

A BPM Partners White Paper

Unified Planning and Consolidation

The Next Generation of Performance Management





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Executive Summary

In today's heightened competitive and regulatory environment, an organization's fortunes can rise or fall based on the effectiveness of its financial systems, particularly those that drive its performance management. Organizations today are looking to optimize these systems, at the core of which are financial consolidation and planning.

To finance departments, optimizing performance management systems means maximizing profits and minimizing business risks and exposure. For IT departments, the primary driver is to lower the cost of ownership while delivering value to the business.

Virtually all major organizations have some form of performance management solution in place; however, they typically involve multiple applications and platforms, and often come from multiple vendors. Even if all the products were purchased as best-in-class solutions, there is no guarantee that the desired result is being achieved. The more systems and processes involved, the more difficult it is to manage performance effectively and to meet auditing and compliance requirements.

The 2008 BPM Pulse Survey found that nearly 80% of organizations polled have completed, are implementing, or plan to implement a performance management solution, and that a unified user interface and back-end data structure were among the most highly ranked technology characteristics of such a solution, as indicated in the figure below.

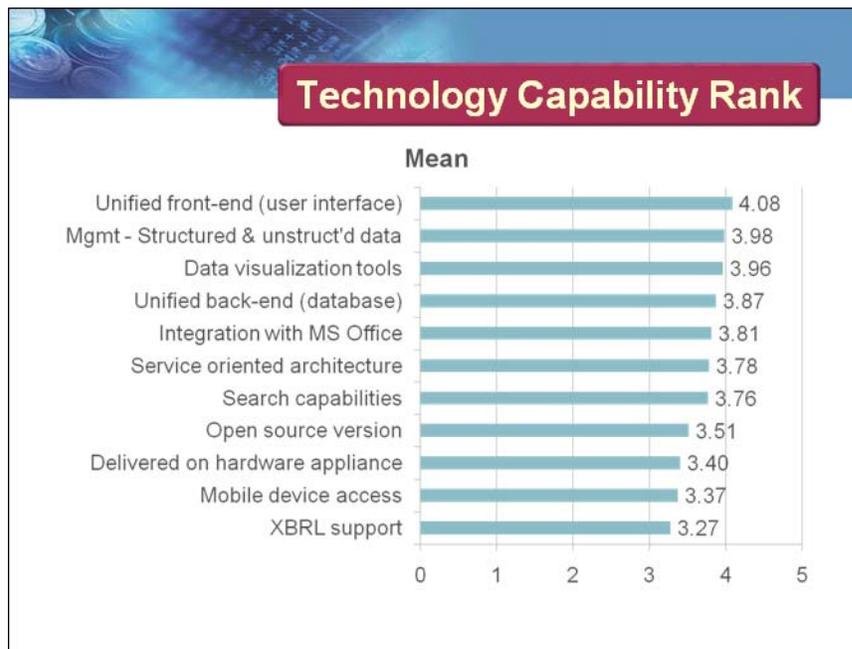


Figure 1 - 2008 BPM Pulse Survey - Desired technology capabilities in a business performance management system. In this ranking, respondents were asked to rate technology capabilities on a 5-point scale, with 5 being most important.

This paper examines an emerging trend to identify unified solutions in the core performance management disciplines of financial consolidation and planning. Unified planning and consolidation refers to systems that are specifically architected to use a common platform and data structure with a common user interface to deliver this key functionality.

Background

Twenty years ago, when early adopters of financial systems were using PC-based financial consolidation programs for reporting their fiscal results, budgeting, planning and forecasting were largely separate processes from consolidation. Many companies were using spreadsheets, although even those were new, while others used largely manual processes. Over time, consolidation programs became more and more powerful to accommodate complex global reporting requirements, ever-changing organization structures, and the drive for faster closing cycles, both to reduce costs and to provide more timely information.

