

A BPM Partners Research Report
in collaboration with PROPHIX Software

Budgeting, Planning & Analysis Systems Evolve at Midsize Companies

Automated Performance Management Applications Now Within Reach of
Mid-Range Enterprises

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About This Report

Over the past ten years, BPM Partners has closely tracked the usage and benefits of analytically oriented software applications in all areas of business performance management, referred to as business performance management (BPM) or corporate performance management (CPM). The budgeting and planning processes have been among the prime beneficiaries of dedicated applications. However, most software vendors first developed performance management applications with the large enterprise in mind, given the high price points and maintenance fees they could achieve in that target market segment.

In Q1 of 2009, BPM Partners conducted a survey of midsize businesses to understand the current pains with their internal processes for planning, budgeting, and forecasting. The survey sought to uncover trends in the technologies being utilized to support these processes, in particular to look at the differences between spreadsheet-based processes and those driven by a dedicated analytical application. In addition, follow-up interviews were conducted with a representative sample of executives at the companies.

In all, 221 companies participated in the survey, and interviews were conducted with finance executives at the following four companies:

- ❖ Coleman Cable, Inc.
- ❖ East Jordan Iron Works, Inc.
- ❖ Purdue Pharma
- ❖ Twisted Pair Solutions, Inc.

In addition to the survey findings, BPM Partners has incorporated its perspective and experience acquired in field engagements to develop conclusions about the benefits and costs of deploying performance management applications to strengthen budgeting, planning, and analysis processes.

Executive Summary

As competitive and market pressures grow, the finance departments of midsize companies are being called upon to produce ever more detailed and accurate budgets and forecasts, as well as performance reports and analysis. In other words, they face almost the same demands to deliver information about their business as do large enterprises.

Many midsize enterprises have been aware that their spreadsheet-based planning and budgeting processes were unwieldy or broken, and had already sought more robust systems to produce better results much faster, and with less effort. However, the automated performance management applications that improve the budgeting and planning processes were geared, in both functionality and price, to larger companies.

Large enterprises were the first to make the move from spreadsheets to performance management applications for planning, budgeting, forecasting, and reporting. However, midsize companies have many of the same needs, including managing costs, optimizing revenue, driving profitability, producing more reliable and frequent budgets and forecasts, providing transparency, and reporting to stakeholders.

While spreadsheets are a standard tool for managers, allowing quick and easy calculation and presentation of data, they are essentially a desktop tool. Managing an enterprise process of any complexity typically requires an enterprise platform. When large corporations initially began to use dedicated applications for planning, budgeting, and forecasting, only custom solutions were available. Software vendors then began to create packaged applications and users found that these systems could foster greater collaboration, improve data accuracy, reduce cycle times, enable deeper analysis, and provide a platform to drive and monitor their business processes. Initially, though, these systems were beyond the reach of midsize businesses. However, as technology improves and becomes more accessible from a cost and maintenance perspective, more and more small to mid-sized companies are finding ways to achieve the same efficiencies and benefits.

Today, an enterprise platform for budgeting, planning and analysis is presumed to address the following six aspects:

- ❖ A spreadsheet-like interface to ease the way for new users
- ❖ Workflow capabilities and privilege levels for data input, administration, and data access
- ❖ A central database to deliver consistent, reliable, up-to-date information in different views
- ❖ Integration with different data sources including multiple general ledgers and other transactional systems
- ❖ A variety of views and scenarios, which some term multidimensionality
- ❖ Integration with common desktop applications for presenting information, such as compatibility with Microsoft Office or other end-user oriented reporting tools



Our recent study of midsize companies determined they indeed can benefit from investing in such technology. This paper examines the pains that trigger the move to performance management applications, the procedure they followed, how several companies made the transition, and the benefits and costs of the outcome.

Survey Highlights

Our survey of finance executives at midsize companies helps us to draw some conclusions about companies that have migrated from spreadsheets to dedicated applications for budgeting and planning. To begin, our key “strategic finding” is that while in the past, automated performance management applications didn’t have the right combination of price and functionality that midsized enterprises need, they now do, and successful implementations prove the advantages of adopting analytical budgeting solutions.

And none too soon; companies in this size range have been squeezed between big-league information demands and their overreliance on spreadsheets. They have also gone through growth and organizational changes that their budgeting and planning simply could neither keep up with nor support.

Key Findings

More specific findings of the survey indicate that at companies which implement well-chosen analytical budgeting systems:

- ❖ There is more success aligning financial goals across business units.
- ❖ Management has a better understanding of their cost and performance drivers and has a more forward looking view of the business.
- ❖ Financial processes consume less time and fewer resources, and provide more flexibility for making changes.
- ❖ Business unit managers play a more active role in planning.
- ❖ Financial staff and other stakeholders are more satisfied with their planning and budgeting, and are better prepared to support growth.
- ❖ Most users of performance management applications say that the technology has met or exceeded their expectations.
- ❖ Complex performance areas such as operations and personnel/compensation can be managed more efficiently.

On the other hand, companies in the survey that continue to rely on spreadsheets and manual processes reported more difficulties than other respondents in several areas:

- ❖ keeping up with organizational and data model changes,
- ❖ data integrity,
- ❖ version control,
- ❖ collaboration, and
- ❖ financial consolidation.

Companies that use performance management applications for planning, budgeting, and forecasting are generally satisfied with the software. This is not the case among midsize companies wholly reliant on spreadsheets for budgeting, and of all the constituents of the process, the finance department is the least satisfied. Of the 138 survey respondents whose primary planning, budgeting, and forecasting technology is spreadsheets, only 27 percent of respondents say their finance staff is “very satisfied,” as compared to 47 percent of those whose primary technology is an automated performance management application (see Figure 1).

