

Best Practices in Selecting Performance Management Software: Finance Searches for Increased Flexibility and Control

A post-implementation look at organizations that have successfully re-engineered their performance management processes

A report prepared by CFO Research Services in collaboration with Clarity Systems



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ABOUT THIS REPORT

In September 2004, CFO Research Services (a unit of CFO Publishing Corp.) launched a research program to explore best practices in selecting and implementing corporate performance management software. Through an interview program, we gathered advice from senior finance executives who had successfully implemented CPM systems within their organizations. The suggestions and recommendations we gathered form the basis of this report.

This report presents the findings of our in-depth interviews with senior finance executives at the following 11 companies:

- Adelfia Communications
- Aetna
- Agilent Technologies
- American Eagle Outfitters
- Cendant Timeshare Resort Group
- Colonial Pipeline
- Erickson Retirement Communities
- Jane Goodall Institute
- Jim Beam Brands
- Russell Corporation
- Sodexo Alliance Group

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KEY FINDINGS

- A new generation of sophisticated database applications make it possible to combine a variety of finance functions—including budgeting, forecasting, business modeling, decision support, strategic planning, and consolidation and reporting—into a single integrated platform that allows users throughout the company to enter and extract reports from the same data pool in real time.
- A performance management system using a hybrid of an OLAP database and one or more relational databases—commonly called a “ROLAP” system—gives users more flexible tools to analyze financial data, while preserving the ability to integrate text notations and itemized transaction information. This speed and flexibility makes analysis easier and more reliable—and gives users more room to apply analytic intelligence when explaining their company’s performance.
- The core motivation for adopting new performance management software is the same for many companies: a desire to demonstrate with real data how employee’s decisions contribute to the company’s overall strategy, and to make congruent the goals of all the stakeholders within the organization.
- Some companies that have decided to overhaul their performance management systems are responding to the Sarbanes-Oxley Act's demands for a stronger audit trail and a higher standard of data integrity. The common platform and flexible database structures of performance management systems help companies assign accountability for data reporting to particular individuals, which makes it easier to trace any computation to its source. At the same time, the departure from complex spreadsheet linking formulas makes both information producers and reviewers more comfortable with the numbers.
- Because IT often doesn’t understand the budget process and performance management, the finance team must participate in the technology discussions when a company adopts a new performance management system.

CHAPTER 1: CPM SOFTWARE—TRANSFORMING FINANCIAL REPORTING BY EMPOWERING USERS

A new generation of sophisticated, Web-based database applications is changing the way companies look at financial reporting. These corporate performance management applications combine a wide variety of financial functions in a single suite, allowing users throughout the company to enter and extract reports from the same data pool in real time. Faster and easier to use than traditional spreadsheets, CPM systems offer improved information integrity and flow, and, ultimately, enable users to develop analytic approaches tailored to their companies' needs.

To manage construction on an oil-and-gas delivery system, you have to like to travel—and not always to places familiar from tourist handbooks. That means a lot of miles logged on back roads and a lot of time spent in places where Internet connections—if they exist—are not always fast and reliable.

Many companies have found their financial reporting has been transformed by performance management software.

Colonial Pipeline is a transport company that delivers gasoline, diesel fuel, and other petroleum-based fuels to communities and businesses stretching from the Gulf Coast to New York Harbor. Its 50 construction managers travel the 5,000-mile system—running projects that range from pipeline expansion to system integrity improvements, to road and river crossings. Snail's pace E-mail connection times were a major problem for Colonial before it put its managers and everyone else who uses its financial data reporting system on a new Web-based platform two years ago.

Some of the facilities from which the construction managers found themselves forwarding their monthly capital expense reports “were really slow,” recalls Kelly Nodzak, manager of shared systems at Colonial. “They don't even have T1 lines out there—they're on phone lines.” On top of that, Colonial's old homegrown COBOL-based AS/400 system dated from the 1980s and didn't allow managers to work offline. But with the new system, they can simply download a template, add in the data on their laptops—“in their truck, if they want,” Nodzak says—then reconnect and upload it. “You don't have the delay of retrieving and sending each time.”

The new performance management software Colonial adopted is a combination of relational databases and a multidimensional OLAP (online analytical processing) database, all on a Web-based platform. It collects data from 150 users, including those construction managers and finance staff. Because it's not an old-fashioned batched system, it can consolidate all the data into a report to management in minutes instead of overnight, so that last-second corrections on the morning the report is due don't throw the delivery schedule off by another day.

Best of all, says Nodzak, the people in accounting and budgeting can update and roll forward information just as easily and quickly for other types of reports as well. That means they can drill down to the location, district, department, or corporate-wide level to provide real-time information, as needed, about the company's performance that's tailored for users at any of these levels.

Many companies have similar stories to tell about how their financial reporting has been transformed. Corporate performance management used to be one of those things every company had—but didn't always know it had. At most companies, the components include budgeting, forecasting, business modeling, decision support (including dashboarding, traffic lighting, and balanced scorecards), strategic or long-range planning, and consolidation and reporting—along with the security measures needed to protect the data. Other functions that are often grouped with these as CPM include: activity-based management, Six Sigma, economic-value-added (EVA) incentive programs, the human resources information system, compliance, business intelligence, workflow, and approvals.

Until a new generation of sophisticated database applications was introduced and became available on Web-based platforms, however, many companies never thought of these functions as part of the same overarching system. Now, it's possible to combine them all into one suite and, with some vendors, into a single integrated platform that allows users throughout the company to enter and extract reports from the same data pool in real time.

But the advantages run deeper. A simple spreadsheet-based system of financial reporting is similar to operating on multiple databases—one per user, in fact—which for large companies means that software must be installed, maintained, and upgraded on perhaps hundreds of PCs. It also means a greater likelihood of inaccurate reporting.

CPM systems running on a common platform eliminate such problems, since all users work off a single data warehouse; they also tend to let information flow more freely within the organization, breaking down the silos that departments and divisions set up to protect “their” data from others. At cable giant Adelphia Communications, users work off an integrated OLAP decision-support systems. They also tend to let information flow more freely within the organization, breaking down information silos—and assuring that the process won't turn and reverse. The finance department, too, can devote far less time to gathering data and more time to analyzing it.

Meanwhile, a hybrid of an OLAP database and one or more relational databases—commonly called a “ROLAP” system—gives users a more flexible tool. OLAP allows them to perform complex computations very fast. Relational databases, on the other hand, allow users to integrate the text notations and the aggregated transactional information most commonly found in the planning of employee-related expenses, fixed-asset additions, debt-instrument additions, and even supporting detail for key line items that require a zero-based planning approach (e.g., travel, professional fees, dues, and subscriptions). This provides a single repository for all of the company's performance management components (see Figure 1, page 10).

