Prophix®

Corporate Performance Management from a Finance Perspective

A Prophix white paper

Inside this document

Published by:

Prophix Software Inc.

Overview

Prophix develops Corporate Performance Management (CPM) software that companies use to manage processes in the finance department, streamlining budgeting, planning, financial reporting, consolidation, and scorecarding.

Historically, enterprise-level organizations (those with annual revenues over $1 billion) have used these applications. Recently, CPM has become more attractive to companies in the mid-market. Yet, many IT professionals know very little about CPM and often dismiss it as a sub-category of Business Intelligence (BI).

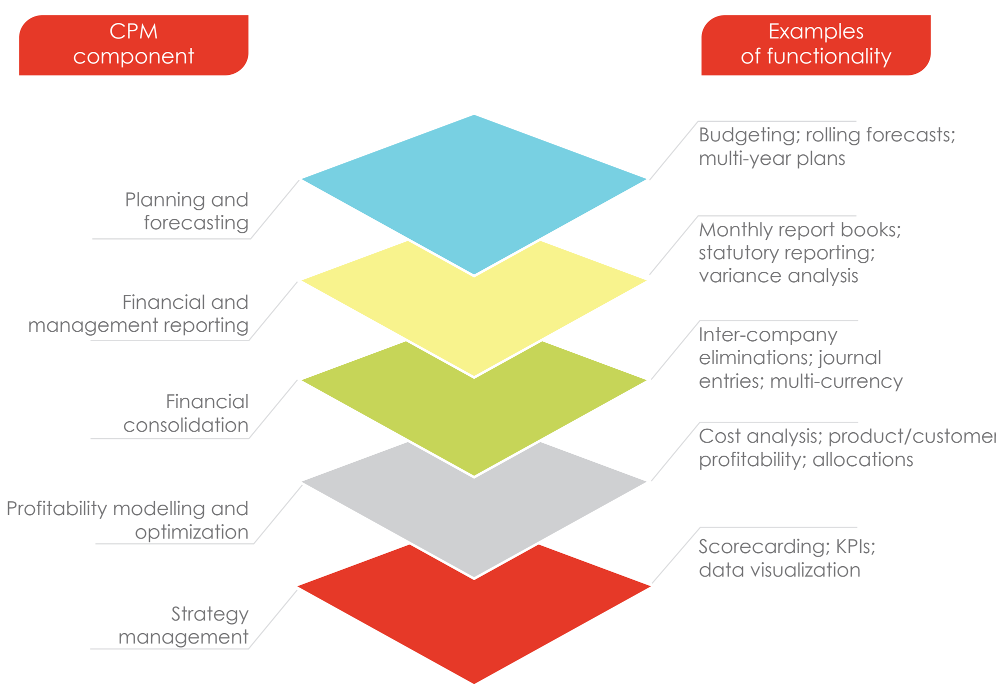
Designed for finance professionals, this white paper explains what CPM is, how it offers value to companies, and clarifies the benefits that it can bring to finance departments.

What is Corporate Performance Management?

The Gartner Group, which provides research and analysis services regarding Information and Communications Technology (ICT), first coined the term Corporate Performance Management in or around 2001. From the Gartner website:

> "CPM is an umbrella term that describes the methodologies, metrics, processes and systems used to monitor and manage the business performance of an enterprise."

CPM includes the following functional components:



CPM refers not only to these functional aspects of managing a business but also to the specialized software that various vendors have developed to help a company's staff perform these functions. The word 'specialized' is important here since even though a spreadsheet program can help with say, preparing a company's annual budgets, it is considered 'general purpose' software and so is not usually regarded as CPM.

Each vendor in the software industry has a tale to tell. After Corporate Performance Management first appeared, other flavors of Performance Management soon followed, including Business Performance Management (BPM), Enterprise Performance Management (EPM), Strategic Performance Management (SPM), and Organizational Performance Management (OPM). Another term used is FP&A, which stands for Financial Planning and Analysis. These are essentially all synonyms for CPM. To make matters even more confusing, the term Performance Management can refer to software that HR departments use to track employee performance. Prophix uses CPM because it was the original term and it is relatively unambiguous (for example, BPM also means Business Process Management, which is a totally unrelated type of software).

Some industry pundits have attempted to position CPM as highly strategic in nature and talk about aligning strategies and business goals using CPM software. However, the applications in the graphic above are often performed by people who may not even be aware that CPM software exists. Monthly financial reporting, for instance, is performed by many finance departments whose employees don't think of the process as strategic but simply as a job that has to be done.

