Choosing the Right Financial Performance Management Solution

Five Questions Finance Professionals Should Ask

White Paper

Aligning Business and IT To Improve Performance

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Introduction

"Address the business user's needs first" is our motto when it comes to deciding which business software to buy. After all, it wouldn't make sense to buy a machine tool from an existing supplier simply because that supplier is a preferred manufacturer if that tool cannot produce the parts or products your organization needs. Similarly, it doesn't make sense to buy software based on price alone. Selecting a specific preferred vendor or spending as little as possible is clearly the wrong choice if people will not use the purchased product and it winds up as "shelfware," or if it hampers user productivity and is an ongoing drain on resources. All that's accomplished by this is compromising a company's ability to meet its business needs.

A smart, effective approach to buying business software must be built on an understanding of these principles:

- Business software is almost never a commodity.
- The software you want is the product with features and functionality best suited to your company's requirements and processes.
- A vendor's product checklist is a good start, but only a start. It doesn't describe how it accomplishes a function or how well it satisfies that need. Determining that is an essential part of the purchase process.
- "Price" can mean different things – be sure to focus on total cost of ownership.
- IT department requirements should be considered in the evaluation process but they should never trump business requirements.

Buying Business Software

Business software is almost never a commodity. This is especially true of strategic systems such as financial performance management (FPM) and business intelligence (BI). While feature and function checklists of two competing products may be identical, how these capabilities translate into the accomplishment of tasks can be quite different, and so one application may suit your business needs far better than the other. If, for example, one product allows financial analysts to complete a task far more quickly – in one hour rather than one day, for example – in business terms it will be a far better choice. The one may be a "deal," but the other will deliver greater business value for your investment.

One product may be a "deal," but another may well deliver greater business value for your investment.

Evaluating which software package best suits your needs requires that you understand not only the features and functional capabilities of each but also how effectively each meets your organization's business needs, both current and future, and complements your business processes. In other words, you

must establish to what extent any given package will enable people to do their jobs faster and more completely.

Every business system has technical capabilities that are easy to define or measure and can be checked off on a checklist – the databases or Web browsers it supports, the time required to complete a task, some measure of throughput. But measurable technical specifications should not be confused with business requirements. Two applications claiming they can perform "statutory consolidation" or "budgeting and planning" may differ considerably in how they handle currencies or how they deal with complex minority ownership and cross-holding corporate structures. Because of these differences, they may differ significantly in the time and effort each requires to complete the close. What matters is how each works with a specific company's existing practices and processes.

It's important to remember that the IT-centric view of what's important may not coincide with your understanding of what the business unit needs.

Then there is the matter of price. Here, a company can make two types of mistakes: Trying to save money and thus buying an inexpensive package that falls short of its needs, or paying for capabilities it won't use, and thus paying too much. The right set of features or specifications is one that matches what the organization needs. Focusing only on initial license cost will likely lead to a waste of money.

IT departments may have standards that affect the software a company will buy. Standardizing on a specific vendor or small number of vendors potentially has value in reducing costs through volume purchases or simplifying integration of different pieces of software. When issues arise, having a smaller number of vendors can facilitate support ("having one throat to choke").

IT people understand what they need and have their own perspective and priorities. But it's important to remember that their IT-centric view of what's important may not coincide with your department's understanding of what the business unit needs. In trying to operate as efficiently as possible, your IT department may be overlooking your business requirements. They may not appreciate that their first choice does not have the specific capabilities needed and they may not have the hands-on business experience to be able to weigh the often subtle differences between two vendors' packages in terms of which is the better fit for your business needs.

This white paper is designed to help business users structure their software search. As is the case with hiring people, purchasing the right software means asking the right questions. This paper will discuss five basic sets of questions you should be asking about the application you are considering. They are directed at the vendor, at the finance and business users who will be using the software or the information that will come out of it, at executives who are part of the evaluation process, and at the IT department.

Basic Principles for Software Selection

Two Types of Software; Two Types of Evaluations

Broadly speaking, the software universe can be divided into two main categories. One includes the infrastructure applications and tools that enable IT departments to support business computing requirements; the other encompasses the applications and broader systems that manage and support business requirements.

A broad array of tools and systems – database management software, infrastructure monitoring and control systems, data warehouse environments, network management, programming languages and the like – are all the province of the IT department. Our research confirms that complexity in a company's infrastructure is a key obstacle to the more effective use of information technology, one that increases with the size of the organization. Our Financial Performance Management benchmark research (Ventana Research, *Financial Performance Management for the 21st Century*) reveals that more than half of companies find that their systems' complexity prevents them from accessing necessary data, enabling collaboration, developing new ways of reporting or analyzing their business. For that reason, IT departments are keen to standardize on preferred vendors and specific architectures and frameworks. They believe this reduces the complexity – and consequently the cost – of maintaining the IT environment.

