The BPM Convergence

COMPANIES NEED SOFTWARE TOOLS THAT WILL INTEGRATE THEIR STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE METRICS SO THEY CAN KNOW WHERE THEY'RE HEADED AT ALL TIMES.

BY MAX KAY

Three-letter acronyms have long been the hallmark of software marketing wars as providers looked to establish a beachhead by first defining a new critical business or technical arena, then proudly asserting their preeminence in that field.

The domain of planning and analytics has been fertile ground for the growth of terms for things businesses can't live without: business performance management (BPM), corporate performance management (CPM), customer relationship management (CRM), key performance indicators (KPI), the balanced scorecard (BSC)—the list goes on and on. Yet despite an explosion of new terms and associated positioning, certain trends are at work, pushed forward by both business needs and advancing technology, that are driving software providers and their corporate customers into the next generation. These trends are rooted in integration, and the need for integration of these business performance tools is bringing about a harmonic convergence that has never been seen before in the BPM industry.

HARMONIC CONVERGENCE

Among financial management tools, individual "point" products have been developed to address identifiable and solvable problems in the areas of budgeting, financial consolidation, modeling, reporting, and online analytical processing (OLAP) analysis. But as providers look to grow their markets and as customers deal with the logistical issues associated with juggling multiple products, databases, and interfaces, the need for consistency and integration becomes the next critical issue.

The obvious parallel is the advent of enterprise resource planning (ERP) solutions in the early 1990s. Prior to the launch of the high-profile ERP systems, businesses typically purchased best-of-breed products for individual applications, such as General Ledger, Human Resources, material requirements planning (MRP), etc., and buying or building the glue to hook them all together. It wasn't very long before organizations began to realize the value of integration among core business processes. Integration significantly outweighed the value of obtaining marginally better point solutions and was thus a crucial factor in the massive success of SAP, Oracle, and PeopleSoft. These same factors are now at play in the BPM industry.

Also, the line between financial and operational planning and analysis has blurred. When you analyze a profitability shortfall, the root causes may lie anywhere from macro-economic market conditions to competitive actions to problems with a compensation plan, vendor pricing, or production delays. The boundary isn't drawn around the analysis of the numbers on a P&L statement. As the quality of available tools increases and end users grow more sophisticated, users are increasingly demanding the removal of the barrier *separating* financial planning and analysis from *operational* planning and analysis. For example, if a business unit's profitability dips below a targeted level, managers within that business unit want to know the cause immediately—regardless of whether the source of the problem is internal (poor alignment between financial objectives and the sales team's compensation plan, for example) or external (a new overseas competitor has entered the market). The sooner managers gain that knowledge, the sooner they can identify solutions to the problem.

Plus, traditional boundaries between business units and functional areas are quickly disappearing. Salespeople at leading organizations frequently perform revenue planning, and manufacturing managers often engage in supply chain planning. A BPM solution should support those cross-functional planning and analysis needs.

Analytic orientation, discipline, and techniques, once the exclusive province of finance and accounting, now pervade most sophisticated organizations as they drive to be more productive and competitive. Key performance indicators and balanced scorecards generally include both financial and nonfinancial information and have become common management tools and foundations for individual performance assessment.

ADDITIONAL DRIVING FORCES

The primary driver of the convergence of tools is rooted in business needs. The benefits of an integrated set of business performance management tools outweigh the cost of supporting separate, distinct planning and consolidation applications, balanced scorecard tools, dashboards, and/or an OLAP tool. Put simply, the value of integration outweighs the cost of "disintegration."

There are other motivating forces at work, including the widespread acceptance of key BPM components, such as balanced scorecards, and the ubiquity of ERP systems. Most organizations of all sizes are familiar with balanced scorecard presentations—graphical displays that help organize and prioritize drivers of performance, or KPIs. Yet there's a major difference between communicating strategic goals, operational plans, and performance indicators and measuring those vital metrics. Companies that fail to measure their progress toward fulfilling a plan are simply wasting their planning time; the old saw that "you can't manage what you don't measure" is on the mark. If you *are* going to measure something, you'll need a plan to take you to your target. Linking strategic planning, budgeting, and metrics (such as those contained in balanced scorecards) will further propel the drive to integration. The underlying information is interconnected, so the software that manages it should be as well.

