Selection Criteria for Performance Management Software

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Software for Performance Management – Step by Step to the Right Solution

Performance management is a continuous process of planning and controlling of internal and external factors to improve company performance and minimize risks. A reporting system that is based on past performance and an analysis capability remain important in order to understand influencing factors and developments. However, planning is what enables alignment of the company resources and processes with strategies and objectives. An integrated performance management with appropriate solutions, therefore, is one of the core requirements of many software selection projects.

Functional Support Through Performance Management Solutions

In today's business world, Microsoft Excel is the most widely used software tool for support of performance management processes. But without supplementary functions and a database connection, Excel has only limited suitability. The principal disadvantages are the lack of a consistent data basis for, in some cases, innumerable Excel files, the high error rate, the danger of inconsistencies through numerous links, and also the extremely limited support for the planning process. More and more companies are encountering problems and limitations in their planning efforts with Excel and are looking for alternative solutions.

In contrast to Excel, dedicated tools for performance management separate data retention, models and screens. Data is taken from operational previous systems using defined data integration processes or entered manually, and stored centrally in a common data basis. For data retention, relational or multidimensional databases are typically used, or a combination of both. Frequently, standard technologies such as the Microsoft SQL Server are used for this purpose.

Integration with the data supplying legacy systems (for example, ERP, FiBu, HR, CRM) is ensured by way of data integration tools contained in the software or external tools. These enable graphical development and documentation of the extraction and transformation of the data from the source systems and also control and monitoring of the data loading process. Expert-user-friendly interfaces and assistants support the users with individual control of the data import. Data transfers can be triggered as required (on the fly) or they can be automated or time-controlled.

With the performance management tools, users can set up their own data models and define calculations and logic types. This business logic is modeled and saved centrally in the system (assumptions, rules, formulas, calculations, scenarios). Any changes made to the business logic affect all individual worksheets and templates. This software frequently contains predefined data models which can be adapted to customer-specific requirements. For example, the models can be filled with new data in each planning cycle.

Users gain access to the performance management tools by way of locally installed software solutions (full clients), web-based solutions (thin clients), hybrid forms of these or using add-ins integrated in Microsoft Excel. Access is also frequently possible using popular standard portals such as Microsoft SharePoint or mobile solutions. The following are typical properties of mature performance management solutions:

- For planning processes, performance management systems provide a complete range of predefined, specific functions. These include multiplication factors, copying functions, forecast methods, facilities for hierarchical distribution of plan values, for the use of allocation keys, and for the aggregation of values in coordinated subplans.

- Furthermore, captured data can usually be commented on at different levels. Comments and/or file attachments are important as they supply users involved in the planning process with valuable additional information regarding the actual figures.

Selection Criteria for Performance Management Software

- Data capture is controlled using workflow functions which are frequently required, especially in the case of bottom-up planning. Specific workflow functions include release processes, task allocation and monitoring, a planning calendar, and monitors for status overview.

- In addition to simulations, where the parameters used are changed, some performance management systems also offer a structure simulation facility (for example, simulation of the effects of changes in the organizational structure). The software will contain appropriate scenarios and simulation options, and also analysis functions. Simulation enables the easy run-through of various scenarios (best – worst – average) by changing parameters and structures. Both change options are based on the data, calculation logic and structures of the underlying data model.

- Of increasing significance is the integration of different performance management processes in a common software platform. This is all the more important as in today's corporate world, tasks such as strategy management, planning, financial consolidation, and also reporting and analysis are inextricable linked with each other. For this reason, the products will usually contain a facility for reporting and analysis of planning results. It has by now become standard practice to deliver aggregated economic key figures to company management in the form of a management cockpit or dashboard.

- Functions for the independent administration of planning tasks promise greater independence from IT. Users can thus automatically control and monitor database updates, planning processes and reporting. This is especially useful for recurring tasks. The advantages include less potential for manual errors and also faster reaction times.

