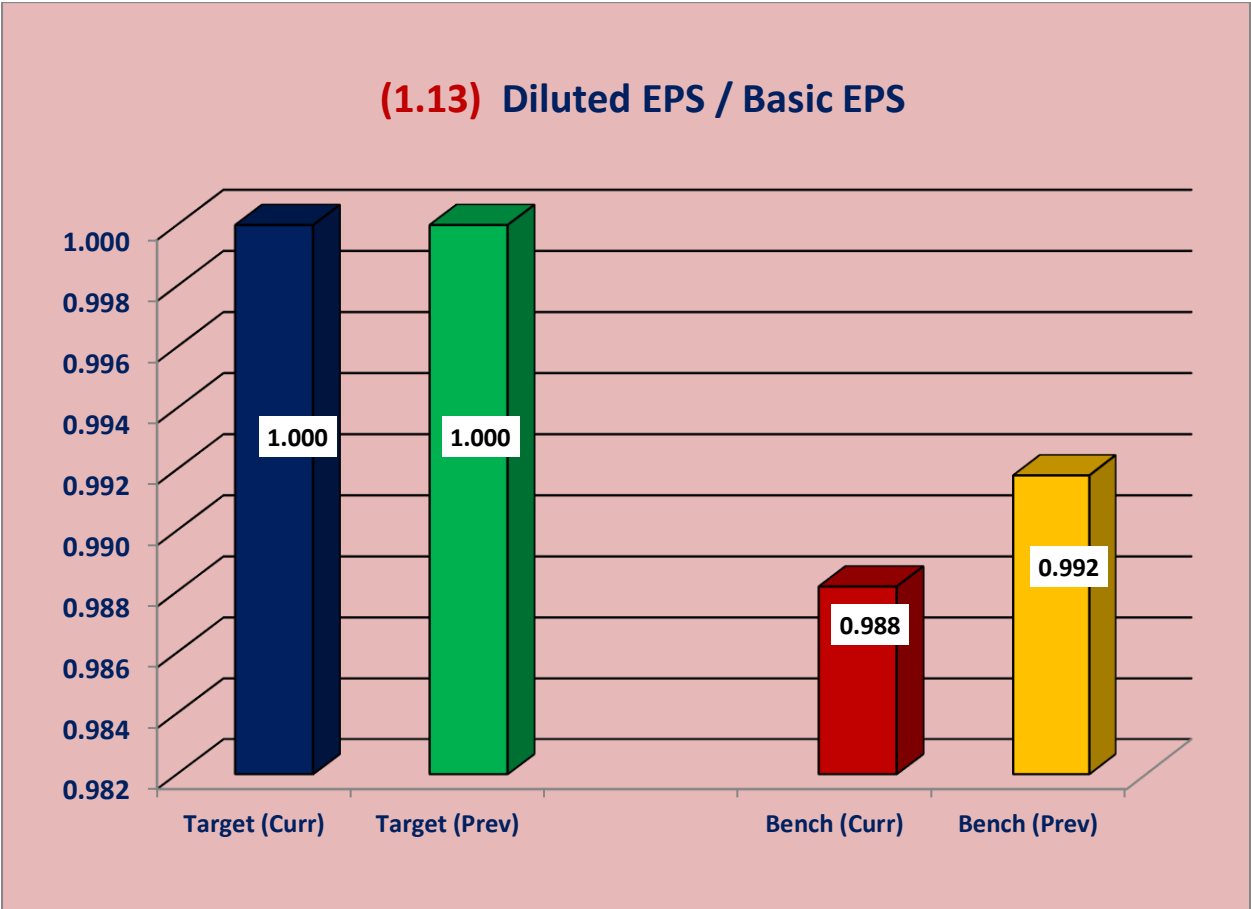


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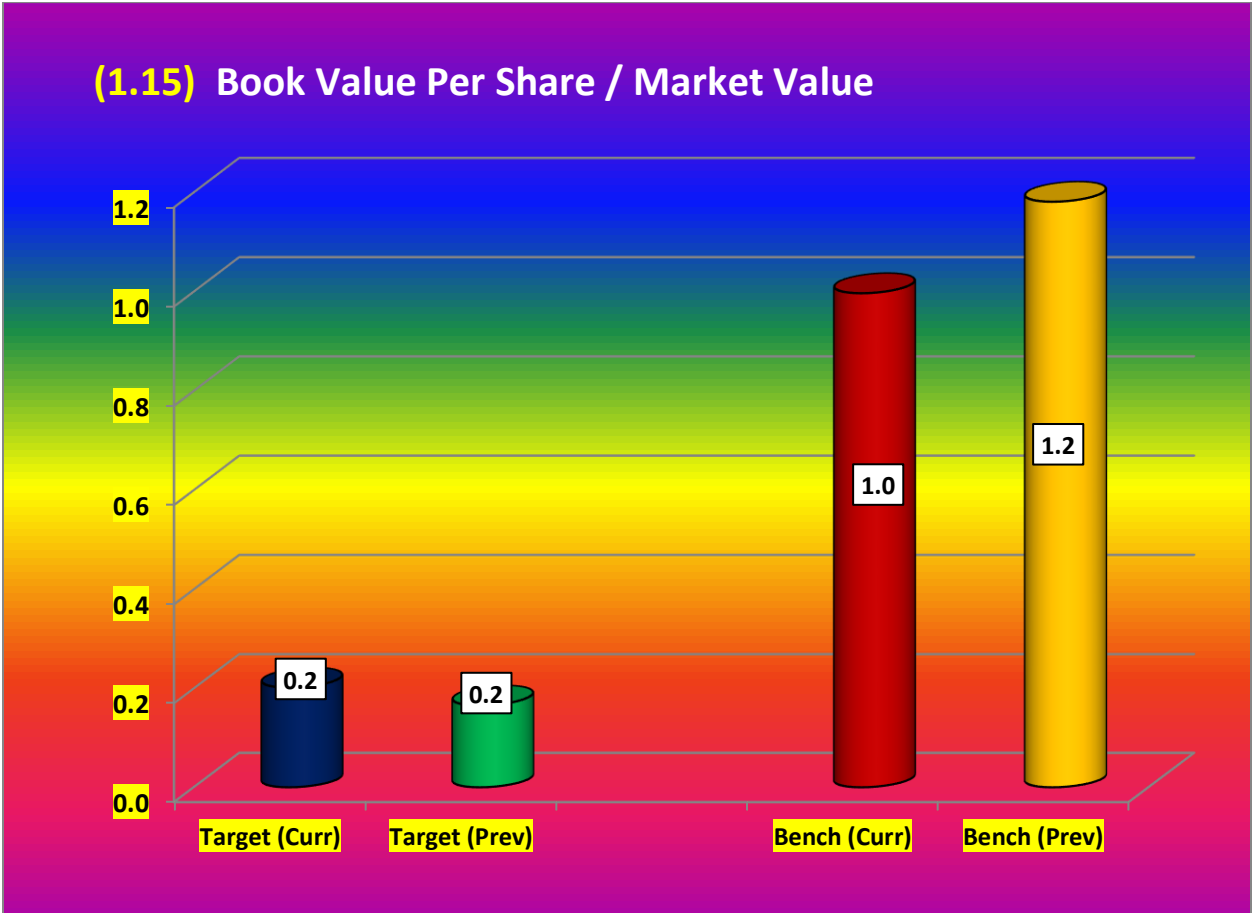


