



A fast track to operational performance management

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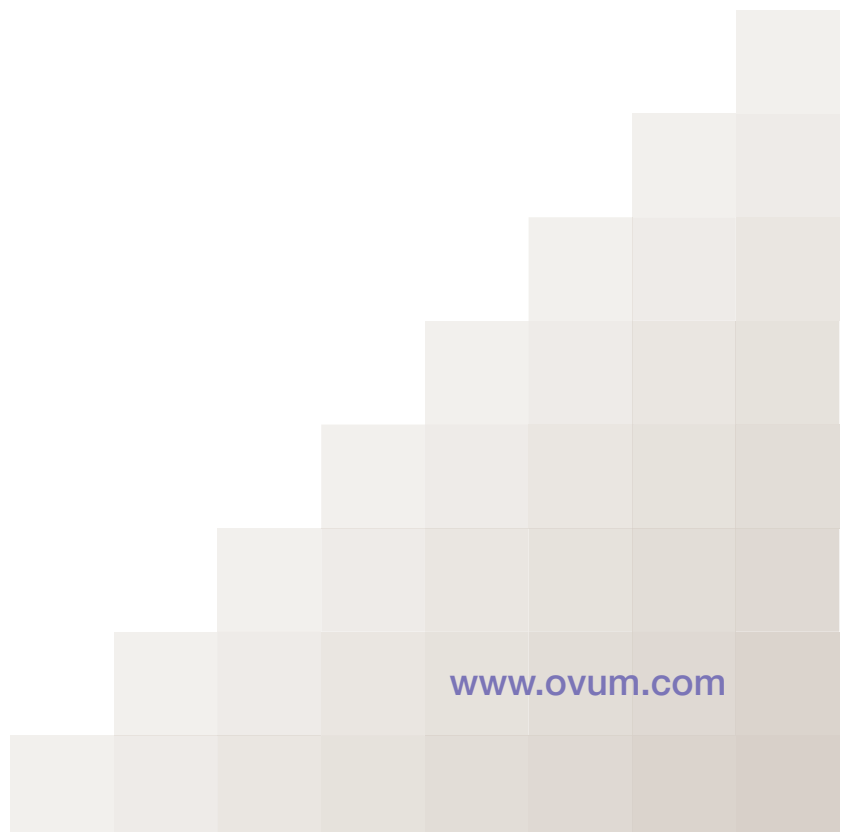




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A fast track to operational performance management

Executive summary

In a nutshell

Performance management applications provide business managers with a quick and effective means of measuring performance against organizational goals in order to ensure continuous improvement and operational effectiveness. Because of this, decision makers are trying to figure out the best way to implement these solutions. The advent of packaged performance applications makes things both more interesting and more complicated. The notion of simply buying performance management off the shelf is a pipe dream – performance management is a corporate discipline that requires competencies in people and processes as well as in technology. However, packaged applications can help you realize the benefits of performance management much faster than when trying to build one yourself with a grab bag of disparate and unintegrated tools.

This research paper evaluates the "buy-versus-build" approach and explains how a pre-packaged application can offer an attractive alternative to labor-intensive development, usually with functionality that IT departments would be hard-pressed to match. Today, a new generation of packaged performance management applications aimed at core business operations is emerging to fulfill this need.

The Ovum view

IT user organizations looking to implement business intelligence (BI) and performance management solutions face a bewildering range of choices. The buy-versus-build decision – "Should I buy a packaged application or build one from scratch?" – remains foremost in the minds of those individuals responsible for implementing these solutions in their organizations.

Most organizations would not consider building their own transaction-processing enterprise resource planning (ERP) system. Equally, there is now a general expectation in the market that coding your own BI and performance management solution will soon become as sensible and fashionable as writing your own payroll package.

Packaged applications are not new. However, this domain has been getting a big push in recent years from the major enterprise application vendors, especially in BI and analytics. The logic behind the packaged approach looks and sounds



bulletproof – accessing the application vendors’ deep understanding and experience of financial, sales, supply chain, customer and other operational business processes and distilling that knowledge into targeted analytic solutions. These applications also package relevant, “best-practice” data models, pre-built data integration jobs, standardized reports and high-end predictive analytics, thereby improving development and implementation speed for IT and time-to-business value.

Packaged performance management applications may not be cheap. However, the cost of a failed in-house system can be much higher. With companies looking for quicker time to value from their IT investments, particularly as they come under increasing scrutiny, a packaged approach will hold them in good stead at a time when IT budgets are coming under increased scrutiny. The default position boils down to the following argument: buying a pre-built, vendor-supported package has a lower total cost of ownership (TCO) and greater return on investment (ROI) than building and maintaining one from scratch. Realizing that benefit is, however, based on an assumption that the purchased solution meets most of the company’s business needs. If not, the cost of customizing the pre-built software to meet business needs, or worse, the costs associated with changing your business to fit the software, can easily tear apart those TCO and ROI benefits.

