

CPM Expert Series³
The case for Corporate
Performance
Management.

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THE CASE FOR CORPORATE PERFORMANCE MANAGEMENT

Corporate performance management (CPM) initiatives are the subject of debate in many organisations today. The benefits of managing all planning and reporting processes via an integrated technology and process platform would seem to be compelling at first glance. Moreover, the strategic nature of CPM means that it should provide improvements in corporate agility, efficiency and productivity for a much lower level of investment than those made in enterprise resource planning (ERP) products a decade ago.

However, there are still those who question the quantifiable value of such initiatives, coming as they do hard on the heels of claims by many software firms that ERPs would resolve all of their process efficiency issues. Indeed, a recent study shows that when CPM programmes fail it is usually because of a lack of corporate sponsorship rather than due to technical shortcomings or implementation issues. While the inability to secure solid executive support may be related to the perception that a failed implementation will have career-limiting effects, such notions only gain traction where a clear and realistic business case is not present. This paper then, presents a simple 5 step methodology for developing a compelling quantitative argument for CPM that will not only gain executive backing, but lay the foundation for a successful implementation.

1. Find the pain

It is important to understand that CPM should not be viewed as a one-off technology install. It is both incremental and iterative. This means that any initial implementation will be finessed as strategies and processes evolve. Therefore the first step in the development of a business case is to locate and analyse a specific, limited-scale business problem. An approach that is based upon addressing a concrete issue will greatly improve the chances of corporate buy-in. Good candidates for such an initiative might be streamlining the corporate close or revising a departmental budgeting process. The key here is to balance the pain of the problem with the scope of the implementation. A highly painful and visible problem will provide more benefit to the business, but may require a higher level of investment to resolve satisfactorily. An implementation of limited scope may provide less immediate benefit, but will prove the value of CPM and deliver a return on investment within a shorter period of time.

2. Document the process

Once a target business process has been identified, the next stage is to analyse and document each of its steps. The primary objective of this exercise is to identify the “who does what and when” for each operation that the process comprises. Additionally, a list of indicators should be developed to provide a baseline metric for each activity and the process as a whole. Typical measures will be indicators such as cycle time, man-time estimates and use of IT resources.

Care should be taken to ensure that there is an adequate analysis of the “connective tissue” between each activity as this where bottlenecks, delays or errors often sneak into a process. Moreover, there should be

a detailed analysis of any system or data bound dependency, as these may form the basis for efficiency gains when the quantitative benefits of the CPM initiative are calculated.

3. Define the project culture and its goals

With a clear picture of the target process in place, it should now be possible to develop a refined set of project goals and a shared vocabulary. These are vital ingredients of any business case and create a shared sense of purpose and culture for the project. As a minimum this step should aim to produce:

- Project terms and definitions.
- Key project objectives.
- Process maps and metrics of the target process.
- A set of clearly defined and understood critical success factors (CSFs) for the project.
- Project milestones and timetable.
- A map that links target process metrics to corporate objectives.

While all of these items are important, the most vital activity is detailing the connections between the target process metrics and corporate objectives. This will demonstrate how improvements in the process and technologies deployed in the revised process will have a direct impact on the stated aims and goals of the enterprise.

4. Optimise the process

When optimising the business process the 80/20 rule can be applied. This means that it is more valuable to focus upon a few major improvements to the resource utilisation, operations and technologies of the target process than attempting to redesign every

minor activity. At this stage an improved process is more cost effective than the optimum one. Complete optimisation, if desirable, can be achieved in subsequent phases of the implementation.

Although each optimisation will vary, the following aspects should be taken in account during the redesign:

- CPM technologies deliver a centralised strategic information hub and web-based reporting and data collection mechanisms. These will impact the creation, maintenance and distribution of spreadsheets for planning, the re-keying of figures and file uploads in data collection and the management and distribution of reports.
- CPM fosters an increased movement towards a self-service culture with respect to the provision of analysis and reporting. This will mean a reduced reliance on static reports and IT resources and an attendant increase in independent “free-form” analyses.
- A shared verifiable data store that provides “one version of the truth” will mean a collapse in the data driven gaps between process steps. This will reduce the overall process cycle time, increase data accuracy and improve staff utilisation.

Once the redesign is complete, the benefits that it will bring to the previously compiled process metrics should be quantified in terms of time, resources and accuracy. The result will be an optimised process map and a table of estimated benefits.

5. Develop the Return On Investment (ROI) model

The final stage of building the business case is the development of the ROI model which provides a quantifiable assessment of the benefits that the CPM deployment will deliver. These benefits are derived from two sources:

- Increased efficiencies. These will be delivered through resource rationalisation, improved staff utilisation and from decreased cycle time and increased data accuracy.
- Increased value. This manifests in the form of better quality decisions and by improved management of corporate risk.

While efficiencies tend to be easier to assess, value is where strategic gains lie. (It's certainly possible to be an efficient company, yet still destroy shareholder value through poor decision making.)

The estimated benefits from the redesigned process should then be evaluated in terms of their monetary impact on both efficiency and value growth. One common method to quantify improved decision-making ability is to look at the best performing organisations in a given marketplace and assume that better decisions will be expressed by a percentage shift towards best-practice-level performance. Similarly, better risk management can be assessed by an improved return on R&D investment or better execution in new market segments.

Next calculate the total cost of ownership (TCO) of the initiative by adding together software license costs, annual software maintenance fees, implementation costs, training, opportunity costs and ongoing administrative time. The ROI can then be calculated by subtracting the anticipated investment from the estimated total return and dividing it by the investment.

ROIs for CPM implementations vary depending on the scope of the implementation, but because of their strategic nature and relatively low start-up cost they can be significant. For example, a recent analysis by the Forrester Group of an implementation of Tagetik CPM showed an adjusted ROI of around 299% over five years with a pay back period of just 24 months.

Summary

CPM is more than technology. It combines people and improved business processes with integrated planning applications. Therefore a concrete business case can best be developed through a small-scale initial deployment that evaluates all three of these aspects holistically. The methodology above will provide a realistic basis for evaluating investment in CPM derived from improvements in technology, process quality and leveraging of staff as well as detailing the economic impact of improved risk management and better decision-making.

“The project brought important results both in terms of improving the planning process and in monitoring our profit/loss and financial positions. Furthermore, the project has triggered a process of change management within the organisation - from focusing our operational controls mainly on the profit and loss statement, we have moved to forecasting our profit/loss and financial positions on the basis of individual customer jobs with a significant cut in manual effort by 50%.”

Marco Caucci Molara
Group Planning and Control
Manager
Artemide



Quality through Partnership

Rinedata specialise in the selection, development and support of corporate performance management solutions. For over ten years Rinedata has delivered successful CPM solutions to numerous blue chip organisations across a wide range of industries. Our portfolio of experience encompasses SAP BPC, Infor PM, Oracle Hyperion, IBM Cognos and a selection of independent vendor solutions including Tagetik CPM and KCI Control.

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