A BPM Partners White Paper

When and How to Automate Budgeting and Forecasting for the Mid-Market Company

Warning Signs that Indicate it's Time to Make the Move, and Steps to Minimize the Costs and Timeframe Required to Implement

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Executive Summary

When and how should an organization with revenues up to $250 million make its move from budgeting and forecasting that are based exclusively on spreadsheets, to a packaged application?

How can the SME significantly lower its TCO (total cost of ownership) for a business performance management (BPM) solution?

A valid starting point is to establish which processes urgently need automation and how dominant a factor implementation time will be in your system selection process.

For some companies, especially those with very small IT departments, the amount of pre-configuration and built-in logic or financial intelligence are important; in other words, how ready the application is right out of the box.

Over the past decade, as organizations of all sizes have adopted performance management, their core focus has typically been: consolidation, budgeting, planning and reporting. Smaller companies often have the most pressing needs in budgeting and forecasting.

Software vendors strive to differentiate their offerings by emphasizing factors such as radically faster implementation, much easier adaptability to unique business processes, light footprint and cloud options, or enterprise-grade strength in a particular area such as consolidation or budgeting and rolling forecasting for agile management.

For organizations that give high priority to reining in the long-term cost of their BPM initiative, we recommend considering a number of unified applications in your selection process. We further suggest that you carefully evaluate the functionality in whichever process is most critical to you—usually budgeting or consolidation—and at the system's ease of configuration and readiness for use out of the box. Of these factors, functionality in your most-needed processes will often carry the most weight. Functionality includes pre-built financial and application logic. However, for many a short time-to-value (TTV) and ability to fit the available infrastructure is very high priority. Some will lean strongly toward a cloud-based subscription mode; others to a licensed on-premises approach.

When is it Time for Purpose-Built Budgeting and Forecasting?

Following are conditions that indicate the time has to come to make a decision on the strategic benefit of replacing spreadsheet-only approaches with a performance management solution:

1. It is very difficult to have the desired level of detail in budgets, forecasts, and reports.
2. More time is spent maintaining and updating spreadsheets than analyzing the actuals vs budget vs forecast (and reforecast) numbers.
3. Employees and senior management share a lack of confidence in report numbers.
4. IT or Finance is occasionally obligated to say, “Sorry, but that report is impossible to produce.”
5. It is impractical to reforecast with the frequency indicated by the pace of the overall business.
6. It is difficult and time-consuming to change budget or forecast drivers as needed to accommodate new scenarios.
7. Compliance and audit requirements cannot be met.
8. Anyone can change budget / forecast drivers (driver formulas and factors) in one spreadsheet without the change being publicized or immediately visible to others, and without the change rippling through appropriately.
9. More time is spent on planning, forecasting and consolidation related maintenance and ‘prep work’ than on analyzing results and delving into the data for opportunities and trends.

The above are strategic indicators that it is time for a transition. Following are urgent indicators that the current process is broken.

Symptoms that Your Spreadsheet Systems Are at the Breaking Point

Below are tactical signs that a spreadsheet-based system is taking the business into potentially acute and costly difficulties.

1. It is difficult or impossible to collect all the spreadsheet templates from necessary contributors to a plan or budget.
2. The budget process can only be executed once or twice a year, due to the length and employee time required.
3. Drivers which are key to budget outcomes are unclear or get inappropriately changed during the budget process.
4. Errors appear in reports that are difficult or impossible to trace back to their source.
5. Links between spreadsheets break and have to wait for a power user or IT to repair them.
6. Cut-and-paste is extensively required for combining and moving information.
7. Only one person understands the links, formulas, macros, or logic behind the drivers contained in budgeting spreadsheets and forecasting templates.
8. Nobody is familiar with the links, formulas, macros or logic behind the drivers. Whoever had knowledge of them has moved on.
9. The number of spreadsheets used for budgeting and consolidation exceeds the number of managers in the entire company.
10. A random, but thorough, audit and test of one or more spreadsheets used in budgeting and consolidation reveal errors that throw results off by more than _________ percent. (You can fill in your company's error tolerance).
11. Pulling the same spreadsheet from consolidation or budgeting workflow from the last four cycles and comparing each year's version uncovers links, macros, formulas or drivers that are changed, without record of how the discrepancies came to be.
12. An audit of the drivers being used in different departments or units reveals there are differences that were not authorized; there is no audit trail.

The more numerous and acute these "tactical" symptoms are in your organization, the more weight you will likely accord to preconfigure capabilities and short implementation, aka rapid time-to-value (TTV). If the budget and forecast situation is understood to be costly and impactful, then your search for a solution will need to give rapid implementation and model-building top priority.

Advantages of Unified Performance Management

Unified applications for performance management have established a strong business case and gained the respect of enterprise IT departments with their strong functionality. Today there are more choices in unified applications, and we see different approaches and capabilities within the category. Some are particularly strong---or even best-in-class—in specific areas of core functionality such as budgeting, forecasting, analytics, or consolidation.

