



CPM Expert Series<sup>2</sup>

You can put lipstick on an  
ERP, but it's still an ERP!

## YOU CAN PUT LIPSTICK ON AN ERP, BUT IT'S STILL AN ERP.

In today's dynamic business environment there is more pressure than ever to deliver sustainable value growth to stakeholders and the growing enthusiasm for corporate performance management (CPM) solutions can be seen as a direct result of these increased demands. CPM initiatives integrate all business planning and reporting processes into a common technology and process framework. Indeed, as Ventana Research describes it, "performance management is the strategy, methodologies and process of managing the performance of the organisation ... by leveraging assets to achieve a common set of goals and objectives." CPM then, deploys people, processes and technology to deliver benefits to the strategic and operational functions of the enterprise. Of these three components, the choice of the most appropriate technology platform for CPM is often a subject of fierce debate.

### "Uh, didn't we fix this already?"

Given the amount of money that businesses have invested in enterprise resource planning systems (ERP) over the last ten years it is not unreasonable that the initial response of many finance teams to CPM is, "can't we do this with our ERP?" Indeed, many vendors implied their ERP solutions would provide exactly the type of benefits that are now ascribed to CPM systems.<sup>1</sup> However, research has shown that while some organisations feel their

ERPs can be extended outside of their immediate context to add value to other business processes, few consider that they are the best platform for planning and reporting.<sup>2</sup> Moreover, even within those organisations that believe their ERPs can provide a strategic planning platform, hardly any use them for this purpose. Why then, this grass roots resistance to deploying ERP systems for CPM?

### Transaction oriented versus data oriented

The root of these issues is to be found in the DNA of the ERP solutions themselves which developed from the integrated inventory control systems of the 1960s and the manufacturing requirement planning systems of the 1980s. These applications all share a common heritage of driving efficiency through controllable internal enterprise processes. Today's ERP systems are a world away from their forebears in terms of the breadth and depth of the functionality that they offer. They are as multi-modular as they are ubiquitous, managing and integrating business activities throughout many functional departments from product planning and parts purchasing to inventory control, order fulfilment and tracking. Even so, despite their increasing scope and complexity they remain anchored in the standardisation, management and control of business transactions.

This focus makes them inappropriate technologies for the deployment of CPM initiatives since instead of being transaction-oriented, CPM activities are information-oriented. That is, they are driven by the needs of fact-based decision-making processes. Similarly, rather than being strictly

calendar-based, best-practice business processes tend to be initiated by external factors such as an uptick in sales performance or the encroachment of a competitor into a territory. Consequently, they demand a flexibility and openness to external data which ERP systems find hard to incorporate.

### CPM: strategic, flexible and integrated

By contrast, most CPM applications have developed from the point-solutions of business intelligence (BI) vendors into comprehensive "closed-loop" suites. This means that by their very nature they are open-ended, information-driven platforms that are designed with strategic and operational use in mind and can encompass all aspects of the corporate planning and reporting cycle.

In contrast to ERPs, this means that CPM technology suites are:

- Strategic and operationally focused. In many organisations the strategic plan is dislocated from other enterprise planning processes. It is composed of high-level targets, sets of tactics and action plans. The corporate budget, by contrast, is usually based upon ERP ledger lines and there is no formal connection between these account lines and the strategic actions and tactics that are supposed to drive them. CPM applications uniquely bridge this gap by allowing strategies and tactics to be modelled consistently, linking them to financial (and non-financial) measures. While ERPs may have a role to play in collecting performance data that will feed back into the CPM suite, using such a system to manage strategy is like steering

a car by turning each of its wheels by hand.

- Provide open-ended, flexible analytics. Because the business environment changes at an ever increasing pace, planning processes must be flexible. Changes in global economic conditions or competitor behaviour mean that managers need to be able to ask different questions about key indicators from month-to-month or even from day-to-day. They need a multi-dimensional view of the enterprise that incorporates sales distributions by product and by region and that flags exceptional activity automatically. They need the ability to analyse multiple business perspectives and to be able to drill down into detailed figures without requesting reports from IT. Unfortunately, ERP solutions are not able to support many of these activities. Indeed, much of the information they provide is still in the form of static reports, which are slow to produce, consume IT resources and do not guide management to problems in the underlying data.
- Integrate internal and external information. CPM suites span the breadth and depth of organisational planning and reporting processes. This means that they are able to integrate data from different internal sources. For the corporate close, for example, they may load and reconcile data from multiple ledgers and restate it using any number of formats or recognition rules. Similarly, they will integrate and surface external data such as the customer and product information stored in customer

relationship management (CRM) systems. Moreover, best-of-breed suites provide predictive analytics that enable the organisation to take advantage of emerging market opportunities. While ERPs may provide some of this information, they are historically bound to a financial, internal perspective of the business and so will not deliver the 360 degree view that is vital to driving improved corporate performance.

### CPM versus ERP: Efficiency versus effectiveness

ERP platforms drive bottom-line profitability through efficiencies in the back-office processes they automate. CPM solutions do so by reducing cycle times, optimising resource usage and delivering improvements in data integrity. The fundamental difference between these applications is that, in addition to efficiency gains, CPM platforms are designed to enable the enterprise to execute its strategy and to monitor the results on a day-to-day basis. CPM suites, therefore, not only allow the business to work more productively, but directly support the processes that deliver top-line growth, something which ERPs are unable to do. This conclusion is born out by the recent acquisition strategies of many pure-play ERP providers who have purchased CPM vendors to remedy this functional gap in their offerings. It seems then, that even ERP vendors themselves are ready to admit that reaping the full benefits of CPM requires a purpose built technology platform to support strategic, flexible and integrated planning and reporting.

*“Technology focussed finance professionals are often challenged to persuade management of the benefits of adopting emerging software solutions. A continually evolving business environment often (paradoxically) encourages an increased reliance on existing ERP and legacy systems. These are not necessarily the perfect tools to provide the platform needed for best practice reporting, strategic planning and performance monitoring. CPM suites can significantly enhance the armoury of the finance team when it comes to delivering information beyond the traditionally static, historic and transaction orientated. Their deployment often encourages thinking outside the existing process which can result in more collaborative, perceptive and crucially more valuable output.”*

Greg Thomson  
Systems Accountant  
Melrose Resources Plc

<sup>1</sup> Gartner group: Corporate Performance Management: BI Collides With ERP by L. Geishecker, N. Rayner 17 December 2001

<sup>2</sup> Ventana Research: When ERP is not the right choice by Robert D. Kugel CFA



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