Admittedly, ERP transaction processing methodologies and requirements are clearly understood and similar in nature across companies. However, are the needs of performance management diversely unique to every organization? That is the question that BI decision makers are grappling with. Many believe so, and continue to look internally to their IT organization to develop applications for needs they perceive as being more specialized than anyone else’s. It is true that an organization is positioned to understand its analytics needs better than any packaged application could anticipate. However, implementing an application in-house carries significant design cost in terms of evaluating, picking and manually integrating different tools. That is when partnering with an IT vendor that can provide a deep understanding of critical business processes (and their problems) can help. At the same time, a packaged application cannot be expected to cover all of a company’s requirements. However, if 65% of requirements can be met out of the box, it makes it worthwhile to buy and build the remainder of functionality. For that reason Ovum believes the decision is not an “either-or” choice, but a continuum. It is imperative that the application is flexible and open enough to be customized.

However, a company considering a packaged application should look carefully at its vendor. It should look for a partner that can do more than deliver a complete solution whose components are precalibrated, tested and supported. Most importantly, the vendor must be able to demonstrate a deep understanding of the business function (or vertical) domain that is being targeted by the application and the built-in relevant analytic business content (data models, metrics and reports) around that domain.



Most ERP vendors in particular are strongly positioned on both counts. They possess natural domain expertise around core transactional business processes, and have now acquired BI and analytic technologies and expertise. For many organizations, the prospect of a one-stop shop for operational and analytic applications will be highly compelling, surpassing even the benefits of a one-stop shop for BI solutions. However, these vendors should also avoid falling into some of the traditional pitfalls of packaged applications related to ease of data access (the back-end problem), rigid business content (akin to telling a company how to run its business) and safeguarding application customization with software upgrades.

Ultimately, performance management software – be it packaged or custom-build – can only take you so far. Managing corporate performance effectively is about more than just implementing analytic tools, scorecards and dashboards. It requires companies to align the technology to people and processes. There is no prescriptive package for that.

Evolution of performance management

The shift towards specialization

Performance management is gaining popularity as a framework for managing and running a business effectively. Applications for performance management should ideally deliver on the particular needs of a business to maximize their impact on business performance – such as reducing cost, improving profitability or increasing customer service levels.

Performance management is already well established as a core discipline in the office of finance, and most early implementations have focused on managing fiscal performance. However, companies are now thinking outside of the financial box and looking to provide equal analytic rigor to operational business processes.

Therefore, performance management is getting more “specialized” – tailored and contextualized to address specific horizontal line of business (LOB) and vertical industry sector nuances. Horizontal areas where performance management is being specialized include customer management, sales and marketing, human resources, products/services, and supply chain management.

The appearance of specialized applications beyond traditional strategic financial planning, budgeting and consolidation signals a maturity of the discipline of performance management, which is becoming more aligned with operational day-to-day business processes.

The supply chain – a prime candidate for specialization

Organizations are increasingly keen to optimize the performance of their supply chains, which are becoming increasingly global and ever more complex. Maintaining optimal relationships with suppliers is becoming a critical factor in



creating and maintaining competitive advantage, as organizations try to support strategic management practices such as entering new markets, increasing the pace of new product introductions, and improving the reliability and speed of order fulfillment. At the same time, organizations are trying to squeeze more efficiency and costs from their supply chain.

Supply chain performance management fundamentally addresses the problem of improving supply chain effectiveness and responsiveness by optimizing the balance act of competing priorities – reduction of cost, increase of working capital, improvement of delivery levels and mitigation of risk. It involves a series of trade-offs – the optimal placement of inventory and minimizing of operating costs around manufacturing, transportation and distribution. Optimizing the performance of that delicate chain is not as straightforward as pointing a BI tool at it and creating a set of dashboards and reports. It is a great deal more complex. For example, most supply chains are often subject to conflicting requirements, creating confusion about which aspects of performance ought to be monitored and improved. There are dozens of metrics to choose from, and it is far from obvious how to select among them. It is not enough for organizations to just know their inventory positions, delivery dates, and fill rates. They must also understand the impact of supply chain changes on total cost or cash flows. That requires end-to-end visibility into factors that drive performance, such as cash-to-cash cycle times, overall supply chain cost and quality of order fulfilments.

Part of a successful supply chain management also requires an ability to reduce spend. To execute strategic procurement initiatives, purchasing departments must factor in budgets, import costs, trade compliance, and historical price and supplier performance data. All can impact how and from where companies source, and how much they can negotiate. However, getting a handle on procurement data, let alone optimizing it, is difficult because most supplier-related spend and payment data is typically siloed in different systems. That makes access and analysis difficult. This information needs to be made more easily accessible to business users in an application that both understands the specific data, processes and analytics involved and packages in proven best practices for analyzing the distribution of company spend and market factors that may impact that spend, as well as the key metrics needed to manage the spend in order to identify hidden savings opportunities and supplier risk factors.

Successfully IT-enabling supply chain performance management does not only require organizations to be technically well-versed in implementing BI and analytic systems. It also mandates a strong in-house competency of supply chain business processes and problems in order to build appropriate data, metrics, reports and processes. Analytic solutions have traditionally been developed in-house by IT organizations using BI tools, scorecards, dashboards and reports. IT has done its best, but it typically lacks the expertise, skills and resources to provide the enterprise with a well-designed supply chain performance management solution. Moreover, the continued divide between the business and IT sides of the fence has also hindered their attempts – as business requirements get “lost in translation” when passed over to IT for application development. Therefore, buying a pre-built



supply chain performance management application from a trusted, well-established software vendor is a better bet than in-house development, which may not be aligned or robust enough to cope with business demands.