The second main category of applications companies buy is the software they use to support and automate business processes.

The other main category of applications companies buy is the software they use to support and automate business processes. Some of these manage transactions and interactions, such as enterprise resource planning (ERP), customer relationship management (CRM) and supply chain management (SCM). Because this software is designed to manage transaction workflows and collect data – invoices, customer records, bill of goods and so on – consistently and often in high volumes, it is modified infrequently and operates according to set procedures. Often there is value to having a high degree of integration in the functionality of these programs because this can facilitate a broader range of end-to-end workflows (such as requisition-to-pay or order-to-cash) and simplify the collection of the data associated with the transactions and interactions.

Another set of business systems consists of those used for analysis, reporting and decision support – for financial performance management, for example. Analytical applications include those that provide insight into the performance and effectiveness of specific departments – sales, customer service or human resources, for example. Other applications, such as performance scorecards

or planning solutions, are broad-based tools that enable executives to manage more effectively. Unlike transaction management software, they need to be flexible because there are many different (and often equally good) ways to assess a situation or explore data. Moreover, the questions business people ask about what just happened and why, or what might happen under different scenarios, are always changing, which means the analyses and reports need constantly to be updated. If the financial performance management system with which you are working does not enable your organization to do this quickly and easily in ways that conform to your needs, it will restrict agility, be a barrier to more effective management and be an ongoing drain on productivity.

Although there can be value in having a high degree of integration in the ERP or CRM software your company uses, we assert that the ability to integrate analysis, reporting and decision support software with these transactions systems is much less important. For one thing, a majority of companies with more than 1,000 employees use transactions systems from multiple vendors. This significantly lessens the value of "integration," since these core systems are themselves fragmented. A second reason is that recent consolidation within the IT industry has led to software packages that are "integrated" mainly at the start-up screen (and purchase order) level. Indeed, it may be more important to focus on how your FPM system will interact with existing data.

The recent consolidation of the IT industry has created software packages that are 'integrated' mainly at the start-up screen level.

To be sure, over time this will change, but it can be a mistake to purchase a system today for the promise of "full" integration sometime later. As with IT infrastructure integration, your company needs to assess the value of having a single vendor of business software and solutions versus satisfying the business requirements you have today for financial performance management software.

Determining Objectives

Companies usually aren't haphazard when it comes to buying software, but collectively the people involved in making the decision don't always have full understanding of and agreement on the objectives they are trying to achieve.

If the goal is to be able to achieve a balance among financial, customer and operational considerations over both the short and long term, it's likely that the performance management system will need to tap into data from multiple sources (for example, two or more ERP systems, a logistics management application and a field service application). Thus, one vendor's claim that its product is "integrated" may not be that relevant if it is "integrated" with only some of the data that you will need to use while the rest of the data requires ongoing modification to be useable with that system.

If you expect (as you should) that metrics and performance indicators will evolve continuously, a key consideration will be the ease and flexibility needed by the business analysts responsible for maintaining the performance reports that people receive. Their assessment of these aspects of the software they will be using will reflect how well they'll be able to respond to business needs and support its requirements. This is the consideration that should be of primary importance, not the vendors' "ease of use" assertions or the IT department's vendor consolidation objective.

How well business analysts will be able to respond to changing business requirements is the consideration that should matter most, not vendor assertions or IT department interests.

Changing the organization's budgeting process to make it faster, more agile and more accurate is another common objective driving software acquisition. This almost always means replacing a system built on desktop spreadsheets with a dedicated solution. There are plenty of choices, but the right one for an organization will be one that addresses business needs. For instance, if one of your goals is to have more people involved in the planning process, making a choice that will make participation as easy as possible and ensuring user acceptance will be important to the success of the project. One aspect of this is that some (but not all) planning applications take advantage of people's training and familiarity with spreadsheets and offer this as an interface.

Our benchmark research (Ventana Research, *Sales Forecasting and Demand Planning*) shows that companies that measure forecast accuracy have more accurate forecasts. But we also find that people (especially those outside the finance department) don't always have easy access to the historical information or the analytical tools or features that would make their sales and expense forecasts as accurate as they could be. Buying software just because it is "integrated" with something else or because it is the least expensive will be the wrong choice if it prevents your company from achieving its objective of improving the effectiveness of its planning process or if it cannot support the number of people you want involved in your planning process.

Connecting Business and Software Requirements

When it comes to choosing the right FPM solution we find that standard checklists are only a start. Having the features and functions to be able to do a broadly defined task (such as capital planning, complex currency conversion requirements or handling a minority shareholding) is necessary – but insufficient. Your evaluation should dig deeper. For example, ask: How completely does the software address your business objectives? How long does it take to perform critical parts of the task with the software? What skills and what degree of effort are required to work effectively with the software?