While some senior executives in enterprise-level companies would agree regarding CPM's alignment of strategies and business goals, we also view CPM software as automating business processes. If you look at the functions in the graphic above, they share the following in common:

1. They are used to manage a business.
2. They are mostly performed and/or controlled by people in the finance department.
3. They are repeatable processes. Companies develop their budgets every year; management reporting can occur every month or every week.
4. They often involve several people, They are collaborative applications, not personal productivity tools like spreadsheets or word processors.
5. They not only record or analyze what has happened in the past but also help companies to see the future.
6. They are analytical, not transactional. Organizations do not use CPM software for invoicing or payroll.

The third point is very important. The first wave of financial automation occurred decades ago with the development of accounting systems. Now, accounting software appears everywhere; a small operation can easily automate its accounts as needed. CPM represents the second wave of automation in finance.

CPM is Important

For many years, finance professionals have used spreadsheets for analysis. Spreadsheets sufficed when these needs remained relatively modest but the needs of finance have changed:

- **More data.** As ERP systems have become more sophisticated, organizations use them to track what happens at a finer, more granular level; companies can place more departments in the General Ledger and more accounts in the chart of accounts. Additionally, the business environment has become increasingly complex, requiring analysis of everything from product lines to customer types to inventory levels. Finance is overwhelmed with data.
- **More often.** Planning used to happen once a year with the preparation of the annual budget. Now, many companies produce monthly rolling forecasts and can perform some CPM functions, like inventory planning and sales planning, on a daily or weekly basis.

- **More people.** Historically, planning and reporting involved finance and relatively few other departments. Today, planning, analysis, and reporting are more collaborative, involving employees from all parts of the company. Finance has to manage the collection and dissemination of information from and to more users. This requires reliable workflow solutions, guiding the movement of important and/or sensitive data.

Finance is compelled to help the company perform more effectively, and must balance these pressures against the costs of implementing a CPM system to automate analytical business processes. Historically, CPM has been expensive, with high license and implementation costs, available only to big companies and regarded as a major investment. Most affordable software has featured limited capabilities, usually being restricted to either spreadsheet-based reporting or simple planning.

However, the value proposition of CPM software is changing. In the case of Prophix, this is taking place for three main reasons:

- Prophix has a low-cost business model that involves extensive use of Internet technology for customer acquisition and service delivery. We pass these cost savings on to our customers.
- Prophix is a fully integrated and unified solution that contains all CPM functionality in a single product. This minimizes installation, maintenance, and training costs.
- Prophix is not customizable. Our solutions are implemented by business professionals who configure the software, instead of using IT consultants to write expensive customization code.

Innovation allows us to offer companies an affordable CPM system of exceptional value, providing far more than simple planning and reporting.

Perhaps more importantly, the nature of CPM itself is changing. Planning, for example, has traditionally been dominated by the preparation of the annual budget. But planning has changed. The twin pressures of 'more data' and 'more often' (as above) have given rise to completely new applications.

		Frequency of planning	
		Annually	**Monthly/Weekly**
Data analog	**General Ledger**	Budgeting	Forecasting
	Payroll, order entry, asset management, etc.	Detailed planning	Operational planning

Instead of preparing only an annual budget, many companies seek to plan more frequently and develop monthly 'rolling forecasts'. Similarly, many companies want to plan at a more detailed level than just the General Ledger; many of our customers plan personnel costs separately for each employee, offering them more meaningful variance analysis.

When planning becomes more detailed and more frequent like this, it essentially functions as an operational part of the business. This speaks to the emerging trend in CPM known as Integrated Business Planning, where a CPM product serves as a platform for developing operational analytical applications. Companies then use these applications as the basis for planning at a higher level, for budgeting or monthly forecasting.

For example, one of our customers, a retail company, uses Prophix for inventory planning. Every week, via email, each of the company's stores receives a spreadsheet that contains the corporate suggestions for which products should be shipped the following week (based on the automated analysis of actual sales from the POS system). However, the store manager can spot local trends and change the order, returning the spreadsheet by email. This is weekly inventory planning (or 'demand planning') at the SKU level.

