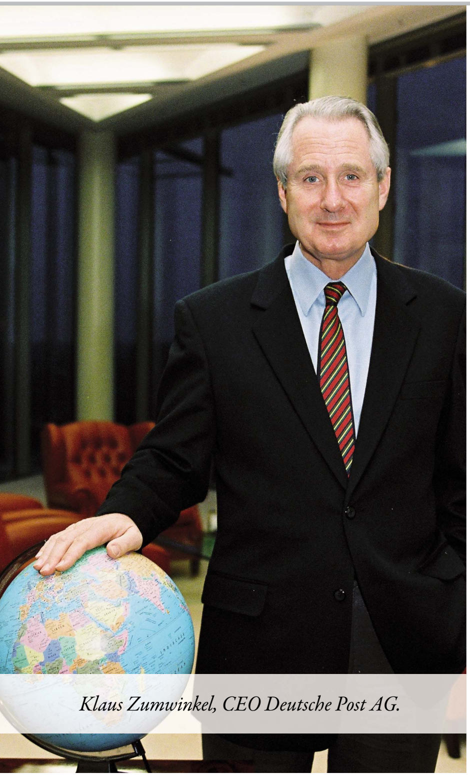


Klaus Zumwinkel, CEO Deutsche Post AG.

Analysis

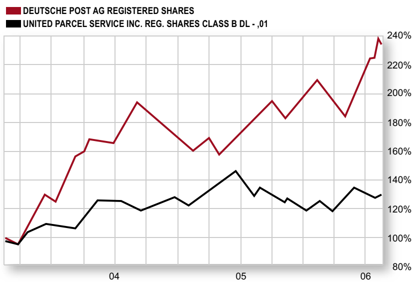
New Platform for Success

Today, data is a company's most important strategic resource. Consequently, the organization of data through a single platform to make it flexible and easily accessible is a top priority for decision makers. This pressure for IT flexibility and responsiveness is further increased by the global trend toward market consolidation, especially in the case of mergers & acquisitions.

Nearly 80 percent of top managers worldwide consider the implementation of new technologies a critical factor for the company's success. By 2009, 90 percent plan to use IT to make their company "faster" and "more flexible". These were the results of a survey conducted two years ago by IBM Global Services among 450 chief executive officers from all over the world. Today, this predicted focus on technology is already in full swing, and sophisticated IT solutions are in demand. These solutions enable companies to be equipped for the growing globalization of markets and to respond with more flexibility to the opposing trend of increasingly greater market segmentation – for example, between luxury and discount.

Content:

Stock market price as an indicator: Deutsche Post outdoes UPS



It takes extremely broad technology portfolios in corporate performance management or improved customer relations, for example, to deal with this strategic balancing act. Additional complications are the many heterogeneous old solutions, which, when combined with the new investments, often create a hopeless corporate IT mosaic. One of the economic leaders consulted in that survey by IBM Global Services was Dr. Klaus Zumwinkel, Chairman of the Board of Deutsche Post AG. At the time, he had just launched his ambitious “added-value program” called Star and accordingly had modernized the Deutsche Post’s organization, including IT.

When East and West Germany were reunified in 1990, the combined postal services of the countries were merged into a giant called Deutsche Post (DP). It employed about 470,000 people and ran a deficit of more than half a billion DM annually, which was covered by taxpayers’ money. The Yellow Giant, as Deutsche Post was called, had a reputation for being slow and inefficient. The government decided to privatize the post office step by step, and things have changed dramatically. Dr. Zumwinkel is credited with turning the organization into a fast-growing and profitable business.

Since 2003, the modernized Yellow Giant has saved approximately €1.4 billion, while sales increased significantly from €40 billion to approximately €55 billion. During the first nine months of 2005, the operating margin improved to 7.3 percent, from 6.2 percent in the same period of the previous year. At the same time, the group’s profit, which rose in 2004 by more than 20 percent over the previous year, skyrocketed by 51 percent.

Metrics, Metrics, Metrics

How does Klaus Zumwinkel do it? “I am a metrics freak,“ says this no-nonsense former McKinsey consultant. He demands that throughout the corporate group all figures and data be prepared, reviewed, and analyzed with extreme accuracy. Every month, he receives an up-to-date interim financial statement of the group. On several dozen pages, the statement meticulously lists the performance of every sector and every foreign subsidiary. Furthermore, every day, the main page of his PC – at the click of a button – provides him with an electronic world map, illustrating which area is presently at or over budget (green zones), which is experiencing problems (red), and which sector is struggling to achieve its targets (yellow).