“OLAP is a bit like when we were moving systems off the mainframe computer due to the advent of the PC,” says Jim O'Connor, formerly IT operations and OLAP supervisor and currently integration design engineer at Adelphia. “OLAP is empowering users in just the same way.”

Faster and easier to use

Speed makes a huge difference. Robert Cox, senior director of financial planning and analysis at Erickson Retirement Communities, says that adopting a hybrid ROLAP system that combines an enterprise resource planning (ERP) system and Essbase has allowed users to “load some source data from the ERP [into Essbase] and it basically does the aggregations, calculates your metrics—all of these things on a scheduled basis. Then when people need the information,” he continues, “it's blisteringly fast to get it. Before, you'd submit it before lunch and when you came back in the middle of the afternoon, your report would be ready. Running a simple report out of an ERP system that had to go through multiple departments and multiple time periods could take several hours and be a batch process. Now, the reports run in seconds.”

Vendors have developed simple and intuitive front ends for CPM systems, resembling the Excel spreadsheets that they replace. “It's like Excel on the Web,” says Greg Johnson, financial analysis director at insurance giant Aetna, which recently converted from a system largely based on E-mailing spreadsheets back and forth to a combination of OLAP and relational databases from Clarity Systems. Together, these enable the finance department and its counterparts in the company's various divisions to create customized reports more easily than in the past, making the company less dependent on help from the information technology desk.

It's now possible to combine a number of related corporate performance management functions—including budgeting, forecasting, decision support, strategic planning, reporting, and more—into a single integrated platform that allows users throughout the company to enter and extract reports from the same data pool in real time.

When deciding to go ahead with a corporate performance management overhaul, top executives need to make sure their early decisions make it easier, not harder, to expand the system and add users in the future.

GETTING STARTED

Moving your company's budgeting, general ledger, and other financial reporting systems to sophisticated databases operating on a Web-based platform is a major step. But for most companies, it's just the first step in a progression that could see more and more data applications moving into the new environment. In deciding to go ahead with a corporate performance management overhaul, top executives need to make sure that their up-front decisions make it easier, not harder, to expand the system and add users.

Lessons learned by companies that have already gone through the process include:

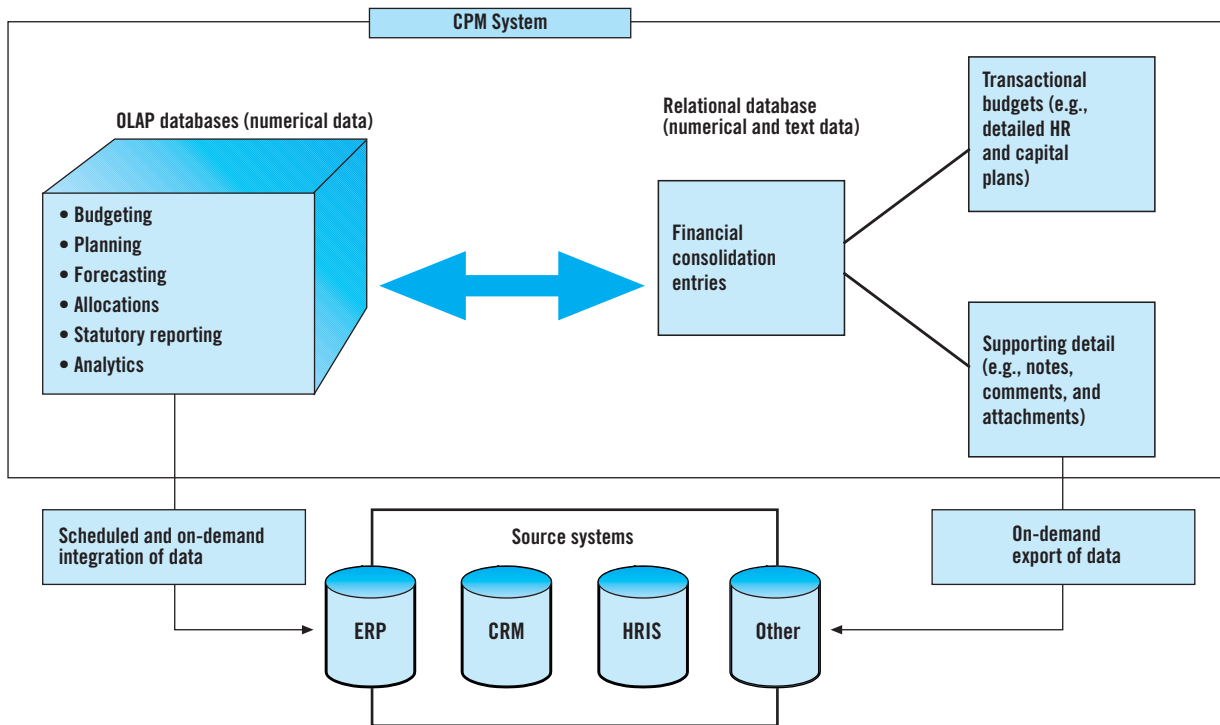
Process

- **Take small steps.** Don't try to do too much, too soon. Many companies start with budgeting—the single most critical financial activity—which can serve as the hub of a system that expands to include other activities as well. But even budgeting itself can be broken into sub-components such as HR planning, capital planning, expense planning, revenue planning, and balance sheet and cash flow forecasting. Many companies will choose to start with P&L planning to get a quick, early “win” for their new system by tackling the piece that takes most of their time and is the fastest to integrate.
- **Bring your users into the planning.** Find out what they want to be able to do on a new, Web-based system, and build their comments and suggestions into the vendor selection process. And include users of your company's business intelligence systems—they might find advantages to using your CPM databases as well.
- **Take great care in selecting a consultant.** Avoid those with extensive technical background but little experience in the finance area. Ideally, your consultant will understand finance and database modeling.
- **Take plenty of time in designing the system (“blueprinting”) and planning the “go-live.”** In particular, make sure your data is cleaned up and the hierarchies that organize it are firmly in place before you replicate them into the new system. And keep top management informed each step of the way, in case a change in direction becomes necessary. Often a consultant will be able to present a few alternative design approaches. Build a prototype to make sure that the design will handle your reporting requirements, allocation methodology, and user-input views, and verify that user responsibility can be assigned the way you need it to be.
- **Keep your database bite-size.** A large OLAP cube can quickly become too big to operate quickly and efficiently. Implement partitions that break the cube up into individual units for different functions before going live—not after.
- **Plan to add more users sooner rather than later.** The point of Web-based CPM is to empower users. If it does, the demand for access will only grow.

