

The Return on Corporate Performance Management

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Abstract

The return on investment (ROI) of corporate performance management (CPM) is a critical measure of the technology's business benefit. In this article we will discuss the nature, magnitude, and feasibility of achieving a measurable ROI from investments in CPM. We will draw upon independent research (surveys and studies), industry best practices, and consulting experience in working with hundreds of clients to implement CPM solutions.

Formal projections on the actual ROI that organizations will achieve are not possible because of variations in project scope, system design, management commitment, and willingness to change processes. Instead, we will examine the definition of CPM, its potential ROI, and ROI elements and approaches. We will also look at several examples of companies that achieved ROI on corporate performance management.

Defining CPM

CPM includes the processes used to manage corporate performance, such as strategy formulation, financial and management reporting (including consolidations), and budgeting and forecasting. CPM also includes the methodologies that drive some processes (such as the balanced scorecard or value-based management) and the metrics used to measure performance against strategic and operational performance goals. However, CPM also comprises a series of analytic applications that provide the functionality to support these processes, methodologies, and metrics, targeted at the CFO, finance team, senior executives, and corporate-level decision makers.

Many terms are used to reference CPM. Some research entities and software vendors refer to the technology as business performance management (BPM), while others call it enterprise performance management (EPM). The underlying concepts and tools are the same; these terms are interchangeable.

The actual scope to which CPM is implemented within an organization will affect the benefits or ROI achieved. The examples and/or data referenced in this article use the definition just presented as the baseline scope. Where there are identifiable variances (e.g., one organization implemented a CPM tool for forecasting only), they will be clearly identified.

ROI Potential of CPM

Companies today are taking more strategic, “process-centric” approaches to the management of their organizations, focusing on improving processes and systems to support budgeting, forecasting, financial, and management reporting. CPM software is increasingly being deployed as a key enabler of this strategy.

Companies leveraging CPM software in this way have the potential to achieve numerous qualitative and quantitative benefits. Examples of potential qualitative benefits include improved decision making, increased accountability from better information visibility, and the proverbial “single version of the truth.” Quantitative benefits include head count reductions or redeployments (in business units and IT), shorter cycle times for key management processes, a lower cost of compliance, and reduced technology spending primarily through rationalization of redundant systems and less reliance on outside maintenance support for outdated technology.

IDC, a leading research and analysis firm, sums up the benefits as business process enhancements, productivity benefits, and technology-related savings. When evaluating the real dollar return of CPM initiatives, IDC found that nearly 54 percent of the total ROI for CPM initiatives achieved by companies participating in a recent survey came from business process enhancements. Such enhancements include all identifiable annual savings that were realized from changes in business processes sup-

ported by the analytic applications. The second leading benefit was enhanced productivity—all the efficiency savings of reduced time and effort for tasks such as planning and budgeting—which accounted for nearly 42 percent of the resulting ROI. The final 4 percent was related directly to savings in technology costs, including costs for unnecessary applications.

A benefit that went unaddressed in this survey is the true value of making “better” decisions. This is typically classified as a qualitative benefit. However, based on ISA’s experience in the marketplace, this is where we believe the true potential lies for ROI in CPM. Although this benefit is more difficult to quantify, the impact is often considerably greater than process improvements or improved productivity. We will discuss some real life examples later in this article.

According to research on planning and performance management by The Hackett Group, organizations that have implemented an integrated planning and performance management (i.e., CPM) solution have a 13.6 percent lower overall cost of the finance function or department as a percent of revenue (see References).

In addition to this, Hackett found that organizations without an integrated environment:

- Spend 27 percent more on planning and analysis
- Maintain, on average, six separate planning and performance management systems
- Have and use twice as many reports

According to Aberdeen Research Group, more than 70 percent of companies that adopted some type of CPM program generated high-impact improvements in key performance metrics, and these results were consistent across industry segments and company size (see References). The average improvement from a CPM initiative included:

- A gain in return on assets (ROA) of 5.0 percentage points
- A gain in percent gross margin of 4.9 percentage points

However, the Aberdeen study found that best-in-class companies take a significantly different approach than their peers to corporate performance management and achieve better performance as a result. Best-in-class companies approach CPM analysis with a far greater focus than their competitors on:

- Tracking new product introductions
- Balanced scorecards versus individual metrics
- Continuous improvement and closed loop decision processes
- Cross-functional root cause analysis
- Forward-looking business data analysis and simulation
- Performance metrics aligned with corporate strategy and monitored with balanced scorecard and executive dashboard software applications

- Implementing one portion of CPM at a time and not buying into the hype of the very large software companies

Finally, an online survey conducted by CFO Research Services speaks directly to how organizations that have invested in CPM solutions rated their performance versus companies that had not invested in CPM (see References). In all, 164 senior finance executives were surveyed, representing a broad range of industries (primarily companies with annual revenue over \$1 billion). Respondents were segmented into two groups:

Heavy investors: Organizations that had invested in technology for financial planning and analysis

Light investors: Organizations that had “point solutions” or spreadsheet-based processes and had not invested in technology for financial planning and analysis

Analysis of the results found that heavy investors reported less difficulty with financial planning and analysis, were more satisfied with ad hoc analysis and decision support capabilities, found budgeting and reporting less contentious and political, and provided end users with line-item detail on budgets and results.

ROI Elements and Approaches

ROIs for CPM technology are typically expressed as either the net present value (NPV) or internal rate of return (IRR) of the expected net cash flows over a stated time horizon. Time horizons can vary, but are usually 5, 7, or 10 years long. The details of these calculations are beyond the scope of this article. However, an understanding of the key elements that make up an ROI analysis lays the foundation for organizations to explore potential benefits.

At the most basic level, the elements of ROI include benefits and costs; see Table 1. These categories reflect the line items of cash inflows and outflows in ROI for CPM solutions. Quantifying costs is typically more straightforward than quantifying benefits, so this will not be a focus of our discussion. While many organizations

BENEFITS	
Quantifiable	Revenue enhancements
	Cost savings
	Cost avoidance
Qualitative	Information timeliness
	Improved employee satisfaction
	Improved decision making
COSTS	
Hardware/ Software	License fees
	Server costs
	Ongoing maintenance
Internal Labor Costs	One-time
	Ongoing support
External Services	Consulting

Table 1: Benefits and costs for ROI calculations

find it difficult to quantify benefits, it is possible, as this article will demonstrate.

Cost savings and cost avoidance benefits typically rely on the traditional method of establishing a baseline of costs in your current environment and then identifying opportunities to leverage your investment in a CPM solution to eliminate some of these costs. Examples include eliminating systems, process steps, and entire processes. In addition, other processes and process steps may be made more efficient (i.e., they may be performed with less effort) via the CPM solution; this also generates cost savings.

Organizations typically struggle to achieve these benefits because organizational follow-through and commitment are poor. For example, a large consumer products company was considering implementing a CPM solution to support its budgeting, forecasting, and management reporting processes. The company developed a business case that identified six full-time equivalents (FTEs) of effort that would be eliminated by implementing the CPM solution. However, this effort was spread across a finance team of approximately 35 individuals. To achieve these savings, the organization would have to be willing to reorganize the finance department.

Most organizations cite “improved decision making” to justify investments in CPM technology, but they struggle to quantify this benefit. In fact, most do not quantify it at all. Decisions are made so frequently and factor in so many different variables that it is often impossible to analyze the process and quantify a benefit. Our experience has shown that the best approach is to identify one or two key decisions the organization makes that the CPM solution will specifically support and focus on analyzing each individual case to identify and quantify a benefit.

For example, a \$500 million financial services company was evaluating whether to invest in a CPM solution to support its management reporting needs. Most of its business was done via service contracts with key institutional customers. Setting and maintaining the terms of these contracts was a key decision process for this organization. However, in the current environment they

could not project, track, or report on the profitability of each contract.

The revenue often cut across multiple systems, and costs associated with providing that revenue were recorded in a third system. Each of these systems had different codes to identify the data, so it was impractical to report on contract profitability. Implementing a CPM solution would enable a common management reporting hierarchy and would bring together the disparate data from the three systems.

Organizations typically struggle to reduce or avoid costs because organizational follow-through and commitment are poor.

