

## A BPM Partners White Paper

# Managing Performance in a Tough Economy

## Performance Management for the Midmarket

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## Executive Summary

In difficult economic times, it becomes more important than ever for companies of any size to manage performance efficiently, as well as to be flexible and adaptable in a volatile environment. In order to be able to move quickly and adapt, it is critical to have software that can keep pace with changing circumstances, by allowing management to quickly envision and analyze alternate scenarios in order to plan the best course of action. This is easier said than done, as it requires a system in place that supports it. If modeling and analysis is a cumbersome process, it likely will not happen, or will be inadequate.

Another key ingredient in effective business performance management (BPM) is a transparent system that, in addition to supporting compliance requirements, engenders faith in the accuracy of the numbers and the integrity of the process. This is always important, but even more so as data is being frequently updated.

Many of the robust tools used by large enterprises to accomplish these tasks traditionally have been out of the reach of the small to mid-sized business due to price or overall cost of ownership, but recent offerings targeting the small to medium sized business provide equally strong performance management capabilities. The definition of small to mid-sized business can be a moving target, with some vendors defining it as organizations less than \$500 million and others as less than several billion. Suffice to say that these small to mid-sized organizations have many of the same complex modeling and performance management challenges as large enterprises.

## Background

Difficult economic times make it critical for an organization to manage its operations and finances more effectively than ever, and adjust to new realities which may change on a daily basis. Historical swings in cost drivers such as the price of crude oil, currency rates or the value of an investment portfolio provide ample evidence of the need to be able to adapt to fluctuating parameters.

With the maturing of performance management tools over the last decade, solutions now exist that can have a real impact on performance through the use of multi-dimensional analysis and modeling, collaboration, and workflow management. These capabilities provide an organization with the ability to understand what is happening in their business and make adjustments quickly. Historically the more robust solutions were employed only at large enterprises, while smaller businesses still relied on spreadsheets and email to manage many financial processes, particularly planning and forecasting. Now, more powerful solutions are available at the mid-market level, and may even duplicate much of the functionality of solutions designed for large enterprises.

## Business Performance Management requirements in a difficult economy

Managing a business effectively requires the ability to create plans that move the company in the right strategic direction, budgets that enable sound financial management and forecasts that accurately predict likely results. In a volatile environment, these processes are especially critical, and in particular they need to be:

- ❖ Agile, flexible, and adaptable
- ❖ Transparent, compliant, and accurate
- ❖ Able to provide fast return on investment (ROI)

To accomplish the above, and remain competitive, an application today needs to incorporate the latest technologies and best practices.

### Adaptability

So what does it mean for software to support agility, flexibility, and adaptability? First let's look at why you need these capabilities. In an uncertain economy, yesterday's reasonable financial assumptions may no longer hold; delayed orders, payment defaults, availability of credit, and general revenue issues can throw the whole plan into chaos. In addition, the regulatory environment can change in a heartbeat, or at least there may be an imminent likelihood of regulatory changes that require contingency planning to be prepared for a variety of possible scenarios. So, when the unforeseeable happens on a daily basis, the key capability of any performance management tool is to be able to quickly assess the current situation and generate a revised plan that accounts for the new realities of the day and provides a foundation for the best decision making possible under the circumstances.

In software terms, this means the ability to do modeling and scenario planning on the fly. While most performance management products allow you to have multiple versions of plans and forecasts, in practice some are much easier to use than others.

### Transparency

Finance professionals today are well aware of the need for transparency in order to meet regulatory compliance requirements, and this indeed is now a must-have for any financial software solution. The government wants you to show where numbers come from, and how decisions are made, so that it is clear to auditors that you are in compliance with laws and regulations. Beyond that, however, there is additional value in transparency. Business users also benefit when they can understand the numbers. It generates faith in the accuracy of the numbers, and fosters greater buy-in to plans and budgets. It also helps with analysis and decision-making if you are able to drill down to the details and the rules that generate the higher level numbers.