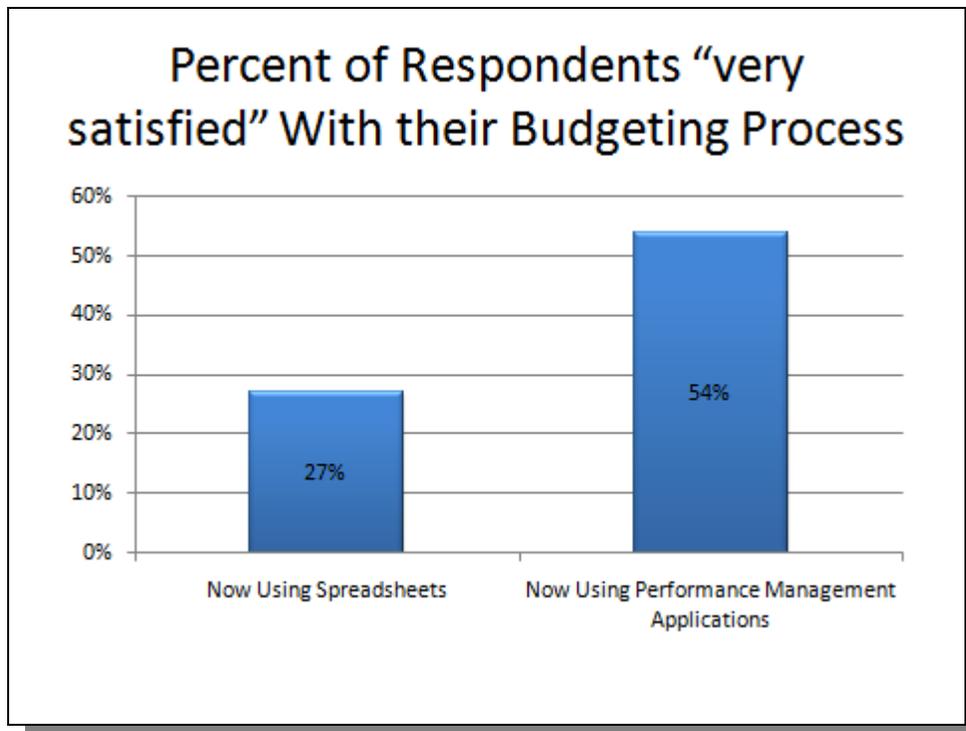


Figure 1 - Respondent satisfaction by technology approach

Through our interviews with finance executives, we uncovered clear reasons why companies move from spreadsheet-based solutions to performance management applications:

- ❖ Formula and linking errors in spreadsheet based systems undermine confidence in the data
- ❖ Manual processes are labor intensive and don't leave time for value added analysis
- ❖ Spreadsheet-based systems make it difficult to make changes to the data structure or to revise budgets or forecasts
- ❖ Senior management wants more frequent forecasts and more flexible reporting

Note: In analyzing the data, we divided respondents into three segments based on which “primary technology” they use for business planning, budgeting, and forecasting. The respondents described themselves as being one of these categories:

- “We use a combination of spreadsheets and manual processes.”
- “We have a dedicated analytical application for planning, budgeting and forecasting.”
- “We use a module of our accounting system for planning, budgeting and forecasting.”

Additional Findings

- ❖ **Companies also report a lack of “ownership” of the processes by the business units**, and key constituents of these processes are dissatisfied with the output, especially business unit managers (only 20% saying they are very satisfied), the finance staff themselves (only 27% very satisfied), and executive management (only 34% very satisfied).
- ❖ **Another key problem identified is an inflexible system that does not allow easy revision** to forecasts and budgets. Conversely, in companies using an enterprise performance management application, over a third of business users are said to be “very satisfied” with the output of the planning and forecasting process, along with 47% of both finance staff and executives.

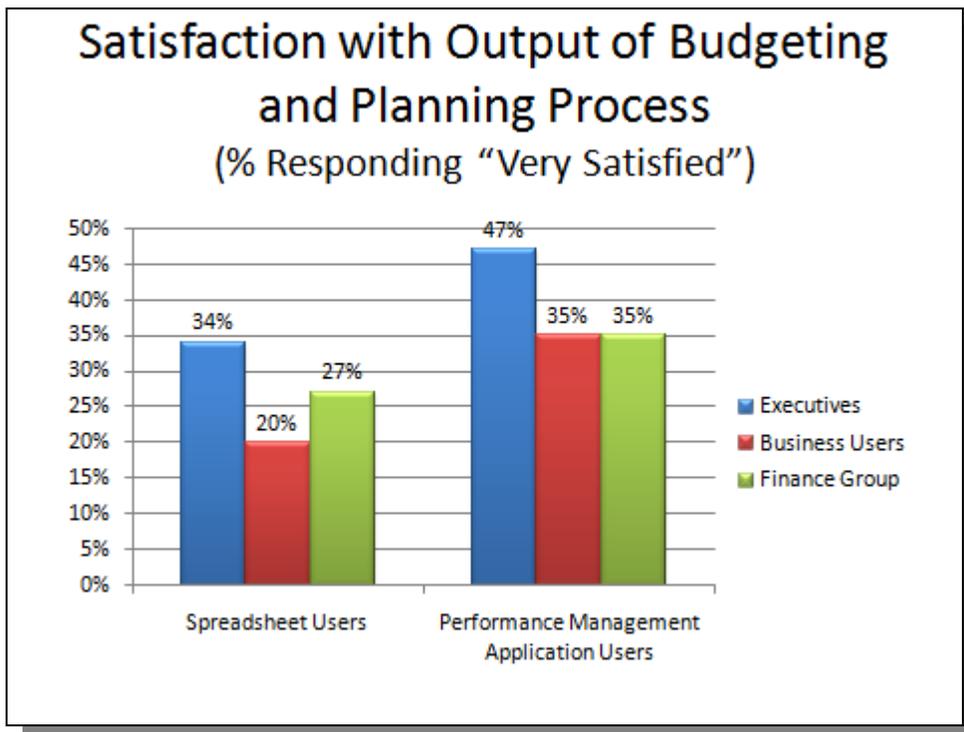


Figure 2- Satisfaction with Budget and Planning Process by User Group

- ❖ **Nearly one-quarter of spreadsheet users plan a substantial change in their planning, budgeting and forecasting function in the next two years.** A similar number expect to change their offline processes. With 50% planning to change their systems and processes, it is clear that there is urgency about finding a remedy to the existing dissatisfaction.
- ❖ **Users of enterprise performance management applications have a better handle on their businesses drivers.** As compared to companies with spreadsheet-based systems, these companies are better able to define their key performance indicators and cost and revenue drivers, as well as their key financial ratios. In addition, they report a greater ability to align financial goals across business units.
- ❖ **Many enterprise planning, budgeting, and forecasting solutions are available but most are out of the price range of midsize companies.** The most common reservation that midsize companies had regarding performance management applications was anticipated high cost. Through due diligence, though, companies were able to find packages that met their needs in terms of functionality, ease of use, fast implementation, and price.

At the midsize company, growth and increasing complexity drive the adoption of more efficient and versatile tools for planning, budgeting, and forecasting.