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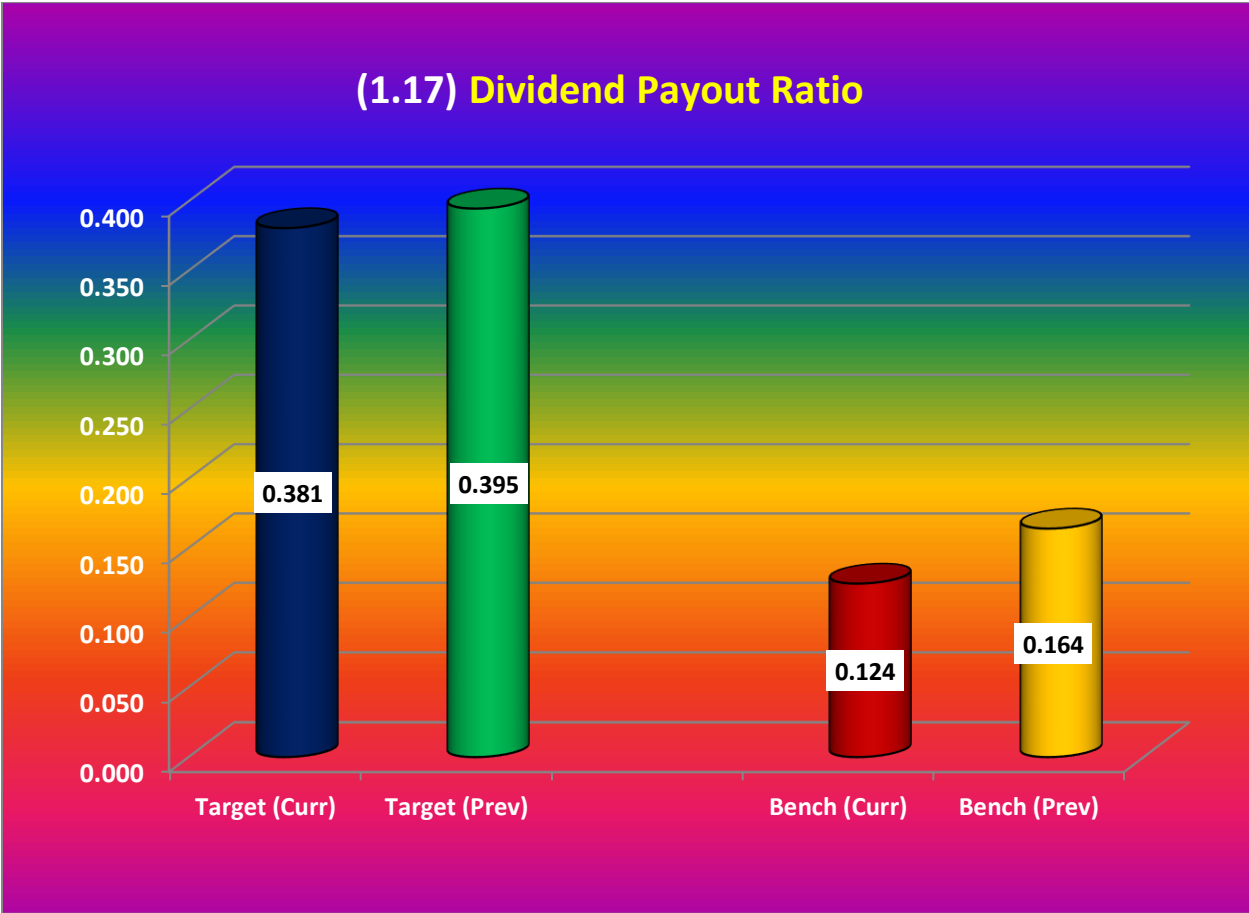




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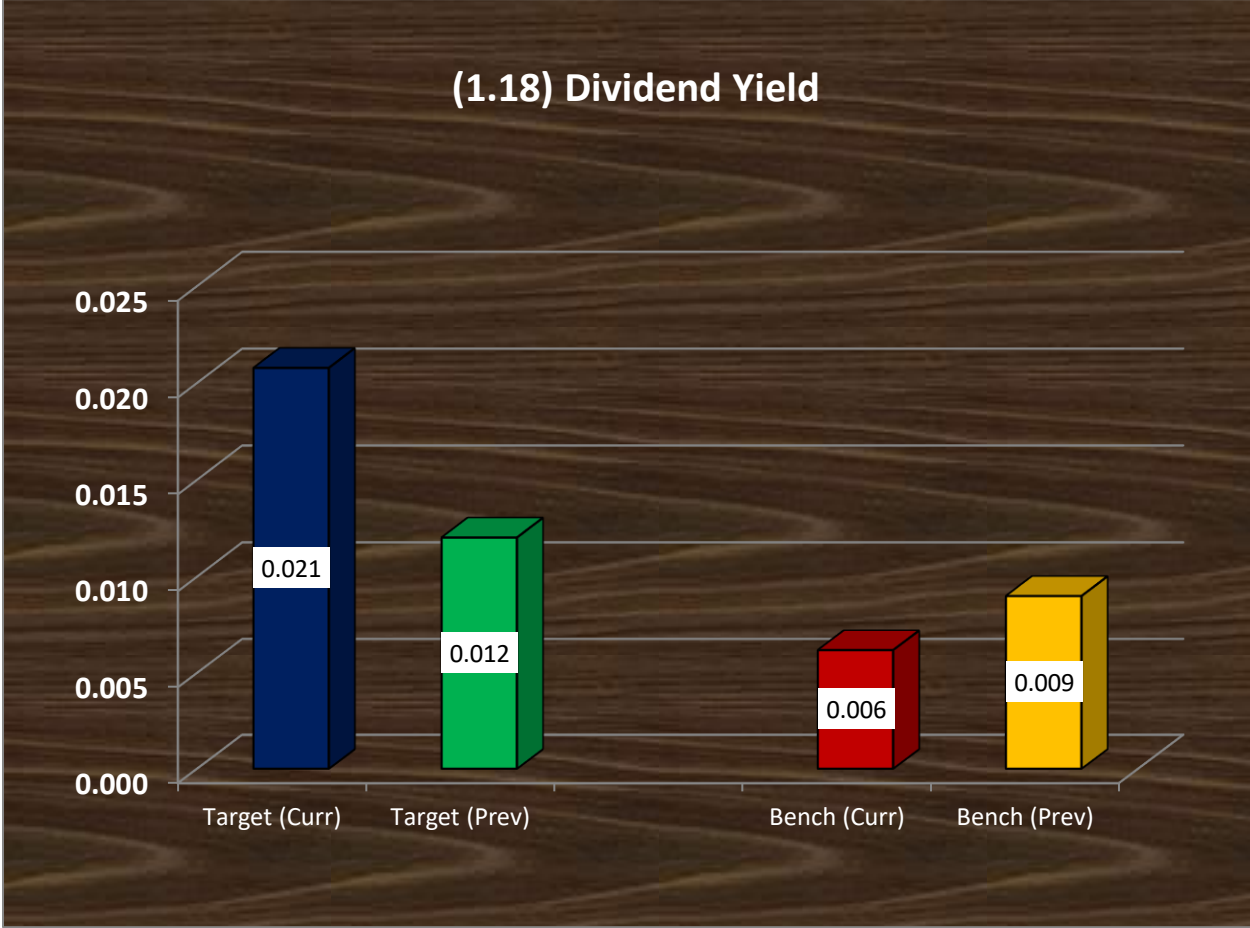


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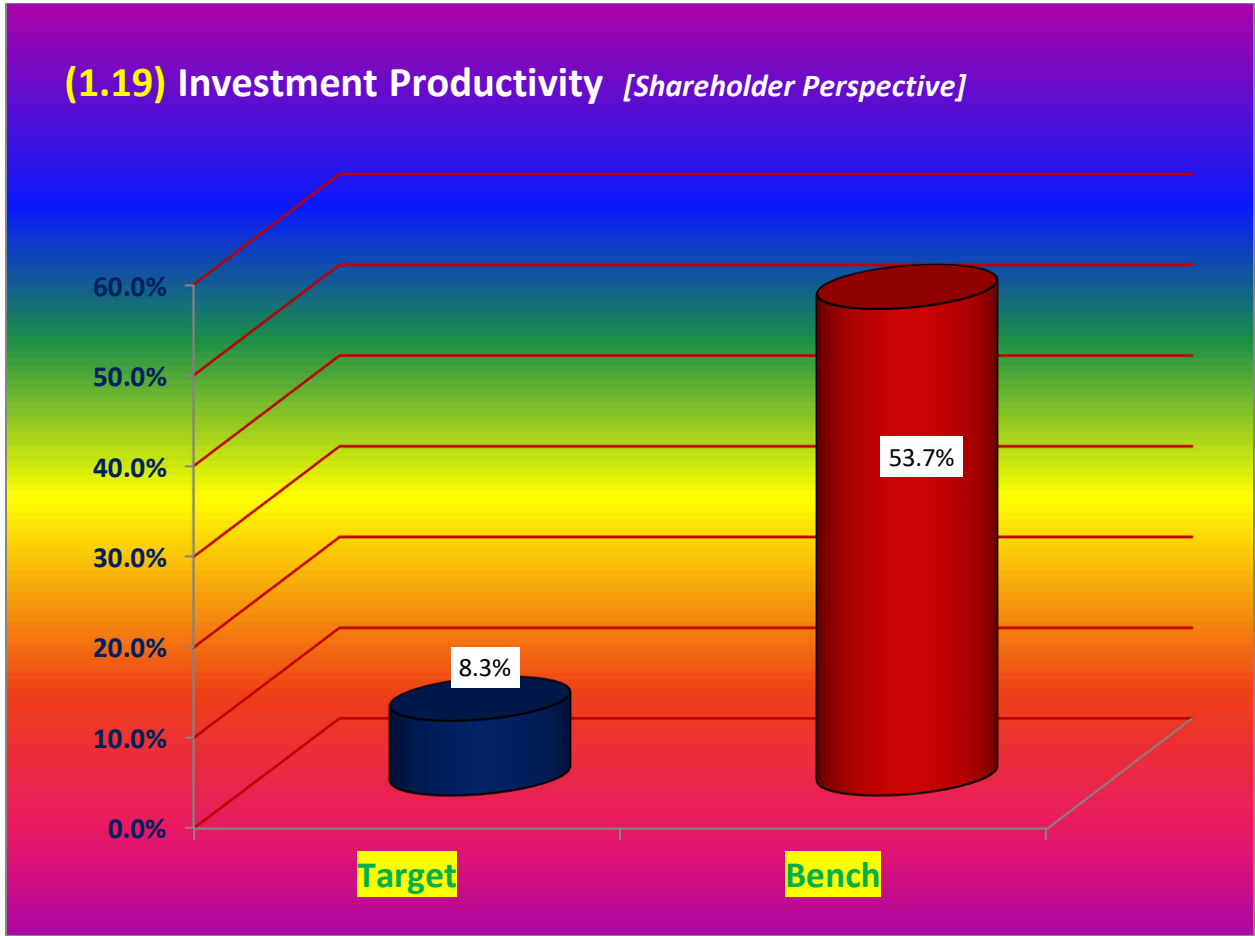