IT inhibitors to success

The “buy-or-build” trend

The specialization of performance management parallels another trend in BI and analytics of moving from custom-build datamarts to pre-packaged analytic applications that are designed to answer specific business questions.

Buy versus build has always been an important consideration in any corporate IT systems project. Like the operational ERP market, we are now seeing a steady transition in performance management from building your own application, using a collection of point tools, to buying pre-built packaged solutions. This trend is driven by the overwhelming need to reduce deployment time and costs and drive faster time to value from the IT investment. This need is as a result of increased market competition and narrowing windows of opportunity, and a reassessment of business needs and IT systems capabilities in the context of cost containment and minimizing complexity.

As enterprises strive to keep pace with their dynamic markets, they need to give business users the tools, high-level metrics and deep analytic insight they need to optimize performance, react swiftly to changing conditions and make informed, proactive decisions.

However, the complexity and labor-intensiveness of building performance management applications from scratch carries the risk of preparation time exceeding the lifespan (and, hence, business value) of the application. “Impatient” organizations are seeking to shorten their deployment cycles, yet retain the depth and complexity of their analysis.

This shift is affecting how PM solutions are built and what type of system is built. For example, organizations embarking on new performance management projects increasingly expect more of the data infrastructure and plumbing work to be done for them so they can focus on value-added performance analysis and optimization. Hence, the “buy” side of the equation is increasingly being factored into performance management strategies as an alternative to in-house custom-build applications that are difficult to build and always carry a high degree of time, cost, and risk – paying off only if you are “rich, smart and lucky”.

Problems of the “build” approach

The build-it-yourself approach can be successful, but at a design cost. Many organizations have derived business value from building enterprise data warehouses and datamarts and integrating them with business processes.



However, it is often a time-consuming and resource-intensive strategy that requires a combination of custom code development and tool integration. These skills can only be provided by overburdened IT departments that are now also being challenged to specify source-to-target transformations and mappings, codify complex business rules that underpin KPIs and appropriate metrics and reports.

The costly effort of building and assembling the piece-parts of the solution

Tool integration is a huge problem hamstringing custom performance management development, and many enterprises struggle to understand and manage the combination. However, the expectation for rapid deployment and time to value assumes that the techniques for building the parts of the application are well understood and simple. Sadly, this is often not the case. Building a performance management application involves a number of complex tasks that need to be supported with a portfolio of tools, including ETL, data modeling, BI (OLAP and query and reporting) and dashboards, each of which covers a subset of the functionality needed to implement a performance management system. These tools are often sourced from multiple third-party suppliers and poorly integrated, thereby putting the onus on companies to forge all the point-to-point connections to ensure that all critical components work well together in a seamless manner. Additionally, a custom-build application will need to be plumbed into existing systems to source data. The cost of this data integration task can make even real plumbers look cheap!

Lack of in-house skills and domain expertise to address a business problem

Far too many analytic solutions are treated as technology projects and run by IT. However, performance management is a business solution that mandates close and extensive collaboration between IT and business – always a contentious issue in corporate IT systems development. As a result, IT often needs to spend weeks or months trying to understand the highly specialized business semantics, processes and data requirements of individual departments and users.

However smart their people and well-staffed their organizations, few corporate IT departments are well equipped to cater to the broad variety of specific needs raised from business challenges within various departments or functions. For example, the needs of a procurement specialist faced with the challenge of cutting costs while freeing up cash flow are radically different from the needs of a plant manager who requires access to detailed information about setup times and cycle times but must also probe inventory turns' impact on overall company performance. Developing the business rules and data mechanisms behind each metric can involve hundreds of hours of development time. With so many metrics to choose from, it is difficult to pick the right one.

Because IT departments fail to understand or take these differences into account, they often revert to their own "standards" of development, which do not necessarily cater to specific needs. As a result, many home-grown performance



management projects have turned into a cleaning-up exercise of disjointed operational reports that have been thrown haphazardly into dashboards in the vain hope that one of them will satisfy business users' needs.

Of course, sometimes even the business side of the house does not understand the requirements – in which case the only alternative left is to bring in expensive consultants to unravel them and build the systems for you, making the project even more costly.

Sadly, this disconnection between IT and business often results in requirements being "lost in translation," which manifests itself in the project as scope creep, costly delays and, worst of all, providing the wrong specific functionality, features and data in the application, much to the lament of business users.

Non-standardized development

Organizations that tailor their own performance management solutions from existing BI and analytic tools or attempt to code them from scratch often run the risk of ignoring enterprise development standards. That means IT runs the risk of creating incompatible, stovepiped applications.

Loss of institutional knowledge

A further risk associated with custom-building performance management applications is the loss of institutional knowledge that can occur when key IT developers change departments or leave the company.

This can present problems with strategically extending the applications, or implementing upgrades and patches. For example, an old home-grown solution built in Fortran might contain coded logic that is only understandable by the original developer. If they leave the company, the organization is left guessing.

Closing the "last mile" from tools to business solutions

Given these drawbacks, many enterprises are increasingly looking for more than just a grab bag of tools and expecting more of the development work to be done for them upfront. Whether they purchase a pre-built application or pay others to build one for them, organizations expect that application to quickly and cost-effectively deliver highly targeted analytical functionality with a minimum of custom-build development.