ERPs do not generally offer operational planning, since these applications are specific to the needs of individual companies. When two companies use the same ERP, they both enjoy the same business benefits. But when a company uses a CPM solution to develop operational applications that meet its unique business needs, then this company owns a competitive advantage.

Many other examples of operational analytical applications exist, including manpower requirements planning, personnel cost planning, revenue reporting (bookings vs. billings vs. revenues), vehicle costs (leasing/maintenance/fuel), commissions reporting, and so on. CPM solutions satisfy the numerous requests for analytical applications, from structured reporting and analysis to forward-looking solutions for planning, budgeting, and forecasting.

CPM & BI

One of the most common misconceptions regarding Corporate Performance Management involves its relationship to Business Intelligence (BI). While CPM and BI can be viewed as similar, important differences exist. This confusion has been compounded by the frequency of acquisitions in the software business, which has led many vendors to offer both types of software, even though they sell two or more solutions that feature different underlying technologies and user interfaces.

Business Intelligence (BI) usually refers to the technology that companies use to report their data. The category includes many types of software— everything from ad-hoc query tools to dashboards, scorecards, and more.

BI software products are graphically-oriented, featuring charts and graphs and the ability to use these visual objects to do more than just display data; users can use a chart to drill down for more details or to select what they see without using a menu bar interface. The name of the game in BI is ease of use for the casual user; at least one vendor boasts that its interface requires the least number of mouse clicks.

CPM, however, involves the processes used to plan, report, adjust, and analyze business data. Businesses typically implement CPM software for financial processes such as budgeting, forecasting, management reporting, and financial consolidation—although CPM may also be applied to other areas of a company. Often, CPM solutions support specific business processes such as supply chain management for manufacturing or merchandise planning for retailers.

Some industry analysts recognize BI software as part of CPM, while others take the opposite view. In reality, the two software types differ significantly and companies acquire the applications for entirely different reasons; BI adds new functional capabilities that were previously not available to users, while CPM automates existing financial processes like budgeting, forecasting, financial consolidation, and reporting.

BI requires a data source, which is usually provided by a company developing a data warehouse. Data warehouse development can be expensive, especially when we factor in ongoing maintenance costs. CPM acts a bit like a data warehouse and a BI system combined but is designed for specific applications. End users in finance will understand how to use a CPM solution. They can complete most of the work themselves without the need for IT involvement, aside from data provisioning and ensuring that the CPM software agrees with company policies relative to auditability, security, data governance, and software standards.

CPM solutions include:

CPM and BI differ in other ways as well:

BI	CPM
BI reports only on historical data	CPM is forward-looking and can be used for planning, budgeting, and forecasting
BI is used for reporting from existing data sources	CPM allows individual users to enter data (such as plans, budgets, and forecasts)
BI typically does not include any workflow functionality	CPM manages processes to help users enter, approve, reject, and report data in a controlled and structured manner
BI has some analytical features (such as sorting or calculating simple ratios)	CPM functionality enables users to perform complex allocations and conditional calculations, much like a spreadsheet
BI generally offers a less structured way of presenting data and users can decide what they see	Components of CPM, such as scorecarding and dashboarding, are much more structured—and users have access only to what the company wants them to see

VS

Many commentators regard this last point as a major differentiator; in many cases, providing users with access to large amounts of unstructured data can cause confusion and give rise to each person formulating his or her own version of what is important. CPM, on the other hand, guides users to the information that their companies recognize as important. Products like Prophix ensure that everyone views the same data, calculated in a controlled and auditable manner, and the results and interpretation of this data will stay consistent over time.

CPM Benefits for Finance

Spreadsheets Are Not Enough

Before they begin to use Corporate Performance Management software, companies typically use spreadsheets to manually complete the processes that CPM automates. CPM applications replace spreadsheets.

Spreadsheets are personal productivity tools, and many finance departments suffer when they use spreadsheets for analytical business processes. Some problems include:

1. Spreadsheets require a great deal of manual work (such as copying formulas and formats, emailing spreadsheets, copying data, etc.), which takes time for highly-paid finance professionals.
2. This manual work is tedious and can easily lead to mistakes.
3. Spreadsheets feature limited capabilities for collaboration. CPM processes like budgeting can involve many people, yet spreadsheets have no workflow capabilities; companies cannot automate the tracking of their latest plans and the software leaves no audit trails.
4. Spreadsheets have serious security limitations. It is very easy to email a user the wrong spreadsheet containing sensitive data. Even if a spreadsheet is password protected, people can bypass the password protection quite easily.
5. Non-IT staff can develop spreadsheet applications for use throughout their companies. This can lead to serious problems in areas such as project management, security, documentation, and testing.