Chapter 1: As the Midsize Company Grows, Spreadsheets Fall Behind

Most midsize companies depend on spreadsheets and manual processes for planning, budgeting, and forecasting. Of the 211 companies responding to the survey, 54 percent still rely primarily on spreadsheets and manual processes, with only 26% using analytical applications, and 15% using a module of their accounting system. The prevalence of spreadsheets is understandable, given the vast installed base, ease of use and low cost.

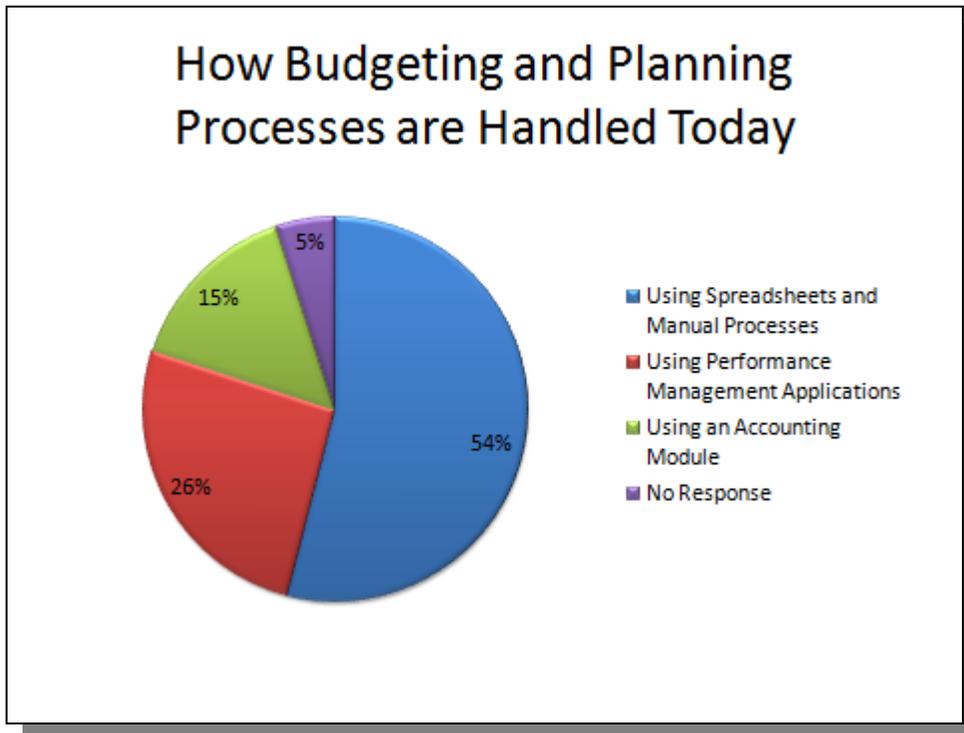


Figure 3- Approach to supporting budgeting and planning processes in today's enterprise

However, many of the 54% still using spreadsheets and manual processes are near a breaking point. These tools and processes cannot keep up with the company's development. In some cases, the time and cost of budgeting, coupled with lack of reliability in consolidated numbers, have made budgeting almost unfeasible.

User Perspective: Spreadsheets Cannot Keep Pace with Enterprise Change

Joe Spyhalski is Director of Finance for East Jordan Iron Works, a leading American manufacturer of construction casting, fire hydrants, and other iron products. East Jordan Iron Works was growing by buying sales yards and foundries. It was frequently necessary to make changes to the budget and forecast, but this was difficult to do with a maze of spreadsheets. "It was a clerical nightmare," said Spyhalski. The most serious limitation, however, was that the complexity of the process meant that the budget was done just once a year. Recalled Spyhalski. "In today's business climate we needed to be able to

constantly re-forecast and do what-ifs from the budget.” At a minimum, East Jordan Iron Works needed quarterly updates to the plan.

In another example, Coleman Cable is a manufacturer of wire and cable products which services the electrical, electronic and automotive markets. Difficulty in making changes to plans and budgets was a common problem, one which hampered the ability of the business to respond to changing circumstances in a timely fashion. “Making structure changes and last minute updates that needed to roll through from the departments to the consolidated totals were very challenging,” said the Director of Planning and Analysis, Denise Feece.

Spreadsheets are a Time Drain

This study found that, across the board, respondents believe they spend too much time on forecasting, budgeting, and planning. When asked about the biggest problems with their planning, budgeting, and forecasting processes, companies had a clear message: 59% said that these processes take too long, but with spreadsheet users, 67% confirm this challenge (see Figure 4.)

This complaint was especially acute in companies that depend on spreadsheets and manual processes. Not surprisingly, then, the second most reported problem – also in 59% of companies – was that there is not enough time for finance to do the value-added analysis that would make a significant contribution to their businesses.

Finance executives say they spend too much time managing complex spreadsheet models at the expense of high-value analytical tasks.

Multiple Spreadsheet Shortcomings for Budgeting

Also common was the complaint that business units do not take ownership of the processes (41%). Close behind were concerns about lack of communication among contributors, approvers, and other stakeholders (37%) and a feeling that it was too difficult to make changes to budgets and forecasts during their respective cycles (36%).

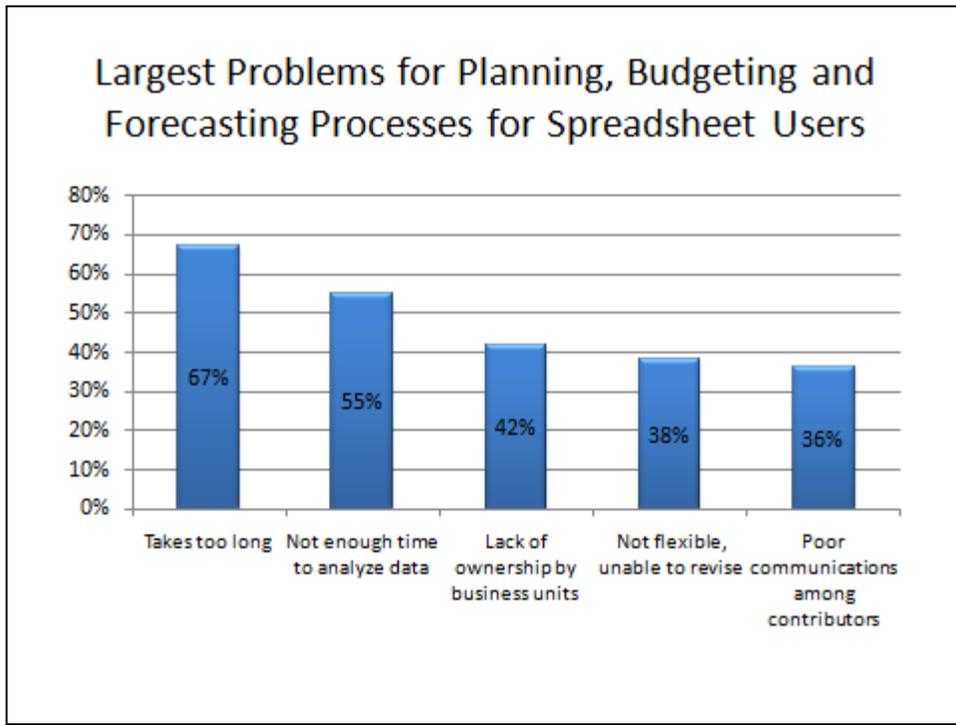


Figure 4 - Problems with spreadsheets are tied to human expertise and coordinating users' collaboration