Increasingly organizations are abandoning their old custom-coding approaches and taking advantage of pre-packaged performance management applications to satisfy their urgent analytical needs, deliver new value and meet service-level agreements faster.

Pre-built performance management applications start where BI infrastructure and tools end, closing the so-called "last mile" between the enabling information infrastructure and an actual solution to a business problem. They achieve this by



turning tools into business-focused applications through the provision of business logic and best practices specific or unique to the needs of a line of business – be it finance, purchasing, logistics or HR. These applications are preconfigured for rapid deployment – in weeks, rather than months – and allow some leeway in terms of customization.

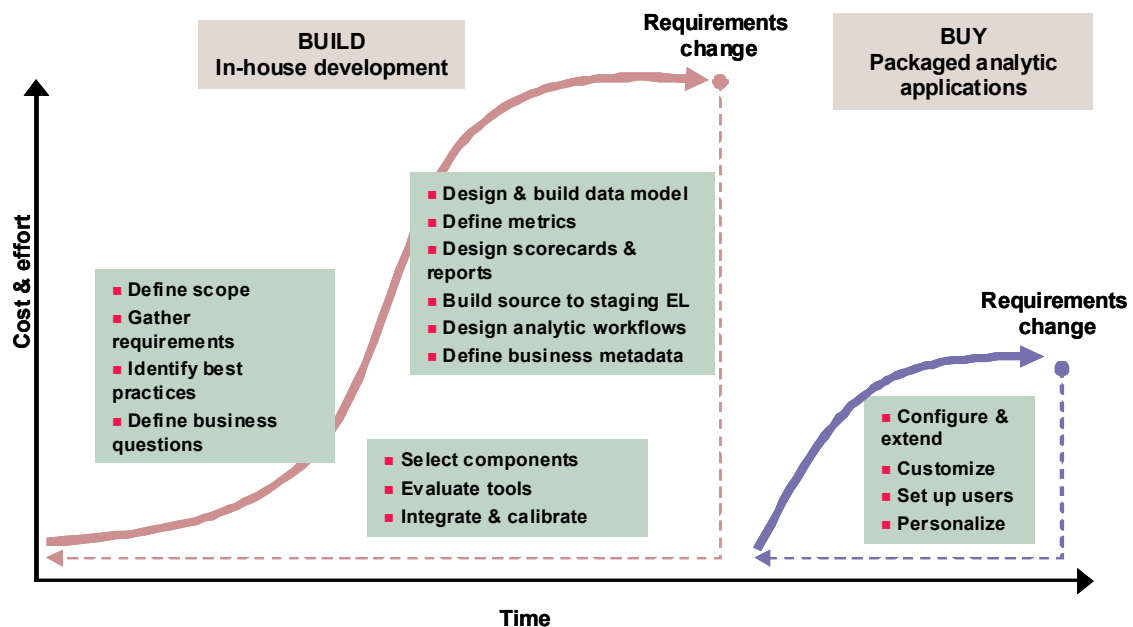
Benefits of packaged applications

Faster time to value at lower IT risk

Organizations deliberating over the “build-versus-buy” issue have a strong business and technological argument for buying a pre-built performance management solution.

The overarching benefit is “speed” of delivery; a packaged application provides corporate decision makers with quicker time to benefit and, hence, a quicker return on investment (ROI). The application provider delivers a useful service to organizations because it has already written the software, which allows IT to escape the complex high-labor, low-yield cycles and risks associated with deploying a performance management solution with in-house resources (see *Figure 1*).

Figure 1 Value proposition of packaged analytic applications



Source: Ovum



Advantages for enterprise decision makers

The greatest advantages of a pre-built performance application are afforded to targeted business users, who get a ready-made solution that “speaks their language” – it understands their specific domain and role, and the analytic insights they require.

Faster time to value means quicker ROI

One of the key business benefits of buying a packaged performance management application is greater and quicker ROI. It is true that the upfront costs of buying a packaged solution at first might seem high compared to BI tools. However, this is offset to some extent by the payback in helping organizations to quickly reduce costs, drive revenues and improve customer and supplier relationships.

This is due to the immediate availability of business content out of the box and embedded best practices that allow enterprises to get “rolling” quickly. In other words, they spend less time configuring the system and more time applying it to analysis of their business problems.

As a result, enterprises can focus more on the business value of an application, rather than on complex development and integration issues. That accelerates time to value by putting the application directly into the hands of target business users for analysis, rather than having them wait for a custom project that is stuck in a lengthy and over-budgeted IT development project.

Targeted analysis is enabled by predefined business content that matters

A packaged performance management application will invariably support many of the organization’s most important business objectives in a given domain of business, aligned either horizontally to a business function or process (such as financial consolidation, sales analysis, customer segmentation or supply chain optimization) or vertically to an industry sector (risk/fraud analysis for financial services or customer churn analysis for telecoms).

This alignment is achieved through the provision and alignment of deep, predefined business content (logic) and functionality encapsulated in the following.

A purpose-built data model

One of the most time-consuming aspects of creating a performance management solution is isolating the right analytic data dimensions and measures used in each functional area. A pre-built data model that assumes a closely related analytical function of the business within that model is needed to define such a business-specific view.

