

AVANADE® PERSPECTIVE

Seattle Office:

2211 Elliott Avenue

Suite 200

Seattle, Washington, 98121

seattle@avanade.com

www.avanade.com

Avanade is a global IT consultancy dedicated to using the Microsoft platform to help enterprises achieve profitable growth. Through proven solutions that extend Microsoft technologies, Avanade helps enterprises increase revenue, reduce costs and reinvest in innovation to gain competitive advantage. Avanade consultants deliver value according to each customer's requirements, timeline and budget by combining insight, innovation and the talent of our global workforce. Avanade, which is majority owned by Accenture, was founded in 2000 by Accenture and Microsoft Corp. Avanade has more than 8,000 professionals serving customers in 22 countries worldwide. Additional information can be found at www.avanade.com.

Effective Enterprise Performance Management

Achieving success by linking operational performance to strategic goals

Enterprise Performance Management (EPM) is an integrated business intelligence solution that gives companies a comprehensive view of their enterprise. This paper discusses how many of the challenges that companies face today can be resolved with an effective EPM solution that helps them to gain insights, make faster and better decisions, and achieve a competitive edge.

Proactive. Agile. Able to respond quickly. A company needs these qualities to become a leader in today's global economy. Increasing competition, decreasing customer loyalty, and growing regulatory pressures all create a climate that favors the organization that can quickly assess performance factors, align its operations to its strategy, and get to market faster.

Companies can achieve strong financial rewards from an effective EPM solution. According to a Harvard Business Review study, for example, best-in-class companies with EPM systems achieved a 2.95 percent–higher return on assets and 5.14 percent–higher return on equity than companies without EPM.¹

To become leaders that deliver consistent value to shareholders, while increasing margins and revenues, enterprises have made significant investments in technology to monitor and manage performance. But technology and tools do not make an EPM program. An EPM program is, first of all, an integrated business process; the technology is only the enabler, and an EPM solution based only on technology is destined to fail. To understand the benefits of EPM, it's important to consider why current solutions are not all of equal value.

1) Ittner, Christopher D. and David F. Larcker. "Coming Up Short on Non-Financial Performance Measurement." Harvard Business Review, November 2003.

The Problem with Point Solutions

Most enterprises already have point solutions in place to provide valuable metrics at the line-of-business or departmental level. But as valuable as they are at providing data and insights in the areas that they address, point solutions do not deliver a comprehensive, integrated view of the entire business. They may not even share common definitions of data.

Most large companies have a multiplicity of systems with different data sets, definitions, and formats, which complicate providing a single view of the enterprise. These inconsistencies mean that data are found in silos across the organization, and because systems are designed for very specific needs at the department or lower level, the data that are tracked may not even reflect overall corporate goals. What's more, to get even a slightly broader view, data must be reconciled through secondary processing.

Consolidating the data can be time-consuming. With so many systems, there are mountains of data to sift through. As a result, the data are rekeyed as well, introducing the possibility of manual errors. And by the time a comprehensive report is generated, the information can be outdated. Thus the accuracy and reliability of corporate performance reports are thrown into question. With the needs of financial and regulatory reporting, such as Sarbanes-Oxley, reporting resources are also often strained.

Finally, there are two other serious challenges with point solutions and typical corporate performance reporting: the metrics that are tracked may not be the real drivers of shareholder value, and most corporate reporting is based on past performance. Measures of revenue, for example, look at past performance. What is needed are key performance indicators (KPIs) that reflect the actual drivers of business value.

Those drivers will vary, depending on the industry and business model. A value driver for a consultancy, for example, is billable hours, while a value driver for a retailer is the turnover in inventory. What is especially valuable about KPIs based on these drivers is that they are leading indicators that can show where a business is at the current time—so they are actionable.

Currently, most companies lack the ability to link operational performance to corporate strategy, so they can respond quickly to changing conditions. Most rely on measures of past performance and rarely link to current conditions in the market. Only 12 percent of companies, for example, link quality measures to stock returns.²

To be agile—to respond quickly and act competitively—companies need an integrated perspective of past, present, and future performance. They need a shared commitment, a common strategic vision, and an understanding of what their key business value drivers are. They need a data model with consistent definitions. They need the right metrics. They also need the tools. Companies can achieve these capabilities with an effective EPM program.