As consolidation programs matured, separate products were offered to support the budgeting, planning, and forecasting processes. These generally were designed to meet the needs of the Director of Planning. Budget data then could be loaded into the consolidation system through a periodic process for comparison reporting. Actuals could be dumped to spreadsheets or external systems for planning and forecasting purposes, and perhaps the resulting data was then pumped back into the consolidation system to use the reporting functionality for comparison.

The result was that the different financial processes were driven by solutions that were function specific, even if they were best of breed. Typically the solutions were from different vendors, with different underlying data structures and interfaces. IT departments or technically adept financial staff members were kept busy loading and extracting data and building data conversion interfaces.

As the software industry matured and consolidated, on its way to forming what we now call the “performance management” software category, different solutions were brought together under the umbrellas of ever larger vendors. This provided the opportunity for vendor-supplied integration. A single vendor now would happily provide you with a full suite of finance department solutions – consolidation, budgeting, planning, forecasting, analysis and reporting, and perhaps even modeling tools or profitability management.

The good news was that if you were able to convince all of the departmental business users to jump on the bus and adopt the solutions from a single vendor, you now could go to one vendor for support. The bad news was that you needed support in the first place. Although there might be an integration layer on top of the point solutions, the underlying products still typically employed different and, in most cases, proprietary databases. So there was still the need for application programming interfaces (APIs) and data integration. Furthermore, the support from the vendor tended to be good as it related to the individual solutions, but weak in the area of integration. Most likely you needed some expensive consulting to make it all work together, and it probably did not work together as well as you would have liked, or as well as you were led to believe during the sales cycle.

Alongside these developments, the roles of the CFO and finance department evolved to become strategic as well as operational, and became increasingly vital to legal and business continuance concerns.

Why does this matter? Because the end game is no longer simply to find systems that can roll up your numbers correctly or combine your budget templates. Competitive and regulatory pressures have created a drive for unified processes for a host of reasons that we will explore.

The Problem

There are many issues and pains that arise from planning and consolidation solutions that require multiple applications. (We are going to reference “planning” as a generic term that includes budgeting, forecasting, strategic and operational planning.) We are going to look at the issues and pains as they affect two primary constituencies:

- ❖ IT department
- ❖ Business users

IT Pains

The type of multi-application scenario we have described typically carries a higher cost of ownership as compared to a unified approach. The higher cost results mainly from the following areas:

Complex procurement

The first pain of a multi-application solution is in the area of procurement. If you are purchasing separate systems for consolidation and planning, you may be going through multiple sales cycles to evaluate the two classes of products. Therefore, you are also going through two vendor selections and two contract negotiations, two maintenance renewal payments, and so on. Even if the solutions are from one vendor, you are still evaluating two products and negotiating licensing for them. We are calling this an IT problem, but of course it’s a problem for whomever handles the purchasing, negotiating, and payables, so it most likely affects purchasing, legal, and accounting, as well as IT.

Organizations are, of course, accustomed to buying multiple software products for multiple needs and departments, and so might not view it as pain so much as a cost of doing business. It’s only when you compare it to the purchase of a unified solution that it begins to look like a problem. The obvious analogy is when ERP systems were devised to take the place of disparate systems for accounting, HR, and materials management. The existing systems were not problems, as such, but eventually a better solution became available.

While we are talking about procurement, let us not forget that you almost certainly are going to need to requisition multiple servers and other hardware to support multiple systems.

Difficult deployment

As with procurement, deployment may be a challenge for others besides IT, since finance may handle or assist with the implementation and/or rollout of performance management systems.

Obviously it takes longer to install and configure two applications than one. There is also the possibility that these implementations are being done by different teams, which only increases the likelihood that the separate applications will end up as silos, serving only departmental interests or, in any case, not being well integrated.

In addition to the maintenance cost, there is also the issue of training. Rolling out multiple systems means more time and money spent on training both administrators and end



users. It is in the user rollout where those costs are subject to a greater multiplier effect, in terms of both direct cost and lost productivity. Ongoing support for end users, typically provided by IT, is another cost that must be considered.