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Most major corporations have finally completed the successful implementation of an integrated ERP solution, though often at a cost of hundreds of millions of dollars and years of effort. They have conquered their operational systems issues, have "caged" their data, and are looking for the promised returns for all the time and money they've spent. The first returns should come in the form of operational efficiencies. The next round of benefits should be from analytic leverage, which isn't traditionally the province of the major ERP vendors.

Finally, the natural course of innovation following opportunity is driving providers of many stripes to look seriously at this application domain. The underlying technology components—including relational and multidimensional databases, desktop, and Web delivery tools—and the technology used to connect or integrate business software to those technology components are maturing and in some cases commoditizing. For example, most IT professionals know how to maintain the most recent servers, databases, and operating systems from Microsoft. This facilitates development of highly functional offerings from a number of competitors. Rather than implementing an ERP-esque "from the ground up" system, integrated-minded vendors can develop BPM solutions that easily "plug into" a company's existing technology architecture. And economic-minded buyers of these sophisticated, integration-friendly BPM solutions have no need to sacrifice breadth, depth, or functionality for the lower price.

THE CHARACTERISTICS

The next wave of "Super BPM" products will contain several critical features and attributes. Setting aside the claims and biases of each provider, there are specific characteristics these products must employ in order to deliver the value your business requires.

1. The Power of One. A strong solution will offer common data and metadata, a friendly user interface, and maintenance. The benefit of a single source of data is that it ensures that all BPM users are basing their decisions on the same information. One of the prime shortfalls of "suite" BPM solutions cobbled together with different components (budgeting, forecasting, reporting, analysis, etc.) is that those systems frequently spit out different information to different users seeking answers to the same question. The data needs to be manually reconciled in those "nonintegrated" BPM systems, which adds time and errors to the process. A company's budgeting process should integrate with its reporting, analysis, KPI-setting, and forecast-revision processes. Instead of wasting time moving and reconciling data, the organization can focus on analysis, understanding, and action.

2. Flexibility. You must have flexibility in how you look at your data as well as what you view. Metrics, which are crucial in a highly volatile market environment, may be inconsequential when the market settles down and operational efficiency becomes paramount. For example, during a period of economic or market growth, the number of new customers acquired probably represents an important metric. Yet during a period of economic stagnancy or contraction, customer profitability and travel and expense costs may represent more important measures to monitor.

3. Quality and accessibility. The best analysis is useless unless it is presented appropriately and accurately to the people who can use it in their decision-making process. End users should be able to access information from different BPM components, such as planning tools, budgeting tools, and reporting tools, without leaving the comfort of the BPM system they are using.

4. Navigability. This applies to information inside and outside the BPM application. For example, if travel and expense costs are maintained in a different system, that data should be able to be imported into the BPM application by end users as quickly and easily as possible. Understanding problems or opportunities often requires digging, correlating, and turning things on their head. The tool should not only allow but should *facilitate* this type of analytical process.

5. Timeliness and consistency. These are the "motherhood and apple pie" of this domain, but the appropriate time scale may be situational. Financial data is typically presented and analyzed in monthly cycles, but that time frame may be way too long for other metrics.

6. Communication. The solution should easily communicate "softer information." Financial executives want to see the target, but they also want to understand the thinking behind it and the strategic or tactical goals they are trying to achieve—not just variances, but their explanation and what steps will be needed to address the underlying issues.

7. Usability in "the trenches." Strategy, analysis, and performance measurement will have their greatest positive impact when they pervade the organization and influence the actions of management and staff at all levels.

