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Performance management and ERP: What you need to know to get the most out of your investments

Information Management

Cognos® software

Contents

Abstract

This paper details the challenges CIOs face when seeking performance management capabilities from their ERP solutions. The paper details the advantages of implementing a separate PM system from an existing ERP solution in order to achieve greater results and improve efficiency and usability. Several real-world examples are provided and recommendations on how to balance ERM needs and PM needs are addressed.

Overview

CIOs today face two conflicting mandates: Fostering innovation that can drive true business value, and running IT efficiently and cost-effectively. For many, that often includes standardizing on key pieces of software and vendors for economies of scale and easier maintenance. Not only do CIOs want to minimize their technology acquisition costs, but they also want to create a streamlined IT environment with fewer integration points and less software customization. However, many leading CIOs find streamlining their IT environment is best balanced with the dual needs to lower costs and ensure IT staff is not burdened with delivering excessive customizations and end user work-arounds.

Business problems

But choosing a technology for a standardization strategy can be carried too far. "Standardization decisions are most effective when made for a discrete set of capabilities that are in alignment with business requirements," says Bob Corson, director of product marketing for Cognos Enterprise Resource Planning (ERP) Solutions at IBM. "Applying a standardization decision beyond those capabilities without considering whether it is the best fit for the new requirements is a mistake that can hurt a company's overall effectiveness."

ERP systems are a prime example; because for many companies they represent a large investment of time and money, CIOs want to maximize their ROI. "In terms of investment and depending on company size, most ERP implementations represent a multimillion-dollar investment," says Jason Lovinger, associate vice president, Cognos ERP Market Strategy at IBM. "It's an ongoing investment as well, as CIOs must invest in IT personnel to implement and maintain the systems going forward."

This investment generally pays off in terms of the value that ERP brings to a company. But when CIOs try to wring more from their investment by forcing ERP to handle functions which lie outside ERP's core competencies, such as performance management, they do the business a disservice.

Business drivers

The problem lies in the divergent requirements and purposes of ERP and performance management. "ERP is about cutting costs and reducing overhead by streamlining transactional processes such as order fulfillment and billing," says Corson. "It optimizes efficiency but it has nothing do with whether a company is performing effectively."

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That's more the province of performance management, which helps business executives discover opportunities and leverage business intelligence to identify issues and discover opportunities going forward. "With ERP, you may be automating the business, but are you seizing the right marketing opportunities, approaching the right prospects, or recognizing and addressing business weaknesses?" asks Lovinger. "ERP won't answer that for you because it's the muscle, while performance management is the brains. Performance management is a fundamentally different concept than ERP."

The bottom line for business executives and CIOs looking to successfully implement performance management is simple: If performance management is what you're after, then you need a solution designed specifically for it. And as performance management becomes a necessity in today's hyper-competitive business world, forward-thinking CIOs will leverage both the brains of performance management and the brawn of ERP to stay ahead of the curve.

The solution

Performance management technology

"Technology is key to enabling the insight required for effective performance management," says Lovinger. It depends on a number of technologies, such as business intelligence software, ERP systems and planning and analytics software, to support key processes such as goal setting, performance monitoring, data analysis and planning and forecasting.

It's also often used by a different user base with different requirements than those of ERP users. "These people need full visibility into multiple systems to really succeed with performance management," says Lovinger. "Depending on a single system is likely to give you only part of the story, and could well lead to bad decisions."

Performance management (PM) is an iterative, non-predefinable process that reflects the ever changing nature of the business world. For example, the answer to one question could trigger a number of follow-up questions that reflect changing business conditions—and those questions simply cannot be predicted. As such, self-service is key to PM effectiveness. Business users simply cannot wait for IT to generate a new report for every new question, and IT can ill afford the time to churn out multiple reports and their follow-ons.

How big a problem is this? According to "Beyond Business Intelligence: Turning Information into Business Performance," a recent survey of the Oracle Applications User Group (OAUG), 85 percent of respondents said that their decision-making process is hampered by delays in information availability.

To get the full worth of corporate data, users must turn to a robust installation of business intelligence (BI) software in order to perform the data analysis necessary for performance management. The ability to quickly and reliably analyze a complete set of data down to its essential value is vital to success, and CIOs must choose carefully when they purchase BI software. For many, the temptation is to use the reporting engine within ERP, but it won't yield the results PM users need. "Business intelligence is a vital part of PM," says Corson. "Your ability to do PM is gated by the ability to report, explore, analyze and understand the data."