Making Enterprise Performance Management Work for You

Enterprise Performance Management (EPM) helps you plan, monitor, analyze, and manage your business more effectively by providing a comprehensive view of your enterprise. With a shared purpose, a consistent data model, real-time information, easy-to-use tools, and streamlined processes, it's much simpler to align your operational procedures with your strategy. And through increased insight, you can make faster decisions and boost performance to achieve your business goals.

Tools alone can't create an effective EPM program. To do that, you need a partner that understands people, processes, and technology. That's why many successful organizations choose Avanade.

With our consulting expertise, proven methodology, and in-depth knowledge of technology, people, and processes, we can help you create an effective EPM solution in less time and at a lower cost to achieve business success.

The Value of EPM

The returns from an effective enterprise performance management solution can be significant. If an EPM solution is implemented properly, organizations can realize an ROI in multiples of 100 percent over a multiyear analysis.³ The right EPM solution helps companies plan, forecast, monitor, analyze, and manage their business performance. It offers a set of capabilities to define a strategy, model the key drivers of success, and execute the strategy across the organization to help businesses achieve their goals and become more competitive.

2) Ittner, Christopher D. and David F. Larcker. "Coming Up Short on Non-Financial Performance Measurement." Harvard Business Review, November 2003.

3) Avanade Advisor newsletter.
www.avanadeadvisor.com/newsletter/issue1_1/ask.html

An Example of EPM in Retail

The following scenario, although it does not begin to cover the depth and breadth of EPM, gives an example of some of the benefits that businesses can gain with an EPM solution:

The senior management team at a large retailer sets a corporate goal of increasing its profitability. The company has set up an EPM program—with strong backing by the executive management—to tie operational performance to its corporate strategic goals. When it set up the program, the retailer engaged leaders throughout the organization to address the human, technological, and regulatory requirements that must be met. The retailer also set up a long-range plan to phase in the company's EPM program, so each step would build on another.

Change management is an important aspect of implementing an EPM program, so the retailer first addressed the employees in the organization, showing them how an EPM program would benefit them. The retailer's EPM implementation team worked with people throughout the organization to resolve employee concerns and to create buy-in at all levels.

The team and company leaders created an integrated data model with common definitions. For example, the term "customer," which represented an address for the shipping department and an outstanding balance for accounting, needed a single definition enterprise-wide. Other terms were similarly defined to provide a common performance language. After all parts of the organization began to work within a common data model, all of the retailer's data could be tracked back to the source to verify accuracy.

The consistency of the model not only supports reporting requirements, such as those of Sarbanes-Oxley, it also provides the critical foundation that the retailer uses to measure performance against corporate goals.

To support the EPM initiative, the retailer created an integrated technical architecture that could be expanded over time. Eventually, the financial data, operational data, and other relevant data were brought into an automated system that provides a single view of the enterprise, which decision makers throughout the organization can view from a Web portal.

For example, the Chief Executive Officer can view data about each region and store on a Web portal, and she can drill down deeper for highly detailed information. The metrics include the number of customers per day, the total sales, the amount of sales per square foot, the number of product returns, the expenses, and other key measures. If the CEO notices that product returns have gone up in one region—which is directly related to the goal of increased profitability—she can compare those figures with those of the previous two weeks and drill deeper into the data to find out what is happening. She can immediately call the regional manager—or even the managers at affected stores—to find out the reason for the accelerated returns and address the issue immediately.

Similarly, the regional manager can track the KPIs for the 50 stores he is responsible for, viewing them through the portal, and his store managers can track their own KPIs that are most relevant to overall corporate goals. His bonus and his store managers' bonuses are tied to those KPIs. This is true throughout the organization, so the key metrics are both relevant to the specific areas of responsibility and relevant to the corporate strategy.