THE MARKET LANDSCAPE

This convergence is shaping up to be an interesting race to the finish. The market potential is huge. According to industry analyst researchers IDC, the market for BPM applications exceeded the firm's 2004 forecast by rising to $1.4 billion. IDC expects the market to grow at a compound annual growth rate of 11.3% through 2009. As a result, the industry is already seeing stiff competition from an interesting array of offerings. Of course, as this number grows, the volume of marketing claims will heat up as well.

The incumbents are traditional players in the financial management and analytics space. These firms will use their domain expertise, product depth, and entrenched user bases to both grow and play defense. Their strength will be derived from understanding built from years of financial application building and connection to the CFO suites of their customers. The traditional players who come out ahead in this looming convergence trend will in all likelihood be those that embrace the analytic power and familiarity of Excel and equip it to handle the full spectrum of BPM functionality while dynamically accessing a centralized database.

The ERP vendors will also be in the race as they capitalize on their control of the operational data farm and make partial inroads on the data mart and analytics front. A good example here is SAP's BW offering. The ERP vendors' product development strength, processing large volumes of transactions, differs from what companies demand from BPM tools (flexibility, analytic heft, and flexibility). The underlying purpose of an ERP system is to perform and store vast amounts of transactions. The underlying purpose of a BPM application is to equip end users with information about internal and external performance indicators that strengthens their decision making. That said, some ERP vendors have acquired BPM vendors and certainly can overcome their historical challenges.

The business intelligence (BI) tool providers make an interesting entry in the race. They typically understand the data domain and analytics, but they have a longer race to run in the flexible planning environment. Their strength (analytics) represents only one component of BPM. Given the relatively modest size of the typical BI tool vendor, it seems unlikely that a significant number of these firms will expand their BPM offerings through acquisitions.

Finally, the dark horse is Microsoft, which owns the desktop and has at least a first mortgage on the back office. Excel is arguably the dominant budgeting and analytical tool by a huge margin, and the SQL Server/ Analysis Server itself is, if not compelling, at least ubiquitous and well priced. With prebuilt integration with its ERP products, balanced scorecard accelerators, and a new release of Report Services, Microsoft is putting all the pieces in place to become a top contender.

Nevertheless, the competitors in all categories should be divided into those whose idea of integration is built from the ground up vs. those that acquire multiple tools and then work to integrate. Companies fed up with expensive and time-consuming system implementations ought to choose the former option. A few brief questions early in the selection process can help buyers differentiate from providers of integrated BPM solutions and providers of tool suites that must be integrated:

- How easily will your solution fit with my existing infrastructure?
- How much time will implementation require, and how much will it cost?
- Will end users of your solution be able to perform planning, budgeting, forecasting, modeling, financial consolidation, management reporting, and analysis activities via the same front-end interface?

THE PRACTICAL IMPLICATIONS

The market will sort itself out over the next several years, probably producing a number of winners and survivors and possibly some new entrants not yet on the radar. For those of you whose businesses are making purchasing and implementation decisions today, here are some recommendations:

- Keep your eye on the long term while solving today's problems. If you don't find a comprehensive tool or tool set that meets your needs, pick components that will interoperate easily based on common technology. Again, ask the vendor to explain how easily the application will or will not integrate with your company's existing technology infrastructure.
- Recognize that the convergence of this arena is driven by business fundamentals, not just vendor hype, and keep those business issues that are most critical to your organization and industry dominant over the passing trends in the marketplace.
- Change and growth are intrinsic to the application of software tools for business performance management. In growing organizations, solving today's problems will lead to additional challenges down the road. Choose tools and approaches that can accommodate the quickly changing nature of business challenges. Budgeting may represent a top organizational challenge right now, but financial modeling may crop up as a more pressing need within the next 12 months. The often-used term "scalability" frequently obscures an equally important consideration: how easily and cost effectively the solution can be extended to address other business problems. If "scalability" requires purchases of additional modules and the time, cost, and disruption of further implementations and upgrades, it may not be worth it.

Three-letter acronyms aside, astute businesses that follow these recommendations will be the primary beneficiaries of the conflict the coming convergence will bring. ■

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