If these are the chief problems with the process, what are the root causes and what role does technology play? When asked about the use of spreadsheets, participants noted several key drawbacks, which can be seen as contributing to the above problems. 48% of companies using a spreadsheet-based system cited overdependence on key personnel as the primary problem with that methodology. Second on their list (45%) was the difficulty with trying to consolidate spreadsheets, and the absence of a mechanism for collaboration. Third was the problem of version control; who has the most current data? In addition to affecting data accuracy, these problems also add to the time consumed by the process.

Spreadsheet users struggle to respond to unexpected company developments and demands for more frequent plan changes and analysis.

User Perspective: Multiple Contributors to a Spreadsheet Create Issues

When two or more people contribute to a spreadsheet, issues of time and reliability ensue. Interviews with finance executives at midsize companies reinforced these survey findings and shed light on the real world problems that companies face when trying to run their enterprise financial systems on a spreadsheet-based platform.

The Director of Finance for East Jordan Iron Works was exasperated by “multitudes of spreadsheets” which were cumbersome to work and frequently contained formula errors. Even though the corporate office would send out standard spreadsheet templates,

regional offices would modify them, which introduced errors and complicated consolidation.

Purdue Pharma in Canada develops and manufactures drug delivery technologies as well as products to treat pain, disease, and infection.

According to Accounting Manager Donna MacLean, just the setup for their annual budgeting process took four to six weeks. With 40 to 50 spreadsheets to manage, the process of updating them all to accommodate changes such as a new data center was very time consuming. Eleventh hour changes were out of the question. Even worse, without a centralized database, they had to manually update 100 reports. “We were spending all of our time on mechanical tasks and maintenance, rather than on thinking about the budget,” lamented MacLean.

Human factors—such as collaboration among users and uneven technical proficiency—cause frustration among those who rely on spreadsheets for planning, budgeting and forecasting.

All interviewees echoed the theme that the budgeting and forecasting processes took too long and consumed time that could have been used for value-added activities such as analyzing the numbers and understanding what they mean for the business. Financial “analysts” were performing tasks more suited to a clerk than to an analyst.

Even small companies must meet a high standard for budgeting and forecasting. Twisted Pair Solutions, a software startup, needed the capability to produce the numbers requested by banks and venture capitalists, who expected to see up-to-date budgets and projections. According to Controller Connie Seguin, “We had one gigantic, ugly spreadsheet with so many linked tabs that only one person dared to touch it. We needed something that would not get messed up when someone clicked in the wrong place and accidentally blew out a formula.” Twisted Pair had offices in four countries, with budgets done in four different local currencies. These budgets had to be translated and linked. The sheer burden of time to update and prepare reports was not compatible with the CFO’s need for data and the ability to manipulate the budget.

Still, Spreadsheets Do Not Go Away

Many users of performance management applications for planning, budgeting, and forecasting do not migrate completely away from spreadsheets. The survey indicates that 60% of performance management application users continue to use spreadsheets for local, ad hoc analyses of data from other applications. This is an interesting result, and one that could very well shift over time. With enhanced analytic applications having more data visualization, drill through and reporting capabilities that are now more easy to use without IT support, we can expect this to evolve over time.

Chapter 2: Performance Management Applications Help Automate Budgeting

Faced with pressure to deliver budgets and revised forecasts more frequently and with better analysis, midsize companies are looking to new analytical technology. These tools offer more than just accurate financial data; they offer managers the ability to quickly see how their companies are performing compared to plans, budgets, and forecasts, enabling them to control costs, as well as the sources and uses of cash. In short, these tools promise greater productivity, hence the interest among midsize companies in evaluating their utility.

Software solutions designed with a comprehensive vision of enterprise requirements bring a measure of automation with workflow, assignable user privilege levels, and other features that support collaboration. Budgeting is a process which calls for all three.

In addition, multiple views of data, whether supported by an underlying OLAP technology or other approach to presenting information stored in a central database, become important to managers and analysts once the fundamental structure of a budget is in place. Integration for input, from multiple GLs, and for output to common desktop applications is also useful.

Midsize companies that have gone beyond evaluation and have implemented analytical applications report solid results. Survey respondents using analytical applications say their business unit managers play a more active role in planning (77%) than do their counterparts at spreadsheet-dependent organizations (66%). Moreover, 66% of performance management application users believe their companies have a planning, budgeting, and forecasting process that will effectively support future growth, compared to just 31% of spreadsheet users (see Figure 5).

Performance management application users report measurable and satisfactory ROI and benefits.