Application

- **Keep it simple.** In particular, make the interface as much as possible like those of systems the users are already familiar with, such as an Excel spreadsheet.
- **Test vendor candidates with real business cases.** This will give you a clear idea of how they address the specific needs of your company's users. Make sure you see enough of your own business case demonstrated to be comfortable with the vendor's approach.
- **Look for single integrated suites that meet your business requirement.** A single integrated suite means one installation, one interface to learn, one application to maintain and upgrade, and no requirement to perform complex mapping between independent applications sitting on different database technologies. It also assures that all information users are accessing all information from one common source. A single integrated suite also means a shorter delay before adopting additional performance management components, since you already own and are trained on the technology.
- **Look for the vendor to use the best database for the process you are looking to solve.** OLAP databases are great for performing complex calculations, making changes to your organizational structure, and achieving rapid response times. Relational databases are optimal for the transactional components within the performance management process.

Figure 1: OLAP and relational databases offer flexibility and high performance



The speed and flexibility offered by a combination of OLAP and relational databases make analysis easier and more reliable—and gives users more room to apply analytic intelligence when explaining their company's performance.

That means greater freedom for users to stretch out, developing new analytic approaches tailored to their company's specific, evolving needs. Some companies have used their new capabilities to develop new charge-back models for pricing the overhead costs of, for example, real estate or information technology's contribution to their product offerings. The deeper-drill analysis that they can do with a combination of OLAP and relational databases has also helped users to develop multi-year budgeting models that quantify an individual salesperson's contribution to the bottom line. That helps in making decisions about hiring and firing, and which market or geographic sectors deserve the most attention.

The net result: more accurate and reliable data, greater ownership of data for its users, and greater room for users to apply some real analytic intelligence in telling the story of how the company is performing. "The ability to retrieve data, look at it, decide if it is or isn't what you want, modify it, retrieve it again—just really changes the dynamics of how the work gets done," says Erickson's Cox, "because you're no longer waiting for information. I think that allows people to be a lot more creative in their processes and try, through trial and error, things that they would never have even tried to do in the past."

CHAPTER 2: THE BUSINESS RATIONALE

The benefits of CPM software aren't limited to the finance department; companies are adopting these systems for broader business and organizational reasons. CPM systems not only help companies adapt to changes that come with rapid growth, a shift in the company's focus, or increased regulatory scrutiny—they help companies show employees where they fit in the overall financial picture.

A common platform for everyone who reports financial data has been a Holy Grail of corporate finance departments for years. But companies that have adopted cutting-edge CPM software systems do so for broader business and organizational reasons as well.

Companies that are expanding, either internally or through acquisition, like the ability to absorb a range of different reporting systems onto a single platform, giving them a complete and accurate picture of the new organization. “Any time you make acquisitions, you’re going to bring companies to the table that have different software systems,” says Dan Peterson, COO of the international division at athletic clothing manufacturer Russell Corporation, which in recent years has been growing by buying companies that make other types of sports equipment (see “Russell Corporation: Performance Management Keeps Pace at an Acquisitive Company,” page 22). “We were looking to have a better performance management software system that could quickly be applied to new acquisitions.” Russell has built a Web-based CPM system around a suite of Hyperion database and analytic products.

Cendant Timeshare Resort Group, a division of the big travel and real-estate services company, is exploring the possibility of creating a more sophisticated CPM suite to replace what is essentially an Excel-driven reporting system. One reason, says Michael Duncan—vice president and controller of the company’s vacation ownership business—is the requirements of the resort group’s legal department, which must obtain registrations from state real-estate commissions to make sales or to sell to customers from certain states. To budget its own operations accurately, the legal department depends on the sales team to create a consolidated sales plan that includes reasonable projections of how many deals they will close in each state—and how many registrations will be needed to cover all these deals. “We’ve got to be sure that legal isn’t putting together a budget in a vacuum,” Duncan says.

The fact that the common platform can accommodate more than one type of database—both OLAP and relational and, in fact, multiple OLAP and multiple relational databases—attracts companies that find themselves evolving from a rapid growth phase to a more P&L-conscious stage, because it gives them more accurate, closer to real-time reporting than they had before. This allows them to keep better track of where profits and losses are coming from within the organization—whether from business units, sales reps, cost centers, or from geographic locations.

Cable operator Adelphia was growing fast until three years ago, when it entered bankruptcy in the wake of a major accounting fraud scandal. Prior Adelphia management emphasized subscriber growth only—it didn’t focus on profitability. With the company now attempting to emerge from bankruptcy, the new Adelphia management’s emphasis is on revenue and profit by tracking where the money comes from and where it goes. “That changes the whole philosophy of how you do reporting and the way you present data,” says O’Connor. “Now, the highest priority that we have is to get the information out to all the users, because they’re the ones who are creating the information.”

The corporate accounting scandals of the past several years, and the response to them from lawmakers and regulators, are also pushing companies to sharpen their financial reporting capabilities, not to mention their data security. While many large

A common platform accommodates more than one type of database—both OLAP and relational databases, or multiple OLAP and multiple relational databases—which gives companies more accurate, closer to real-time reporting.

Some companies have adopted CPM systems in response to increased regulatory demands, because they can provide a stronger audit trail and a higher standard of data integrity.

companies started adopting new CPM systems before Sarbanes-Oxley became law, they were often responding to what they already perceived to be a sea change in investors' and authorities' attitudes, internationally as well as in the United States.

Others that have decided to overhaul CPM more recently are responding directly to Sarbanes-Oxley's demands for a stronger audit trail and higher standard of data integrity. Some auditors are now telling companies that they will not sign off on numbers produced through Excel worksheets due to concerns over data integrity. The common platform and flexible database structures of CPM help them to assign accountability for data reporting to particular individuals at each level of the reporting cycle—making it easier to trace any questionable computation to its source. The departure from complex spreadsheet linking formulas makes both information producers and reviewers more comfortable with the numbers.

As part of a larger CPM overhaul, Sodexo Alliance Group, the food and facilities management services company based in France, is now implementing a new software tool that allows it to track who “attests” to making decisions that lead to expenditures throughout the company. According to David Scanlan, SVP of finance in the Corporate Services and Vending division of Sodexo's North American subsidiary, “One of the things that Sarbanes-Oxley has done is, for all the decisions that you've made in the past, you now have to be able to demonstrate that first of all, you made them, as well as when you made them, whether they were within your policies and procedures, and whether they were made at the appropriate level.”