Efficient Software Selection of Performance Management Solutions

Key for the selection of a suitable solution "in time" and "in budget" are a targeted, efficient approach in the software selection process and an expert knowledge of the software market.

Project Success Through Good Planning

Software selection projects are often doomed to failure before they even begin because of insufficient or unrealistic planning. This applies in general to all types of performance management projects. Therefore each undertaking requires careful advance planning. This includes formulating the triggers and objectives which are to be improved using performance management software and, derived from these, creating a concrete project plan which defines individual subphases with clear results (milestones). In the preparatory phase, the required functionality of the software and its handling should be described, as well as the organizational framework. The members of the project team must be freed, at least partially, from their duties in operational business in order to meet the demands of the requirements analysis, the software selection, its introduction and support.

Successful Software Selection Through a Structured Approach

The objective is to identify the optimum solution with sufficient certainty and a minimum deployment of resources. The software selection process can be split into the following phases:

1. Definition of the framework parameters

   - Objective and project definition

   - Requirements analysis

2. Evaluation of the software options

   - Market partitioning

   - Preselection

   - Detailed evaluation

Going through these five process steps enables the target-focused identification and selection of a suitable solution (see Figure 1).

Figure 1: Structured Approach to Software Selection

Following the software selection process comes the implementation which has its own process with corresponding steps: Detailed design, customizing/parameterization, system test, user training, and productive implementation.

Performance management solutions should be introduced step by step with companies defining pilot projects and a rollout strategy. In line with the principle, "think big, start small", this ensures that not too much is asked of the project team or the organization as a whole, and at the same time, the project objectives are not compromised. Implementation of defined subprojects enables fast (partial) successes and helps to spread enthusiasm for the system among the functional departments.

The Software Selection Process in Detail

The basis of the entire software selection process is a functional and technical requirements analysis. This identifies those functions that are absolutely necessary and those that are desirable, and also the users of the software. Critical here are the processes which, from a functional perspective, must be supported in the future (for example, planning, financial consolidation, reporting, and analysis). The technical requirements analysis, on the other hand, deals with data protection and data security issues, the required and achievable performance, platforms and operating systems, and also with the data storage technology. The result is a comprehensive catalog of criteria which permits an objective consideration of various performance management solutions. Since not all criteria are equally important, these must be weighted in the selection in accordance with the company's own requirements.

The actual software selection process itself begins with the market research including market partitioning (see Figure 2). Using the criteria already defined, companies carry out an initial partitioning of the market with all potential solutions. Of the possible systems, the most suitable candidate will be identified in the course of preselection and detailed evaluation. Some knockout criteria are immediately obvious on consideration of general information concerning the supplier. Studies containing product analyses, software catalogs, the assessments of independent software consultants, and specialist conferences and trade fairs are important sources of information.
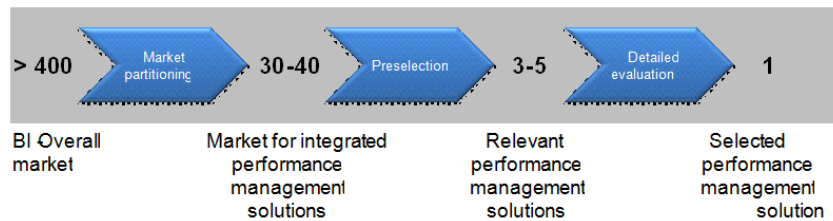
Figure 2: Actual Software Selection and Range of Solutions Considered

In the actual software preselection, companies should initially apply only selected important criteria in order to retain an overview. The objective here is to restrict the potential software tools to three to five options. What is important are the characteristics that have been identified in the requirements analysis as "very important" or as "knockout criteria", and also any budget restrictions. These requirements are usually sufficient to obtain a preselection.