Predefined KPIs and metrics

Effective performance measurement starts with establishing consistent KPIs that distill complex business information into informative metrics that become the



benchmark for continually tracking and measuring progress, highlighting exceptions and driving ongoing improvements in performance. With so many metrics to choose from, many of which provide different views of the same type of performance, the difficulty is in knowing which ones matter. A packaged solution solves this dilemma by offering KPIs and metrics that embody proven techniques used by top performers for each functional area of the organization or vertical domain and delivering them to users in visually inviting and personalized dashboards. While not every metric included in the application will be applicable, those that are not used can be discarded. Those that are used may also be customized in far less time than it would take to build the metric from scratch.

Business-ready reports

The application offers a set of “ready-to-run” reports that are geared toward supporting a specific business topic, role or function. Most analytical user bases are a mix of dedicated business analysts, regular report consumers and occasional users.

Extractions and transformations

KPIs and reports both need to be fed with data. Integration with and preparation of data sources for performance analysis is a technically challenging task. Predefined methods for ETL provided for data sources with predictable schemas can help by sparing the enterprise from having to conduct in-depth source system analysis of complex ERP, customer relationship management (CRM), supply chain management (SCM) and other business data sources.

Process orientation

The application guides users through a process of performance improvement by offering a methodology to seamlessly step them through all of the tasks (and interfaces) required to access, analyze root causes and act upon business information using a business process framework. Metrics applied in a process orientation connect and understand the relationships between different functions (for example, procurement, manufacturing, engineering, finance and other departments), which ensures that local optimization is not at the expense of performance of other processes.

All of this business content is predefined and ready to use. Because it brings performance analysis into a semantically harmonized analytic environment, the insights it delivers are designed and prepared for select business audiences, such as procurement professionals or supply chain professionals.

Performance management is driven by industry “best practices”

The decision to buy a packaged performance management solution is really a vote of confidence for the value of experience. Businesses are not only buying into technology. They are also taking advantage of a wealth of business domain knowledge and expertise and implementation experience developed over many years by leading practitioners in CRM, SCM, finance, human resources and other



areas. These business functions have matured sufficiently to provide their own set of best practices to help drive standardization in terms of process, and optimization in terms of metrics and measurement.

Packaged applications take advantage of that deep experience and knowledge. This intellectual capital is gleaned from the vendors' experience in the field or by working closely with consulting partners with specific domain expertise, allowing the application to address the most compelling business questions out of the box. This is akin to bringing a business consulting viewpoint into the product development cycle. The resources that a large software vendor is able to commit to a performance management application are far larger than those available to an in-house development team or even business analysts of an individual organization.

Driving analytic consistency across the enterprise

Buying a performance management application that is part of a suite of solutions built on a common foundational IT and data management platform drives greater analytic consistency and better decision-making across the enterprise.

This will be a compelling proposition for line-of-business managers who want not only to reduce costs by pinpointing inefficiencies in their own local processes but also garner a wider and more consistent enterprise perspective. While many analytic solutions are implemented to meet a specific tactical need – to reduce procurement costs through supplier consolidation or accelerate revenue cycle quote-to-cash processes – they also need to align to a broader, strategic performance management framework.

Therefore, packaged performance management applications built on integrated platform infrastructure are able to identify, analyze and optimize interdependencies among units – for example, how sales uptake affects procurement, manufacturing and logistics. That helps to foster cross-functional consistency, ensuring that the context behind a metric is retained and allowing it to be consistently applied, its impact reconciled with other operational metrics and higher-level strategic business objectives.

Providing tightly integrated suites of packaged applications is certainly the direction that BI and performance management vendors are moving towards, though this is not fully realized yet.

Autonomous business ownership

Another benefit of buying a packaged application is that it gives enterprises the option of introducing analytical solutions for individual departments incrementally. These departments effectively "own and operate" the analytical application, reducing the need to rely on skilled IT support during setup, configuration and maintenance.



This “local” ownership makes the application more flexible and responsive to business change, since it is the LOB (business users) that is involved directly in the customization of the application. Arguably, an enterprise’s business users are in a much better position to understand and modify applications they use to meet their own specific needs than one that has been developed in-house by IT to conform to an enterprise standard but does not necessarily cater to individual or departmental requirements.

However, some degree of IT involvement is necessary, most notably to technically implement and operate the application. In some cases, though, these IT resources may be provided invisibly, such as when the application is hosted by a third party.

Benefits for IT

For IT the key benefit of buying a pre-built performance management solution is the minimization of design and implementation risk, which is transferred onto the shoulders of the supplier.

IT organizations can more rapidly implement a packaged performance management application than build their own, often by a significant margin. This is because it takes the burden away from IT in terms of: understanding highly specialized requirements and business processes, speed of deployment (since everything is pre-calibrated to work together, relieving IT from the task of evaluating and integrating point tools), standardization (on tool, platform and vendor) and ease of administration via single interface.

Most of the heavy lifting is done

Buying a pre-built performance management solution eliminates most of the complex and labor-intensive tasks needed for quick and cost-effective deployment with minimal development effort. It removes many of the risks commonly associated with systems integration, which are common with the “build-your-own” approach.