Complicated maintenance

As mentioned earlier, for vendors acquiring a suite of products that have different code bases, often the actual financial results and the budget data reside in separate data stores. This is not an insurmountable problem, but does create a certain set of challenges.

For one thing, significant effort may be required to set up and maintain data translation so that the databases can share data. This requires setting up translation tables, which need to be maintained every time a new account is added or an organizational entity is added or removed. In some companies, that can be an almost daily process.

Once the translation tables are set up, processes need to be put in place to run the necessary procedures. Generally there are already processes for loading general ledger (GL) data into the financial reporting system on a regular basis, and this base level data is rolled up according to your consolidation rules. If budgeting and forecasting are done in a separate system from consolidation, you likely need to feed the latest actual consolidated data into the system you use for forecasting and modeling.

Some companies even build custom user interfaces on top of APIs to the underlying systems in an effort to provide their users with a unified look and feel.

Business User Pains

In a sense, the effort and expense required of IT can be considered a cost of doing business, but that cost is only justified if the business is getting the result it wants. The multi-vendor and/or multi-application approach, however, can also have major drawbacks for the business user in terms of company performance, including:

Performance impact

If it were just a matter of some inconvenience on the system side, coupled with some cost factors, perhaps the desire for unified systems would not be so strong. However, there is a strategic business impact as well.

The more steps involved in getting accurate data in front of an analyst, manager, or executive who can do something about it, the slower the response time of the organization. If it takes a week to get numbers from the data warehouse into a management report, there is a cost in business agility.

If back-end systems work is required before all the necessary data is available to line managers, their ability to react in a timely fashion is impacted. They will probably also be limited in their ability to do the analysis they require to manage their business units.

Another major problem on the business side is system fatigue among end users, leading to lukewarm user adoption. Users don't want to have to keep learning multiple systems. So although the cost of training users is higher it's even worse if they just don't use the systems.

Ease of use issues

Multiple applications mean multiple administrative and user interfaces to be learned and navigated on a daily basis. In this environment, the burden is placed on the users to understand their roles and be able to orchestrate the tasks they need to accomplish in the different applications in order to do their jobs.

From a role-based perspective it would be preferable to have a system that was designed to drive the functional processes, such as the budget cycle and monthly closes, using one consistent interface. Ideally this interface would seamlessly blend with the tools the finance user already employs, such as Excel and PowerPoint. Users should be able to work in native Excel to take advantage of its familiar interface, graphing and modeling capabilities, and so on, with application-specific functionality provided as an add-in. Examples would be budgeting functionality like spreads, trends, and weighting, or analytical abilities like drill-downs.

A bonus would be to have the administrative front end blended in as well, such that a separate admin console is not needed for managing the data model, rules, reports, and security.

The tool should support the process, rather than having the process pieced together around various tools and lots of documentation.

Data quality issues

What we will call “data quality” issues affect cost of ownership, company performance, and risk.

As discussed earlier, in order to integrate separate consolidation and planning systems, data mapping must be defined and maintained. This was mentioned as an IT challenge, but often the bulk of the work must be done by finance because they are the owners of the data and generally are the ones who must define the mapping.

Perhaps one of the most vexing problems is that the data structures may be inconsistent. Budgeting is done primarily for management purposes, while consolidation has to address legal reporting requirements. This can lead to differing data models, making comparison more difficult. An extreme example would be budgeting by product line but reporting by geography. Ideally there is the same granularity in both applications to allow comparison, but in practice that often is not the case.

Even if data structure is the same or close enough, the entered data values may be inconsistent. If “unified” is the performance management holy grail, then “one version of the truth” is the performance management mantra. There is only one way to ensure that, and that is to have only one source for the data.

Of course, even if the data structure and entered data values are consistent, the business rules applied to the data may not be. This is especially likely if different teams have built the different systems.

Risk and compliance

Finally, but for some most importantly, there is the impact of multi-application solutions on risk and compliance.