Often, companies buy new software to support a new initiative aimed at making basic changes to business processes, such as accelerating their close, shortening reporting cycles or shifting from budgeting to integrated business planning. Checklists typically do not tell you if the software can support these sorts of fundamental change in how your company or department performs a business task, so it's important to assess the value of the software by evaluating how easily and how well it will allow you to improve your processes. In other words, assess its impact on effectiveness, not just on efficiency. The new software's direct impact on efficiency (such as hours or materials saved) may be less important than its ability to interact with customers, create new types of product offers, speed up development, increase planning agility and so forth.

Checklists typically do not tell you if the software can support fundamental business change. Assess its impact on effectiveness, not just its efficiency.

Also, if what you're seeking is a critical business requirement, beware of the vendor promise that "it will all be there" or "it will all be integrated" in the next release (or the one after that). Again, business value is what matters most; if there is a business issue that must be addressed, it should be addressed now.

Failure to assess and address all of these considerations in a comprehensive cost/benefit analysis could result in buying software that's wrong for your department's needs. This is not to say that your company should ignore the impact of the business software you select on the IT department. If the final decision comes down to two packages that are judged to be essentially equivalent, the one that is the best fit with the IT department's strategic direction ought to be the choice. If the final two are pretty close but the slightly better business choice would drive substantial costs in the IT department, the right decision may be to forgo the best, especially if the impact on the business needs is not likely to be all that significant over the long run. However, we assert this decision is best made by the business users of the software.

Five Key Sets of Questions

Over the course of your software evaluation process there are five key sets of questions your department or business unit needs to ask itself, your IT department and prospective vendors.

1. Business Requirements

> *What's the immediate rationale for this software purchase? Why do we need it?*

The first thing your department or business unit needs to establish is the rationale for the software purchase. You need to ask why your organization needs the software. The answer should point to ways to increase direct efficiency (cash savings), indirect efficiency (generally, time freed up that

can be used for other activities or to reduce long-term headcount requirements) and effectiveness (such as shortening your close). To be certain that you're buying the right software, your objectives should be as explicit as possible.

2. Strategic Objectives

What are the key strategic objectives (if any) that we are trying to achieve? What is the business case: What ongoing performance improvements we are trying to achieve, in both efficiency (direct/indirect cost savings) and improved effectiveness?

Identify how the project will address the needs of senior executives and other business units.

While the first question has a narrow, tactical focus, you also should address broader, strategic objectives. The purpose here is to identify how the project will address the needs of senior executives and other departments or business units in the corporation. Combined with the first, the two questions lay out the business case, both strategic and tactical.

3. The Fit With IT

How does this software acquisition fit into the company's existing and future software environment and infrastructure? Are there issues pro or con with particular vendors? If there is a "we can already do the same thing in our ERP system" objection, does this capability exist in the current release? If it does, does our existing configuration provide those capabilities or are upgrades and/or new software required? If the latter, what is the cost to buy, implement and maintain? How soon can that upgrade be done?

It's a good idea to discover early on in your assessment and evaluation process whether there are any potential issues with your IT department. IT department standards may not be ironclad, especially if there are compelling differences between the offering of its preferred vendor and the package your organization needs to do its job effectively. As discussed below, there are several potential problems you need to anticipate and deal with effectively. The earlier you start in the process, the greater the likelihood you will be able to resolve the issue to your organization's satisfaction.

4. The All-In Cost and Capabilities

What exactly do we have to buy and implement to achieve our project objectives? Is it a single piece of software or several? How does the software work with our existing systems – what pre-built integrations exist? Is all of the functionality and integration we need available today, or is it planned for future releases?

As you look at how well a software vendor's offering meets your tactical and strategic business requirements, you should be asking for answers to these questions in sufficient detail so you can calculate your company's total cost of ownership over time, compare it to the cost of other purchase candidates, and do a thorough test of each of the finalists to ensure that each does what its vendor claims. Pay close attention to how the FPM solutions you are considering work with your existing business intelligence systems and data warehousing. Because FPM solutions typically use data from multiple systems from multiple vendors, ensuring this data access is probably going to have a much bigger impact on the total cost of ownership over the long run than how well an FPM solution integrates with a given ERP vendor's software. At the end of this process, you should be able to compare various alternatives in terms of costs and schedules on an apples-to-apples basis. Very likely, you will need some technical expertise to ensure that the answers you get are complete and accurate, which means either using your IT department or (if you doubt its objectivity) some third party consultant. If you retain a third party, be certain it has a firm understanding of your business requirements and that you understand its biases and any vendor relationships it may have that would skew its recommendations.

Pay close attention to how the FPM solutions you are considering work with your existing business intelligence systems and data warehouse.