Fundamental Formula for Success

Such a management information system would be impossible without a uniform data platform. Data integration is therefore the Yellow Giant’s fundamental formula for success. The pioneer is the Letter Division, which at sales of €12.7 billion and earnings (EBITA[1]) of €2.1 billion is the supporting pillar of Deutsche Post AG. This division, which underwent a considerable international expansion in the last few years and is increasing its share of business customers (85 percent), struggles with the problem of a heterogeneous, distributed, and complex infrastructure. In an effort to improve data quality to support management decisions, lower costs for integration, and achieve faster response times in the fierce global competition, the managers of the Letter Division initiated a comprehensive data integration project. “It practically affects all databases and the entire reporting process, “says Ralf Pankotsch, Program Manager Data Warehouse in the Letter Division.

Management essentially seeks to link the five large data warehouses more closely (two each in human resources and marketing and one for international business) to achieve synergistic results with a holistic view across the business and interoperability across applications and departments. The plan requires a uniform technical architecture. In the past, both the

[1] EBITA: Earnings before the deduction of interest, tax, and amortization expenses. It is used widely as a measure of efficiency and profitability.

operational processing and the analyses are performed in these five systems based on separate standards and methods.

The managers of the Letter Division decided against migration onto a large uniform application, such as SAP BW. “This application would not be able to handle the immense volumes of 20 to 40 terabytes of data we have to transfer by the end of 2007,”, explains Pankotsch. Management builds on an IT architecture, which relies on the leading technologies of several manufacturers according to the “best-of-breed” approach: databases from Oracle, access technologies (portals) from its in-house development, and business intelligence technology from Cognos and Business Objects.

They integrate the diverse data from all these systems with Informatica PowerCenter as the ETL (extract – transform – load) tool as well as Informatica Metadata Manager. Due to the immense product variety in the letter delivery field, the power and flexibility of Metadata Manager is critical. Because the Yellow Giant as a “one-stop shop“ has a considerably broader product range than, for example, its competitor FedEx specializing in letters and packages, very robust integration software is required, so managers at Deutsche Post have chosen to work with Informatica for this platform.

Critical Technology

This solution is considered the key technology to strengthen the competitiveness of the letter service division in light of growing globalization and increasing competition in the German market. As part of the government’s privatization process, the German letter monopoly will expire at the end of 2007, and U.S. competitor UPS, with the help of Swiss Post International, is already competing with the Yellow Giant in the standard letter mail field in the German market.

Risks Inherent in Growth

The demand for suitable migration systems is driven especially by the massive trend toward mergers and acquisitions. In the last few years, Deutsche Post alone expanded its operation around the globe with more than 120 acquisitions and today, after having acquired DHL or Exel, generates approximately half of its sales abroad. Many other companies, ranging from Commerzbank to TUI, grow by acquisitions as well, and the organization that assimilates their acquisitions quickest will have an advantage over its competitors. First, however, the wide variety of individual elements must be consolidated. In addition to the financial practices, the corporate culture, and the organizational processes, this affects the IT systems above all. IT systems often present unexpected pitfalls, which can only be conquered with an orderly migration. Informatica research has revealed that 83 percent of all data migration projects fail and half of them exceed the planned schedule significantly.

Averting Calamity

The solution to what can be calamity lies in the hands of management, not IT experts. The consulting organization Accenture surveyed more than 300 top managers from both European and U.S. firms; it found that company executives often do not even consider the impact of IT integration and migration in their acquisition plans. Not even one fourth of companies consider IT at an early stage in their plans for an acquisition or merger. Thirty-six percent wait until right before closing the deal. And more than one third neglect to inform the data experts, including the CIO, until months later.

The consequences can be disastrous. According to calculations by Accenture, during a merger that is expected to produce an annual savings of $500 million, a one-month delay in the IT integration will decrease the value of the acquisition by more than $150 million. If the IT migration is delayed by as much as seven months, the damage to the bottom line is approximately $1 billion – twice as much as the calculated benefit of the entire acquisition. In the absence of a powerful data integration platform and a clear migration strategy, the costs of these projects can often soar unexpectedly to ten times the original budget.

A carefully planned migration strategy may protect companies from such financial disaster.

On the expansion track

Let's consider an international example of data migration from TxB Transaktionsbank GmbH. This German specialist in securities settlement handles retail and wholesale transactions via a single system.

Even the ride to the top floor of the Sprinkenhof building located in the Kontorhaus District in the historic center of Hamburg turns out to be unusual: a newly renovated paternoster lift takes us to the top. Brimming with nostalgia inspired by this classic design, we quickly step out of our moving compartment. "Good morning, " the concierge greets us enthusiastically – it is 3 o'clock in the afternoon. The business quarter of the proud Free and Hanseatic City always has something special to offer.