Even without prompting from Sarbanes, “control is a big issue,” says Irvin Andre Alexander, CFO at the nonprofit Jane Goodall Institute, which adopted a Clarity system using a Microsoft Analysis Services OLAP calculator earlier this year. “In the not-too-distant past, you would always pass out Excel spreadsheets and tell people, ‘Only enter data in this area,’ and then you'd try to roll up all of the numbers. And invariably, someone had messed up your spreadsheet and you had to go in and debug it. So to be able to control and distribute data to certain users, and to allow certain users to see information while restricting access to others, was an absolute essential.”

Better attestation, too, would be an important goal even without Sarbanes, Alexander adds, because it enables the CFO to figure out more easily where inconsistent or obviously incorrect figures come from. “It was a high priority item to have a reporting structure in place where the manager submits the budget to the vice president for approval, and for him to submit it to me when he's done,” Alexander says. “One of the problems with our last system was that we could assign that responsibility at the department level, but not to sub-users. So I could assign responsibility to, say, the department vice president or the three managers underneath. With the new system, that problem has been resolved.”

It's not just financial numbers that are easier to keep consistent with a common-platform CPM system, but the “language” that users employ in creating them. That's because most new systems include a front end enough like a typical Excel spreadsheet program that most business professionals can use it easily.

But at many companies, a single person still holds the crucial knowledge about how the budget, general ledger, security, and forecasting processes are organized electronically. The users who actually participate in creating the budget, for example, merely create spreadsheets—often replete with their individual quirks—and send them on to the person they report to. With a common platform, the circle of those who are really familiar with the system widens, so there's less worry about what will happen if one crucial person leaves the company.

“We could get the information out of the system all right. That wasn’t the problem,” says Don Rodgers, corporate controller of Jim Beam Brands—the maker and distributor of distilled spirits—which depended on an OLAP database alone until it adopted a new CPM structure early in 2003 (see “Jim Beam: Faster, More Reliable Numbers Permit Better Long-Term Planning,” page 20). “It was limited in the people who could use it,” Rodgers says of the old system. “The six people I have in product reporting could do things with Essbase. But when you got to a sales guy, he couldn’t. Now, all of the analysts that we have in the company have access to that information.”

But in the end, the core motivation for adopting new CPM software is the same for many companies: a desire to demonstrate with real data how employees’ decisions contribute to the company’s overall strategy and to make congruent the goals of all the stakeholders within the organization. Corporate and investor cultures that prize value creation and a steadily rising ROI above all else demand uniform, accurate data reporting—updated as closely as possible to real time—plus the ability to slice and dice that data in an infinite number of ways. Companies want to be able to tell investors about the ROI of everything they do, from travel-related expenses to a new business acquisition.

The core motivation for adopting new CPM software is the same for many companies: a desire to demonstrate with real data how employees’ decisions contribute to the company’s overall strategy, and to make congruent the goals of all the stakeholders within the organization.

That’s a lot easier when they have the ability to deeply analyze a set of numbers with the assurance that all those numbers come from a single snapshot of the organization and aren’t being re-keyed by multiple, possibly mistake-prone, sets of hands. Increasingly, companies are giving their finance departments the ability to create reports and other tools that enable them to expand their analytic capability—reassigning such tasks from IT groups or external providers.

“Our system is 100% customized,” American Eagle Outfitters’ Lisa Bechtold says of the CPM software that her company purchased from Clarity Systems in 2003. Clarity built the relational database the company implemented for budgeting, then taught a four-person team within the finance department to develop the Essbase templates that are the front end. Along with Clarity and with some help from IT, American Eagle needed about four months to develop the necessary templates, says Bechtold, who is the company’s director of financial reporting.

CHAPTER 3: THE IMPLEMENTATION CYCLE

Companies that implement CPM systems successfully enjoy the support of top management, encourage ownership of the new systems among their users, and proceed at a measured pace. The flexibility of today's CPM software eases the implementation process by guiding you through many of the process decisions, but companies tend to approach CPM overhaul as a long-term project.

Conceiving and building a new CPM software system breaks down into four stages, say executives interviewed for this report:

- **Selection.** Choosing the vendor for your databases and front-end interface, plus a consultant to facilitate assembling the pieces.
- **Blueprint.** Figuring out how the parts are going to fit together.
- **Development.** Assembling the parts and training the users in the new financial reporting process.
- **Go-live.** Launching the new system.

Each part of the cycle proceeds more smoothly and successfully if a few principles are understood from the start:

Top management support is essential. Unless the prospective users of the system all agree on the need for a new CPM structure, getting them to use it after it's installed will be difficult. Getting buy-in starts with top management.

So does spelling out the new system's role in the company's long-term plans. "You need to have people on the team who have the vision of where you want to go," says Russell's Peterson. That's especially important given that most companies do not implement their CPM solutions all at once—most start with, say, budgeting, then move on to another application such as reporting or forecasting. The order of go-lives has to fit in with the company's evolving priorities, which top management knows best. A multi-currency reporting capability, for example, may not be important for a company with operations only in the United States—unless, of course, management is contemplating an acquisition in Canada or Mexico.

Finance must guide IT through the technology evaluation. The budget process and performance management are not functions that IT typically understands well. So IT tends to fall back on its experience with implementing enterprise resource planning (ERP) systems when implementing CPM systems. But performance management is fundamentally different than ERP, most notably in the database technology employed—OLAP, rather than relational databases. IT is still critical to making sure the application's technology does not conflict with the organization's existing architecture, providing a comfort level that the application will be able to integrate with source systems—such as the ERP system—and calculating the hardware component of the expenditure. But the finance members of the evaluation team should participate in the technology discussions, both internally and with the vendor.

Encourage a sense of ownership among the system's users. Traditionally, the IT department or an outside consultant decides which databases and analytic systems a company should acquire—not the business unit managers, finance officers, and analysts who actually use them. But the purpose of hybrid database systems running on a common platform is to give users better access to better data. That won't happen unless the design of the system incorporates their needs and, once it's in place, users can create and generate reports themselves.

Because IT often doesn't understand the budget process and performance management, the finance team must participate in the technology discussions, both internally and with the CPM system's vendor.

The implementation process moves along quickly and effectively if users need to spend less time cleaning up the initial data sets and creating the hierarchies that facilitate data storage and retrieval.

Take your time. The length of time to complete a CPM software overhaul depends on each company's circumstances: the complexity of the system it currently has in place, the number of users it wants to give access to, and the functions it wants to include on the system initially. Many of these decisions can take management into unknown territory. Unless it builds in enough time for correcting a misconception or two along the way, management can find itself fighting to keep to schedule—or allowing some design flaws or erroneous calculations to creep in past completion.