## Return on investment

When money is tight, any software investment will be scrutinized with extra care, and in order to make the cut will most likely need to show return on investment in the near term. In the case of performance management software, very often a good case can be made for the purchase if it can be shown to provide the ability to pinpoint opportunities for cost control or revenue maximization. A good tool, particularly one that provides granular multi-dimensional analysis, can generally deliver on this promise, assuming a company commitment to making it happen.

## Technology

Always a means to an end, new technologies are important to the extent that they actually improve processes and decision-making. There can be additional pressure to implement them, though, if not doing so may cost you a competitive edge. The new technology may give you a market advantage over your competitor, or may be required just to remain in the game. Efficient competitors tend to create downward pricing pressures, requiring the rest of the industry to adopt similar efficiencies.

## Challenges for the small to medium business

While a weak economy presents challenges to any company, it can be an especially hard time for small to medium sized businesses (SMBs). These companies have just as much of a need for performance management as large enterprises, but the cost of the high end BPM software solutions can be prohibitive. Subscription fees aside, the cost of implementation and training of administrators and users can sometimes equal or exceed the software expense. Add to that the information technology (IT) support costs for some systems, and the total cost of ownership can be out of the reach of the SMB. The ability to benefit from robust enterprise-grade BPM capabilities within the resource constraints of typical SMB's can offer advantages over peers who do not have the technology to proactively manage their performance.

## How current BPM technology makes more possible

Current technologies can make the solution easily accessible via the cloud, provide a collaborative environment, have robust engines for rules and enhanced analytics, leverage AI to streamline processes as well as improve data quality and accuracy, provide a unified platform for performance management and handle larger volumes of data. So how does this technology make a difference?

Solutions that take advantage of these technologies allow for more collaborative business processes that tend to increase buy-in and accountability around numbers, and to result in more accurate plans and forecasts.

## **Ease of use and lower costs**

First, a product that is designed for the cloud is available from any device and is always the latest version, meaning that it is easy to deploy throughout an organization and – equally important – doesn't require updating. This reduces the time and cost of deployment and does not tie up IT resources. Additionally, the product remains technically current taking advantage of the latest developments such as AI and Machine Learning, as well as integrating with the most recent versions of critical third-party software.

Second, modern cloud-based solutions tend to have a simple, familiar user interface and are easy to learn, reducing the training. An intuitive front end makes it easy to push the application across the company and down through departments. It's a bonus if administrative tasks can be performed in an easy to use interface as well. In any case, less training means lower cost of ownership.

Now, ease of use in general supports the type of rapid modeling and re-forecasting that is important in a fast-changing marketplace, but we will discuss that in more detail later on.

## **Workflow management**

A big part of what can fall under the heading of collaboration is workflow management. This is collaborative in the sense that it brings together all the parties in a process and gives them a common unified view. This not only serves to drive the process – in this case the planning, budgeting, or forecasting process – but it also supports accountability, since it is clear to everyone what stage the process is in, and identifies any bottlenecks. Workflow management helps users understand the process and makes it possible to track it, manage it, and audit it. To be most effective, workflow capabilities should be available for any user-defined process, including the development of multiple scenarios so that you can, for example, have multiple plans or forecasts in process at the same time, and can track the status of each one. If the workflow history is stored, that allows for it to be audited and reported on.

## **Transparency**

As stated earlier, transparency of data increases user confidence in figures and satisfies audit requirements. Modern solutions support transparency by allowing business users to dig into the numbers down to the most granular level of detail, including being able to see the calculations behind the data. Users should be able to drill down to see not only the lower levels of detail for numbers that result from a hierarchy rollup, but also the formulas that may produce a number. This helps them to understand the financial business rules in a very concrete way. While most solutions today do provide some sort of drill down functionality, some make it difficult to access. From a user perspective, it is desirable if this functionality is natively integrated with a simple right-click menu.