The next step is a detailed evaluation of the products regarding their effectiveness and efficiency. Their effectiveness review involves a functional and technical assessment of how they achieve the defined requirements. The efficiency review focuses on the effort and costs involved in a solution to fulfill these requirements. Both of these properties must be reconciled in the chosen solution. To check the capability of the product with respect to the company's own requirements, the criteria catalog in the requirements analysis is applied. Whereas the preselection normally considers only important or knockout criteria, all criteria should be taken into account in the detailed evaluation and these should be assessed and evaluated as part of a cost-benefit analysis. Test installations, structured supplier presentations and proofs of concept help to check these requirements more precisely. Visits to reference customers are also useful as is feedback on suppliers and products from other projects and companies, and also the opinions of independent consultants.

The information from the assessment using the catalog of criteria and the detailed evaluation, including any proof of concept, will normally suffice to enable a decision to be made. In addition to all rational reasoning, however, it is often subjective criteria that influence the final selection. These may be the manner of the supplier, the competence conveyed, or personal preferences with respect to the information presented with the software.

Bargaining Never Hurts

The costs of any performance management solution should be considered separately from all other decision criteria. All the more so as, in practice, the costs that are incurred for licenses, support, further development and maintenance on introduction of a performance management solution can be significantly reduced by an astute approach. The official manufacturer price lists are frequently an off-putting factor.

It is advisable, in the framework of the software selection project, to schedule sufficient time to negotiate the project costs thoroughly. With regard to the consulting and implementation work, experience shows that the parties tend to agree relatively quickly on daily rates. There is much more flexibility regarding license fees and these should definitely be negotiated with the supplier. In addition to the pure license fee, software suppliers levy an annual fee for software maintenance. This flexibility also applies to completed and in-development planning models, reports and analyses. The more clearly the list of services is defined, the greater the likelihood of successful price negotiations for the customer. It is worth negotiating on every item in the offer.

For concrete price negotiations, it makes sense to have an exact idea of the initial development status of the solution, and also rough information on relevant criteria such as the number of users categorized by their role, their data volume, or the functions they will require in three or five years. Only a long-term consideration makes the different license models and the implementation effort for the various products really comparable.

Purchase the Product, not the Supplier

In the decision to opt for a specific supplier in the context of software selection projects, security of the investment is frequently a highly-ranked criterion. Especially in the case of small or lesser known software suppliers,

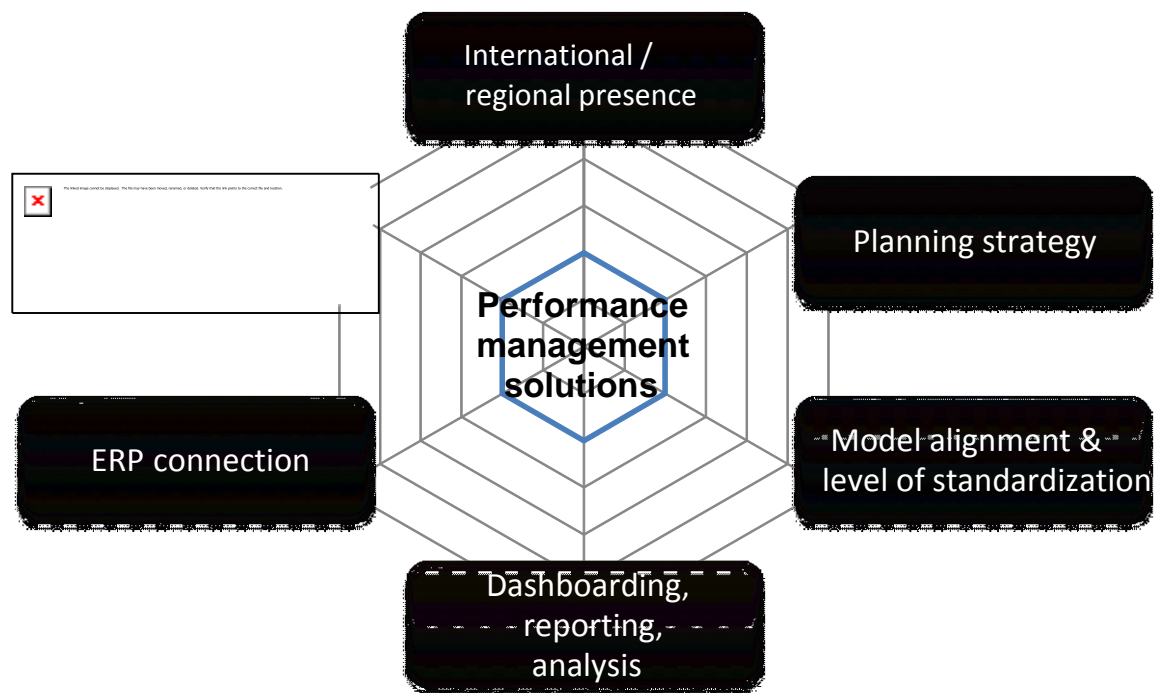*Selection Criteria for Performance Management Software*