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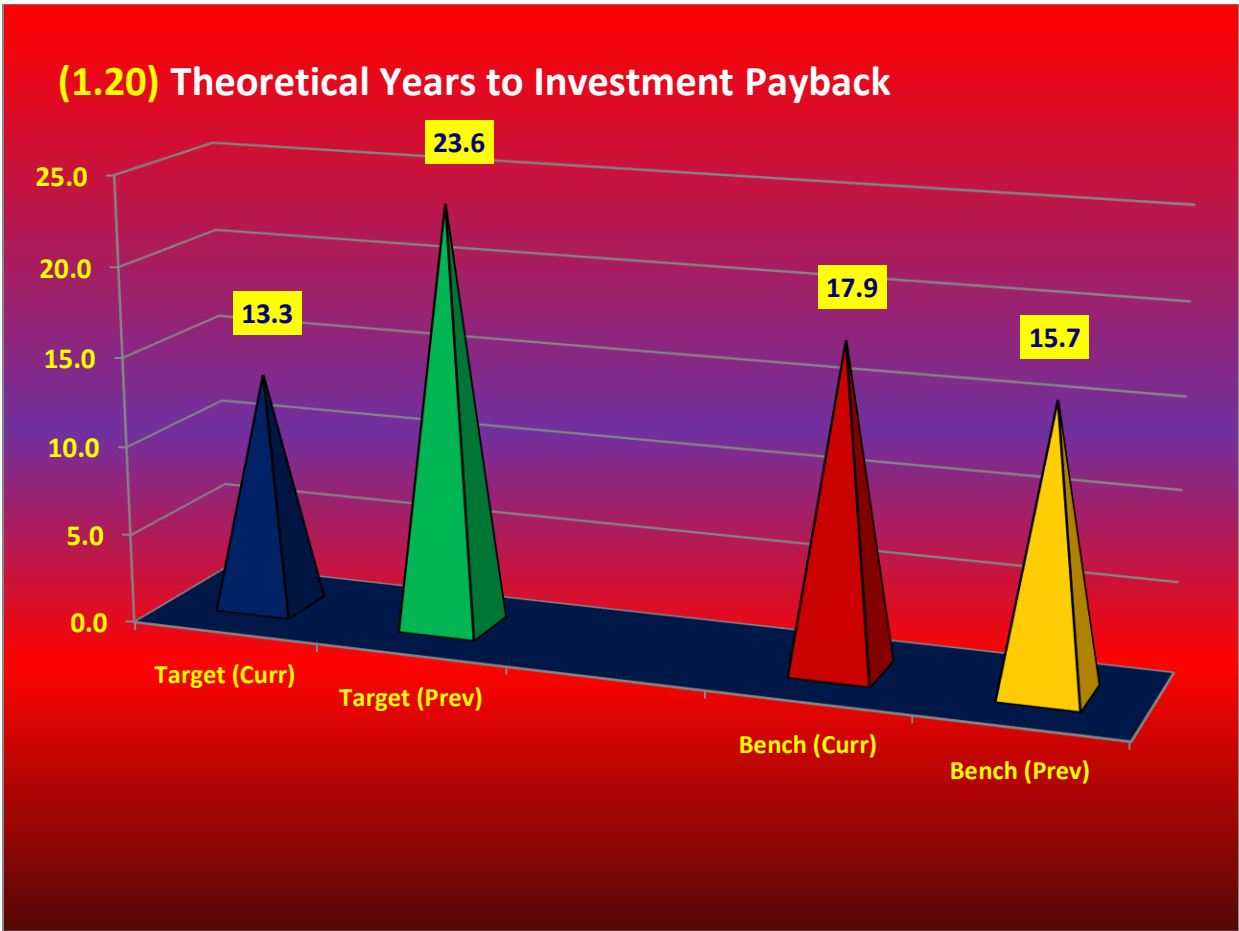