A packaged application relieves IT of the pain of tool selection, often from different suppliers, and tool integration. Because all of the critical components of the analytical system are pre-built and “calibrated” to work together, deployment cycles are accelerated. Lengthy and complex tool evaluation, manual integration and testing cycles are substituted by a pre-integrated solution sourced from a single, “trusted” supplier. IT is also assured that most of the relevant and expected functionality and features are included in the delivered solution.

Shorter and less costly development cycles

Purchasing a packaged application can significantly reduce IT development costs and time – how much depends on the level of customization required. This is achieved through faster time to deployment and avoiding the lengthier design, development and deployment cycles of home-grown solutions. Companies can potentially save tens of thousands of dollars in IT costs as a result.



Because most of the hard graft of application development and assembly is lowered, IT escapes complex and tedious tasks such as data modeling and integration. The provision of embedded business logic and content also means IT does not have to go through traditionally lengthy and iterative cycles of gathering business user requirements in order to formulate metrics and reports, build in the desired functionality and revise it based on user feedback. Although this back-and-forth between IT and business is often a healthy exchange, it also drains the productivity of both units – an important consideration in smaller organizations or those challenged by a downturn in economic fortunes.

Ultimately, however, the speed of deployment is directly related to the prefigured business content and functionality available in the performance management solution, how closely it matches to an organization's specific needs and the amount of refinement required. However, even when extensive customization is necessary, the economy of scale and ROI still favour a buy approach.

Staying abreast of business change

Technology innovation is happening faster than ever, driven not only by technology advances but also by rapid change in business environments and an increased pressure to optimize working capital, manage enterprise risk and comply with stringent regulations such as Sarbanes-Oxley, Basel II or trade regulations. Hence, applications need to evolve to reflect those changing needs. Applications can be upgraded, but often BI approaches need to be re-architected and/or re-implemented from scratch.

Keeping on top of technical innovations

Similarly, new technology innovation enables new capabilities. Hence, corporate IT systems will invariably have to take on new gestalt and change their technical ingredients, such as user interface (Flex and rich client), in-memory processing, 64-bit technology and so on.

A packaged application allows organizations to tap into the vendor's internal research and development efforts to keep pace with the newest and latest technology innovations, which are typically absorbed into the application over time. Custom-build applications generally respond poorly to keeping up with technological innovation. Whenever BI tools are upgraded with new functionality or technical designs, IT is often burdened with a new implementation to make sure all the technology changes, upgrades and additions are calibrated to work smoothly, to ensure they continue to serve the original purpose of the application.

However, a packaged performance management application follows its own upgrade lifecycle, which is not necessarily in lockstep with the evolving needs of other business applications. This ensures that it is not tied down to a particular technology and is flexible enough to evolve over time.



Assurance of ongoing maintenance and support

Packaged solutions built and bought from vendors almost always come with ongoing support and a roadmap for future-proofing the investment. Both are important for performance management applications that are typically expected to have a long shelf life. Hence, customers have the peace of mind of full support, a commitment to maintenance and a readily available source of technical and business knowledge of the application on tap from their suppliers.

With a custom-build application it can be difficult for an organization to predict the extent of maintenance, troubleshooting, user training & technical help and documentation that will be required to support the system and keep it running and up-to-date.

Packaged performance management applications offer a clear advantage in these regards. This is because the buyer organization enjoys access to the vendor's guaranteed 24/7 service-level and support agreements for maintenance and troubleshooting, as well as training on how to use the application for maximum advantage, which relieves IT of this burden.

Supporting enterprise IT standardization

Technology standardization continues to be an important driver for IT investment decisions, as it promises to save costs and keep the administration and maintenance effort to a minimum.

As we have pointed out, custom-build approaches to performance management carry risks associated with loss of institutional knowledge that can occur when key IT staffers leave the company – which can be a problem when upgrading the application with new functionality. A packaged application built on widely accepted standards virtually eliminates this risk. Customers are also assured that regular upgrades from the vendor adhere to standards-based development.

Striking the right balance

The customization quandary

Buying a packaged performance management solution might seem like a no-brainer. However, not everyone is enamored by the "buy" approach. Implementing packaged solutions also carries its own set of pains.

A packaged application assumes that competitive advantage can be gained from it without a great deal of further customization. However, finding a performance management application that has all of the prerequisite "out-of-the-box" functionality to satisfy all of the requirements of enterprise decision-makers and IT is particularly challenging. That is because the requirements may vary considerably between organizations. The questions companies need to ask themselves are: "To what extent can a packaged application satisfy my unique and constantly changing



needs? How much customization will I need to do? How easy is that customization going to be?"

While it is unlikely that any packaged application can satisfy 100% of decision-makers' needs out of the box, organizations (and vendors) therefore need to tread a careful path. As a general rule of thumb for organizations, if the application does not satisfy at least 65% of needs out of the box, it might be more effective to build it from scratch or follow a hybrid approach (complement with BI tools) rather than break and reassemble it. Similarly, if the level of customization required is only achievable using third-party tools that do not necessarily adhere to the company's technology standards or architecture, organizations may need to hire new development skill, thereby defeating many of the primary benefits of the "packaged" buy approach. Vendors of packaged applications must also reconcile the need to provide broad functionality coverage while safeguarding the power and depth of analysis.