This includes what is hidden behind the entrance doors to TxB. After welcoming us, the Managing Director Dirk Brauckmann offers us not only coffee and small lollipops ("My little personal passion since my childhood," he tells us.). In our ensuing conversation, he also unveiled the secret to success of one of the most innovative financial institutions of the 21st century: TxB Transaktionsbank, founded a year earlier as a result of a merger between the PLUS BANK AG and LB Transaktionsbank GmbH, is considered an example of innovation when it comes to securities transactions.

"White Label"

With just under 800 employees and a balance sheet just exceeding €100 million, the bank is smaller than others in the industry, but it is an innovative trailblazer and not to be taken lightly. The Hamburg company, which has additional locations in Frankfurt and Munich, has systematized all business processes involving securities settlement. From simple buy orders to audits, TxB handles all services for its clients in a uniform and standardized fashion. "Whether it is a private banking customer at the Stadtsparkasse Munich or a retail customer at the Bankgesellschaft Berlin – everyone benefits from our standardized business processes," explains Brauckmann. "We act sort of as a white label for our partners."

Over 200 financial institutions in Germany – from public law state banks to savings banks to private banks such as Noris, BHW, or Wüstenrot – manage in excess of two million securities accounts via TxB. In 2003, even the London Division of the U.S. bank Morgan Stanley decided to route high net worth customers from Germany via the TxB platform. "We are open to further international partnerships," says Brauckmann.

It was immense competitive pressure that forced TxB to modernize its organization with technology. Half a dozen national specialists for securities transactions operate in the German market. "The pie remains the same, growth is only possible at the expense of the competition," says Brauckmann. In addition, the customers' demands for quality increase, while the pricing pressure is merciless and the implementation phases for software development become increasingly shorter.

Setting Up a Modern Infrastructure

TxB prepared for this trend at an early stage and set up a state-of-the-art infrastructure during the merger process. The infrastructure is based on the PowerCenter integration platform from Informatica and Brio reporting software from Hyperion. These technologies replace or supplement the conventional Microsoft data technology. For the organization of the SWIFT data transfer and the use of enterprise application integration tools, TxB collaborates with Swissrisk (formerly Imagnos).

Experts praise the technical and organizational infrastructure. We watched the displays as transactions continuously flickered across networks and accounts. “It makes no difference whether we have 8 or 8,000 release orders per business process,” Erik Bartelsen, team leader, tells us. Brauckmann, the Managing Director, points out the organizational benefits of the new system: For management, it is relatively easy to distribute all business processes homogeneously among the three equal locations and, for example, to ensure that reorganizations occur quickly and effectively.

This flexibility extends to the top: The three managing directors meet two days a week alternately at one of the three TxB locations, as needed; units of the third management tier are adapted as necessary to the dynamic market. “Everything flows,” emphasizes Brauckmann.

Michael Lütschendorf, Michael Ruhrländer, Dirk Brauckmann – TxB Management Team

Outlook

This state-of-the-art financial transaction “factory,” however, only pays off if more banking clients direct increasingly larger volumes its way. TxB seems to be on track. In 2004 alone, its business volume doubled thanks to the merger and two new clients. Management has its sights set for additional growth in excess of 30 percent by 2007. The pressure to grow does not ease. “In the German market, and later in the European market, additional consolidation is required,” says Brauckmann.

Who will be its future partners? Brauckmann smiles. Whatever form their growth takes, he is prepared with a flexible, scalable technology. As we take our leave, he offers us another lollipop.

Company profile of TxB Transaktionsbank GmbH

Corporate locations: Hamburg, Frankfurt, Munich
Employees: 775
Balance sheet total: €105 million
Equity ratio: 64.5 percent
Software: Informatica, Hyperion

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Strategic change

The key figure for IT migration in companies is the chief information officer (CIO). The CIO guarantees the link among technologies, individual departments, and corporate management. However, this role as mediator between different worlds is changing.

Hermann-Josef Lamberti, COO Deutsche Bank AG

Hardly any other management position is as controversial and at the same time as fraught with expectations as that of the CIO. During the years of economic crisis at the beginning of the new millennium, the CIO, along with the entire IT department, was often accused of misdirected investments. Today, in light of renewed growth, IT is expected to provide particularly high value-added contributions.

