



How To Implement CPM

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Corporate performance management (CPM) is garnering a great deal of attention, as firms look to leverage technology to gain competitive advantage by focusing on critical financial and operational metrics. The standard guidance for success, such as top management sponsorship, end-user buy in and careful scope definition are part of the gospel and need no embellishment. This article is a view “from the trenches” – and offers some hands-on, practical decisions that can spell the difference between success and failure of a CPM implementation.

CPM is Different

Unlike the implementation of an operational transactional system, CPM implementations have no hard and fast criteria for success. CPM encompasses planning and forecasting, analytical reporting, understanding historical trends, and anticipating problems and opportunities.

In planning applications, the process can matter as much as the result if it focuses managers on critical factors driving their results. Benefits are difficult to quantify, and may range from logistical – less time to create a plan or report, to behavioral – increased focus, foresight and ownership. In fact, the largest ultimate benefits of a CPM implementation may not even be defined at the outset of an implementation.

While success may be hard to define, failure is not. Failures seem to fall into the following categories:

- You’ve solved the wrong problem
- It doesn’t work
- It’s too slow and cumbersome
- No one understands it
- No one likes it
- The cost outweighs the value

Based on years of experience and hundreds of implementations, let’s take a look at my top five ways to run off the road, and some advice on how to stay on track.

Crash Landing 1 – Inappropriate Level of Detail

Do you need to plan for and track sales on a daily, monthly or hourly basis? By sales rep or SKU? How about expenditures? Is the granularity the same for product costs as it is for travel? Too little detail renders the application trivial and without value. Too much and it may collapse under its own weight.

Level of detail decisions drives technical considerations such as storage and processing requirements; data issues related to availability and quality; user workload in planning and forecasting and the resulting precision and accuracy; and the degree of such intangible benefits as timeliness and level of insight.

So what's the right answer? Sadly, this is where art meets science and there is no "universal truth." My suggested approach is to ask the following questions:

- Is there a threshold that matters? Do you care about one dollar? How about a million dollars? As an easy exercise, take the annual sales and divide by the number of data elements and see if it is reasonable.
- What would you do if you knew? Anticipate decisions or actions based on insights at the proposed detail level – if you can't think of any or it would make no difference to have more summary data – rethink the choice.
- Do you need to know all the time or just on an exception basis? Some detail you only care about if it looks funky, and may be handled with seamless access to a data warehouse or ERP application.
- What does it cost in dollars, time (man-hours and elapsed), and inconvenience to get it, with the level of quality you need?

War story: A sporting goods manufacturer struggling with a cumbersome planning process and inflexible reporting from their general ledger insisted that their CPM application be built to the same level of detail as the G/L, because they "may want to look at it." The implementation failed on the "too slow" and "cost exceeds value" metrics.

Crash Landing 2 – Right Solution at the Wrong Time

Many, if not all CPM applications have a finite shelf life. Market and competitive circumstance, management, technology, customers, and priorities all change over time. A critical problem now may be solved a year from now, or may be replaced by a different problem.

The prescription here is virtually a restatement of the problem – be sensitive to time scales and the shifting landscape. Aim to give the executive sponsors and end user constituency quick results. Expect to iterate. Anticipate changes and build in the flexibility for the solution to adapt without major cost. Be very conscious of scope creep and what it can do to the delivery date.

War story: The commercial real estate division of a major bank was roiled by a dramatic increase in the number of defaults when a highly volatile interest rate

environment coincided with a number of weak regional markets. A forecasting and reporting application was built to give them loan-by-loan visibility into their exposure under different rate scenarios, and it worked beautifully. A few years later, improved markets, more stable rates, and more consistent lending practices removed the compelling need, and they pulled the plug on the application.

Crash Landing 3 – Right Solution, Wrong People

CPM applications are all about the interaction between people and data. Not all organizations possess the same degree of analytic sophistication, technical ability, or focus. Planning models and sophisticated forecasting techniques can be powerful tools in the right hands, dangerous in others.

Sensitivity to the organization's skill level is critical in both package selection and application design. To succeed the application must suit the end-users and the administrators.

War story: A small regional bank had a sophisticated budgeting application built by a consultant. The CFO could not explain the way it modeled the financial flows, so branch managers refused to own their performance targets. The application was replaced by one which traded off some of the sophistication for transparency.

Crash landing 4 – Building on Quicksand

Good CPM applications tend to “lift up rocks” in terms of data quality, and expose what lurks beneath. They provide visibility into existing data, processes, or other systems issues to which the organization is blissfully unaware.

This can lead to two problems in implementation. First, since new systems and applications tend to be guilty until proven innocent, the onus falls on the implementation team to unravel and explain faulty or inconsistent data – this may be an arduous and time consuming process. The second problem is that divergence from previously published and trusted results can greatly damage a new application's credibility, which once lost is difficult to regain.

Awareness of this pitfall is the primary defense, as well as establishing early the benchmarks for consistency. Exercise caution before trumpeting success. Trust but verify.

War story: During the initial formal presentation of a project level resource and financial forecasting application, the project's sponsor on seeing the data on a crucial project exclaimed loudly “What the h... is that?” The data was sourced from a mature, validated data warehouse in which the company had great confidence. It turned out that certain accounting transactions were not being processed properly, but at all the levels of aggregation they had seen, total values were correct.

Crash landing 5 – Slow Death

For many organizations dealing with a new vendor product or their first CPM application, it is difficult to judge the cost of administration and maintenance. In this case, the benefits and short-term implementation costs are clear; the long-term burden is not.

These costs vary enormously among vendor products and application structure. Look carefully at what it takes to make the kind of administrative changes you would expect over the life cycle of an application. Ask your vendor for references for similar applications and organizations in their second or third year of use. Ask about customers who have stopped using an application and find out why.

War story: A project-oriented, non-profit research organization implemented a full-featured project forecasting and reporting application. It worked nicely for single projects, but due to platform limitations, the final implementation was broken up into smaller pieces, which became a nightmare to synchronize and maintain. The product was replaced after a year of use.

There are of course, many more than these five paths to a failed CPM implementation. This list reflects common themes from years of experience. However, let me offer some straightforward pointers to the road to success:

- Understand the pain points and critical factors in the issues the CPM application is trying to address be it easier logistics, better information access, improved communication and timeliness, or support for critical decisions. Stay focused on making the decisions that support the goals.
- Get on the scoreboard early to build credibility and momentum.
- Aim at the appropriate level in terms of detail, complexity and effort.
- Make sure that the delivered value and the perceived value exceed the costs.
- Build in the flexibility to adapt, enhance and expand, accepting that this is a fact in this dynamic environment.

About the Author

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