The result is that, from the top down, at all levels of the retailer's organization, real time information is available to act upon—information that is directly tied to drivers of value. With standardized analytics and an integrated perspective of past and present performance, planning is easier. And with consistent data, the executive management team can confidently make projections for the next couple of quarters. As those projections prove more reliable over time, the company's credibility with analysts and investors will also grow.

Benefits in the Retail Example

Of course, effective EPM solutions must be customized for each business to reflect its characteristics, key drivers, strategies, and goals, but this example offers some insight as to how EPM can add tremendous value in several areas. In the scenario, the global retailer deployed an EPM solution that:

- Helps to focus and align operations with the vision and strategic goal—Everyone from the top executives to the store managers to the most junior employees focus on increasing profitability. Because they all view a single version of the key measures, they are all

committed to the goal and the company gains a results-oriented culture.

- ⇒ Provides reliable data and analysis for decision making—Senior managers can use analytics that are built into the monitoring and tracking process to receive solid business intelligence.
- ⇒ Offers a consistent process and framework to evaluate tradeoffs—For example, managers can easily weigh the cost benefits or risks in creating incentives to boost sales or pay extra shipping charges to quickly increase inventory for a popular item.
- ⇒ Enables predictive and dynamic resource allocation—Managers and executives can evaluate the status of various stores at any time to respond instantly to changes in inventory or staffing needs.
- ⇒ Links operational goals to shareholder value—Incentives are more closely tied to shareholder value creation, so rewards, such as bonuses, are tied directly to the strategic goal.

The people, processes, methodologies, metrics, and technology all work together in the measurement and management of the organization. By aligning corporate strategy with core processes and activities, the overall improvement becomes more effective. And when employees have agile, inexpensive, relevant, and easy-to-use management tools, decision making improves across the enterprise.

An Incremental Process

Even if executives see the value in an EPM solution, however, they may not know where to begin. To achieve an effective EPM solution will take time, but it can be achieved in an incremental process that ultimately will pay big rewards. The process need not be intimidating

How to Create the “Right” EPM Solution

Before they embark on a project to create an EPM solution, companies need to understand what such a project involves. EPM is well worth the time and investment it requires, but it does require both funding and commitment.

Yet enterprises do not have to “rip and replace” their current tools to achieve an effective EPM solution. EPM pulls together the mass of data from the tools that companies already have to provide a higher level of reporting and business intelligence. It includes data from back-end repositories such as data warehouses and ERP applications; from planning, budgeting, and forecasting; and from financial analyses and reporting programs. It also includes data from front-end applications like spreadsheets and collaboration tools.

But, as previously noted, EPM is not simply a matter of technology. It requires careful planning that extends to every area of the business. Because it represents an enterprise-wide, multiyear undertaking, successfully implementing EPM also requires a thorough understanding of people, processes, and technology. If companies lack that critical expertise, hiring the right consultant may be the best way to set up an EPM solution that truly fits their needs.

People

An effective implementation requires a knowledge of people. Although EPM is not change management, change management is important in creating an effective EPM program. Businesses need to provide education and training to support the change. It is absolutely critical to achieve buy-in throughout the organization. In addition, people must collaborate to define actual drivers of business value, create common definitions, and set up and manage processes.

Processes

A knowledge of processes is essential to an effective EPM solution. That knowledge also requires the ability to build an architecture that can integrate processes and workflows to deliver data that are meaningful and consistent at all levels of the organization.

Technology

A deep understanding of technology is required because few software vendors offer an integrated portfolio of EPM products. In addition, businesses do not want to replace point solutions that provide real value. They need technological expertise with heterogeneous business systems to make sure they all work together effectively.

In addition, because EPM will most likely be introduced in stages, the ability to plan an architecture that can easily be expanded is also important.

Hiring a Consultant

Many companies are already challenged handling the day-to-day operations of their business. In addition, few possess the extensive knowledge of people, processes, and technology that is required for implementing an optimal EPM solution. Hiring a knowledgeable consultant can be the most effective way to set up an efficient, effective EPM system in less time, at less risk, and at less cost. Tapping in-depth knowledge of EPM can make the critical difference between a solution that fits smoothly within a company's existing operations and technology and one that is simply another system that cannot deliver the expected value.