Finance departments seek ways to overcome these problems and better manage their analytical business processes. Corporate Performance Management software offers a perfect solution.

Workflow

In all sizes of companies, Performance Management is multi-user, even if users simply receive reports. To adequately manage multi-user processes, CPM software should include workflow functionality that helps administrators to control the timing and the order of data import, data entry, and reporting processes. Examples of workflow include:

- Marketing plans are entered and approved before users start entering sales forecasts
- Daily operational data is scheduled to import from an ERP overnight and reports from the data automatically distribute by email
- In a monthly financial consolidation process, managers are asked to approve the adjustments that are made to financial data

Workflow extends processes such as budgeting and reporting beyond the status of 'personal productivity' applications; they become true multi-user systems. Workflow functionality enables the automation of processes, and hence increases the productivity of the finance department.

Essential components of CPM workflow include:

- Automatic notifications to users reminding them of time constraints
- Scheduling processes that run at pre-arranged times (e.g. overnight) or after the completion of contingent events (e.g. after billing rates have updated)
- Requesting users to approve data that has been entered or imported
- Distribution of reports using email or by publishing to Microsoft SharePoint
- Providing users with access to predefined templates for data entry
- Performing calculations such as allocations and currency conversion
- Importing data from external sources

In addition to automating existing processes, workflow also enables the implementation of new processes. For example, at month-end users can extend corporate governance to include the approval of financial values, including expenses, by departmental management after they have been posted to the General Ledger. This process minimizes the opportunities for internal fraud because it generates an auditable workflow trail.

Calculations

As mentioned above, Corporate Performance Management applications differ from Business Intelligence applications because they require more calculations. Lower-end CPM products are usually 'canned' applications where the calculations cannot be flexibly modified. On the other hand, higher-end toolkits often use an OLAP database for simple aggregation of data, while more complex calculations utilize a spreadsheet.

As well as utilizing spreadsheet calculations, however, Prophix uses other methods to incorporate calculations in a CPM implementation:

- Prophix features an easy-to-use point-and-click interface for actually incorporating calculations in the OLAP database. Any software that reads data from a Prophix model will calculate the correct results—whether a component of Prophix accesses the data or software from another vendor uses Prophix's open architecture to read data from Prophix. These database calculations are extremely flexible. For example, different formulas permitting the use of different assumptions (e.g. best case or worst case) can apply to different planning scenarios
- Prophix users can perform calculations in reports using spreadsheet-style calculations. Any user who knows how to use a spreadsheet can easily add ratios and other statistical metrics to a report
- Prophix includes patent-pending functionality called InfoFlex for performing large scale calculations within a model. Useful examples include:
  - » Calculating a 'first pass' of a plan by copying historical expense data and increasing it by an inflation factor

- » Allocating costs to activities, products, and/or customers in order to perform profitability analysis
- » Performing scenario analysis by easily adjusting data in multiple scenarios
- » Modeling growth and inflation calculations
- » Phasing annual data across months
- » Locking actual data for historical periods and reallocating costs to remaining months
- » Calculating top-down budgeting based on prior year actual data and allocating adjusted numbers to individual departments

- Prophix for Excel passes data between Prophix and spreadsheets. Users can then control the spreadsheets directly from Prophix's software so that all calculations possible in Excel can be incorporated into a Prophix business model. Users can also leverage existing Excel models to perform calculations in Prophix

Unlike with other software, implementing these calculations does not require expensive customization or knowledge of a complex scripting language. Prophix designed an easy-to-use interface that addresses the specific needs of finance professionals.

Data Analysis

A CPM product should include the integration of analytical tools with all of its applications. For example, the product should include the ability to drill through to detailed transactional data from not only a product profitability report but also from a budgeting data entry screen. Moreover, the user interface should be the same, irrespective of the initiating CPM application.

One important analytical function includes the ability to switch seamlessly from any CPM screen to view numerical data in an easy-to-use BI-style ad hoc interface where users can perform such actions as:

- Drilling down on data, based on their current data view
- Swapping the rows and columns on the screen
- Accessing a recall button to 'go back' to previously viewed data
- Selecting the accounts, time periods, and organizational entities for which data displays
- Saving data views for later analysis
- Integrated access to structured analytical tools
- Data visualization using charts and graphs

In addition to unstructured ad hoc analysis, other more structured analytical capabilities can raise the caliber of a CPM solution.