Exhibit 24



Exhibit 25



Exhibit 26

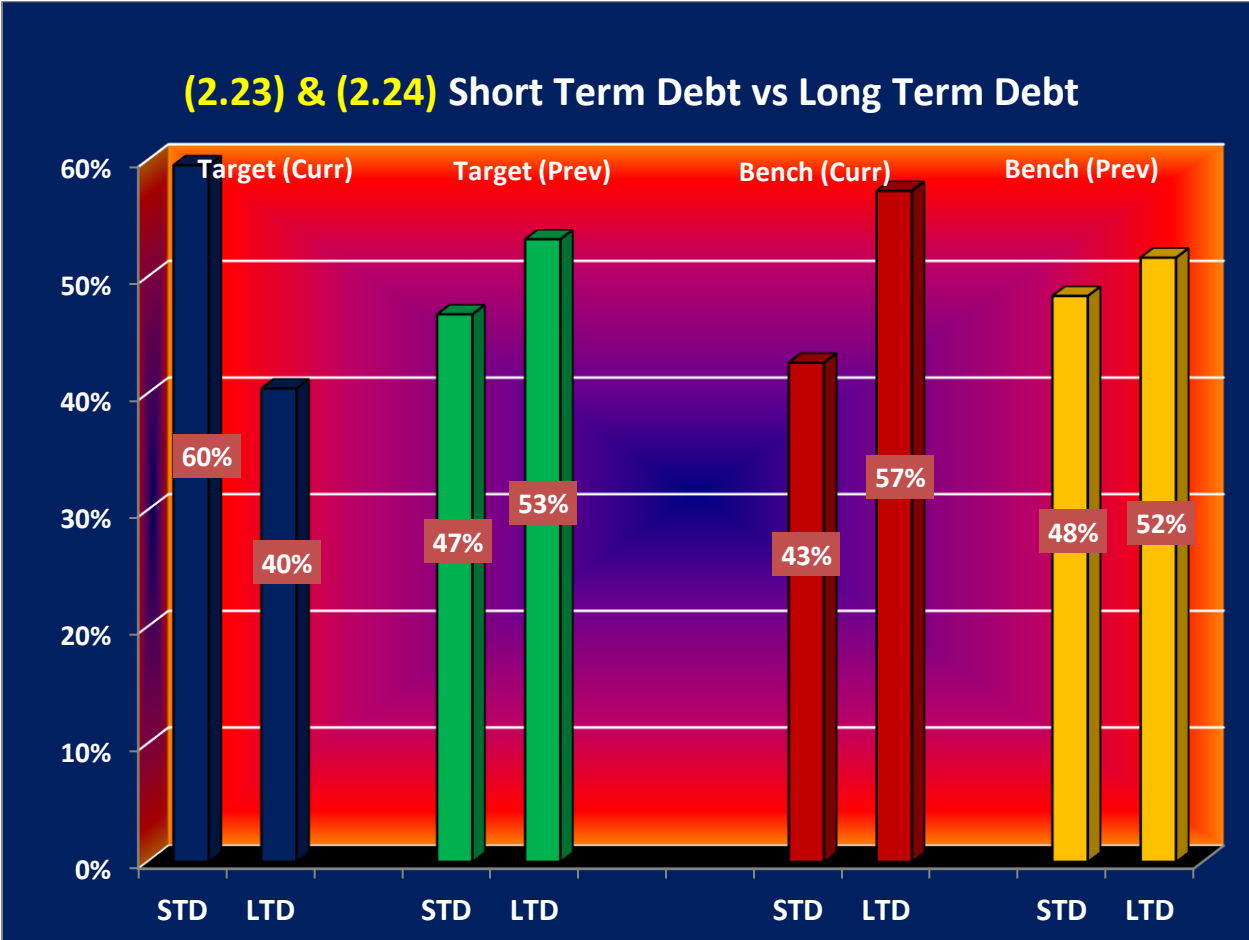


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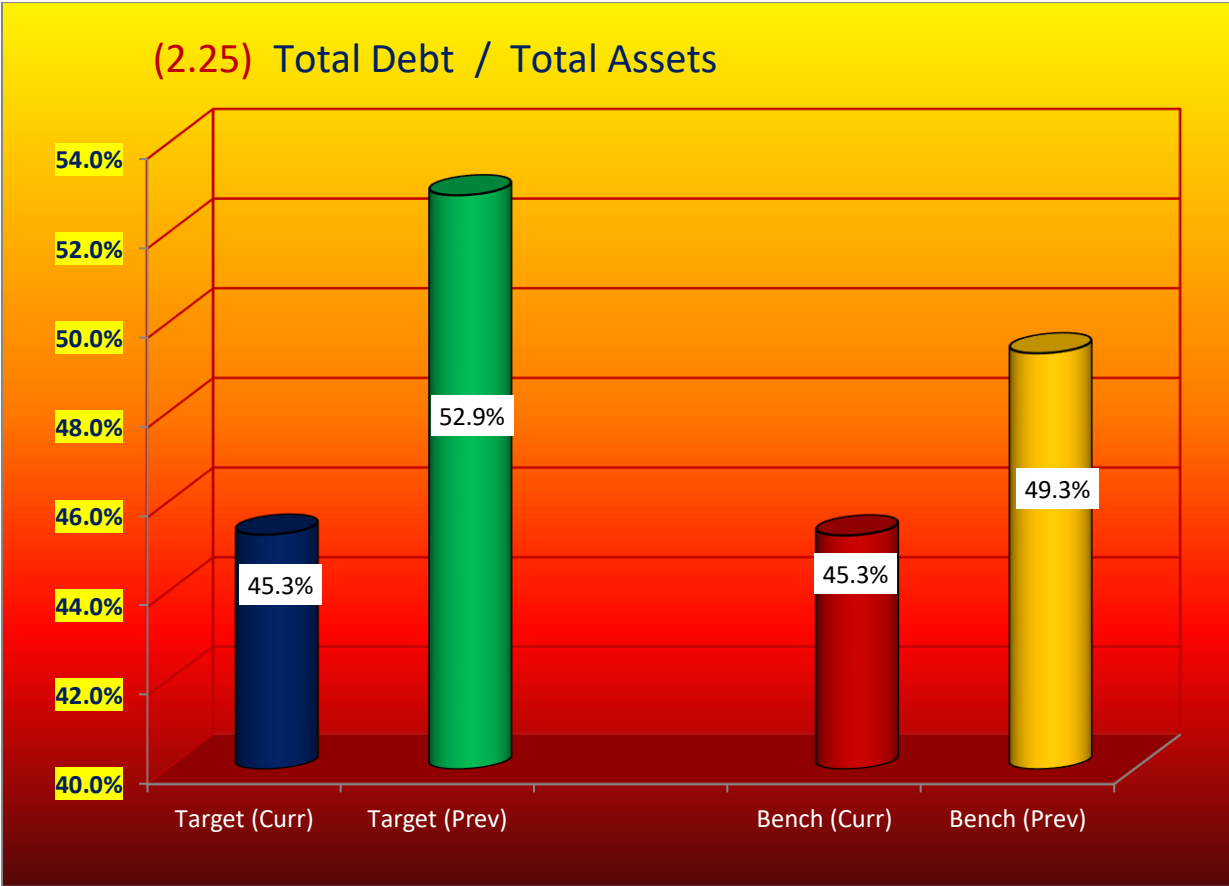


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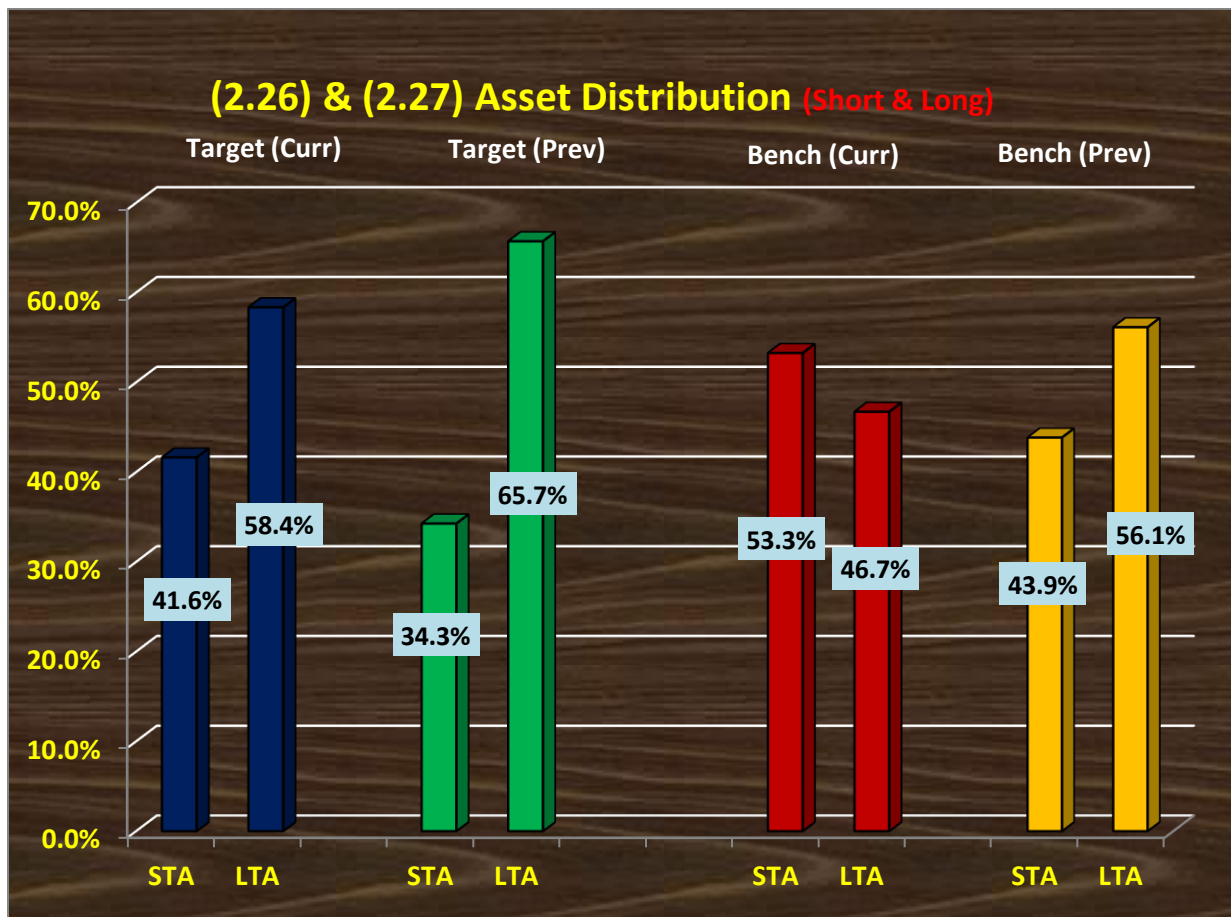


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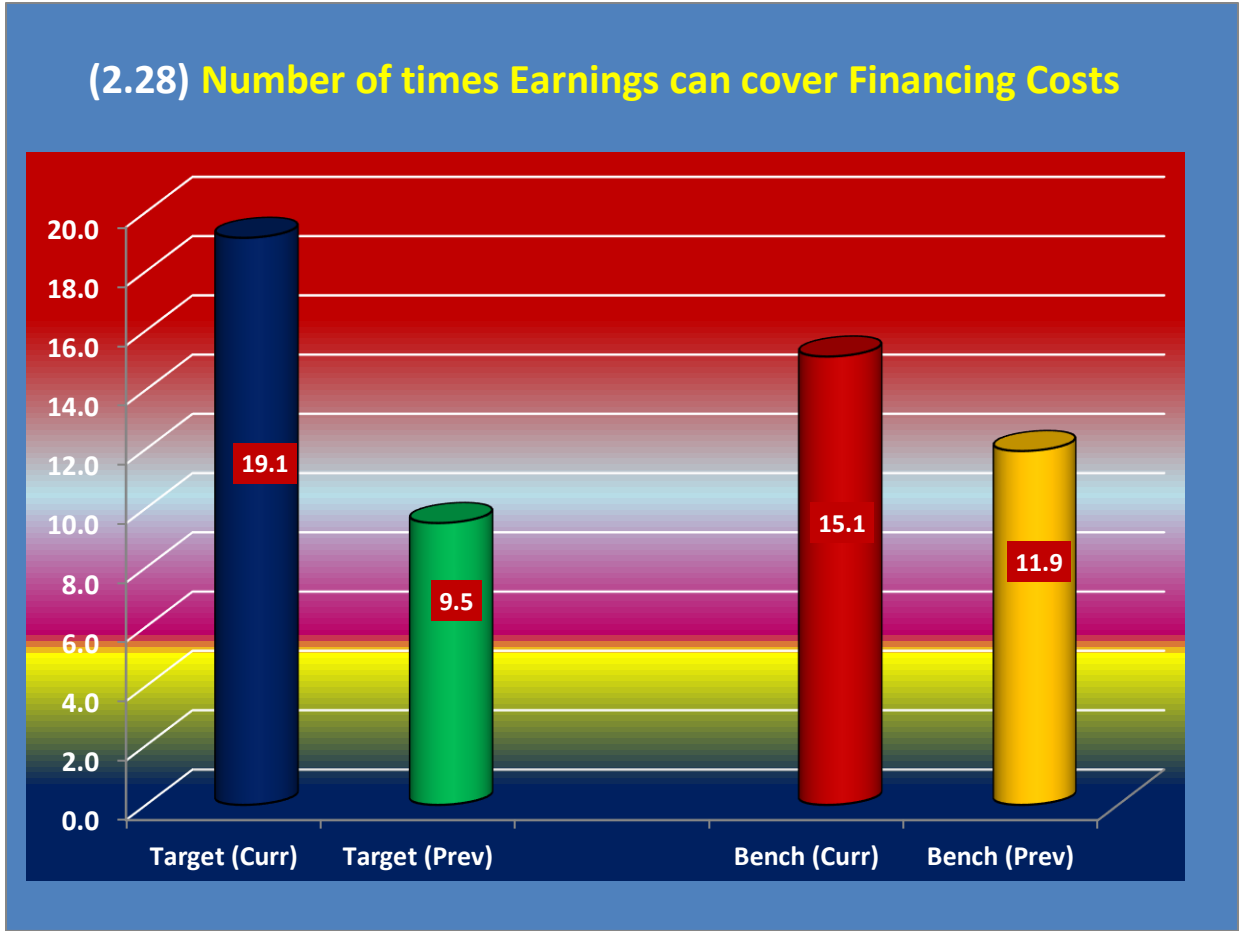