Cost, fast implementation, integration, and risk reduction advantages are known benefits of unified applications. The only significant cost argument against using unified applications: you pay for all the packaged process solutions at the start, even if you only need one or two component processes to start with, such as forecasting or consolidation.

Which Processes are Needed, and How Urgently?

Some companies will prefer a solution that affords the fastest possible implementation and robust functionality in their focus area, which might be just budgeting and forecasting.

When a company needs just one or two core functions at the time of the BPM initiative, it is still wise to go through the cost calculation and consider which alternative serves you best:

- a point solution for budgeting, and another for consolidation if needed
- a unified application that can remove integration worries down the road
- one or two unified processes to which you can add other unified functions later, as needed

The functionality debate sometimes put forward—less so now than in past years—is that point solutions are stronger in functionality. This 'best of breed' argument once held true, but that advantage has disappeared, at least in part. The reality is that unified CPM / BPM systems may well be very strong in one of the key performance management areas: consolidation and reporting, budgeting and forecasting, or analytics. This reflects the fact that the founders of new companies, in some cases, built their expertise in a specialty like consolidation or budgeting at a previous, larger company. Several unified vendors began this way, with strong knowledge in one or two domains, and built around that expertise.

Small to mid-size companies usually have relatively few acquisitions, subsidiaries and varied GLs and ERP systems. As a result, their consolidation requirements are often relatively simple, while budgeting and forecasting stand out as more urgent to address.

- Consider which processes need automation / BPM, and whether on-premises is a necessity. If the answer is "just one or two core BPM processes" you have a wider choice, and do not need to emphasize the extensibility and customization potential of the system.

- Consider cloud-based solutions for TCO and faster time to benefit, especially if you are not ready to commit to infrastructure and licensing fees. A cloud-based option usually enables the smaller company to get started and realize payback more rapidly.

Two Key Characteristics: How Ready-to-Work and How Easy to Build Out?

Particularly for the smaller enterprise that needs to avoid implementation delays, integration cost and pain, and multi-system complexity, these two aspects loom large. Out of the box readiness is particularly important when spreadsheet-based legacy processes are broken and causing problems. A variety of studies have shown that over half of corporate spreadsheets contain errors. In many cases these have had multi-million-dollar impact; there have been cases where spreadsheet errors caused public companies to report late, whereupon they faced consequences that were potentially dire, such as the threat of fines or so-called vulture investors calling in their bond issues.

The ideal scenario for an SME may be a cloud-based system where no additional infrastructure is needed, and “acceleration features” are included, such as:

- a chart of accounts for the SME’s industry, requiring little modification
- sets of pre-defined drivers to adjust, instead of creating formulas, to build a budget model
- budgeting and/or consolidation workflow to minimize the need for adaptive configuration
- built-in financial and business logic
- seamless integration and data feeds from a variety of general ledgers
- integrated reporting as well as integrated standard outputs such as balance sheets and income statements

Especially in the mid-market, software vendors now compete with original approaches to speeding implementation. Their strong differentiator may be the ability to get a budget and forecasting process running in time spans—such as a day or less—that until recently were unthinkable. Others focus on making it easy and reliable to extend the solution and analytics to non-standard business processes. In selecting a system, getting a clear picture of each vendor’s strong and weak points is much of the battle.

Unification Can Gain Importance After Implementation

It can be important to look beyond the initial implementation of one or two core processes that are urgently needed today, to confirm that a unified application is, in fact, unified—rather than several distinct products marketed together as a package.

Questions that will help you make this distinction during the selection process:

- How many installations are needed to utilize all the potential functionality?
- If we modify the data structure (charts of accounts) by removing a summary and totaling up differently, will all the reports and dashboards automatically adjust and display the modified totals?
- To complete the change above, in how many places must we enact or note the change?
- How many 'modules' are there in the entire purchase?
- On how many servers does the entire system run – excluding load-balancing or spillover servers?
- Is the application delivered with ALL integration between its different functional capabilities complete and ready to use? All BPM applications need to be connected to data sources. With a unified application this should only need to occur once.

The answers to these questions will indicate whether a product is fundamentally unified, or is a family of separate applications that will require more integration than you may want to take on. The goal here is to minimize the cost and hassles of integration, training, and administration through the life cycle of the solution.

As mentioned above, any BPM application requires integration to data sources, but the unified application should avoid the need for integration between its modules – in fact, there are probably no distinct modules in the traditional sense. Preferably there will be a single interface, with workflow and reports accessing a single central database in the same manner.

Bear in mind that a fully unified solution may not handle your most crucial or pressing concerns, such as "nearly instant implementation" or ongoing extensibility, or reporting compliance.

A Road Map - Going Through the Steps

The following brief description of steps should only be taken as a high-level introduction to the process that SMEs have followed successfully on their road to performance management. Most of the steps coincide with how you would approach almost any software system. A few are distinctly different and we call these out.