customers will often worry that the supplier will experience financial problems or be acquired by a competitor, which could result in expensive new purchases or migration projects.

As understandable as this worry is, the conclusions drawn by the IT decision makers in companies are frequently incorrect. Even the major software suppliers cannot guarantee the continuity of their products. In fact, products from larger suppliers that are not part of the core portfolio are more at risk than the software of smaller specialists who tend to rely on one or few products. Of course, the specialist suppliers will also discontinue products but in most cases, the security of the investment will be greater than with the supposed safe haven of the large supplier. And in those cases where the smaller specialist is acquired by a larger supplier, the acquisition often takes place exactly because of the technology or the excellent products. Here also, there are exceptions. Users should bear in mind: Larger is not always better – even the supposed "large" suppliers can themselves be acquired by even larger companies or merge with others. The size or profile of a supplier is therefore not a valid decision criterion. Of much greater importance is the "overall package" of technical and functional support which provides real value for money.

The Market for Performance Management Solutions

The selection of a performance management solution demands expert knowledge of the software market and of the important differences between the various solutions offered. Different criteria can be used to split performance management tools into groups of similar solutions. Segmentation criteria include, in addition to international/regional presence and functions for dashboarding, reporting and analysis, also the issues of planning strategy, model alignment & level of standardization, an ERP connection, and the number of users (see Figure 3). For an explanation of the segmentation criteria, see the following table.

Selection Criteria for Performance Management Software

Segmentation criteria	Explanation
International/ regional presence	Suppliers of performance management tools frequently have a regional focus. The large BI suppliers and software generalists are typically globally positioned. Very often, the smaller suppliers will have a better understanding of regional peculiarities and can more effectively communicate to local users the advantages and functions of the often complicated performance management software. If yours is a globally active organization, it is particularly important to ensure that the supplier has a corresponding international presence in order to guarantee adequate local support.
Planning strategy	In planning, as one of the most important performance management processes, we can distinguish, from a strategic perspective, between a top-down and a bottom-up approach. Mixed planning refers to a scenario whereby both top-down and bottom-up values are planned and then adjusted at single item level. In **top-down planning**, the focus is on strategic corporate planning with value

Selection Criteria for Performance Management Software

and structure simulations and analyses. Specific data distribution and scenario development functions are also called for. The low user numbers involved in the strategic planning area are reflected in the architecture of the solutions. In many cases, only simple authorization concepts are available and this serves to reduce the administration effort. Web access to the planning application is of minor importance. The planning area where top-down planning is most commonly applied is financial planning.

Bottom-up planning in contrast, is frequently employed with large user groups which are often distributed over different locations. The priority is not strategic planning, but the capture of plan data by the planners. Web frontends are commonly used for data entry. Workflow functions support the plan data collection process. The workflows are either predefined or can be developed using the tool.

The market trend is towards broader support for both planning strategies in a single tool. The more functions a product can perform for both planning approaches, the more difficult it is to assign it to either of the two segments.