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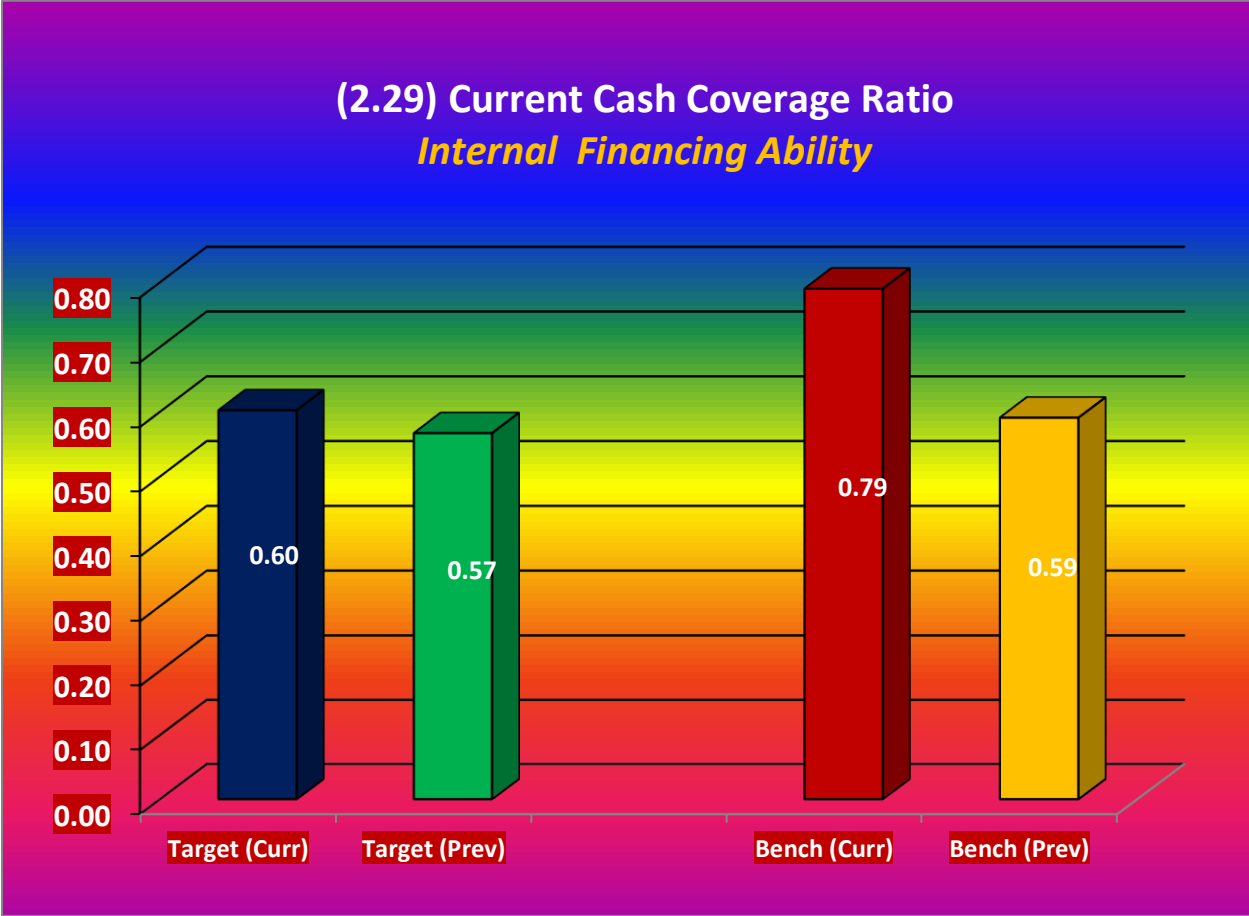


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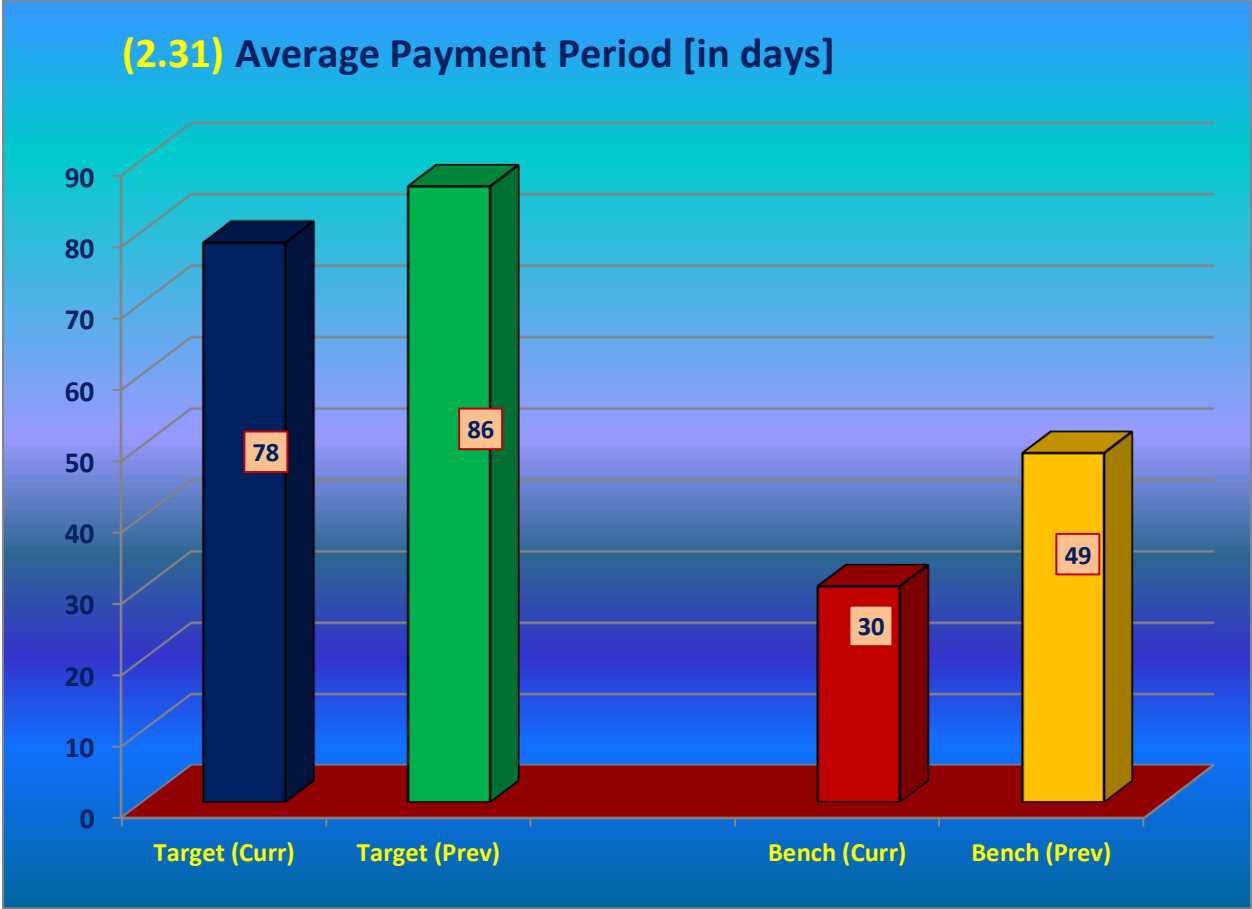