Such was the case with U.S. Army's Armament Research Development and Engineering Center (ARDEC), which used IBM Cognos business intelligence tools to analyze financial data pulled from both SAP and non-SAP systems. Rather than fall into a one-size-fits-all approach, ARDEC pursued the best tools for specific needs. By relying on SAP BW for modeling and architectural features as well as its role as the main data repository, ARDEC is leveraging the solution's strength. Similarly, employees turn to IBM Cognos® 8 Business Intelligence as a user-friendly tool that pulls the most value from the SAP and non-SAP data.

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ARDEC's story illustrates a bedrock truth about PM: It must have the ability to draw data from disparate systems. In fact, only 11 percent of the OAUG survey respondents said that the data they need for performance management is available from a single source, and 41 percent said they'd need to plug in between two and five data sources to deliver solid PM, while another 33 percent said they'd need to pull data from more than five sources. This dispersion of data can hamper a company's ability to do business: 91 percent of survey respondents said that at least some of their decision-making capabilities were hindered by a lack of complete information.

The key to success is clear: Performance management must be able to leverage a common integrated software platform that supports heterogeneous data sources and provides a single source for information.

Performance Management and ERP: A winning combination

ERP systems are a vital data source for successful performance management, but can be a significant hindrance to effective PM when used as the sole enabling technology. Used in tandem, however, companies can further leverage the data in a successful ERP system to gain greater business value and achieve better ROI across the enterprise.

For example, the University of Minnesota implemented an IBM Cognos BI platform to support a university-wide initiative to discover new revenue streams and reduce costs by streamlining operations and eliminating redundancies. This meant integrating data across multiple platforms, including the school's PeopleSoft® system. By gaining visibility into the complex financial cross-subsidies and dependencies at the college, as well as creating models that analyze course supply and demand and the cost of instructions, the IBM Cognos solution allows the University to more accurately forecast costs and pinpoint differences in revenue contributions. As a result, the University has identified an estimated $187 million in new revenue potential and $5 million in recovered costs.

Performance management has the promise of lightening IT's load by handing considerable responsibility to the users. A big part of its iterative nature is the concept of self-service, in which users have control over creating and modifying reports. In fact, in a recent IBM survey of SAP market users, 64 percent cited ease of BI creation as a primary goal, while another 57 percent looked for BI self-service as a primary factor that boosts performance management adoption.

But self-service presents a conundrum to CIOs. It reduces the burden on specialty IT services, relieving a troublesome backlog that is problematic across the corporate landscape. In the OAUG survey, 55 percent said it takes more than three to five days for a report to come to the front of the queue, and another one to two days to create it.

At the same time, IT bears the responsibility for securing and maintaining systems, and must control issues such as access to data and performance management capabilities, consistent data definitions and formulas for common calculations—such as revenue, cost, etc.—and scheduling and distribution of standard reports.

"If you just focus on user requirement of ease of use, you wind up with chaos, with users developing redundant and conflicting reports," says Lovinger. "You need to balance the requirement to give necessary control to IT while still addressing the self-service needs of the customers."

That balance is what ultimately allows systems to be successful, and in the end, IT and user requirements are best answered by a complete performance management system. The key issue is manageability for both parties. With performance management, data sources are constantly in flux, and a PM system must have the ability to change and evolve with the business. ERP alone cannot deliver that necessary requirement.

Conclusion

CIOs face a battle to balance the warring requirements of providing critical business value with maximum efficiency and cost savings. And as they look to simplify their IT infrastructure, they must consider where it makes sense to draw a line in the sand and say, "Here's what ERP does, and here's what we need performance management to do – the two are not the same, and we must have the right solution for each one."

"To use an analogy, you can buy a really great engine for a car, but that is not going to help you steer and navigate. For that, you need to purchase a completely different system. Both are important, but they have two very different jobs," says Lovinger.

The same holds true for performance management. To get the most from a PM framework, CIOs must use the technology and vendors who can best answer the business demands of the users, rather than trying to force-fit existing technology into a job it was not designed to do. Doing so is the only way to meet the needs of both IT and the business.

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IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

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