A side benefit of this transparency is that it cuts down on information requests from users to IT or finance. Since users can find their own answers to many questions, the workload for IT or the finance department is reduced, efficiency is increased, and decision-making information gets into the hands of managers that much more quickly.

The purpose of transparency is to show where numbers come from, so enabling drill downs and exposing formulas goes a long way towards achieving that goal. However, there can be significant benefit to going a step beyond and actually documenting the thought process and supporting detail to add texture and additional insight into the data.

This might entail the ability to attach notes to data, and perhaps even to workflows and tasks as well.

## Distinguishing planning, budgeting and forecasting

Most finance professionals can attest that planning, budgeting and forecasting are three separate but related processes. Each has different goals and needs, and therefore different requirements in terms of software functionality to support the process.

Planning is strategic in nature. It identifies and clarifies the full impact of alternative business scenarios and strategies over both the short and long-term. Typically planning is performed by a relatively small group of individuals who are responsible for translating high level organizational goals into a plan. It generally is a precursor to budgeting. Planning is concerned with possibilities, alternatives, and what-if scenarios. It attempts to discern the impact of today's decisions on tomorrow's financial results. Planning is inherently complex because of interdependencies and the potential ripple effect of changing any one parameter. It deals in considerations such as "If revenue drops, what impact will it have on earnings? Cash requirements? Staffing? Capital requirements?" Planning software provides tools to create the necessary interdependencies, and allows for comparisons between alternatives as an aid in decision-making. Ideally, the planning process should be well integrated with the budgeting platform so that the plan data can be used to directly source the budget. A good planning tool makes it possible for a finance user to create the complex business rules needed to support the interdependencies of data in a strategic plan. Of course many of these rules will likely also be applied to the budget and actual data. Also important for planning is the ability to easily generate alternate scenarios. All of these planning capabilities become mission-critical in a tough economy and existing plans will need to be revisited.

Budgeting – more collaborative and bottoms-up than planning – is the centrally controlled process of translating planning decisions into a specific, projected financial blueprint for the coming year that can be used as a yardstick for performance. It can involve input from a large number of contributors, often with an iterative approval process. Budgeting software seeks to ease the burden of managing the process by providing structure and workflow, as well as basic tools to facilitate the data entry and creation of business rules. Most companies put their main efforts into developing a budget. In a budgeting tool, involving many people throughout the company, ease of use is an absolute necessity.

Forecasting's aim is to track performance against the plan, and provide an accurate look ahead at variances and conformance to the budget. Rolling forecasts, updated as actual performance evolves over time, enable prediction of whether adjustments must be made to the budget, as well as advance warning of the need to reduce or increase expenditures to meet budgetary limits or capitalize on opportunities. Forecasting timelines can be from days to months, but most typically forecasts are on a time horizon of months or quarters. Forecasting software needs to be able to easily create the starting point for a new forecast by pulling in the current actual data along with the forward-looking plan data.

## Syncing up operational and financial planning

For the organization that can link their operational and financial planning systems, there are two important benefits. For one thing, chances of actually achieving financial goals obviously are greater if the operational plans support those goals. Conversely, building financial plans from bottoms-up operational data is going to result in a more realistic plan. Both, by the way, should be aligned with strategy. A properly designed performance management system can enable this type of alignment.

Performance drivers are often operational in nature, such as the unit production rate in a factory. An application that is easy to use and deploy can be pushed down to the production level, which allows for fresh bottoms-up input that improves the quality of data used for planning and forecasting. In cases where there is a full-blown operational performance management application in place, it may exist in a separate model, and feed the key performance drivers to the financial model.

Having operational drivers tied to the BPM system then allows for the possibility of sending alerts to the appropriate levels of the organization – managers, executives, etc., enabling them to respond quickly when indicators warrant it, and also potentially establishing a feedback loop between finance and operations. So if a key operational indicator is in a critical state, especially if it is predictive for the business, the management team can be given early warning. For example, if the supply of key raw materials in a given day, week, or month drops off, it can be predicted that production will be down a few months out, and management has time to react.