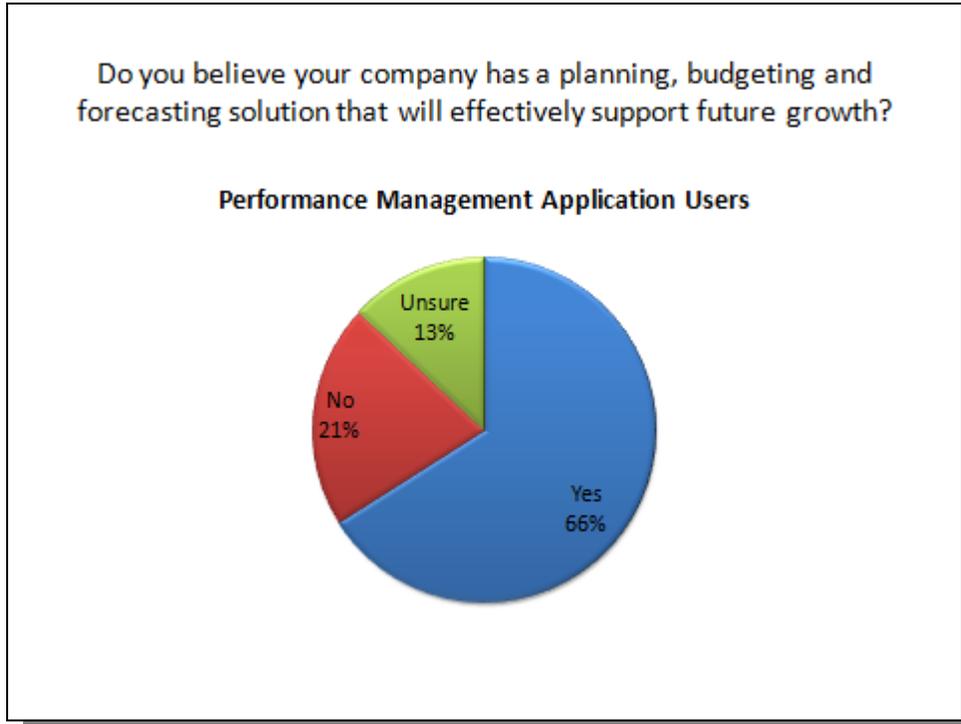


Figure 5. Performance management application users feel better prepared to support growth

Respondents say their performance management application investments have paid off. Three-quarters of performance management application users say that their investment in the technology met or exceeded their ROI expectations (see Figure 6).

This data suggests that midsize companies that invest in automated planning, budgeting, and forecasting tools derive measurably improved operating and financial performance. Interviewees indicated that their initial resistance to implementing an enterprise application was due to concern about a high price tag, but they were later able to find solutions that gave them the capabilities they needed at a price they could afford.

User Perspective – Benefits vs. Costs

Said Spyhalski of East Jordan, “We looked at multiple vendors and many were expensive, with all kinds of bells and whistles that we didn’t need. We just needed something that would let us create a budget and be able to easily modify it, with data integrity still intact, and produce reports that all used the same numbers.”

Eventually Spyhalski’s team did identify an enterprise solution at their price point.

Performance management application users say their business unit leaders are more actively engaged in the planning, budgeting, and forecasting process.

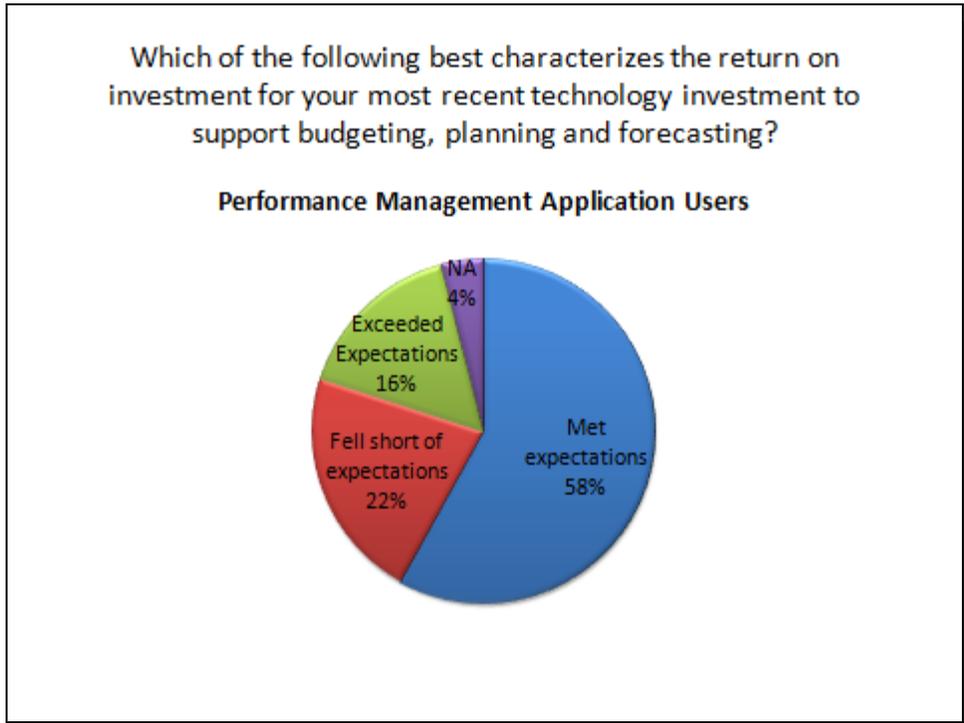


Figure 6 - Performance management application users report ROI benefits

Purdue Pharma's MacLean quantified the benefits of the company's enterprise application, in time saved, by automating the budget process. "Because of all the setup time required by our manual processes, we used to start in June for our November budget deadline. Now we start in late July or August. We can be ready for the next budget in an hour." The business can also manage with agility, as an example adding a new sales district to the plan at the eleventh hour if necessary.

The most immediately obvious payback for Twisted Pair was in time saved, which in turn enabled them to do more, rather than having to scale back on finance department expectations. But according to Seguin, the benefits to the business go beyond just labor cost savings. There are strategic benefits as well. "It's worth it if you need to look forwards, especially in critical areas like forecasting cash flow."

Chapter 3: How Companies Recognize Change is Needed

What are the pains that trigger a company to replace spreadsheets for planning, budgeting, and forecasting? The survey indicates that several factors push companies over the threshold to invest in analytical applications to handle these processes:

- ❖ business complexity, size, and growth
- ❖ a change in management or organizational structure
- ❖ a desire to improve cost control
- ❖ lack of forward-looking projections

Increased requirements for analysis and business complexity – defined as more products, lines of business, competitors or locations—was cited by 61% and 60% (respectively) of all respondents as the primary motivator for implementing dedicated planning, budgeting, and forecasting tools (see Figure 7).