- **Team and Executive Sponsorship**
  Unlike many other IT projects, performance management usually requires buy-in and cooperation from several departments and business units, in most cases. By its nature, BPM is intended to break down information silos and shadow IT, so participation of higher levels of management is strongly recommended. Diverse sponsorship is probably not necessary for a one- or two-process solution, but don't forget that over time, other departments will ask penetrating questions about integration and perhaps the ease of migration to a multi-process unified system.

- **Requirements Definition**
  A diverse, representative project team is a big help in ensuring that requirements, once defined, represent more than the priorities of Finance. At this stage, many companies find it strategically beneficial to bring in outside expertise to ensure that key needs are not overlooked.

- **Evaluation**
  The basic functions of BPM are well known and established. Often there are tradeoffs between pre-configured out-of-the-box readiness and ease of customization; it's important to decide where your company's needs are on the continuum.

- **Demonstrations**
  There are two types of demos, not to be confused: the initial vendor demo where the vendor delivers a marketing pitch and shows the catchiest features, and second, the short-list demo where you provide your data and dictate what the demo must show, so you can ensure the finalists perform the same steps and you are able to compare apples-to-apples.

- **TCO Calculation**
  One of the more difficult aspects is evaluating the cost of integration, change, infrastructure and support. This should typically not be the burden of a single team member. TCO is a group exercise.

- **Negotiation**
  A subject unto itself. Often, outside expertise can pay for itself and more by knowing which concessions are achievable and will return real value.

- **Implementation**
  Increasingly, agile methodology is preferred. With packaged applications,

this can mean taking it one step at a time, handling essential processes and views first and gradually extending to use more capabilities.

- **Training and Rollout**
  Avoiding frustration and turnoff reactions in the initial launch stages is important to long-term acceptance. Often it helps to pre-train a set of power users who can then aid their colleagues informally.

- **Review and Adjust**
  With regular reviews, your company can find gaps in usage and understanding, and make sure that users are aware of useful reports and analytics.

Conclusions

Important differences exist between performance management systems designed for mid-market organizations. Among the key factors; depth and power of the different key areas such as budgeting, consolidation, and reporting. There are marked differences in out-of-the-box configured capabilities, adaptability, as well as ease of use and total cost of ownership. Extreme variations exist in implementation times, and long-term extensibility.

For many companies, the most difficult and costliest aspect of performance management is a tossup between the budgeting process and mandated reporting, with consolidation close behind.

Unified products have proven themselves and matured in depth and power of functionality. Their advantages in license and support fees, maintenance requirements, integration expense and time, and user training are well established as well. However, many mid-sized companies face an urgent situation with budgeting and forecasting and their overriding priority is simple: get a robust budget and forecast process working immediately. Longer-range, they want to avoid cost-of-ownership surprises, and avoid compliance, integration and migration difficulties down the road.

Establish whether your budgeting challenge ranks as relatively simple or highly complex, as strategically well-timed or red-alert urgent.

Do not shortchange your business; if your company needs a unified solution that delivers complete, enterprise-grade budgeting then avoid compromises on functionality. If you implement a system without budgeting capability adequate for your needs, fixing this deficiency later will become costly and time-consuming. Evaluate the ‘severity’ of your budgeting challenge versus consolidation and reporting, and choose accordingly.

With a unified application, you pay for the full range of functionality with the initial license, but the obvious tradeoff is that it is all system available with a single implementation. The unified application should not have inter-module integration issues. Again, this is a cost savings. Infrastructure and budget factors turn many companies toward cloud solutions. Tt least in the startup phase; they may favor software vendors offering both cloud and on-premises versions of their systems.

Today, greater simplicity, fast time-to-value (short implementation with preconfigured functionality), easy extensibility, and cost savings are expected and demanded from new BPM software systems, along with strong functionality. The choice for many companies that are moving to purpose-built performance management will come down to: a unified application versus quick-start solutions for the key processes that matter.

About BPM Partners

BPM Partners is the leading independent authority on business performance management (BPM) and related business intelligence solutions. The company helps organizations address their budgeting, planning, financial reporting, regulatory compliance, profitability optimization, key performance indicator (KPI) development, and operational performance challenges with vendor-neutral experts who can guide companies through their BPM initiatives from start to finish while both reducing risk and minimizing costs. For further details, go to http://www.bpmpartners.com. Follow BPM Partners on Twitter @BPMTeam.

About Centage Corporation

Budget Maestro® by Centage is an easy-to-use and install, scalable, automated budgeting, planning, and forecasting application. It is designed for small to mid-market companies and automates many of the time-consuming and error-prone activities associated with using spreadsheets to generate accurate budgets and forecasts. It features built in financial and business logic that allow users to build and update their budgets and forecasts and never worry about formulas, functions, links or any custom programming. It is the only solution in the market that offers synchronized P&L, Balance Sheet, and Cash Flow reporting that generate automatically and seamlessly update. Budget Maestro serves more than 7,000 users worldwide. Visit us at www.centage.com