## Rapid modeling in rapid times

There are a number of reasons why it is increasingly important to be able to generate financial models quickly and repeatedly. For one thing, planning seldom means creating one plan, it means creating many plans based on different possible scenarios: best-case, worst-case, likely case, differing revenue scenarios, differing cost scenarios, differing acquisition scenarios, and so on. And even the best laid plans may need to be revisited. Uncertain, volatile market conditions may necessitate the modeling of multiple scenarios to compare complex alternatives.

Many products allow you to make copies of a given model and its data, but very often it involves an IT-like process of creating a new database, new cubes, importing data, etc. A tool that is optimized for modeling will allow simple creation of a whole new scenario, with all the dimensionality and data of the original. This functionality also makes it easy to produce rolling forecasts, by quickly copying actuals-to-date and plan data into a new forecast scenario.

Enterprise-level modeling is actually a very complex task, as there are many business drivers, and to be able to model quickly, it's important to see how a change to one driver flows through the entire model. This is virtually impossible in a spreadsheet environment, since that change not only has to flow through all the various formulas, it also has to flow through the entire organizational hierarchy as well. A robust modeling tool will enable an executive to, for example, increase research and development (R&D) costs for a given product by 15% and see the impact on both the product profit and loss statement (P&L)



and on net income for the company, or revise revenue estimates and instantly see the impact on earnings at every level of the hierarchy.

Since any model is driven by business rules, to support rapid modeling, it's important to have an intuitive interface for rule-building that lets a finance user create the formulas that drive the model. If a programmer or IT specialist has to be involved, it can slow down the process.

## Conclusion

For the small to medium sized business to survive and thrive in a difficult economy, it pays to have strong performance management tools that can enable the company to react quickly and appropriately to changing conditions. A large part of this is the ability to develop plans, budgets, and forecasts rapidly, including multiple versions of each. Solutions exist today that provide robust, enterprise-like performance management functionality at midmarket or departmental prices. SMBs now have the opportunity to acquire sophisticated BPM applications that will allow them to achieve a faster ROI and more easily adapt to changes in the current dynamic business environment.

## Case Example – RACER Trust

### RACER Trust

RACER Trust holds a significant number of industrial properties and is the largest environmental response and remediation trust in U.S. history. They have 30 full-time employees, 600 contractors and manage a budget of \$US 500 million across 60 locations.

### The Challenge

RACER Trust needed to:

- Track and update holding costs for each property including maintenance, insurance, and security
- Project these holding costs out 100 years based on their ownership responsibilities
- Account for a variety of personnel including managers as well as engineering, industrial, and environmental consultants
- Prepare three separate budgets based on different economic conditions – natural, slowdown, and recession

### The Solution

RACER Trust selected the Prophix performance management solution based on four key features:

- Powerful and dynamic automated reporting that meets both their internal and external reporting requirements
- Support for a 100-year time dimension which aligns with the 100-year environmental responsibility for their assets
- A flexible number of attributes in financial models which supports the need to monitor the changing status of key attributes across 60 properties
- The ability to maintain multiple budget scenarios to quickly respond to evolving economic conditions

### Benefits

After the system implementation, the company was able to:

- Establish multiple models to manage their property trust including holding costs, financial, personnel, and professional with all the required details
- Use a 100-year projection to budget based on the predicted sale date of each property while monitoring the associated costs
- Create multiple budget scenarios with monthly detail for the first five years and annual after that
- Consolidate multiple models to generate the necessary internal and external reports

### Vendor Profile

Your business is evolving. And the way you plan and report on your business should evolve too. Prophix helps midmarket companies achieve their goals more successfully with its innovative Corporate Performance Management (CPM) software. With Prophix, finance leaders improve profitability and minimize risk by automating budgeting, planning and reporting, and puts the focus back on what matters most – uncovering business opportunities and driving competitive advantage. Whether in the cloud or on-premise, Prophix supports your future with a platform that flexes to suit your strategic realities, today and tomorrow.