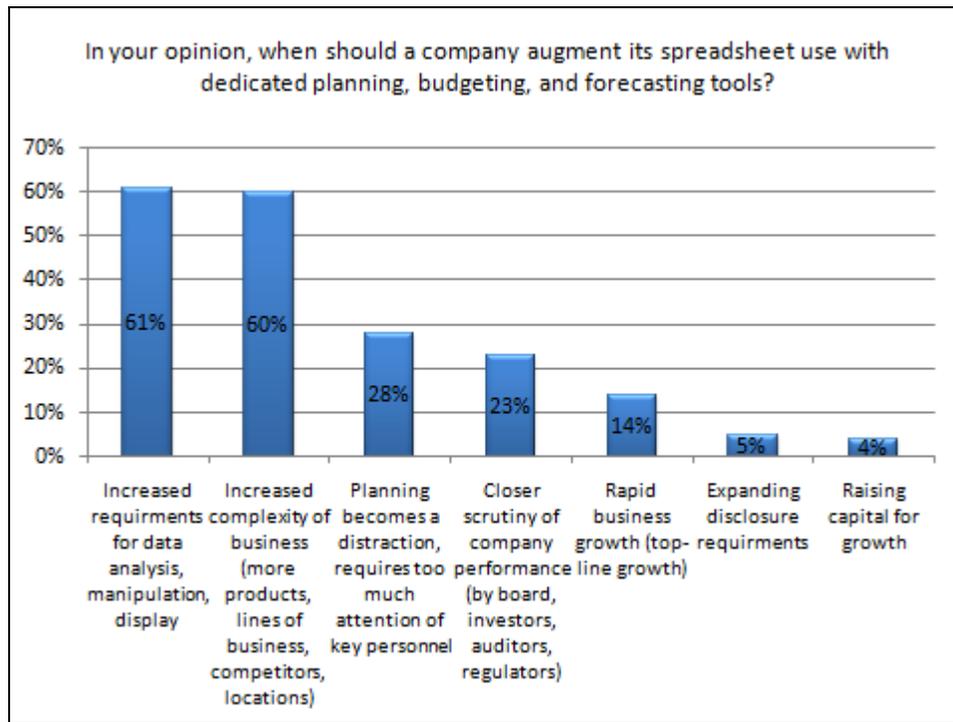


Figure 7 - .Increased requirements for data analysis and business complexity drives need for new tools

User Perspective: When is it the Right Time to Migrate to an Enterprise Application?

For East Jordan Iron Works, it was a period of acquisition and growth, coupled with a changing business climate, which served as the catalysts to look at performance management applications. Having grown to 30 sales yards and added a number of overseas foundries, the business was getting more complex. In addition, market conditions created pressure to be more responsive. “With the volatility in the metals

market, we really needed to move to a monthly re-forecast,” said Spyhlaksi. “Once a year would no longer cut it.”

Coleman Cable’s Denise Feece says, “You know it’s time for an enterprise application when you just can’t supply the business with the information it needs in a timely fashion. These days you need to have results published within a few days of month end, and you need to produce frequent forecasts and budget revisions so that you can see the impact of management decisions.”

In the case of Coleman Cable, however, it was a company-wide situation that mandated adopting an automated solution. Feece describes the performance management application as a lifesaver when a challenged economy drove the company to carry out layoffs, abruptly resulting in having fewer resources to handle the same workload. “Our application allowed us to do more with less so that we could continue to provide information to the business.”

“We had a need to do more with less. We needed more flexibility, output, and accuracy, with less resource involvement, to accomplish all of the data analysis that needed to be done.”

From an IT viewpoint, difficulty in making changes quickly is a symptom; the underlying problem is that spreadsheets lack a unified central database which an analytical application should have, to ensure data integrity and make it possible to generate new scenarios immediately with anytime changes to key data. The application’s integration with multiple GLs and other information sources also increases reliability under pressure, while integration on the output end makes it possible to meet time-urgent demands for new sets of reports or analysis when circumstances demand speed.

Chapter 4: Examples of How Companies Replace Spreadsheets in Budgeting

As companies reach their inflection point for adopting analytical applications for planning, budgeting, and forecasting, they typically undertake extensive due diligence to evaluate the available options. In the 2009 environment, companies are quick to learn what functionality they can acquire, and tend to build a comprehensive vision of the capabilities they want. For example, these areas often outline the solution a company will aim to acquire:

- ❖ A spreadsheet-like interface to ease the way for new users
- ❖ Workflow capabilities and privilege levels for data input, admin, and data access
- ❖ A central database to deliver consistent, reliable, up-to-date information in different views
- ❖ Integration with different data sources including multiple general ledgers
- ❖ A variety of views and scenarios, which some term multidimensionality
- ❖ Integration with common desktop applications for presenting information, such as compatibility with Microsoft Office

User Perspective: The Technology Selection Process

Interview subjects carried out careful assessment, evaluating high-, low-, and mid-tier offerings. Purdue Pharma, for example, looked at a range of solutions, including some big-name players whose solutions were too costly for a company with revenues under \$500 million. “We wanted *better* but not *expensive*,” explained MacLean. Any of the solutions on their short list of three could have done the job, but there was a dramatic price differential, so they went with the solution that could do what they needed for less.

IT and finance teams typically collaborate in evaluating business requirements and new software solutions.

Purdue Pharma reports that its implementation was smooth, with two or three visits from a consultant and a team of four in-house staff, where two devoted the most time. The finance staff now can devote more time to developing the right budget, as opposed to being tied down with labor intensive mechanical tasks.

Joe Spyhalski’s finance team at East Jordan worked with their IT group to set selection criteria for an analytical planning and budgeting solution, bringing a wish list of must-have and nice-to-have features. Their key need was for a system that was easy to update and change, while maintaining data integrity. Other criteria included multiple roll-up hierarchies and flexible, automated reporting. Spyhalski characterized the implementation as “pretty slick and smooth.” IT assisted with the installation and mapping of data from the general ledger. A week of time from a consultant was enough to set up their models. There was “some learning curve” but the vendor assisted the in-house team.

Twisted Pair Solutions started its search by on the Web to research solutions for mid-sized companies. They put out an RFP and evaluated three vendors based on product features, company history, and clients. Their criteria included the ability to handle not only profit and loss statements but also – to satisfy potential investors – balance sheet and cash flow, including support for currency translation and intercompany eliminations, and the flexibility to handle their revenue recognition requirements. “With software, honestly, you never really know what you’re getting until you’ve slept with it for a while,” says Seguin. She did find the implementation to be more complex than expected, but that may be because she chose to learn the software and do it herself, and because she took on all three areas at once: P&L, balance sheet, and cash flow reporting.

“Another benefit of a performance management application ... is that it makes it easy to do driver-based forecasting and scenario modeling”

Coleman Cable found that a flexible application can provide a world of possibility, but it’s up to your imagination as to what you can do with it. At first they built the standard financial cube for budgeting and forecasting, but later developed applications for sales and production. According to Feece, the biggest hurdle to fully implementing a performance management application sooner was “a lack of understanding of the full capabilities of the system in combination with the right resource to make it happen.”

