

State of Performance Management Today

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What is Performance Management?

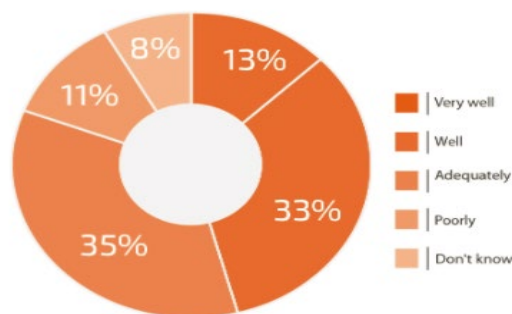
Performance Management as a term was coined in the early 2000s. In general, Performance Management includes activities which ensure that goals are consistently being met in an effective and efficient manner. In Finance, Performance Management is typically the term given to the area of technology that handles the upper-level technical functions for an organization's office of the Chief Financial Officer.

Today, this has grown to include almost everything beyond the General Ledger or sub-ledgers contained within the Enterprise Resource Planning (ERP) system. These typically include Account Reconciliations, Consolidations, Financial Reporting, Planning, Budgeting, Forecasting, Analysis, Strategic Planning, What-If Analysis, and Tax Planning and Reporting. Much of the software in use today in this area was originally developed in the early 2000s. Thus, much of the technology has been used for 15 or more years by some companies and 10 years by most companies. Today almost all companies have an in-house Performance Management solution.

With 15 years of experience and usage behind us, we can evaluate the benefits of Performance Management and see where we have come and how to progress further. Ventana Research conducted a study in 2018 about the effectiveness of Performance Management for Planning and found that only 33% of respondents indicated that their Performance Management solution managed the process "Very well".

Current tools are not working

Fewer than half manage processes well



Source: Ventana Research Next-Generation
Business Planning Benchmark Research
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This study seems to indicate that there are still many things that these software packages don't do or have not managed to achieve yet, and there are many reasons for this. The biggest reason being the underlying technology for today's Planning and Budgeting systems is OLAP or cube technology. Much of the OLAP technology was developed in the early 1990s. These cubes aggregate data across different dimensions and have very intensive processing needs.

The bigger datasets that corporations wish to analyze today tax these systems because of what is called the data explosion - when all data is aggregated across multiple dimensions and hierarchies. And, because of this mathematical problem involving big data sets, many companies are forced to split their business units or forecasting processes across multiple cubes or Performance Management applications even though they'd prefer not to do this. This performance issue is what typically feeds the biggest business issue, which is Master Data. Companies deal in different ways with Master Data and it impacts these types of systems the most.

Master Data is the concept of a master coding and organization of a company's metadata. For instance, the product structure of a company is a component of Master Data, not just the SKU or part number but the hierarchies of SKU's that become a brand or something similar. The reason this becomes such an issue for Performance Management tools is that they sit at the apex of where past sets of data meet proposed future sets of data.

A simple example might be several proposed product launches. Maybe there is a competing investment need for multiple products and the finance team needs to model out the costs and proposed revenue to do some analysis on which potential new product gets funding. That means that there would be multiple potential new SKUs or pieces of the overall product hierarchy being added but only for the planning phase, and some of them would eventually be discarded if they didn't get investment approval. This would be considered what-if scenarios but has a real impact on the Master Data process.

To keep a Master Hierarchy or List of the Organization's Product structure, there must be a governance process where there are rules to adding members of the list or changing which SKUs fall into which product families. This governance typically slows down the what-if modeling that finance is trying to do during planning, and it can create structures that are only referenced by finance when looking at prior history. Furthermore, would an organization want to waste time creating new SKUs in multiple systems when some of them might never come to fruition? This problem is magnified when you think about different divisions doing similar processes across large organizations.

The problem with today's Performance Management systems is two-fold: they struggle with large data sets and they lack flexibility around master data that finance needs compared to other parts of the business. Based on our example above, finance needs to be able to create "fake" product codes, while manufacturing only concerns itself with existing products that are being produced. As new products are launched they have the time to create those actual new SKUs and their relationships to other product groupings.



The leading software vendors in the area today are Adaptive Insights, Anaplan, BOARD, Host Analytics, IBM (which acquired Cognos in 2008), OneStream Software, Oracle (which acquired Hyperion Solutions in 2007) and Tagetik. There are others such as Prophix, however, the ones listed above are the main competitors when it comes to enterprise-level organizations.

The various vendors have different approaches to their software solutions; some have moved to the cloud from legacy on-premise software solutions, others are newer solutions built entirely on the cloud, and others are new on-premise solutions. These various approaches have their benefits and drawbacks. The categories that need to be evaluated are the legacy vendors on-premise and their cloud offerings, Cloud vendors, and new on-premise vendors.