The Seven Keys to Effective EPM from Avanade

Based on its experience as a leader in EPM, Avanade has identified seven keys to an effective EPM implementation:

- Treat EPM as an integrated approach across all departments. EPM must focus on more than the financial performance; it must also include strong operational monitoring and reporting and tie performance to strategic goals. As a practical matter, EPM also has to support large user databases.
- Make sure that all decision makers are involved in performance management and are enlisted as both participants who will help identify key business drivers and goals and as evangelists who will convey enthusiasm for EPM. C-level executives (CEOs, CIOs, and CTOs, for example) need to demonstrate their leadership as change agents.
- Get buy-in throughout the organization. The enthusiastic participation of executives in creating support for the change cannot be overemphasized, but every employee needs to be brought into the process. Education and training to support a results-oriented culture where EPM plays a major role are important.
- Create an enterprise data model. Executives need to understand the process by which data travels and its origins. For insight to be valuable, the data it is based on must be credible, and that credibility must be verified back to the source. If the source is suspect, all resulting data are also suspect. Establishing the integrity of the data sources is a key step. Next, a company must identify which metrics most closely reflect the true drivers of the business, and everyone needs to agree on a common definition of terms and data identifiers. Companies must also establish a consistent way of modeling their data and propagating it throughout the organization. Automated processes must also be put in place to source, cleanse, collate, and report key performance information.
- Bring the data to the users—not the other way around. Make it easy for users to get access to the information they need, using familiar applications. EPM should integrate seamlessly into existing environments, such as Microsoft Office® applications and intranet portals. For an EPM solution to be successful, people have to use it, and making the information easily accessible is the key.
- Provide direct, common access to timely, accurate information with a drill-down capability. Executives and managers need both the capability of looking at key company information as a whole and the ability to drill down deeper into the data to get a detailed view of what is happening at any given time. That access to real-time, in-depth information is essential to creating an agile organization.
- Maintain consistent, well-defined data structures and hierarchies to meet management and statutory reporting requirements. Companies need an ongoing commitment to make sure the data integrity, structures, and processes are consistently followed. The entire organization needs to work from the same chart of accounts, and any new addition to the EPM solution must adhere to the same policies and practices that were used to set up the systems initially.

On the Road to Success

Done correctly, enterprise performance management can help an organization to focus on the key drivers of value as they relate to corporate strategy and specific organizational processes. EPM provides fact-based guidance for value-based decision making. Even more important, it enables a consistent process and framework for evaluating trade-offs related to investment by offering an integrated perspective of past, present, and future performance. By linking planning and forecasting to predictive and dynamic resource allocation, a company can deploy resources more effectively. EPM is a key tool for ensuring that the work employees do every day translates clearly into strategic value.

In addition, if a company has a reliable measure of its performance, its executives can easily map that result against the performance of its competitors in the marketplace—and quickly and confidently respond. With its far-reaching effects, EPM is more than tools, technology, processes, and systems. It is a framework, a philosophy, and a practical approach that can help drive business success for years to come.

Avanade

Faster, Easier, and More Effective EPM Solutions

Avanade is the one vendor that you can turn to for all aspects of EPM. Avanade understands the people, processes, and technology of EPM. It offers a proven methodology, along with the framework, services, and assets to deliver a faster, smoother, more robust implementation at lower risk and cost.

→ Business and industry acumen

- Business analysts in delivery teams
- Vertical and functional experts on demand

→ Delivery expertise

- Global presence
- Mix of onsite, offshore, and near shore resources

→ Implementation skills

- Delivery methodology
- Code-based assets
- Estimation tools

→ Vendor and product knowledge

- Unparalleled Microsoft product experience
- Mandatory premium Microsoft certification for all consultants

Note: This perspective paper contains statements that may be related to the future development and direction of Avanade, Inc. These statements may represent only current plans or goals of Avanade as of the date of publication and are subject to change without notice based on our technical and business judgment. Other company, product and service names mentioned in this document are registered trademarks or trademarks of their respective owners.