



**Business Performance Management 2.0**  
Taking Performance Management to the Next Level

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### **About BPM Partners**

BPM Partners is the leading independent authority on business performance management (BPM) solutions and a founding member of the BPM Standards Group. BPM Partners' vendor-neutral consultants guide client organizations through their BPM initiatives from start to finish, helping companies attain the maximum value from their business performance management initiatives. This is done through hands-on services that provide insight on how to collect and analyze the right information to address specific business goals. BPM Partners leads clients through needs assessment, vendor selection, and deployment of departmental or enterprise-wide BPM systems.

For further information on this topic and other performance management related activities:

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## **Introduction**

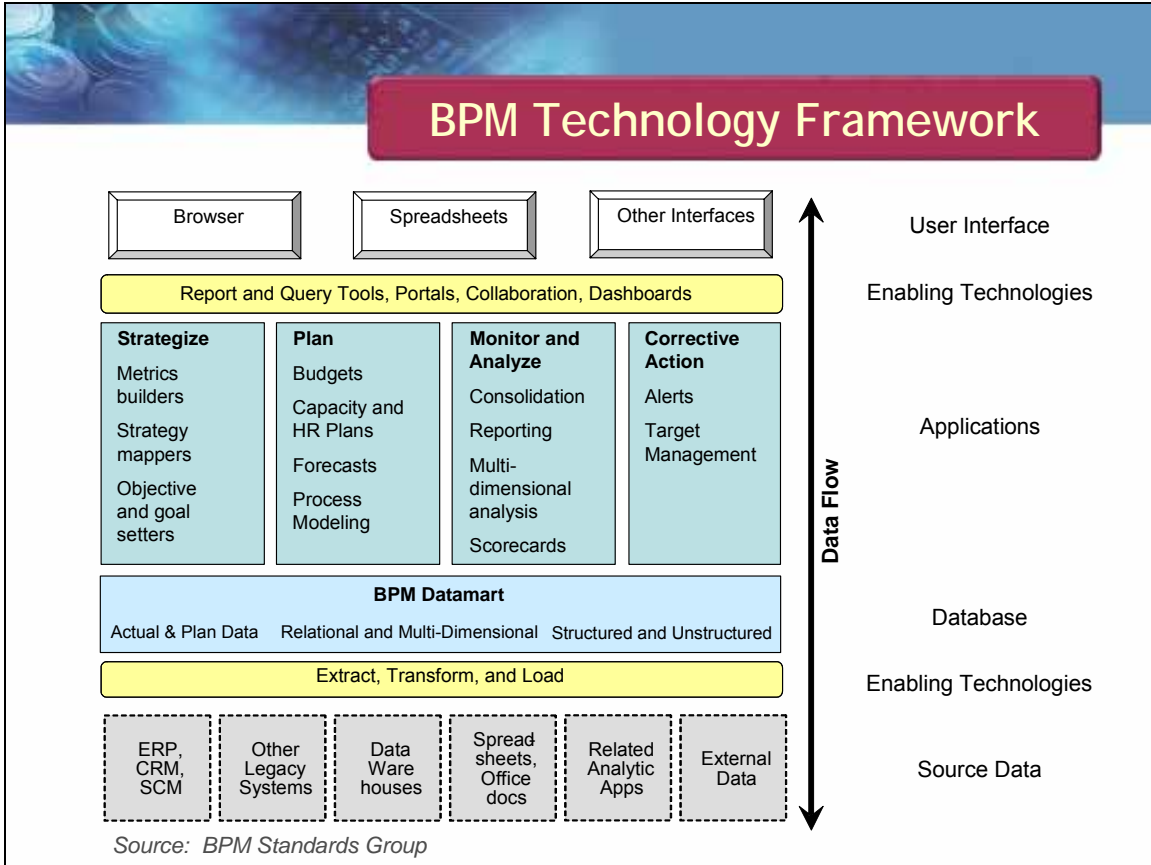
Business Performance Management 2.0 is a natural outgrowth of core performance management. It builds upon first phase BPM implementations, leveraging what companies already have in place. At this point in time, many companies have moved forward with a core business performance management (BPM) initiative. Most of them have had a reasonable degree of success, as determined by both the BPM Pulse survey and anecdotal evidence. That success is breeding further adoption of core performance management, and we are seeing the next round of companies (both big and small) looking to get started. Those that have completed their initial phase are now embarking on the path to “What’s next”. Business performance management has already proven itself by providing vendors, consultants and, most importantly, end users with significant benefits and rewards. It is logical that all concerned would like to build upon that success and Business Performance Management 2.0 is the beginning of the next phase.