First, there is the operational risk that arises from inaction or poor decisions due to difficulties in accessing needed data and lack of collaboration and information sharing. Incomplete or delayed data can mean that problems go undetected or opportunities are missed. The less flexible the data collection, reporting and analysis structure, the harder it is to react and adapt to market challenges.

Second, a multi-application environment makes it more difficult to reliably track data and demonstrate to stakeholders and compliance authorities that the organization is being run effectively and ethically. Because of the multiple data stores and more complex processes, it can be difficult and costly to meet compliance and audit requirements. Visibility into events that will have material impact may be limited. Audit trails, which show who changed data and when, may not exist. All in all, it may be difficult for the organization to demonstrate the internal controls and reporting necessary to ensure regulatory compliance.

Business Benefits

Given the business pains associated with a multi-application solution for performance management, specifically for planning and consolidation, it is clear that a unified approach offers a number of benefits for IT and the business users.

Benefits for IT

The main benefit of unified planning and consolidation for the IT department is lowered cost of ownership, although many of the same factors that lower costs also carry a business benefit. For example, faster deployment requires less cost, but also means that the business will reap the benefits of performance management that much sooner.

Benefits of Unified Planning & Consolidation – IT Departments	
Cost Benefits	
<i>Faster installation</i>	One piece of software to install, reducing installation costs.
<i>Faster and lower-cost configuration</i>	One application to learn and implement.
<i>Lower training costs, faster rollout</i>	Both administrators and end users need to learn only one system. You can continue to build and roll out additional applications on the unified platform, with a minimal learning curve.
<i>Lower license and maintenance costs</i>	Of course this depends on the pricing that is offered, but in general buying one unified solution is likely to cost less, both up front and in ongoing license renewal and maintenance costs, than purchasing multiple products, even if they are from the same vendor.
<i>Lower application administration costs</i>	Because of the reduced time for installation, configuration, and deployment, the total cost of ownership is likely to be lower.
<i>Lower user support costs</i>	With just one system to learn, fewer resources need to be devoted to supporting users.
Business Value Benefits	
<i>Simpler purchasing</i>	One sales/evaluation cycle, one contract to negotiate, one vendor to manage.
<i>Faster time to deployment</i>	Faster installation and configuration add up to the ability to realize the return on your investment relatively quickly.
<i>Ease of use, acceptance and adoption by end users</i>	Users are likely to respond well to the idea of one standard interface (assuming it is, in fact, easy to use), leading to increased acceptance and adoption, areas which have been the Achilles heel of many a project.

Benefits for Finance/LOB

The benefits of unified planning and consolidation for the finance or line of business (LOB) user include maximizing profit and minimizing risk. The top line is helped by improving performance; the bottom line by boosting productivity and lowering costs. Risk is lowered by enhancing business agility and compliance. The benefits are summarized in the table below.

Benefits of Unified Planning & Consolidation – Business Users	
Profitability and Performance Benefits	
<i>Simplified workflow, process efficiency</i>	Financial processes can be tied together in a coherent workflow, including financial consolidation and closings, management reporting, legal reporting, budgeting, and forecasting/re-forecasting, which makes it easier to support business users and the way they work.
<i>Better collaboration in planning (top down, bottom up)</i>	One platform with reliable access to actuals and budgets allows for better information sharing across internal business functions and with external constituents like suppliers and partners, which improves agreement between key stakeholders in the planning process and increases organizational alignment.
<i>Business productivity</i>	If less time is spent by business users on retrieving, managing and staging data, more time can be spent on managing the business to make it more competitive. For example, unification removes the need for manual reconciliation of plan and actual data, and speeds up variance analysis.
<i>Improved forecasting accuracy</i>	When the same tool is used to view actuals and to prepare forecasts, you know you are working with the “right” actual data and therefore can create more accurate scenario models, increasing the probability of improved performance.
<i>Faster closing cycle</i>	Having a common workflow that drives financial processes and having the actual and budget data in one place makes it easier to get board reports out quickly because users are guided through the process, and audit and sign-off tracking are simplified.
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Risk and Compliance Benefits	
<i>Improved compliance, lower risk, lower auditing costs</i>	The fewer data stores you have, the easier it is for auditors to follow and verify your financial process, resulting in tighter compliance and therefore lower exposure for the organization.
<i>More timely analysis and decision making</i>	A unified system can eliminate a lot of data manipulation; the time saved gives executives actionable information that much faster.
<i>Greater business agility</i>	It follows that the more quickly and accurately you can assess the results and trends in your business, the more quickly and effectively you can respond.
<i>Improved line manager analysis and decision making</i>	Timely access to accurate data, with rich comparison reporting, empowers managers to drive the business from the bottom up.