The process moves along more quickly and effectively, of course, if users need to spend less time cleaning up the initial data sets and creating the hierarchies that facilitate storage and retrieval of data. Aetna was able to carry out its CPM overhaul in just eight weeks, says Johnson, in part because it started with relatively clean and well-ordered data sets. The result was that the system “was pretty intuitive once the users started using it. They immediately popped into a screen where they recognized their cost-center hierarchy or the account codes that they were budgeting for.”

But the nice thing about today's CPM software, users say, is that its flexibility makes implementation less of an all-or-nothing proposition. Some companies install budgeting and forecasting applications on the Web-based platform first, leaving other functions for later. Others start with their long-range plan. Some consider payroll planning a must to include right from the start, while others don't. But the vast majority look upon CPM overhaul as a multi-year project—one best taken in stages.

Companies also have the option of integration—buying all or most of their applications and database software from a single vendor—or picking and choosing each component separately. Because most start out by placing only one or two key applications on the new system, they generally do not decide firmly about this up front. But even large companies begin with a fairly integrated approach, because they find it's easier to get started that way.

CHAPTER 4: FIRST STEPS—SELECTING THE VENDOR AND CREATING THE BLUEPRINT

Companies initiating CPM overhaul should keep the needs of the systems' users squarely in their sights when choosing CPM systems. Other important decision-making criteria include the amount of support offered by the vendor, the product's scalability, security, and their own ability to maintain the system.

Typically, large companies collaborate with an outside consultant to choose and implement a new CPM system. But these days, most companies shy away from turning the entire task over to a consultant or vendor, even if it can execute the project from beginning to end. Being an active participant in the implementation process provides the company and more specifically the finance department with a clear understanding of what the system is capable of doing beyond what has been deployed so far and places them in a position to be able to maintain their existing setup without being dependent on the vendor or consultant. The process generally starts with the selection of a project team, usually including the controller or CIO, representatives from each layer of finance as well as the budget function of each division, plus IT.

Most companies that have made a CPM transition favor providers that can furnish a front end that looks as much like a standard spreadsheet as possible.

The project manager for Aetna's planning and forecasting system overhaul reported directly to the head of cost management under CFO Alan Bennett. At Sodexo, worldwide headquarters got involved in the CPM transition, even though it only affected the company's North American operations. Heading up the transition were John Bush, North American CFO, and Philippe Taillet, CIO of the French parent. Under them was a steering committee that included each divisional CFO, the corporate controller's group, two senior IT executives, and a decision-support group from corporate headquarters. And under the steering committee were teams for development, testing, and quality assurance.

At Erickson Retirement Communities—a rapidly growing company that expects to nearly double its size from 11 to 20 communities around the country in the next few years—senior managers were disappointed with the results when they put in place a new ERP system in 2000, says Cox. “The reports we were getting were just very plain vanilla, traditional financial statements, not the kinds of insightful information they were looking for,” he recalls.

When Jeff Ferguson—who had headed Marriott's empire of 150 senior living communities—joined Erickson as president of operations a year and a half ago, he pushed for metrics that would provide robust performance comparisons between the campuses. After a vendor search that narrowed down to Hyperion and Cognos, Erickson purchased Hyperion's Essbase. All data collected through the ERP system is now dumped into their OLAP database for analytic work according to data load routines that Erickson designed in-house. The company also created its own Web forms for budgeting, which factor in business rules that enable the system to generate standard reports from the database.

“With the help of one Hyperion consultant, who was only here a couple of days a week, we were live using the tool for budgeting—and also for a significant amount of management reporting—in less than six months,” says Cox.

Strong vendor support is crucial, however, and most companies that have made a CPM transition favor providers that can furnish a front end that looks as much like a standard Excel spreadsheet as possible. According to Nodzak, finding a familiar user interface factored into Colonial Pipeline's decision. Each of Colonial's users previously maintained his or her data on individual Excel spreadsheets, and may have had to rekey it to place it on the company-wide CPM system. “We ended up

choosing a system that's enough like Excel that it eliminated all that double-keying," says Nodzak.

The same was the case with the analytic system that Erickson designed in-house, says Cox. Among other things, he notes, this made for quick training: "If you're an Excel user, and can use the Excel reporting tools, which take a couple of hours of practice to get comfortable with, then you're up and running."

Because part of the objective for many companies is to give users wider ability to access and create reports and to analyze data deeply, it's essential to find out what those users want.

Since part of the objective for many companies is to give users wider ability to access and create reports, and to analyze data deeply, another essential is to find out what those users want. "One of the reasons we've been so successful is that we actually interviewed our employees to find out what they like and what they don't like," says Colonial Pipeline's Nodzak. The company used the information it gleaned to create a requirements document for the five software-vendor finalists. It then gave them real data from each area covered in the requirements document, and asked them to show how they would create functionality along the lines the users had requested.

The danger, of course, is that the interview process can produce wish lists—rather than practical lists of the most essential features—if it isn't conducted carefully. At one company that went live with a new CPM system last year, the executive in charge notes that top management's chief request was for a reporting system it could use easily to look at key performance information in real time. The development and implementation team made sure the vendor created such a system—which top management has rarely used. "They're not going to go sign onto the system and get the information," the executive says. "They're still going to call somebody!"

In addition to deciding which functions to include in its Web-based CPM suite, the project team must decide how much room to leave for growth. For smaller companies, this is often a decision they can put off. Larger companies must give the issue more immediate consideration. Scalability became a problem at a large, New York-based law firm that revamped its CPM system in 2003. The controller initially wanted to limit the number of users who could access the analytic features of the system for its budgeting and forecasting application. Other users were asked to report their data in Excel, which was then imported into the OLAP database.

Late in the implementation process, the controller changed his mind and decided to let all the firm's information services managers use the application, because he had concluded they had the technological expertise to do so. But that meant buying more licenses to accommodate them.

Security concerns, too, loom large in developing new CPM systems. The fragmented nature of older applications, based strictly on Excel spreadsheets, made it harder for unauthorized persons to steal data that could give them an overview of the company's confidential information. But with more and more financial data streaming into one or two centralized databases, companies sometimes need to take a microscope to their user groups and decide who gets to see what (see Figure 2, page 18).

At American Eagle Outfitters, users of the Web-based CPM system it introduced in December 2003 include budget managers at all of the company's departments and cost centers. The finance department provided each with the templates they needed to do their budgeting, but coded restrictions into the system that prevented them from seeing, for example, payroll or travel expense figures from any other department. "With 100 users, we had to apply and develop all that security behind the scenes before we went live," says Bechtold.