These include:

- The ability to drill through from any screen to underlying relational data that is typically sourced from an ERP. For example, drilling down to see posting details such as individual invoices
- A method for comparing the time series associated with the data being displayed on a screen with other relevant time series. Comparing the sales forecast for a specific product with that of another product, or comparing expenses for the prior 12 months with the same expenses from a year earlier
- A method for adjusting data that has been incorrectly posted to the General Ledger with debit/credit intelligence built in. If a sale has been posted to the wrong department, the software should be able to make the correction and produce an audit trail of corrections (i.e. if the software does not serve as the system of record then adjustments can be made in the ERP)

Consolidation

Consolidation of data from different entities is a basic CPM function but the term 'consolidation' has several different meanings.

At a basic level, consolidation is a management accounting process and can refer simply to the aggregation of data from multiple company departments as part of a budgeting exercise. This type of consolidation can aggregate data across structures such as accounts, departments, products, or projects. Each of these structures (called 'dimensions') can consist of multi-level hierarchies with a sub-total at each level. Once data aggregates, it's stored in an OLAP database (as it is in Prophix), then reporting can be extremely flexible with columns, rows, and report pages representing any dimension or collection of dimensions.

Companies use this type of basic consolidation not only for planning data (e.g. aggregating data for all departments, which gives a plan for the total company) but also for data imported from the General Ledger or sub-ledgers (e.g. consolidating sales from all offices to report on total sales for each product as part of the monthly reporting process).

More complex consolidation constitutes a formal financial accounting process referred to as financial consolidation. Consolidated elements are usually legal entities such as subsidiaries of a parent company. Financial consolidation accounts for part of a company's formal month-end, quarter-end, or year-end closing process.

The sophistication of financial consolidation processes varies widely, depending on the needs of the company. For a privately held, horizontally-organized company that owns 100% of its subsidiaries, it can be very similar to the basic type of consolidation described above.

More complex financial consolidation requirements include:

Mapping data from disparate charts of accounts to a common consolidation chart of accounts

Mapping data from subsidiaries that use disparate fiscal calendars

Making top level adjustments to consolidated financial data using journal entries

Making intercompany elimination entries, such as eliminating inter-company sales in a vertically-organized company, or eliminating inter-company debt

Consolidating financials using different reporting standards such as US GAAP or IFRS

Converting financial data from source entities in multiple currencies to one or more reporting entities in other currencies

Automatic calculation of Cumulative Translation Adjustments (CTAs) for multi-currency consolidation

Auditing the approvals of adjusted financial data for the purposes of security and governance

Consolidating financials from partially-owned subsidiaries and automatically making adjustments for minority interests based on accounting standards

It is important to realize, however, that not all companies need such sophisticated functionality and their requirements may fit somewhere between the very basic data consolidation and financial consolidation with all of its bells and whistles.

Many of these functional requirements for financial consolidation extend the use of CPM software to have it act like a specialist General Ledger and an important part of the closing process. In fact, CPM can effectively replace a company's need for Enterprise Resource Planning (ERP) or accounting systems. For example, one of our customers who had grown significantly by acquiring many companies decided to use Prophix's consolidation capabilities instead of converting all the subsidiaries to a common ERP system; this saved them hundreds of thousands of dollars.

Quantifiable and Non-Quantifiable Benefits

An organization will normally enjoy quantifiable benefits from using a CPM solution. Many of our customers have shortened their budgeting cycles from three months to three weeks. Others that previously took up to five business days to copy, format, print, and collate reports every month can now send out reports electronically as attached PDFs in a matter of minutes.

It may appear that the main benefit of using CPM software involves minimizing the time required to perform these finance department processes and so, after moving from spreadsheets to CPM, customers will seek to reduce their headcounts.

In fact, typically, employees do not lose their jobs. The people who perform these analytical processes, whether using spreadsheets or CPM software, are usually well educated, valuable employees. Instead of copying and pasting spreadsheet formulas, they can spend more time analyzing and understanding the numbers. CPM liberates them from their day-to-day spreadsheet chores and helps them add value to their companies.