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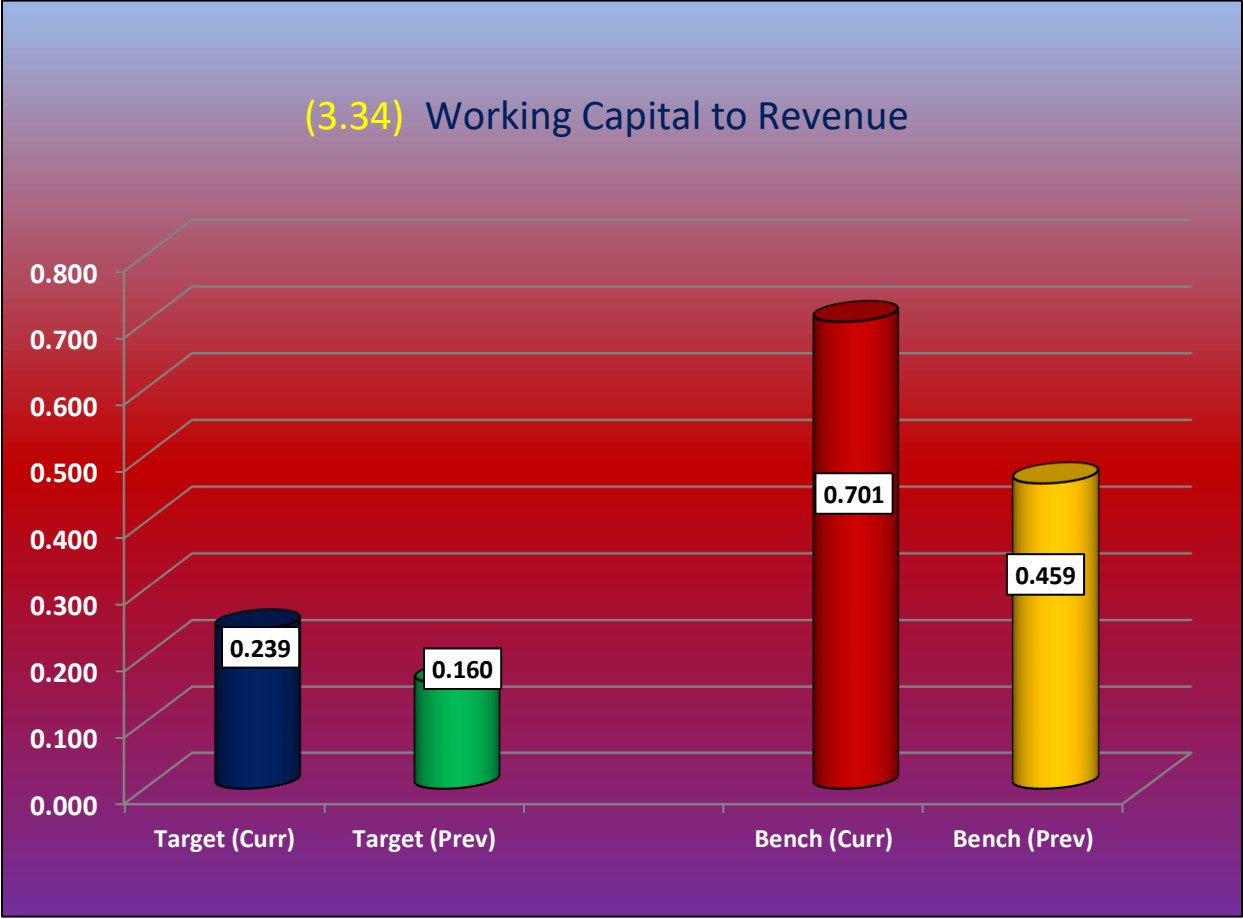


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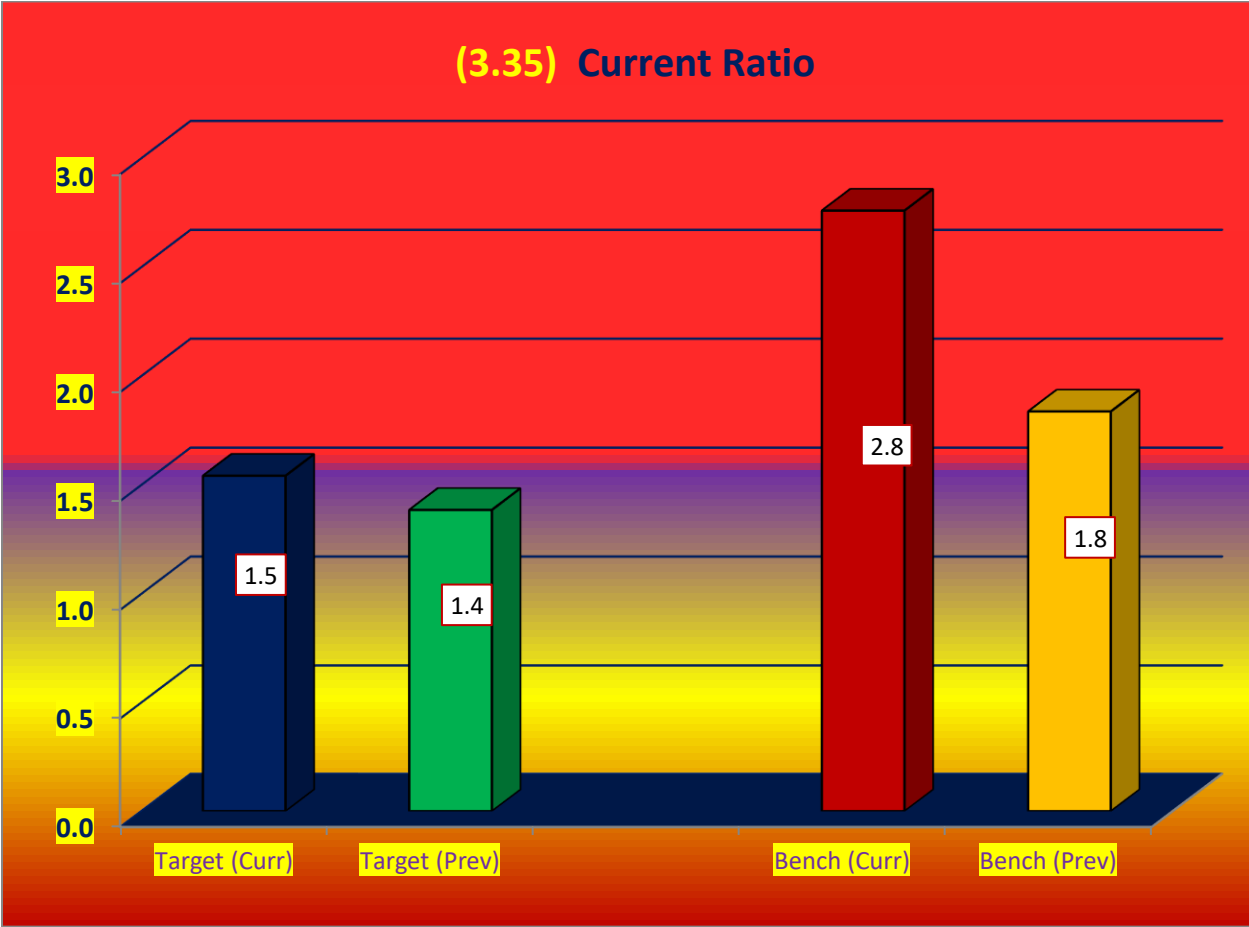