Most companies attempt to strike a balance between the need for customized features and the cost and complexity of customization.

Security is just one of a series of decisions on customization that every company must make. Most companies attempt to strike a balance between the need for customized features and the cost and complexity of customization. “You go with an out-of-the-box solution when a product is out there and it’s mainstream acceptable. We only want customized [systems] where absolutely necessary—where our business process is changing or there’s just something where the capability and the technology are not meeting. But, in any case, the decision is driven by total cost of ownership,” explains John Kohl, senior IT manager of finance and enterprise reporting systems at Agilent Technologies.

Figure 2: CPM security is multilevel

Questions to ask	Implementation considerations	Security Level
Who can log in?	System user/single sign-on	System
What are the users’ organizational responsibilities?	Administration, finance, HR, IT, etc.	Database
What are the users’ account responsibilities?	Account names	Database
What are the users’ usage requirements?	Ability to read or write data; necessary templates	Templates

Many companies customize systems because they can’t necessarily get the data extracts they need from an off-the-shelf system. “Where we’ve spent most of our time customizing has been in the data extracts from our systems,” says Kohl. “So even though we’re using common, off-the-shelf extract modules—things that actually reach into SAP, Oracle, BI, and all of the common transaction-processing systems—we’ve purchased the extract modules that will extract the data we need. Agilent may have implemented those a little bit differently than the extract modules are expecting.”

It’s often hard to tell how unique your company’s needs are until the new system is already on board and operating, says Andy Housch, manager of business and systems integration at Russell. The decision depends partly on how complex your company’s budgeting, forecasting, and other financial processes are.

“The more similar the divisions are as part of the corporation, the easier it is to take something off the shelf,” he notes. “But selling Jerzees tee-shirts and sweatshirts is different from selling Spalding basketballs. And therefore, the planning software for each has to be somewhat customized in terms of key cost elements.”

Doing so effectively means not just knowing your own company’s needs, but understanding your vendor in some depth as well, says Housch. “Did they write it so that it’s easy for us to add the customization to it that we truly need?”

CHAPTER 5: FOLLOWING THROUGH— DEVELOPMENT AND GO-LIVE

Top priorities in developing a CPM system include allowing adequate time to identify and repair bugs, and designing systems that will accommodate the company's volume of data, extraction from source systems, and complexity of processing. Good training programs—including tailored documentation—can help identify problems before the system goes live.

Implementation is where the desire to give ownership of the CPM system to the finance department and other users is realized. Assuming careful preparation and a generous timeline, it's also the phase where the CPM project team can adapt to changes in direction from management that affect the new system's design and keep any glitches from getting through to the finished product.

The first priority, then, is to build in enough time to accommodate any such problems and to test the new system with a cross-section of users before going live. "If you're not ready, or you've made a mistake or underestimated something, go back and redo it!" says Sodexho's Scanlan.

Another potential stumbling block is the OLAP database itself. Often, companies take too little time anticipating the volume of data and the complexity of the processing, and end up installing a database whose multidimensional "cube" is too large and unwieldy. Nodzak says Colonial Pipeline had to partition off smaller cubes that corresponded to different functions when a unified system proved unwieldy.

A good training program can help spotlight such problems before they arise. Most large companies are opting for a train-the-trainers approach, in which a few key users in the finance department receive instruction directly from the outside vendor or consultant that installs the CPM system. They then train the company's other users in-house. This takes anywhere from a few hours to two to three weeks.

At larger companies like Sodexho and Aetna, these key users often participate in writing the system manual as well. This makes the most sense, says Aetna's Johnson, because the vendor's or consultant's instructional books usually cover a wider array of functions than the company needs its people to know about. Creating its own "tailored documentation" allows the company to zero in on the areas where it wants its users to be most proficient.

Aetna expects to have up to 500 users on the system it recently implemented, with the vast majority trained by their colleagues. One reason this works is that the analytic front ends now available for these systems have become simpler and more user-friendly.

Training eventually shades into preparation for going live, however, and this can be a longer process. Aetna gave its initial set of users two to three weeks of "play time" on the new system before their work became actual live output. At Sodexho, the project team did parallel testing prior to implementation using their OLAP database and SAP as well as the company's existing legacy system. Even with good training, it takes several months for users to become accustomed to a new system, says Scanlan.

Companies implementing new CPM systems should carefully consider the volume of data and the complexity of processing to avoid installing a database whose multidimensional cube is too large and unwieldy.

Interviewees report shorter cycle times for both historical and forward-looking analyses.

JIM BEAM: FASTER, MORE RELIABLE NUMBERS PERMIT BETTER LONG-TERM PLANNING

“What-if” analysis was an especially important capability to Jim Beam Brands when this producer and distributor of distilled spirits decided to revamp its corporate performance management system in May 2003. The company, a subsidiary of Fortune Brands, distributes 3,000 products across all 50 states and overseas. Keeping up with demand for its products requires keeping tabs on at least 50 major categories at all times—something that was difficult to do with Excel spreadsheets and an aging AS/400 platform.

Jim Beam had purchased a new, OLAP-type Essbase calculator from Hyperion two years earlier, but needed an easy-to-use OLAP front end, a relational database for supporting detail, and an analytic package to go with it. New controller Don Rodgers opted for Clarity Systems’ Clarity Performance Management, which is Web-based and has an interface that closely resembles Excel. The result was an easier-to-use system, greater ability to harness Essbase’s computing power, and wider availability of the results.

The benefits were especially visible in Jim Beam’s flash reports—monthly reports gleaned from numbers its salespeople posted on demand for key brands. Under the old system, each salesperson faxed his or her information to a regional office, where the regional executive entered it into Excel and sent it to the divisional headquarters. There, it was compiled with others and sent on to the corporate mainframe. Pulling all this together into a single report took four full days; the final report didn’t arrive on management’s desk until the fifth day.

The new CPM structure permits salespeople to input their numbers directly into the Clarity interface. “So now we have our flash sales at noon on the second day,” says Rodgers. “We cut that process in half—and the sooner you can get that type of information on how the month did, it helps you in your forecasting and in understanding what’s going on.”

Jim Beam has found other uses for the system as well. The marketing department now uses it to generate five-year forecasts for each brand: what price increases the company can expect, what volumes of sales it can attain. Sales staff turn in monthly forecasts, too, along with their flash reports. With the numbers all appearing on one database report instead of dozens of individual spreadsheets, it’s easier for divisional and regional managers to check back if those numbers appear to be too heavy or too light. The resulting marketing plan, in turn, enables Jim Beam to determine its capital spending—a critical decision, since it takes four years to make and age a batch of bourbon, for example.