She reports that the performance management application in use ensures more accurate data, and makes it easier to move data around and to do comparisons such as actual to budget, current year to prior year, or forecast to plan. Another benefit of a performance management application for a manufacturing company, according to Feece, is that it makes it easy to do driver-based forecasting and scenario modeling. For example, the system makes it easy to calculate expense rates per pound of raw material for a given plant; so it is then possible to pull in production plan data for the plant and use the raw material estimates to project costs by plant. Clearly this type of interconnectedness would be much more complicated using spreadsheets.

Chapter 5: Costs, Benefits, and ROI of Performance Management Applications

The cost of automated s can spread across a wide range, from \$15,000 to more than \$150,000. Yet the return on investment for companies using performance management applications is impressive, particularly among midsize companies.

At Coleman Cable, it now takes less time to produce reports, and the reports are in a consistent format which makes it easier for business users to find the data they need.

East Jordan Iron Works now has a system that can consolidate their actual and budget numbers, and then after it is updated with simple point and click changes, can reconsolidate and generate reports in a fraction of the time it used to take. The reports are even automatically sent out to business users via email, in accordance with a security matrix. In addition to the original financial application, East Jordan now also has value-added applications for Sales, Inventory, Labor Hours, and Raw Materials.

At Twisted Pair Solutions, its analytical application is now integrated with its accounting system which feeds live actual data, allowing them to create monthly rolling forecasts based on the latest results. “We really have saved a lot of time. Now we can actually step back and look at what the numbers mean, rather than always being behind the curve.

Our survey asked how midsize companies perceive the ROI of their “most recent technology investment to support planning, budgeting, and forecasting.” Of those using spreadsheets, only 27% said the investment met or exceeded their expectations. Dramatically different was the response from those with a dedicated performance management application. Almost triple the percentage, 74%, said their expectations were either met or exceeded (Figure 8).

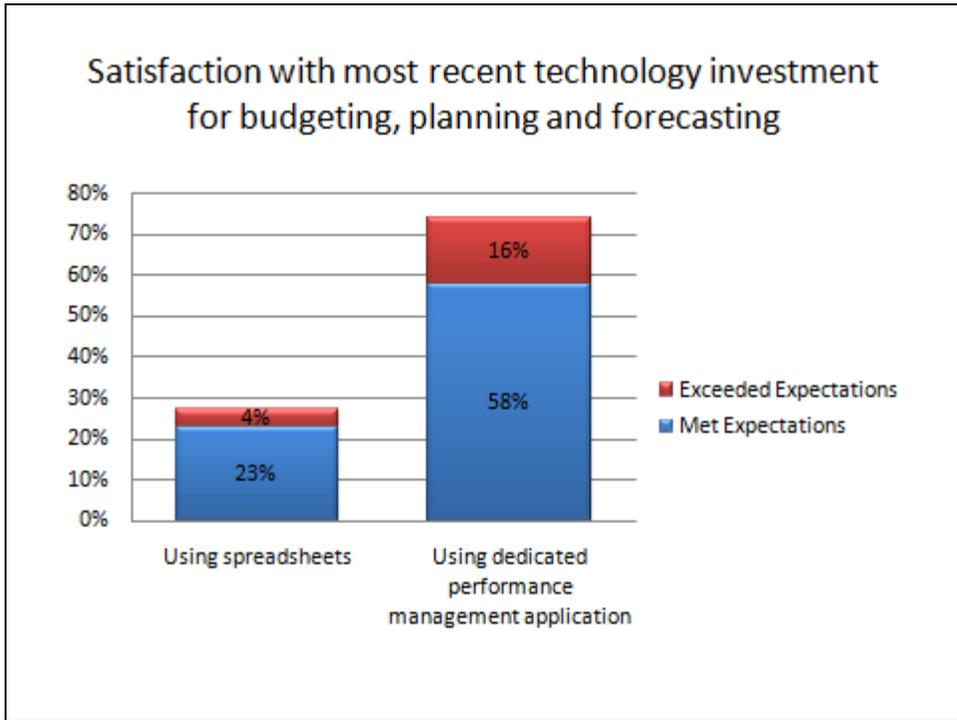


Figure 8 - Technology Investment Satisfaction

Responding to the survey, two thirds of performance management application users feel confident they are well prepared to support future growth, as compared to less than one-third of spreadsheet-based users (Figure 9). The survey also shows that business unit managers play a more active role in planning at companies with performance management applications than at those using spreadsheets, and that the process at these companies is less time consuming. Finally, respondents reported that analytic tools more readily support collaboration with workflow and privilege levels for users. They also report good support for consolidation of data contributed by multiple users, and greater flexible when it comes to incorporating changes to the data model. These are enabled in most performance management applications by a central database or data repository, and the use of budget templates that standardize data inputs.