Can a CIO meet these expectations? In the opinion of numerous experts, the presently limited role of the CIO could represent an obstacle. "Since today the numerous operational tasks take up the majority of their time, CIOs do not have sufficient time for strategic tasks," warns Gartner analyst Andreas Bitterer.

The prestigious market watcher observes only "reactive action" among many CIOs, driven by the day-to-day business. Bitterer says, "Many CIOs are in fact not equipped for the management of corporate information that is necessary today."

However, timely strategic analysis and planning are essential for integration of what are frequently very heterogeneous IT and organizational structures. And this is a role that the CIO should play on the management board. In fact, according to analyst estimates, only approximately 25 percent of companies apply this practice. Approximately half the CIOs report to the CFO but may or may not be consulted in the decision making process depending on how opportune such a consultation is. "Unfortunately many companies see the CIO primarily as the leader of a cost center, and not as a central provider of information structures which can significantly improve the competitive position of the company," says Frank Hendricks, Managing Director of the IT consulting firm Avantum.

The Ideal Combination

Few companies discard this traditional view and attempt to integrate strategic IT and organizational development into top management. Frequently, it takes a strong high level executive – as in the case of Deutsche Bank AG and Hermann-Josef Lamberti, the Group's Chief Operation Officer (COO). The former General Manager of IBM Germany started with the Frankfurt financial institution in 1998 as the CIO and, a short time later, was named COO as well. As a result, he is responsible not only for IT matters but also for the entire organization of Deutsche Bank: a rare, but ideal combination. Right from the start, Lamberti set his sights on the future through forward thinking projects, such as the strategic outsourcing to IBM of the computer center on the European continent. Forecasts are that this move will save approximately €1 billion within the next ten years alone.

Integral Group Organization

Lamberti, however, focuses on more than cost savings; he takes a holistic view of the group organization. This includes closely networking the IT applications and migrating the costly IT mosaic to a standardized platform. A crucial component of the migration projects at Deutsche Bank is the IT systems migration program DB Feeds, which aims to better network the heterogeneous IT systems in the group (from IBM, Oracle, HP, Suse Linux, and others) and migrate to a central functionality with the help of the Informatica platform. DB Feeds eliminates the bottleneck in the IT system, created by hand-coded interfaces, containing many critical deficiencies such as inflexibility and lack of metadata management. With the Informatica solution, the bank was seeking a high-performance ETL architecture. It lowers the development cost of new data input by up to 30 percent, facilitates the link between heterogeneous systems, increases transparency, and clearly reduces the total cost of ownership (TCO). Connecting this more efficient base system to other core elements of the organization, particularly the executive dashboards, creates strategic advantages for the organization.

Of course, a COO is in a better position to implement sweeping reorganization efforts that span management and IT than is the typical CIO. Does this make the more technically oriented CIO entirely redundant? This question has been the subject of fierce discussions and was raised in 2002 by the renowned U.S. consultant John Hagel III in his book Out of the Box. The long-term head of the worldwide Strategy Practice division of McKinsey & Company proposed that top managers create the position of a "business orchestrator". This person would bear the company wide responsibility for the integration of innovative technologies and a modern organization in the business processes — including the collaboration with external partners such as suppliers and developers. "The Business Orchestrator reconciles the long term management strategy with the short term changes in the company's course — and creates the organizational framework so that the best resources are always available at the right time," Hagel wrote.

It takes a powerful COO like the Deutsche Bank Manager Lamberti to implement this approach. A traditional CIO, mired in day-to-day operations, loses sight of the strategy and appears overwhelmed by such a move.

Interview

Ventana analyst David Waddington cautions against overhasty steps

What is the benefit of IT systems integration for companies?

Companies have a variety of IT systems, which they must integrate and link with innovative technology. Often, they are pressured into purchasing large new software application platforms.

However, what companies really need is assistance with gaining an understanding of their present IT structure and where they want to go. There is always the possibility of completely switching to a platform provider such as SAP or Oracle. But there are risks. First of all, this can become relatively expensive; second, it takes an enormous amount of time (generally several years); and third, where lies the true benefit? `

How can risks be avoided?

Managers should review data integration technologies from providers such as Informatica. Instead of replacing everything and switching to a single technology such as SAP or Oracle, many end user companies already build integrated systems, which are based primarily on the existing infrastructure.

The platform providers claim that this is possible with their software. Can you be sure? Can you wager your business on it?

When companies completely replace the existing system in one fell swoop, they may overextend their IT capacities.

In addition, total migration to a single new platform may make it more difficult to respond quickly to changing business requirements.

What do you recommend to users instead?

Before every investment, they must consider how IT could strengthen their business agility and how the IT migration could support this process.

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