Because marketing can produce faster, more reliable marketing forecasts that are more than just back-of-the-envelope exercises, getting everyone—sales and marketing, the manufacturing side, etc.—to buy into the capital plan is much easier, Rodgers says. “Before, these things would take a month maybe to compile,” he recalls. “By the time we got it all compiled, another month had gone by and everybody would be saying, ‘Well, that was last month’s forecast.’ That’s all changed now.”

CHAPTER 6: AN ONGOING PROCESS

The power and flexibility of CPM systems are inspiring companies to take their CPM software further. Companies are not only using CPM systems to do sophisticated analytics and reporting—they're adding tailored performance metrics to help users benchmark performance across the enterprise. Some companies are even seeking to link organizational and personnel data currently housed on ERP systems with their CPM systems. Others are looking to develop new systems that will host a whole range of business intelligence and decision-support activities.

A new CPM system is never a quick fix. It's all part of an ongoing process aimed at making information flow better internally. Most companies find that to make the system successful, it's best to build it over time. So whatever combination of applications they start with, most companies anticipate implementing others in the future—or quickly realize that they can.

Says Erickson's Cox, "If you had asked us three years ago what we were looking for, we would have said, 'A way to get out of this budgeting nightmare. A way to generate reports and just put them on the Web.' But we were probably picturing just traditional reports: a way to give accountants and other professionals the ability to retrieve simple queries of data. We never expected we would also come up with a statistical approach to establishing business plan targets across all of our communities. So it's kind of cool that once you have these kinds of capabilities, the ideas just start flowing."

When Jim Beam Brands adopted its new CPM structure, it started with six licensed users of the new software. Today it has 200, in part because of the abundance of new financial reporting tasks it has found for the system. As companies continue to probe the capacities of their CPM systems, some also anticipate applying them to data further removed from the standard range of selling, general, and administrative (SG&A) expenses that have been their focus thus far.

"That was definitely the key driver" in Aetna's adoption of a Web-based CPM structure, says Johnson. "We didn't want just a capturing tool for budgeting information. We wanted to be able to do analytics and reporting against that platform for needs outside of SG&A." Adding in key performance drivers and metrics is the next step for Aetna, so that all users can track how their unit is performing.

What other needs might be included? Noting that payroll, HR, and sales data are already making their way onto CPM data and analysis systems, some observers believe these systems have the potential to host the whole range of business intelligence or decision-support activities. That could include crunching numbers on everything from customer needs and industry conditions, to technological and cultural changes that impact the business. Some companies are even looking down the road to adopting an open-architecture environment for CPM to make designing add-on applications easier.

More immediately, some companies are looking to link the organizational and personnel data coming out of their ERP systems with the more purely financial data now housed in their CPM databases to widen their organizational knowledge even further, complete with the ability to drill back through to the transactional information residing in the source system. When Sodexo moves its payroll and HRIS systems onto its Web-based platform in 2006, Scanlan says, "We can start to link data about our managers and our management teams to the financial data and the other key performance indicators. Since we're a service organization and our services are delivered by people, it's critical that we have in-depth knowledge of our human resource talent, what they've been trained on, and how they're performing."

As companies continue to probe the capacities of their CPM systems, some anticipate applying them to data further removed from the standard range of SG&A expenses that have been their focus so far.

“Sometimes you could get up to the corporate level and all you really saw was an income statement and a balance sheet,” says Dan Peterson, COO of Russell Corporation. “Russell is now implementing the tools to look at the key assumptions underneath these numbers, whether at the division or the corporate level.”

RUSSELL CORPORATION: PERFORMANCE MANAGEMENT KEEPS PACE AT AN ACQUISITIVE COMPANY

Russell Corporation used to be synonymous with athletic clothing. But two years ago, it decided to become a player in other athletic businesses as well. In July 2004, it completed the \$30 million purchase of Huffy Sports Company, a maker of basketball equipment. This was the latest in a string of high-profile acquisitions that also included Moving Comfort (women's activewear) in 2002; Bike Athletic Company (padding and uniforms), and the sporting goods business of Spalding Sports Worldwide (basketballs, volleyballs, footballs, softballs, and soccer balls), both in 2003; and American Athletic, Inc. (athletic equipment for high schools, universities, professional teams, and athletic clubs) earlier this year.

That string of new holdings convinced Russell executives that the 100-year-old company was moving into a new world organizationally too, and they decided it was time to look at acquiring something else—a new performance management system.

“There were a few reasons,” says Dan Peterson, COO of Russell's international division. “One was certainly to improve the speed and the accuracy of the overall budgeting and planning process. Also, any time you make acquisitions of a Spalding, for example, you're bringing companies to the table that have different software systems. We were looking to have a better performance management system that could quickly be applied to new acquisitions.”

Outside considerations played a role as well, Peterson adds: “I think Sarbanes-Oxley and some of the other legislation have also helped push us toward wanting to have better systems.” Among other things, “better” meant putting all of Russell's operations worldwide on the same reporting platform. While the parent company had, for several years, been maintaining its general ledger on GEAC software, doing its budgeting calculations in Hyperion Pillar, and financial reporting on Hyperion Enterprise, some of the subsidiaries were still doing most of their planning and analysis on Excel spreadsheets.

The parent also wanted a new financial planning and analysis package—a front end that could make it easier to produce and distribute deep-drill reports covering a much more diverse range of products and provide “red-light scenarios” to management when different sectors were not meeting their targets.

Management put together a steering committee last year to find a solution. Given Russell's more complex structure, it meant forming a large committee that brought every level of the company into the project. “As you get into putting the specific applications in place—say, our Jerzees activewear business versus Spalding basketballs—it's the people in the divisions who must provide the nuances of how the plan should be put together,” says Peterson.

Along with pulling all of its divisions into a Web-based platform running Essbase and Enterprise, the company decided to adopt two more Hyperion applications: Planning for deep analysis and Analyzer as its executive dashboard. But Russell wasn't looking to create an integrated system from just one provider—or even to have an OLAP. “We have architects and IT personnel who can work on any platform,” Peterson's colleague Andy Housch, manager of business and systems integration says. “This just sort of evolved to where it became an OLAP environment because of Hyperion's architecture.”

Customization is also a factor when considering a new application, says Housch, even though Russell tries to minimize this. “Obviously, our intent is to not have a high degree of customization at all. But from an IT standpoint especially, when I get that new release that Hyperion or whomever is coming out with, I don't want to spend months going back in and adding my customization to that product to get it rolled out in its new form. So you do have to look at that product or that potential vendor and understand their philosophy and their architecture for how they've designed their system and written their applications. Did they write it in a manner so that it's easy for us to add the customization we need?” An already long relationship with Hyperion made that question easier to answer positively, since many of Russell's vendors were already on Essbase and Enterprise.