Other potential pitfalls

The risk of creating another stovepipe

This relates to the back-end problems of data sourcing and system interfacing. The threat of immense and undisciplined growth of "stovepiped" packaged solutions has made many IT departments balk at the idea of deploying what they see as another siloed, department-specific application. Fortunately, packaged application vendors are aware of this "back-end problem" and provide an array of pre-built data adapters that plug into predictable data sources such as ERP, CRM and SCM systems. IT departments are also aware of making sure any new application fits into a standardized corporate infrastructure to achieve meaningful economies of scale in architecture, design and tools.

The "one-size-fits-all" misassumption

Many organizations believe, rightly or wrongly, that "because my business problems are more specialized than everyone else's, I need to develop a performance management application from scratch". Moreover, companies will also be asking, "if I'm using the same KPIs, metrics and processes as my competitors, where is my competitive differentiation/edge coming from?" Much of these concerns stem from the perceived inflexibility of packaged applications. While it is true that packaged applications are designed to satisfy common needs across businesses, there will always be a need for customization. That puts the spotlight on the application's extensibility, especially in terms of its data model, business content, personalized interfaces and, most important of all, its data sourcing, so that it can easily bend to special and evolving business needs.

The impact of customization on upgradeability and maintenance

The minute an organization customizes a packaged application, it adds a new level of complexity and headaches for IT in terms of how to safeguard their investment,



especially when upgrading to a new version of the application or when the business environment begins to change business models dramatically, resulting in the application becoming unfocused. Both are potentially big problems as companies tend to do a lot of customization on packaged applications before they use them. Vendors are starting to take heed of this issue and offer graceful change management, application (rather than technology) roadmaps and clear migration strategies and services.

Political resistance from IT

Finally an often ignored aspect of buying a packaged application is the resistance (implicit or explicit) faced by IT professionals working in organizations, who might be concerned over their own job security. BI and data warehousing architects, in particular, might suddenly feel redundant and de-skilled as a result. However, this need not be the case. Organizations should market the application, not as a way to trim their IT staff, but rather as an opportunity to free up an organization's IT staffing resources so they can divert their attention away from the drudgery of complex data integration and other plumbing issues and focus on more innovative, value-add activities that benefit the business.

Think "build and buy"

The ability to fast-track performance management with a packaged application is not simply a matter of "plug-and-go". Rather, its value to organizations lies in providing a loosely packaged but fully integrated analytic application for quick deployment, and then devoting minimal resources to customizing it according to specialized internal requirements. That means the application's deep business content and data models should be easily extendable by either the enterprise or third parties. This approach combines the benefits of a predefined application with the flexibility needed to develop a tailored system.

Hence, packaged performance management applications, due to the nature of point applications catering to specific audiences, will continue to be a "hybrid" of pre-packaged, off-the-shelf BI technology and specific development tools for creating customized applications.

Organizations should therefore look for vendors that allow them to get the "best of both worlds" – best-of-breed tools for generic information architectures and the best application to address the business needs of specific business departments. The extra advantage of this hybrid approach is that the organization understands its analytical needs much better before implementing a packaged BI solution. As a result, it is not strictly a "buy-versus-build" question, but can also be a "buy-and-build" scenario.



Focus on SAP BusinessObjects solutions

Two packaged solutions in detail

Enterprise resource planning (ERP) vendors are extending their transactional business applications to provide analytic support. These vendors are well positioned to deliver tightly integrated analytics that complement their business processes know-how. For many enterprises the prospect of getting an industry-standard solution from their "preferred" IT supplier/partner will be compelling.

SAP, through its acquisition of BusinessObjects and other performance management assets, is one such vendor. SAP provides two purpose-built packaged analytic applications aimed at supply chain performance management.

- The SAP BusinessObjects Supply Chain Performance Management application is designed to help companies measurably improve the effectiveness of their supply chain operations. Built from a business perspective, it contains data models based on industry standards and a relevant set of extensible metrics that can be used to identify and diagnose bottlenecks and uncover opportunities to take informed action towards improved supply chain performance.
- The SAP BusinessObjects Spend Performance Management application provides visibility into direct and indirect organizational spending to identify cost savings opportunities and supply risk.

Realizing the benefits of a packaged approach

Both SAP BusinessObjects Supply Chain Performance Management and SAP BusinessObjects Spend Performance Management have been built from a business perspective. They package predefined data models, metadata, data integration and analytic functionality that are specifically geared towards supply chain performance management and optimization. Because all of the software components have been preconfigured to work effectively as a self-contained application, this translates to much lower development complexity, cost and risk and faster time to value versus a custom-build approach.

SAP's packaged approach to supply chain performance management confers many of the benefits – to both business and IT – that have been discussed in this paper. We highlight some of these in detail below.