Model alignment & level of standardization

Performance management tools can be aligned for specific applications in their model alignment. In German-speaking countries, for example, the customer is typically offered a large selection of integrated financial planning tools and predefined P&L, financial, and balance sheet planning in an integrated model. Predefined applications for investment, credit, HR, and sales planning are also common. Alternatively, performance management tools can also be aligned in their models for specific industries (for example, energy providers, logistics, trade).

The tools available for development of performance management applications range from flexible development platforms for setting up individual applications right up to highly standardized applications, for example, for integrated financial planning.

A limited level of standardization and with it, typically, a high level of flexibility in the development of different performance management applications is to be found with development-focused tools or performance management tools with the emphasis on reporting and analysis, and these frequently enable entry of plan figures.

In contrast, tools containing predefined logics, data models and applications provide a high level of standardization. Especially in the area of financial planning, companies can take advantage of the existing mapping of standard P&L, balance sheet and liquidity planning with their associated links.

Dashboarding, reporting, analysis

Planning is normally not possible without a reporting system and analysis of planning results. These functions are available either through the integration of various modules in a software suite or by way of functionality in an integrated solution. Predefined report templates support transmission of business controlling information in structured and compressed form or enable comparison of planned figures with actual values. Analysis functions aid in evaluating variances, and in determining causes and their effects on the business development. The integrated support of strategy management, and financial consolidation using special solutions are also becoming increasingly important and enable differentiation of the solutions on offer.

ERP connection

Some performance management tools are closely linked to operational, transac-

Selection Criteria for Performance Management Software

	tion-based systems. This link can take the form of solution integration with the previous system or of predefined, in some cases, certified interfaces. The main advantage of integration with, or direct linking to, performance management tools is that the business content of the previous systems is very often well mapped since functions are available for content interpretation of the data in the respective previous systems.
Number of users	The target groups of performance management solutions can vary significantly. In some cases, the solution is used in special scenarios with small user groups. Therefore, many of the tools have predefined business content right up to integrated guidelines on planning – depending on the customer's requirements. Other tools focus on the support and coordination of a large number of planning users. The majority of suppliers position themselves somewhere between these two extremes and frequently address a typical application area with 50-100 users who are to work together in a coordinated effort.

Conclusion

Particularly in medium-sized companies there is a strong demand for integrated performance management tools which support various performance management processes on a single platform. To support the manifold performance management tasks that are to be completed in companies today, standard solutions such as Excel are no longer adequate. Dissatisfaction and inefficient processes are the consequences when unprofessional solutions are implemented rather than specialist performance management tools.

For efficient selection of a suitable performance management solution, a targeted approach in the software selection process and an expert knowledge of the software market are required. Only those companies who approach their software projects with clear objectives and ideas are likely to achieve successful implementation. At the beginning, these objectives and all possible requirements of a new system must be defined. In the subsequent selection of the software solution, one must consider the solutions on offer very carefully and attempt to determine if all desired requirements are fulfilled. The most efficient method is to have predefined scenarios presented live with the use of examples.

When opting for a specific supplier in the context of selection projects, security of investment is one of the key criteria. For this reason, one should consider the following questions before making the decision to invest:

- Does the software product score well in the market both functionally and technically?

- Is the software product a core component of the supplier's product portfolio?

- Does the software product fit with the supplier's strategic alignment?

- Has the supplier invested in further development of the product in recent years or has the product simply been maintained?

- Is the supplier developing positively compared to the overall market segment?

Only if all these questions can be answered satisfactorily, will the user be guaranteed a minimum security of investment. The structured selection process described here, and a fact-based decision using technical and functional selection criteria will guarantee identification of a suitable solution which meets all requirements for both efficient technical operation and effective support of the business processes. By employing a knowledge of functional support options on the one hand, and key segmentation criteria and differentiating characteristics between the various performance management solutions on the other, it is possible to carry out a goal-oriented evaluation of the solution offerings on the market as part of one's own software selection process.

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