Sometimes, companies enjoy benefits of a more surprising nature. One of our customers saved over $300,000 per year just by analyzing departmental requests for capital expenditures and making sure that no one bought unnecessary equipment. Prior to using a CPM solution, the company spent so much time manipulating spreadsheets that they didn't have the bandwidth to spot these anomalies.

Many of the most important benefits to the finance department are not so easily quantifiable. Simply giving finance staff the time to analyze and understand the data being churned out daily by their ERP systems provides enormous benefits. This enables finance to become more proactive and make greater contributions to the management of the business.

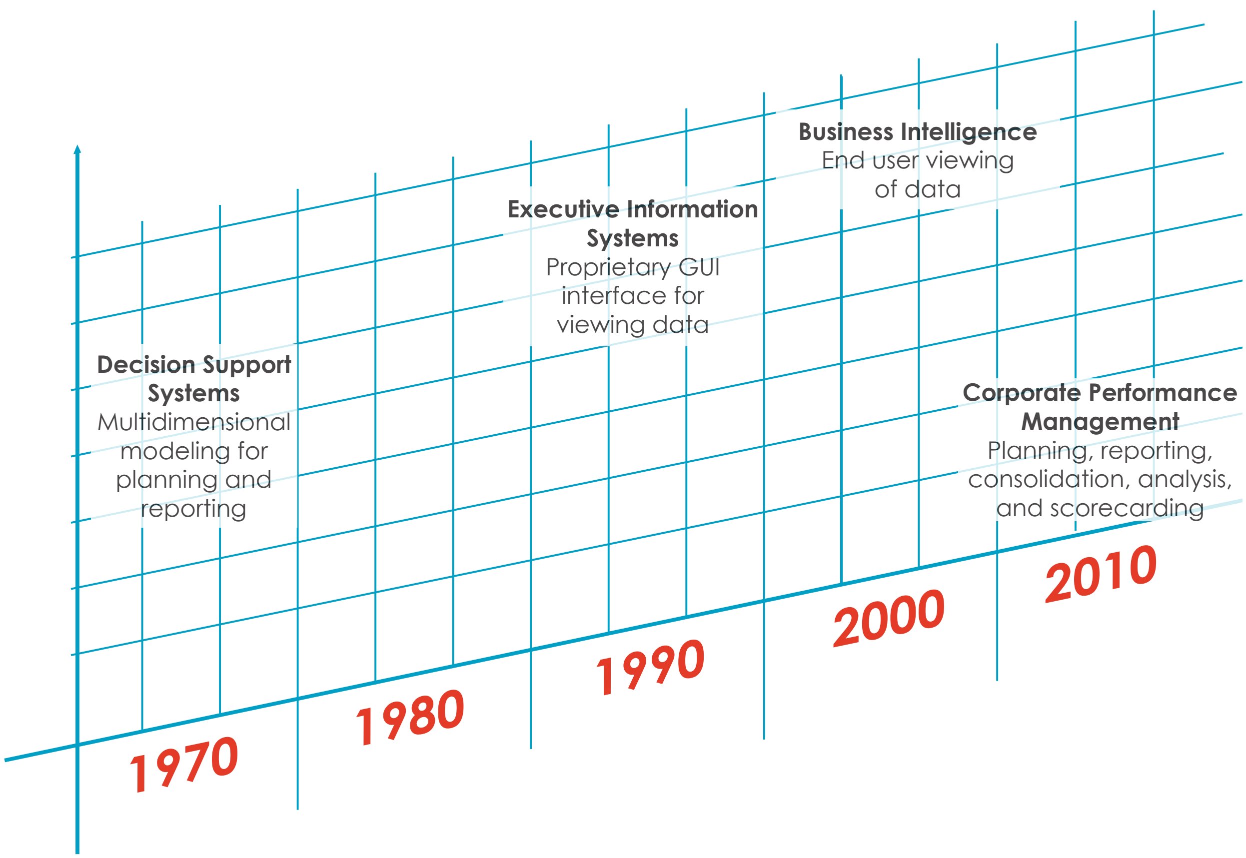
Companies use products like Prophix not only for traditional applications like the annual budget but also for more operational processes. Because of this, CPM enhances the finance department's ability to support operational areas of the business. An important part of this support involves the ability to interpret the impact of operational changes from both accounting and financial perspectives. For example, finance can use CPM software to more accurately predict how direct costs will vary based on planned changes to product offerings or changes in distribution channels.