Speaking the language of supply chains

SAP BusinessObjects Supply Chain Performance Management and SAP BusinessObjects Spend Performance Management are built on a wealth of industry expertise and best practices. This is intellectual property that SAP has harvested and developed over many years of implementing supply chain and procurement solutions across various industries (for example, manufacturing, retail, CPG, chemicals and life sciences) and by collaborating with domain partners and

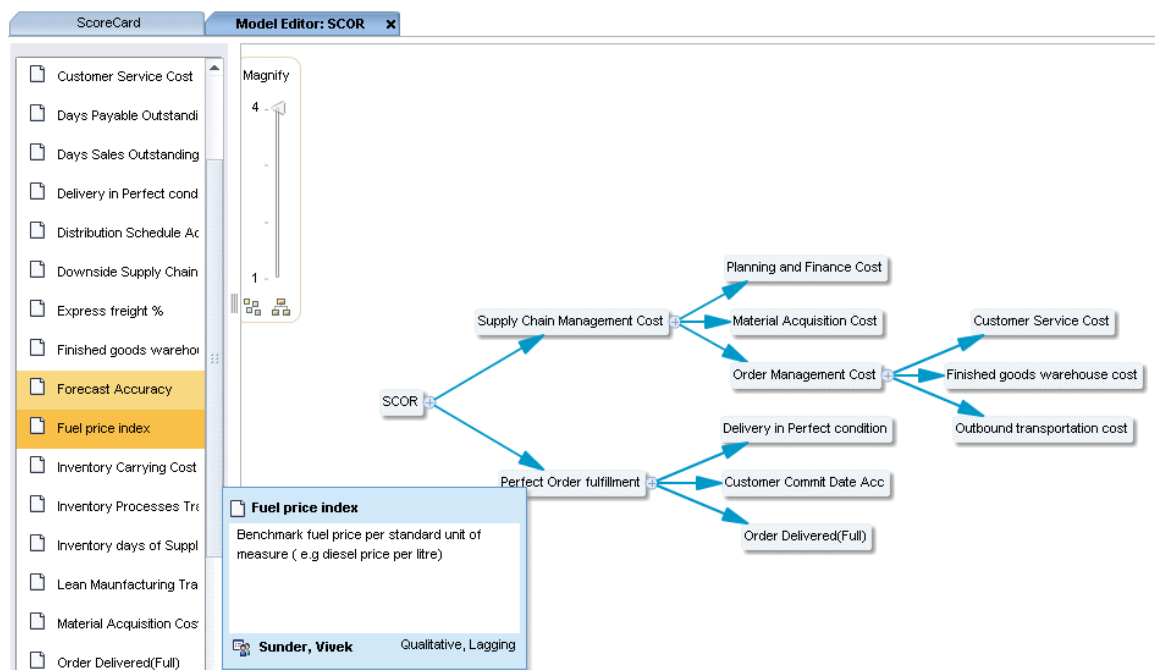


customers. This includes data models that comply with leading industry frameworks such as the supply chain operations reference (SCOR) model or supplier performance indices. For example, it includes over 350 metrics, measuring business performance in terms of perfect order fulfillment, supply chain cost, cash-to-cash cycle time or order fulfillment cycle time.

Delivering the content that really matters to supply chains

SAP has collaborated with customers and partners alike to provide highly relevant industry content – data models, performance metrics (such as shipment reliability, supplier risk and perfect order fulfillment), reports and other metadata – in its supply chain and spend performance management applications. These applications provide over 400 performance metrics, such as shipment reliability, forecast accuracy, perfect-order fulfillment, on-time delivery by suppliers, plant use and supply chain cost. These metrics are surfaced in preconfigured dashboards, reports and KPI hierarchies (see Figure 2). Additionally, the applications also incorporate process logic to automate the assembly of various analytic data and tasks driven through semantically consistent and seamless navigation across analytic, reporting and dashboard environments.

Figure 2 Built-in performance metrics architecture



Source: SAP



Most of the heavy lifting has already been done

SAP BusinessObjects Supply Chain Performance Management and SAP BusinessObjects Spend Performance Management leverage best-of-breed BI components and data integration tooling (including other technologies from the SAP BusinessObjects portfolio) that are pre-integrated to work smoothly together. Furthermore, when built on the SAP NetWeaver technology platform, the applications often allow companies to leverage that existing technology infrastructure and development work and skills in the organization.

Shorter and less costly development cycles

Buying SAP's packaged supply chain and spend performance management applications is akin to piggybacking on years of hard work that the vendor has already done. SAP has invested many years of development and testing work to calibrate all of the moving parts of the application so they would work smoothly together out of the box. Hence, IT departments can leverage all of the work that went into the applications and avoid having to reinvent a very costly wheel. SAP claims that its packaged applications can often be up and running for a smaller-scope project in weeks, rather than in many months or years, as with traditional custom-build approaches. This speed of deployment also allows companies to start with "quick wins" – show immediate business value from the investment – to gain buy-in for project expansion across the enterprise later on.

Granting analytic consistency and flexibility across lines of business

SAP has outlined a strategy for presentation layer harmonization across enterprise performance management applications and BI tools. For customers, this translates to protection of investments (in software and skills) and reduction in cost (with IT standardization). It means they can already standardize on one common back-end platform – for example, using SAP NetWeaver's Business Warehouse (BW) component. From the user experience perspective, SAP will increasingly drive harmonization with shared components between a BI platform and performance management applications.

[0]The software also allows LOBs to control and react swiftly to changing market requirements – without lengthy project-change requests. For example, the application allows business users to define new metrics and hierarchies, adjust threshold values and customize dashboard views – without draining scarce IT resources. For example, if the impact of fuel prices on transportation costs declines with the introduction of hybrid vehicles, the application can immediately reflect those changes. It is also possible to change scorecard contexts as the supply chain strategy evolves – for example, by moving from a geographical to a category orientation.

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