# FSN Executive Briefing

# "Where is a better place to start improving finance systems, ERP or CPM?"

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**Introduction**

With signs of economic recovery gaining traction in 2015 thoughts are once again turning to growth and investment. But when it comes to IT investment, CFOs face a bewildering choice of technologies and corporate initiatives brought about rapid advances in the so called 'nexus' of digital technologies, i.e. cloud, social, big data and mobile as well as demands in more familiar areas such as analytic applications, corporate performance management and ERP.

Understandably, in an environment of slender profit margins and single digit growth the pressure is on to invest in innovation. Yet the value of leading edge developments is frequently over-stated, often at the expense of more fundamental process improvement. A McKinsey survey[1] makes the point strikingly by highlighting that the average bottom-line impact that can be realized from investment in the latest digital technologies, say, digital sales, over the next 5 years is 20 percent whereas the bottom-line impact from process improvement and cost-reductions could yield an average of 36 percent. It may not grab the headlines but reinventing and transforming internal processes such as financial reporting, budgeting, planning and forecasting can yield surprisingly high returns.

It's a view supported by the findings of the 2015 Society of Information Management's (SIM) survey[2] which shows that the highest priority for IT investment is in analytic applications for the sixth year in a row, followed by investment in data centre infrastructure and Enterprise Resource Planning (ERP).

But even if investment is inward-facing (rather than, say, customer facing) CFOs still face a tricky dilemma. Is it better to invest in, ERP replacement driven principally by cost-reduction or alternatively at improvements aimed at growing revenues and earnings with more timely insights into performance?

**Should CFOs invest in information systems or transaction systems?**

Prioritising between investment in information systems (mainly Corporate Performance Management and Business Intelligence) or transaction and operational systems such as ERP is challenging depending on, for example, the nature of the business, the uncertainty of the markets in which it operates and the extent to which it is weighed down by legacy applications and infrastructure.

But in general terms it is relatively easy to understand why (as borne out by the SIM study) investment in analytical applications such as CPM (Corporate Performance Management) 'trumps' investment in transaction systems such as ERP.

In broad-brush terms the demands on transaction systems has remained relatively static for decades with little incentive to make wholesale changes to systems. In recent years the main driver for change in ERP systems, if any, has been the introduction of cloud-computing, which has provided a simpler and sometimes more cost-effective processing environment, especially for smaller and fast growing enterprises which are less beholden to legacy systems.

But for large multi-national enterprises it is more difficult to make the case for change. Business complexity, and the shortage of fully fledged ERP systems in the cloud is acting as a brake on progress and most larger organizations are adopting a hybrid strategy (one foot in the cloud and the other on-premises) as a way forward. This suggests that we are unlikely to see the monolithic ERP systems of the past replicated in the cloud.

Also, many organizations have to contend with a large number of disparate platforms, making it harder to migrate to a new ERP sytem. Indeed, 49% of large enterprises maintain more than five different financial (ERP) transaction systems[3]. No wonder that 44% cite risks associated with integrating new systems and technologies as a key barrier to adoption in the finance function[3].

By contrast the case for investment in analytical and CPM applications is far more immediate and compelling, spurred on by the need to reduce 'time to insight' and 'time to decision' against the backcloth of relentless market volatility, burgeoning regulation and business complexity. 61% of CFOs say that facilitating analysis and decision-making is the top priority needing improved technology support[4].

**Organizations ignore investment in CPM at their peril**

For many CFO's reliant on earlier generations of CPM even rudimentary decision making is fraught with difficulty. A research study, *"Performance Management: An incomplete Picture[5]"*, suggests that 82% of businesses admit to not having complete visibility of profitability by line of business, and 46% believe this creates potentially erroneous business decisions. 40% feel this can impair financial performance and 38% believe it results in flawed business planning that will hamper business success. Bereft of accurate, timely and actionable information many organizations find themselves unable to respond convincingly to unplanned events, reorganizations, acquisitions and divestments.

And for those enterprises that are already 'behind the curve' the ability to make timely decisions is continuing to deteriorate as they grapple with unbridled growth in data volumes and proliferating data sources. Fragmented CPM systems and loosely coupled architectures bound together by thousands of uncontrollable spreadsheets expose businesses to inordinate delay and the risk of error. To make matters worse, highly qualified financial analysts are left 'high and dry' – compelled to spend the bulk of their time manipulating out-of-date data rather than analyzing business performance and future prospects.

**Investing in modern CPM**

Fortunately, a new generation of CPM systems is reinforcing the case for change.

Modern CPM systems overcome the limitations of the past by offering unified analytical platforms in which performance management and its attendant applications (budgeting, planning, forecasting, financial and management reporting) share the same data and metadata (structural information). This is not only vital to preventing wasteful duplication of data but it also crucially ensures the integrity of the underlying data, i.e. consistency of information across business processes and in all reporting dimensions. A unified platform lends itself to easier reporting and greater staff productivity, providing a sound foundation for linking strategic, operational and financial plans and metrics.

Latest generation CPM suites such as OneStream, built from the ground-up as a single environment, with a single user interface, are able to genuinely support timely decision making and with only one IT infrastructure to maintain, fewer internal finance and IT staff are needed to manage solutions and less external consulting time and cost is needed to support complexity. All of this leads to lower total cost of ownership than earlier generations of CPM and a clear incentive to invest.

**Summary**

Rapid changes in technology and business models is driving unprecedented demand for investment in business processes and customer-facing initiatives. CFOs find themselves inundated for requests for change and face the constant challenge of rationing funds across so many competing needs.

Some initiatives are technology inspired whereas others are driven by deep business justifications. For example, a reinvigorated ERP market is being stimulated by the promise of cost savings in the cloud rather than a step-change in functionality and while the benefits of the cloud hold appeal for smaller enterprises, larger organizations with complex legacy systems are more cautious about the returns. And although transaction processing remains largely unaffected by volatile and uncertain markets the same cannot be said of decision-making. ERP systems may benefit from a new generation of cloud-based applications but ageing and inadequate CPM systems undermine the very fabric of financial governance and management decision-making. For the foreseeable future all surveys point in the same direction, namely; the need to address shortcomings in information and analytics is a much higher and more pressing priority than replacing old but largely dependable ERP ssytems.

**Bibliography:**

**Note**[1] McKinsey 2013 "Finding your digital sweet spot"; Tunde Olanrewaju and Paul Willmott

**Note**[2] 2015 Society of Information Management's (SIM) survey

**Note**[3] Performance Management: An incomplete Picture Dynamic Markets Limited 2011

**Note**[4] Empowering Modern Finance; The CFO as Technology Evangalist Longitude Research, Accenture, Oracle 2014

**Note**[5] Modern Finance in the Digital Age, FERF (Financial Executives Research Foundation) and Oracle 2014