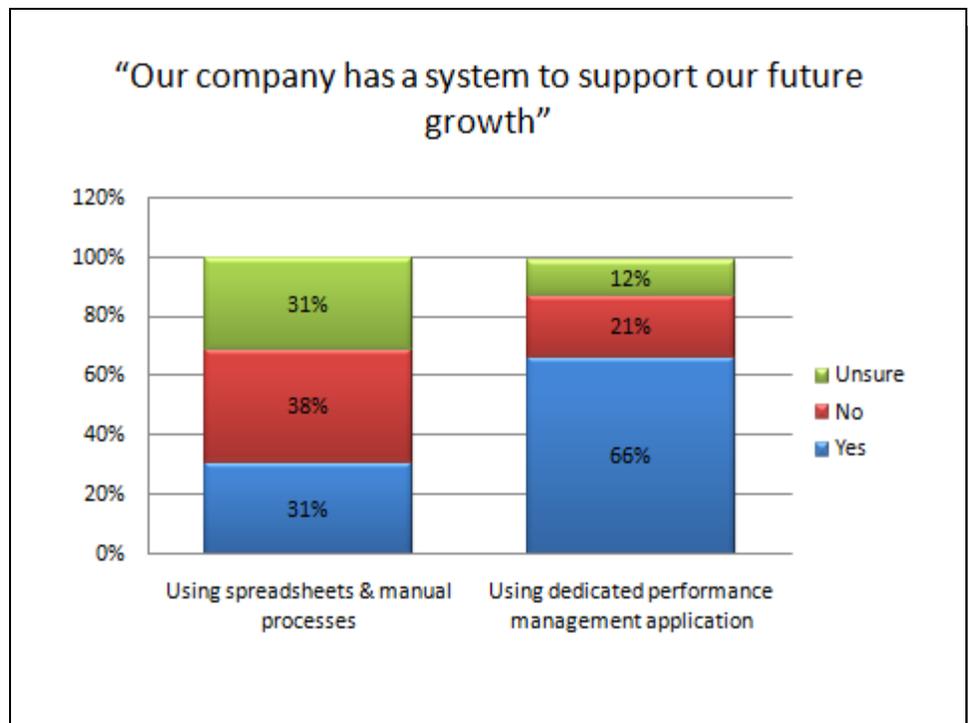


Figure 9 - Technology supporting future growth

Conclusion

The results of the survey and the experiences of the interviewees indicate that midsize companies gain many advantages from investing in performance management applications for planning, budgeting, and forecasting. Some of the solutions available now offer the necessary comprehensive approach to enterprise budgeting with the requisite functionality at a price that midsize organizations can handle. This is a welcome change because in the past, analytic budgeting capabilities needed by midsize companies were not obtainable in their price range. In 2009, the functionality expectations are quite high; software vendors will be required to prove they deliver most or all of the features in the callout box at right.

The research also indicates that while all midsize companies could benefit by moving beyond spreadsheet dependency, factors such as business complexity, management changes, organizational restructuring, and perceived drawbacks to spreadsheet-based manual processes are the common catalysts for change. The experience of interview subjects affirms the benefits of migrating to more sophisticated planning tools, as well as the challenges. Due diligence in evaluating software solutions needs to address internal processes and system needs, as well as software cost, functionality, implementation best practices, training needs, and other user experiences. Given that the midsize company is often pushed to upgrade its budgeting because of organizational growth and change, it's particularly important that an automated analytic solution be based on a comprehensive vision of what enterprise software should deliver. Key aspects are central database reliability, multiple views of data and reports, familiar interfaces, workflow or other automation, and integration.

New performance management applications, even at price points that midsize companies can accept, need to measure up with familiar interfaces, a central database, multiple views of data, workflow and user privilege levels, integration with multiple GLs and sources, and compatibility with desktop applications for eases of reporting and presentation.

Sponsor's Perspective

Over the last 30 years the spreadsheet has had its most profound impact as a business management tool for finance. It is easy to use, has a relatively low cost of ownership, and offers significant advantages over manually prepared budgets. Companies began using spreadsheets for budgeting because the opportunity cost of planning manually was just too high.

Now, in the first decade of the 21st century, enterprise requirements have changed. Companies are realizing that the opportunity cost of using spreadsheets is now too high. Survey respondents indicate that most midsize companies depending on spreadsheets are frustrated with their planning, budgeting, and forecasting. This same frustration has already driven many large companies to spend hundreds of thousands of dollars on analytical applications to solve their “spreadsheet hell” problem. Now, with the introduction and maturation of affordable planning tools, mid-market companies are able to go beyond spreadsheets and realize the same benefits that larger companies have enjoyed for years.

ROI - Can a mid-market company justify specialized budgeting software?

Until recently, use of specialized software for budgeting and forecasting has primarily been the preserve of large companies. Historically, the cost of performance management applications has put them beyond the reach of the mid-market. This is no longer the case. Mid-market penetration of such applications remains low, not because of price, but because CFOs at these companies are largely unaware of their options for automating the budgeting and planning process.

Due diligence in the search for a solution will indicate that new products, like PROPHIX, are making this type of software available at an affordable price and with the same benefits as more expensive applications. It is this combination of affordability and realized benefit that led three-quarters of survey respondents using a performance management application to say their investment in budgeting, planning, and forecasting technology has met or exceeded their ROI expectations.

Don't underestimate the benefits

Many midsize companies have been reluctant to invest in a dedicated tool not only because of cost, but also because they underestimate the benefits that can be derived from such an evolution. Granted, these benefits can be difficult to measure. After all, how can you put a dollar value on having more accurate forecasts, being able to plan more frequently, and having a better understating of the plans produced?

When building your business case for investing in a performance management application, PROPHIX recommends talking to the early adopters. Ask references specifically about the benefits they have realized in their day-to-day operations and budgeting process, as well as any situational benefits they have enjoyed. For example, Joe Spyhalski of East Jordan Iron Works, interviewed in this study, noted that when others in the company saw what he could do in their budgeting and forecasting application, they began wanting access to the software in order to do their own what-if scenarios. Yet benefits like this are often not considered when justifying an upgrade from spreadsheets

to a dedicated budgeting, forecasting, and reporting tool. Denise Feece of Coleman Cable put it this way, “Many companies might say that their spreadsheets work and so do not want to change it, but it is well worth the investment to implement an enterprise software application as the benefits are more than one could imagine at the outset of the project. Working with the software prompts ideas for additional uses of the software that weren’t thought of before.”

Competitive advantage

Nearly 63% of mid-market companies are still using spreadsheets for their budgeting, forecasting, and reporting. If you are a member of this group, look around your accounting department. Where are your strongest people and how are they spending their time? There is a good chance that they are creating spreadsheet links, manually adding up spreadsheet totals, copying and pasting between worksheets, keying in information provided by other business managers, and keying in the closing values from the accounting package for your month-end reports. Compare the time that your key players are spending on these manual mechanical tasks with the time they have available for analysis.

Performance management applications like PROPHIX offer the opportunity to spend less time on spreadsheet headaches and more time analyzing accurate budget information for increased insight into business performance. Mid-market companies that adopt such a tool are gaining a distinct advantage over those who are still stuck wondering if their information is accurate. It is obvious from this study that performance management applications are offering several advantages that spreadsheets are not. These include the opportunity to develop well-defined key performance indicators, the opportunity to plan in the three-to-five-year timeframe, and an improved ability to support future growth.

These types of benefits allow you to better communicate the mission of your organization in a manner that is actionable to all levels of the company. They also ensure that you are better equipped to detect a shift in the business climate and take quick, decisive action when necessary. Achieving this type of competitive advantage is the reason why nearly one-quarter of spreadsheet users plan a major systems change in the next two years.

Conclusion

It is no longer acceptable for senior managers to spend two to three months adding numbers together for an operating plan. Best practices today dictate that companies adopt tools like PROPHIX for the budgeting, forecasting, and reporting. The low cost and ease-of-use of these new performance management applications makes it possible for the mid-market to do more and go beyond spreadsheets.

PROPHIX Software is a leading provider of affordable, multi-user software applications for budgeting, planning, financial consolidation, management reporting, and analysis. To learn more, visit www.prophix.com.