With CPM software like Prophix, finance can do more than simply report what has already happened and can become more effective at forecasting, analyzing multiple scenarios, and spotting long-term trends. These insights enable finance to be more proactive and become more involved in the leadership of the company.

Prophix and CPM

Software industry experts tend to prize every software category with a new acronym, but enterprise companies have used mainframe software since the 1980s for CPM applications such as budgeting and monthly financial reporting. Using proprietary technologies, Executive Information Systems (EISs) first became available towards the end of the 1980s (using proprietary technology) and contained most of the functionality and capabilities of current BI systems.

Prophix has been involved with CPM software and OLAP database technology since the 1980s; we have expertise in both BI and CPM applications. We have helped thousands of companies run their businesses better with our CPM solution.



Developing a CPM software product such as Prophix is much more complex than developing a BI product. Budgeting, planning, forecasting, and financial consolidation all require multiple users to enter data, as well as simply produce reports. This presents technical complications, as anyone who has allowed many users to enter data into the same spreadsheet will know.

Prophix Software embraces certain core values. One of these involves the superior functionality of OLAP databases, as opposed to relational databases, for Corporate Performance Management applications. This is especially true for reporting, whether BI or structured reporting. The functional advantages of OLAP include:

- More flexible report layouts in terms of what appears on the rows and columns
- More sophisticated calculations, which are defined in the OLAP database
- Speed of data retrieval

Microsoft SQL Server Analysis Services (MSAS) is an excellent OLAP database for both financial analytics and BI applications. MSAS is a standard OLAP database in the industry and the database that Prophix uses.

Another of our core values is to offer exceptional value to our customers. Historically, CPM software tools were very expensive, partly because implementation requires extensive customization. However, Prophix's software is not customizable—instead, users (or our staff) can configure it to do exactly what our customers want. The people who designed Prophix have extensive domain experience and have built most requirements into the software.

This purpose-built structure not only results in faster implementations (typically, less than half the time required to implement a customized solution) but also means that users can install future releases of the software with absolutely no professional services costs. Most customized solutions require major expenditures on professional services with each installation of a new software release.

Summary

Corporate Performance Management software has become increasingly popular and important in recent years. CPM products like Prophix replace the use of spreadsheets for analytical processes in the department of finance. These processes include budgeting, forecasting, financial reporting and consolidation, and scorecarding.

Historically, CPM has been used only by large companies but vendors like Prophix have a value proposition that appeals to all sizes of companies. Also, as companies' use of technology becomes more complex, they have begun using CPM to address more complex needs for operational planning and reporting.

The benefits of CPM for finance departments are clear. They include not only quantifiable benefits that make processes such as planning and reporting more efficient, but also benefits that are not easily measurable such as an improved understanding of business operations. In many companies, Corporate Performance Management enables the finance department to become more proactive and a leader inside the organization.

About Prophix

Your business is evolving. Your systems should evolve too. Achieve your goals more successfully with Prophix's innovative Corporate Performance Management (CPM) software. Improve profitability and minimize risk when you automate repetitive tasks and focus on what matters. Budget, plan, consolidate and report automatically. Whether in the cloud or on-premise, Prophix supports your future with a platform that flexes to suit your strategic realities, today and tomorrow.

Head Office

350 Burnhamthorpe Road W.
Suite 1000
Mississauga, Ontario
Canada • L5B 3J1

+1 (800) 387 - 5915
+1 (905) 279 - 8711
info@prophix.com
www.prophix.com

United Kingdom

Davidson House
The Forbury
Reading
RG1 3EU

+44 (0) 118 900 1900
uk-info@prophix.com
www.prophix.co.uk

South America

São Paulo - SP - Brasil
Rua Guararapes 1855 - 1°
andar - Brooklin Novo
04561 - 004

+55 11 3583-1652

DACH Region

Messeturm
60308 Frankfurt am Main
Germany

+49 69 509 565 605
dach-info@prophix.com
www.prophix.de

United States

707 SW Washington St.
Suite 1100
Portland, OR 97205

www.prophix.com

Europe

Sankt Knuds Vej 41
1903 Frederiksberg C
Denmark

+ 45 7023 2375
europe-info@prophix.com
www.prophix.com/dk

South America

Rio de Janeiro – RJ - Brasil
Av. Marechal Camara 160 sala
1612 – Centro
20.020-080

+55 21 3094-3904
egallindo@prophixsouthamerica.com
www.prophix.com/br