Legacy Vendors

The leading legacy vendors are Oracle, from their acquisition of Hyperion and IBM, from their acquisition of Cognos and TM1. These vendors have the advantage of being in the space for many years and having offerings that are more developed and complete. They typically have segments within a Performance Management suite that can be used to perform and manage the different processes required for Performance Management. They are also mature enough to have had to deal with the Master Data concepts and processes.

However, these vendors also have a weakness in that their underlying OLAP software was originally developed over 25 years ago when data volumes were significantly smaller. Furthermore, I would suggest that these vendors are not solving the issues as well as they would like because they hold the predominant market share and are the largest focus of the respondents of the Ventana survey referenced above that suggests people are not happy with their solutions.

One of the reasons that these solutions might not be meeting peoples' needs is because their platforms were put together via acquisitions in the early 2000s. This means that there are different underlying components melded together with wrapper-like software. This makes the Master Data issue even larger because they must develop internal software to handle Master Data within them before they can even attempt to integrate with the overall Corporate Master Data solutions and processes.

Finally, these legacy vendors have primarily developed cloud offerings by repackaging their existing software onto single-tenant cloud offerings that are mostly hosted virtual machines of the on-premise software with a cloud service web front end. While this does have a pricing and IT management benefit, it also breaks the integrations of the underlying suite components and creates more data integration and sharing issues. While this is being addressed by the vendors today it is still a significant problem.

Multi-Tenant Vendors

New vendors have come to the market in the last 10 years and offer multi-tenant solutions built on the cloud to be offered as cloud solutions. Most of these vendors started by addressing the Planning, Budgeting, and Forecasting functions and have then sought to add on to those functions later. Multi-tenant vendors have some advantages and are typically easy to use, however, they do lack some functionality. Typically, they do not handle the consolidations side of the equation very well if at all, and multi-tenant vendors are generally not a complete Performance Management offering. Other problems with multi-tenant vendors are the lack of maturity of their products often means they haven't dealt with the Master Data issue and look at their products as a standing-alone tool for a specific purpose.

Furthermore, the architecture of multi-tenant vendors falls into two categories; those who built a solution with cube technology as the foundation of their architecture, and those who do not appear to use cube technology but mimic some aspects of cube technology using relational data storage.

The category who built their architecture on OLAP technologies run into the same problem as the legacy vendors; the bigger data volumes needed by corporations today require them to divide up the data into multiple cubes that are not always logical or functional. These vendors who use relational storage are typically limited in the data analytics functionality.

New Single-Tenant Vendors

The new single-tenant vendors offer software that was originally developed as single tenant software but sold as either cloud or single tenant. The cloud version of these company's products is often single-tenant hosted versions. These vendors have begun to change the architecture of the software, which utilizes a combination of OLAP technology with relational database data.



This architecture allows for several things; first and foremost, it starts to address the splitting of information into various segmentations. The idea being that it ingests all the data and any data transformation tends to take place only one time on the way into the overall system. This has the advantage of better leveraging sharing of parts of the data throughout the organization.

The other important aspect of this is that it creates a uniform interface to the Master Data systems and processes of the organization, allowing the system to be more flexible and accommodating for the finance team. For instance, if the data is completely clean and there are no integration issues, adding fake products is something that can be done without concern for how it impacts other pieces of the tools' functionalities or other corporate systems. Therefore, it returns the flexibility that finance needs while still allowing proper governance.

Conclusion

To determine which type of vendor is best, first think about the structure of your organization and how you want to leverage Corporate Performance Management. If you have a solid data platform with good master data controls, the avenue you take won't be data dependent.

However, if you're not in that category, the new single-tenant vendors have a lot to offer. First, they can transform the data once and use it for multiple purposes. They also allow the data to be slightly more disparate because they can reference it throughout the system, so every data element doesn't need to match 100% because of referencing and ETL functionality inside the tool.

Single-tenant vendors also offer the newest functionalities because they're in traditional development paradigms and can extend what was developed previously. In other words, they don't have to figure out new paradigms like the cloud and they've been built from scratch much more recently than their older competitors.

Finally, no matter what your data situation is, newer single-tenant vendors offer more capabilities and more advanced technology than older vendors. And they are better able to leverage the advancements in Machine Learning that are happening every day and will encompass Corporate Performance Management before we know it.

About MindStream Analytics

MindStream Analytics is an award-winning Consulting and Managed Services firm focused on helping clients utilize technology to improve business insights and decision making. With decades of experience in Performance Management and Analytics, MindStream offers services ranging from software selection and implementation, to best practices for financial planning, reporting, and analysis.