The sum total of all the above is that, through unified financial processes, an organization has the opportunity to realize the promise of performance management to achieve real business results.

Suggested Next Steps

Organizations that are evaluating either a consolidation system, planning system, or both would be well advised to consider a unified performance management solution. Vendor claims regarding unification should be evaluated per the criteria outlined below.

Organizations that have a performance management solution in place that is working at a satisfactory level should evaluate whether or not the benefits outlined in this paper warrant looking at a unified solution, as some benefits (such as installation time, configuration cost, etc.) probably do not apply in this case, although other benefits (greater business agility, faster financial processes, improved compliance, etc.) may be compelling reasons to consider a change.

Evaluation Criteria

So how do you evaluate whether or not a vendor offering is unified? Here are some criteria.

Unified vs. integrated: First, look closely at whether it is truly unified, or simply “integrated.” They are not the same thing. Integrated means that multiple applications (usually legacy systems) have been pulled together and, through various means, made to work together. This doesn’t mean that integration is bad, but it is not the same as unified.

Includes core financial processes: Ensure that it includes, at a minimum, the core financial applications for budgeting, planning, forecasting, consolidation, management reporting, and statutory reporting. Preferably it also can handle a level of operational analytics.

Common user interface with workflow: The user should have one interface through which all the core financial processes can be run, and since we are talking about financial users, the interface should include native Excel and preferably other native MS Office applications. This does not mean

one portal that has buttons to launch different applications with different interfaces. Also, it is not enough to simply use a common reporting engine to pull from all the different applications. There should be only one interface to learn, and that environment should drive your daily, weekly, and monthly tasks.

Case Study

Major high-tech company adopts a unified solution

A \$14 billion global high-technology company was using separate planning and consolidation applications from a single vendor. While the vendor insisted the two applications were integrated, the company found that the integration was only at the user interface. Managing data, metadata, business rules, workflow and reporting between the two applications was a time-consuming, manual process. Seeking to improve efficiency and mitigate risk, the company replaced the separate planning and consolidation applications with a unified solution from a new vendor. Moving to the new solution cut their total cost of ownership in half and significantly increased user adoption. According to the chief accounting officer, “The unified consolidation and planning functionality from a single application and the superior usability of the new solution enabled us to execute this critical project seamlessly.”



Common data model and business rules: This means that the same data model is used for both planning and consolidation with consistent business rules, making it easier to do comparisons and to roll data as needed for forecasting and planning. Some systems may have a common user interface, but underneath there are still different systems with differing architectures. Others may have a common data warehouse, but then have separate user interfaces that are specialized according to the needs of different users.

Common data storage: The data should have a common storage platform and not exist in multiple databases where data models have to be kept in sync. Preferably the storage model provides open architecture that is friendly to the organization's data warehouse.

Clean slate unification: Of course the cleanest and most holistic approach is to have a truly unified performance management system that was built from the ground up to be unified. In general, the unification approach is found in the newer solutions in the space, which were not constrained by having to deal with the large installed bases of the legacy systems.

Conclusion

Unified performance management, where a single solution addresses both planning/forecasting and consolidation/reporting needs, represents the next generation of financial systems and can drive improved business performance and productivity, as well as achieve cost savings as compared to multi-application solutions.

Organizations should consider the benefits of unified performance management in order to stay competitive and improve top-line and bottom-line results.