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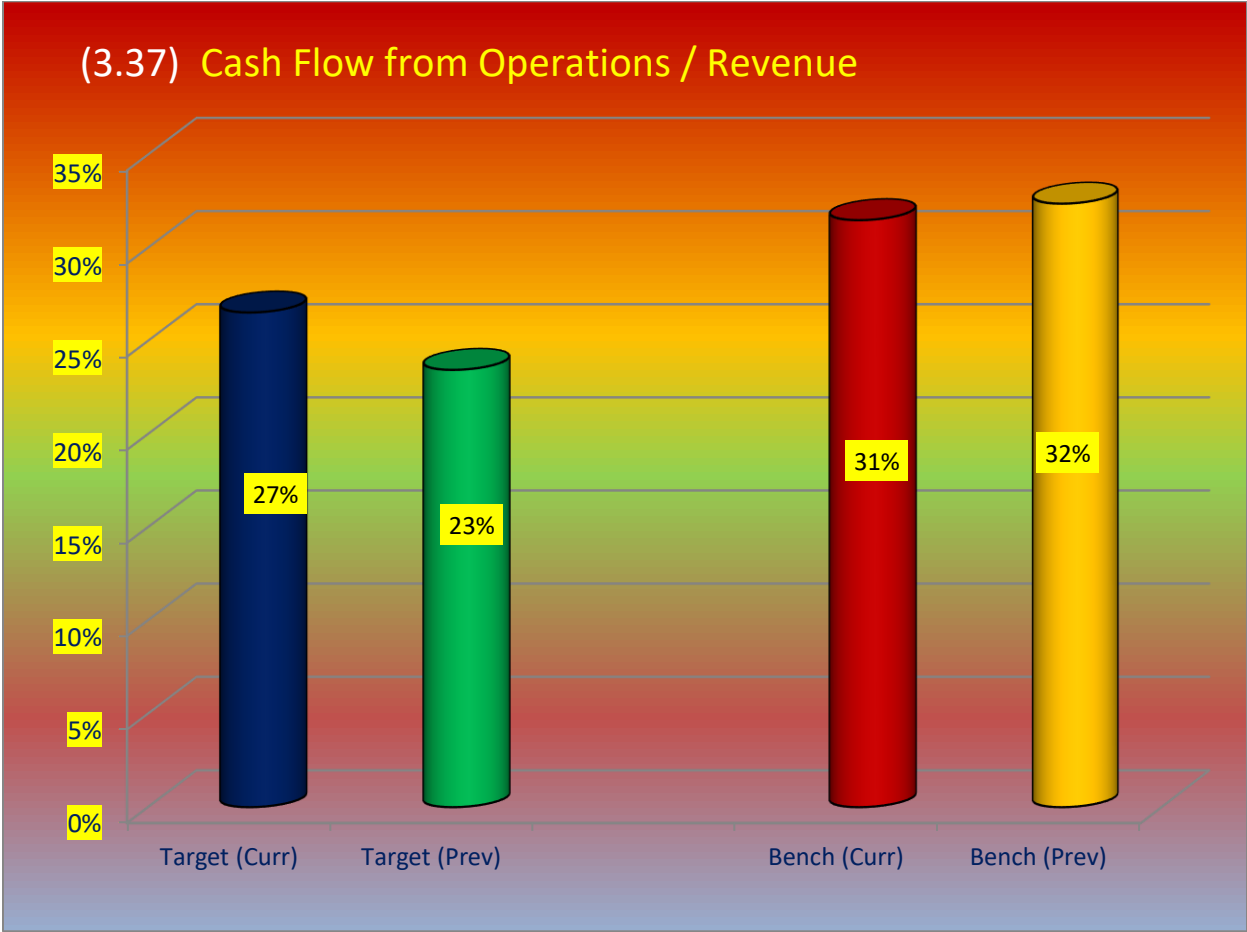


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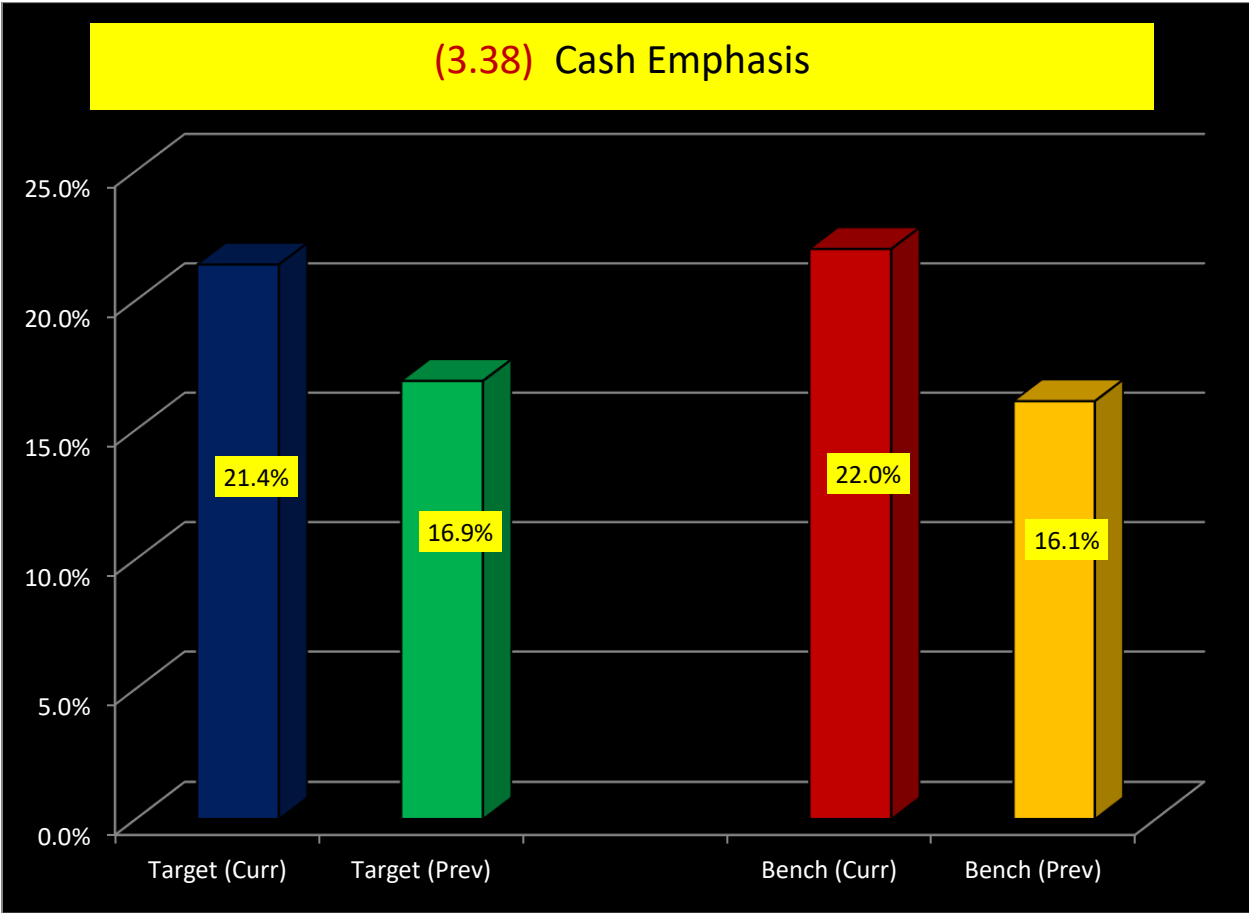


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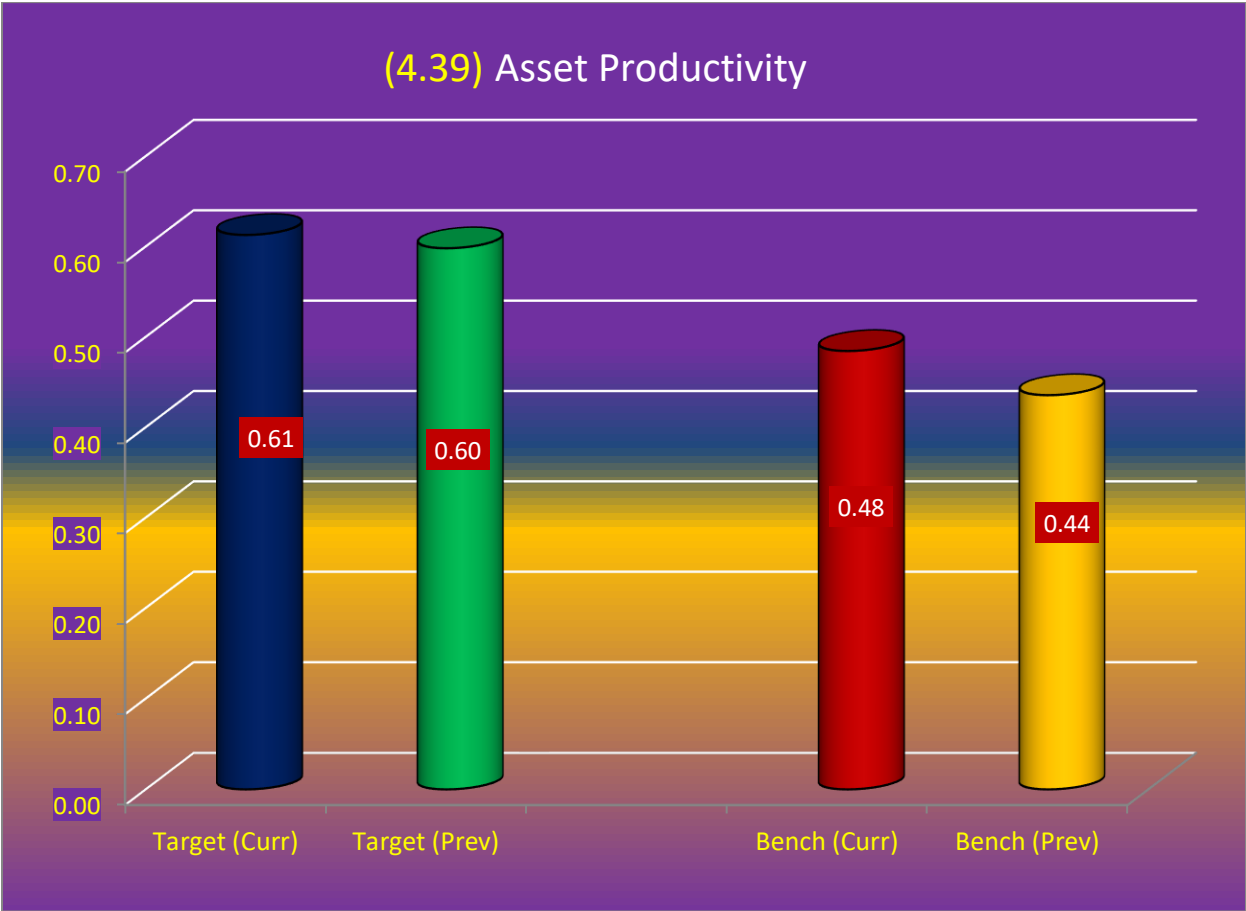