It also made training easier, with only 30 to 35 users needing to be trained initially to instruct others within each business unit. That includes a few initial users among senior management of the new executive dashboard, which is now being rolled out. All of which adds up to greater transparency of data than Russell ever had before.

“Sometimes you could get up to the corporate level and all you really saw was an income statement and a balance sheet,” Peterson says. “Russell is now implementing the tools to look at the key assumptions underneath these numbers, whether at the division or the corporate level. So we can be sure that, for example, the price of sweatshirts is what we all agreed it should be in the budget.”

The prospect of more data and applications being moved onto Web-based CPM systems suggests that the population of users within each company can be expected to grow.

Sodexo is also considering switching from the traditional 12-month budget cycle to a system of rolling 18-month forecasts—one reason the company started its CPM transition with general ledger rather than the budgeting process. After the payroll and HRIS systems are on board, Scanlan says, budgeting and planning will come next, and then a new front-end dashboard for management.

As a result, “I think training will always be there and continue,” Scanlan says. At other companies, too, CPM project managers expect the train-the-trainers routines they’ve already developed to continue serving them, as other data and analytic processes come on to Web-based platforms and become available to users throughout the organization. However, the time and intensity required will decline, Scanlan predicts: “As the population in general becomes more comfortable with doing things on the Web, the training becomes a little bit easier.”

This, and the prospect of more data and applications being moved onto Web-based CPM systems, suggest that the universe of users within each company can be expected to grow as well.

CHAPTER 7: A DEEPER CULTURAL CHANGE

The ownership of data and the analytical control made possible by CPM systems are helping companies gain an increasingly clear picture of their financial performance. In the end, CPM software allows companies access to free information, so that as much user-intelligence can be applied to it as possible.

It's easy to reduce the impact of Web-based CPM systems to simply the number of days and hours of eliminated processing time and data gathering, newfound confidence in compliance processes that now have clearer fingerprints on them, and a greater ability to generate and distribute reports. But most executives who have managed a CPM overhaul anticipate a deeper cultural change as well.

Putting ownership of data and more control of analytic processes in users' hands encourages all employees to think more deeply about their place in the company's financial picture—and clarifies their role in improving that picture.

Putting ownership of data and more control of analytic processes in the hands of the finance department and the users who report to it encourages all of these parties to think more deeply about their place in the company's financial picture—and to clarify their roles in improving that picture. While the companies that have adopted these systems most successfully tend to start out with limited goals, they are keeping their eyes out for new ways that their CPM systems can help them use information more creatively.

In the end, the point is to free up information so that as much intelligence can be applied to it as the company has to offer. After building up a suite of CPM systems on a common platform, says Adelpia's O'Connor, "you can then leverage each of these bite-size pieces into the next one. Then you find your commonalities. Finding those commonalities has prevented us from going back to the silo approach, with islands of information. This structure, with an OLAP approach plus a delivery architecture, allows us to build information and data marts that are not on islands. They're integrated."



SPONSOR'S PERSPECTIVE

Corporate Performance Management from a New Perspective

When Clarity Systems and CFO Research Services met in the fall of 2004 to examine corporate performance management, we sought to explore how organizations that had deployed performance management solutions defined their business problem, evaluated technology and process change, and implemented their solutions. Through a series of interviews, CFO Research has uncovered and documented how companies recast their performance management processes and technology with the goal of achieving sustainable business results.

Real benefits

At Clarity Systems, we have seen our customers realize substantial improvements in their business processes, data integrity, and information quality through the adoption of CPM technology. Most notable, we believe, are improvements in the following areas:

- Access to information and increased analytical capabilities
- Ownership and accountability
- Trust in the numbers, both internal and external
- Single version of each information set (one draft budget, one final budget, one set of actuals, and so on)
- Tracking and oversight of user activity
- Consistent communication of corporate strategies to all levels of the organization
- Eliminate dependence on a single individual to maintain the planning model
- Report generation and month-end closing processes

Application differentiators

Any deployment of a performance management system involves a mixture of application and business process decisions. As the planning and reporting feature sets between many of the top vendors have converged, much of the discussion among finance and IT teams now centers on the appropriate architecture for a corporate performance management process. Teams evaluating CPM systems—often composed of finance and IT staff, along with vendors and consultants—should consider the following questions as they specify, build, and launch the systems that will reengineer their performance management capabilities:

- Which vendor can match the best database or mix of databases to help automate my business process?
- Is the underlying database an open database that will allow me to plug in other solutions?
- How scalable is the solution?
- Can the system integrate with my existing systems? If so, what effort is required?
- What if any mapping is required between each of the performance management modules?
- Which vendor's solution can best handle my most complex performance management processes?
- How much work is involved to maintain the system? Is the system able to maintain itself?
- What is the level of ongoing vendor or IT support?
- What level of customization do we require?
- What system will not only meet our needs today but also our anticipated future needs?
- Will my user community accept the system?
- Are thought leadership and implementation assistance available?



Visit www.claritysystems.com
or call 1-877-410-5070 for
more information on Clarity
Performance Management.

Best practices

Based on customer experience, Clarity's product and professional services teams offer the following best practices for implementing CPM solutions:

1. Adopt a single integrated solution for performance management.

- Avoid having to map modules together.
- Avoid having to train and gain user acceptance on multiple interfaces.
- Avoid having multiple modules to maintain and upgrade.

2. Embrace an Excel interface.

- Excel is a unifying language.
- Customizable look and feel of templates and reports.

3. Deploy one shared central database.

- Everyone works off a single information set.
- Real-time access to the most current information.

4. Use a web architecture.

- No desktop installations or upgrades.
- Increased scalability.
- Remote access.

5. Use a hybrid of relational and OLAP databases.

- Use the relational database to store comments, attachments, and schedules.
- Use the relational database to perform detailed salary and capital expenditure planning below the account level.
- Use the OLAP database to collect and aggregate information at the account level.
- Use the OLAP database for ad-hoc reporting, hierarchy maintenance, complex calculations, and hard-copy reporting.

About Clarity Systems

Clarity Systems has long been on the leading edge of the evolution of performance management through close partnership with its clients and an active product marketing and best-practices research arm. We are thrilled to see our offering validated by so many early adopters of performance management. Clarity Performance Management—rich in budgeting, planning, forecasting, and reporting features—also adheres closely to the best practices mentioned above. It provides a single web-based suite of tightly integrated modules that mixes both OLAP and relational technologies and can easily integrate with existing source systems.