Once this specific decision was identified as a potential benefit of the CPM solution, the project team met with the sales management team responsible for the decision and manually calculated the profitability of a sample of service contracts. The results of this manual analysis allowed the team to reasonably quantify the benefit from improving this decision process.

ROI Examples

We have researched and identified four examples of companies that were able to gain ROI from implementing CPM solutions. A brief description of each company is provided below; Table 2 summarizes the ROI that was achieved.

Blue Mountain Resort

Blue Mountain Resort is a diversified, year-round resort located in northern Ontario. It is the third busiest ski resort in Canada, and sells 700,000 skier visits per year, on average. In addition to ski slopes, the resort has golf courses, mountain biking trails, gondolas, tennis courts, and conference facilities. In 2001, Intrawest, a publicly held leading North American operator and owner of resorts, purchased a 50 percent interest in Blue Mountain Resort.

COMPANY NAME	ROI	PAYBACK	PROJECT SCOPE	KEY BENEFIT AREAS	KEY COST AREAS
Blue Mountain Resort	1,822%	1 month	Consolidations Financial and management reporting Forecasting	Avoided increased head count Reduced labor costs Reduced inventory costs Better pricing More frequent reporting	Software Personnel Hardware Training Consulting
Trillium Health Center	46%	2.17 years	Budgeting and forecasting Management reporting	Reduced software costs Improved analyst productivity Improved employee productivity	Software Personnel Hardware Training
Ryerson Steel	63%	1.60 years	Budgeting and forecasting Consolidations Financial and management reporting	Improved manager productivity Improved accountant productivity Improved close process Rapid production of financial statements	Software Personnel Hardware Training Consulting
OfficeMax	27%	3.24 years	Management reporting Inventory analytics	Reduced inventory costs Improved analyst productivity More frequent reporting	Software Personnel Hardware Training Consulting

Table 2: Return on investment achieved by four companies

Trillium Health Center

Trillium Health Center is one of the leading community hospitals in the Canadian province of Ontario and meets the healthcare needs of more than one million residents in Mississauga, West Toronto, and surrounding areas. With sites in both Mississauga and West Toronto providing diagnostic, laboratory, and pharmaceutical services, Trillium delivers comprehensive services for both inpatient and ambulatory care.

The hospital is rapidly growing, and in 2008 opened a new seven-story wing in its Mississauga location that showcased the innovative thinking and patient-centered philosophy fueling Trillium's mission. The hospital is also aggressively improving its use of information technology to support patient care.

Ryerson Steel

Ryerson is a steel products distributor with operations in the U.S. and Canada and joint ventures in Mexico, India, and China. The company sells a broad range of steel products to a variety of steel users, including machinery manufacturers, electrical machinery producers, transportation equipment producers, metals mills, and foundries.

As a result of both acquisitions and internal growth, Ryerson's revenues have more than doubled since 2003. The company is now the third largest publicly held steel company in the U.S. Despite its rapid growth, the company remains well managed. In 2006, Ryerson was included in *Fortune's* list of America's most admired companies, a list that ranks companies according to

factors such as financial soundness, quality of products, and the ability to innovate and utilize employee talent.

OfficeMax

OfficeMax is a leader in both business-to-business office products solutions and retail office products. The company provides office supplies and paper, in-store print and document services through OfficeMax ImPress, technology products and solutions, and furniture to consumers and businesses of all sizes. OfficeMax customers are served by approximately 35,000 associates through direct sales, catalogs, e-commerce, and more than 900 stores. Managing inventory—knowing what’s in stock down to the last eraser, and where it is located on the shelves—is key to the high turnover of goods required for an office supply store’s profitability. Products sitting on shelves for weeks or months on end equates to lost revenue.

OfficeMax must be savvy about inventory levels and customer preferences to make the most of its shelf space and maintain its competitive position. The deployment of a data warehouse and an analytic application to handle replenishment enables OfficeMax to predict inventory levels, optimize store content, and link marketing practices with optimized store content.

Conclusion

There is ample evidence that CPM solutions offer a substantial ROI. Critical to achieving a return on the CPM investment is spending time and effort to analyze the expected cost and benefits up front, then focusing organizational commitment on following through with the necessary changes. Finally, the benefits of “better decision making” can sometimes be quantified if a specific opportunity can be identified and examined. ■

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