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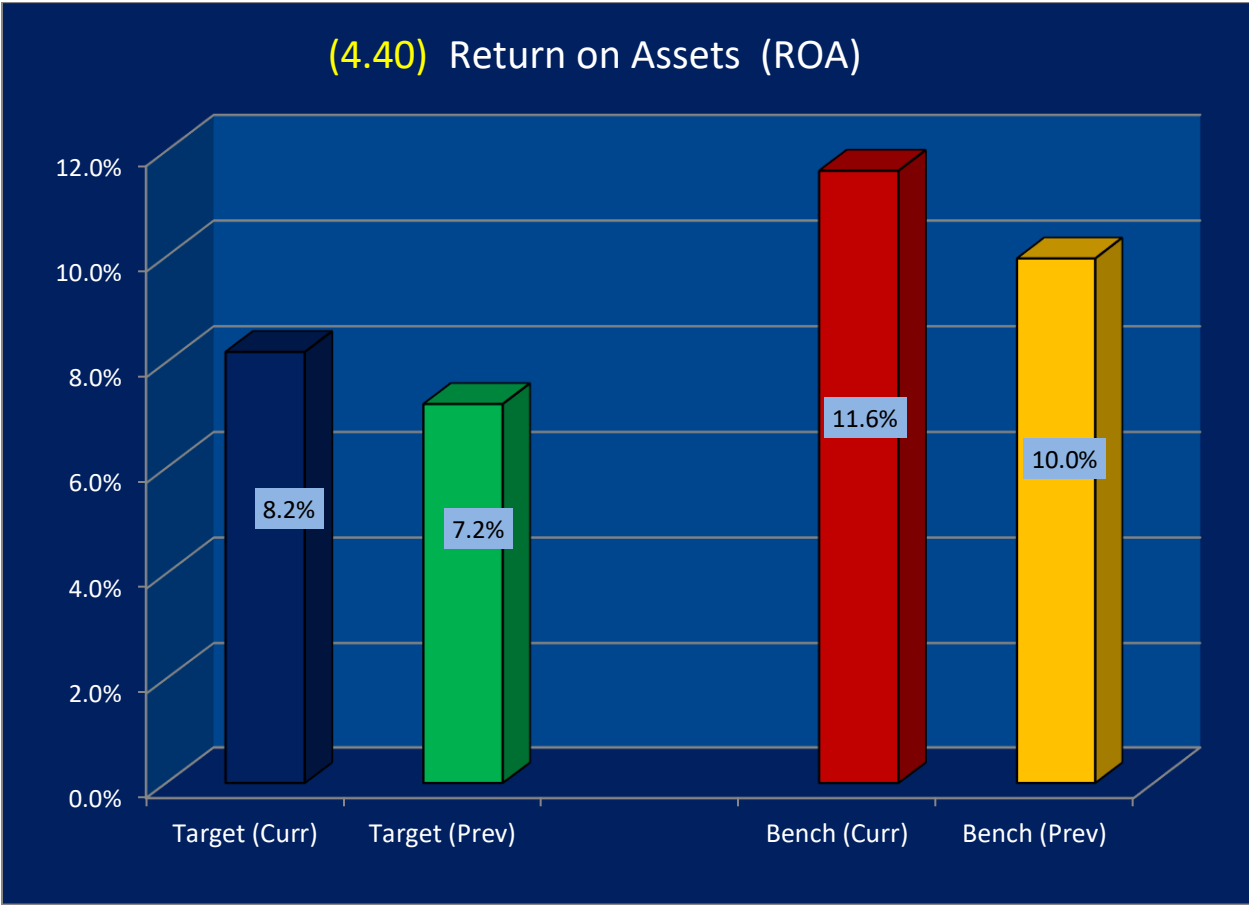


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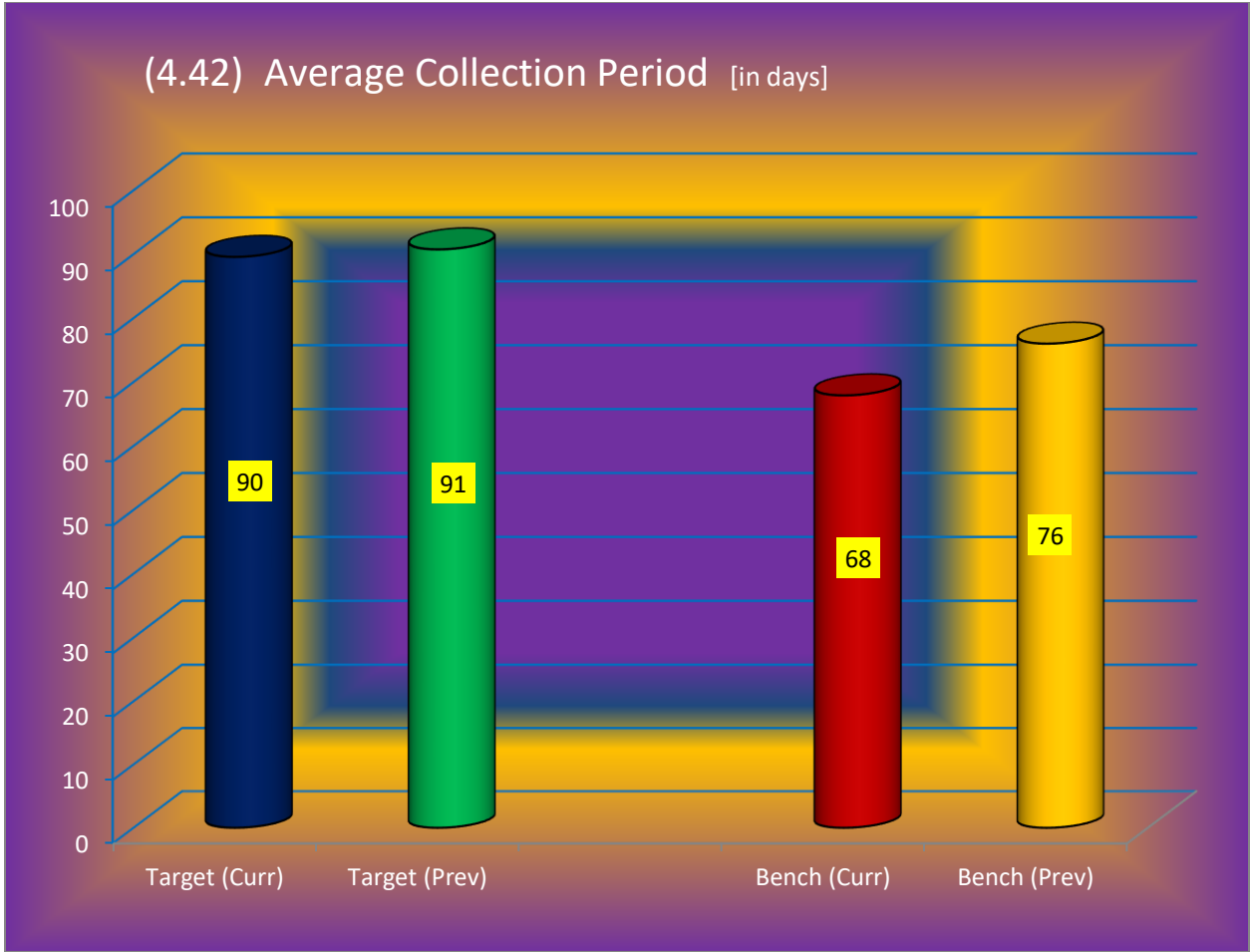


Exhibit 38