5. References

> *Do you have reference customers very much like my company (in IT infrastructure as well as business operations) that have been using the software for more than two years?*

Be sure to ask these questions of software vendors and any third party consultant you may want to engage. There's no substitute for direct experience with a product, and references can be helpful. If possible, members of your department also should solicit opinions from other people they may know in their business networks. Keep in mind, however, that these individuals may have out-of-date information and biases or there may be other reasons why their judgments and experience may be questioned. These opinions – however wrong or dated – can spur useful questions for software vendors, your IT department or third party consultants to answer.

Recommendations for Buyers

Have Clear Business Goals

It's important that you and others who are driving the software acquisition process have a clear set of business objectives. This helps in making the business case for the investment and it is important for gaining agreement with others in your organization as you implement it. It also is essential in setting the requirements for the software you are going to evaluate to ensure

that the most appropriate purchasing decision is not derailed by other considerations (such as IT architecture or preferred vendors) or mistaken beliefs ("it has to be integrated"). It is a good idea to understand the needs and perspectives of senior executives and others who need to approve the project and to reflect this in the rationale and requirements for the project in order to facilitate support.

Learn From Others' Experience

References are a key part of the software acquisition process for the simple reason that when it comes to business applications, you probably don't know what you don't know. It's important to benefit from these references' experience. If you have the time, it can be worthwhile to attend a user group meeting – even a local get-together – and to speak with anyone who has gone through the purchase and deployment process. The focus of your discussions should go beyond their general satisfaction with the product, the sales reps and those that assisted in the implementation; you should also understand what their expectations were going into the process, the dynamics of managing the acquisition and implementation processes, and where the outcome did and did not satisfy their expectations and needs.

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Deal Effectively With Your IT Department

It's always a good idea to understand your IT department's requirements and how they may affect your project. Your situation may be very benign: The software your evaluation group has carefully chosen may fit well with (or not affect) the IT group's existing infrastructure and strategic direction.

Then again, you may discover that issues do exist that could adversely affect your software choice that you need to understand and be prepared to handle. It is essential to be clear that leaving business software decisions to IT could impair your department's ability to do its job well. Our benchmark research (Ventana Research, *ERP Innovation*) shows that a majority of companies underutilize important capabilities that are available in most ERP systems. If your part of the business is not aware of the step function efficiency and effectiveness improvements the software can deliver and fail to make these core requirements, it's unlikely that your IT department will consider or implement them. It is therefore critical that at least some people in your part of the business understand what's both possible and feasible.

You also should consider that the IT department may have obtained one or several business applications as a sweetener for another purchase they made. Even though your evaluation has determined (or will determine) that the software falls seriously short of your business requirements, the IT department may lobby heavily for it, possibly because it does not understand how its choice falls short of your business requirements. (This is one reason why establishing business requirements at the outset is so critical.)

Incidentally, the software sweeteners may be "free" in the sense that there are licenses available, but like a "free" machine tool that will not produce goods to acceptable tolerances, it's worth every cent your company paid for it. Moreover, if your department will be paying maintenance for the use of the application, it's hardly free.

You also may find there are one or more IT people who favor one vendor over another and will argue for that software rather than the one that best meets your business needs. In these circumstances you may have to anticipate and understand how to counter the technical objections of these "bigots," especially if they are an attempt to reinforce personal preferences rather than state facts.

Evaluating business software is not just about technical aspects or price – it's ultimately about how the software will work with your business processes.

Make the Right Choice for the Right Reasons

Buying the best financial performance management software for your needs involves time, effort and research. You and your company must be clear on what you hope to accomplish with the software and understand what features and functional capabilities of the software are necessary to achieve these objectives. Evaluating business software is not just about technical aspects or price but ultimately about how well the software will work with your business processes.

At the end of the evaluation process you must establish that the *business* solution you buy will enable people to do their jobs faster and more completely and will provide a more thorough analysis of your options at any given moment, which will make it possible for executives to drive faster and more considered decisions. In making your choice, it's important to take into account the needs of your IT department but not base your decision mainly on their requirements. In the end, you must select the software based on how well it meets your organization's specific business needs, both current and future.

About Ventana Research

Ventana Research is the leading benchmark research and advisory services firm. We provide expert guidance to help organizations manage and optimize performance – to become not only more efficient but more effective. Our unparalleled insights and best practices guidance are based on our rigorous, research-based benchmarking of people, processes, information and technology across business and IT functions worldwide. The combination we offer of benchmark research, thorough market coverage and in-depth knowledge of hundreds of technology providers means we can deliver business and technology education and expertise to our clients where and when you need them. Ventana Research provides the most comprehensive analyst coverage in the industry; more than 2.5 million business and IT professionals around the world benefit from Ventana Research's insights. To learn how our benchmark research and assessment and advisory services can improve your organization's performance, visit www.ventanaresearch.com.