## **Core Business Performance Management**

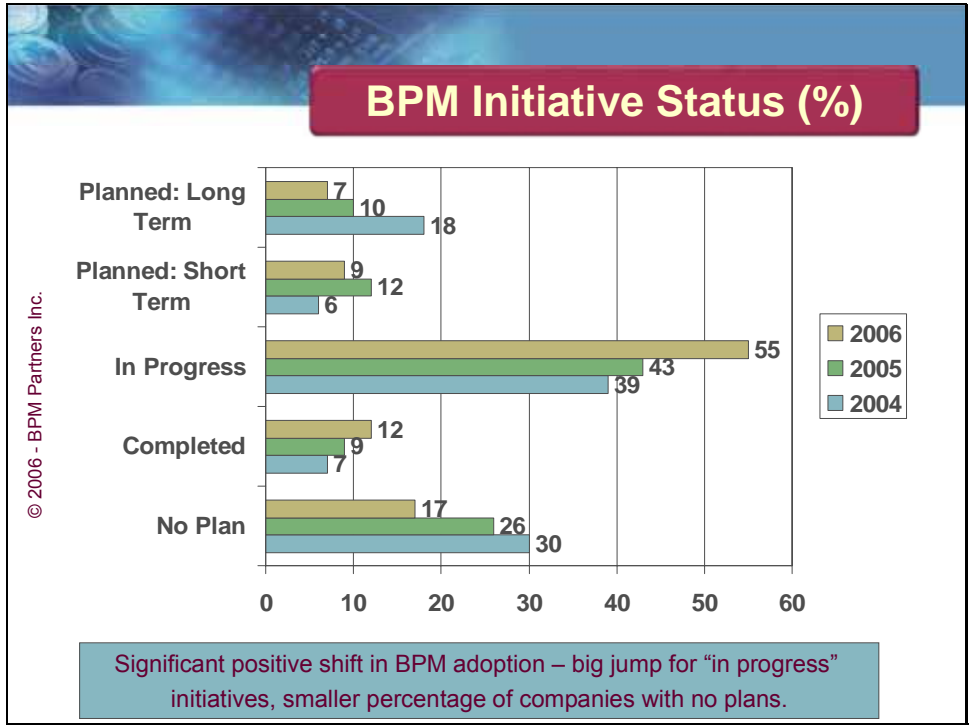
To understand what’s coming next, we need to first review what’s gone before. For clarity in this discussion, “core” performance management consists of budgeting, planning, forecasting, consolidation and reporting, as well as scorecards/dashboards and analytics. These core processes have mostly been focused on financial data. In many companies, business performance management has replaced antiquated Excel-based budgeting processes, a tangle of disparate source systems and user-*unfriendly* interfaces tied to an end user-driven system that provides a single set of consistent, accurate, actionable information company-wide. This is a huge accomplishment. In the glow of that success, many of these companies are considering the next phase. The standard definition of BPM and the associated technology framework both include the core elements as well as enhanced elements identified as part of BPM 2.0.

- ▶ BPM is a set of **integrated**, closed-loop management and analytic processes, **supported by technology**, that address **financial** as well as **operational** activities.
- ▶ BPM is an **enabler** for businesses in defining strategic goals, and then **measuring and managing performance** against those goals.
- ▶ Core BPM processes include **financial and operational planning, consolidation and reporting, modeling, analysis, and monitoring** of key performance indicators (KPIs) linked to organizational strategy.

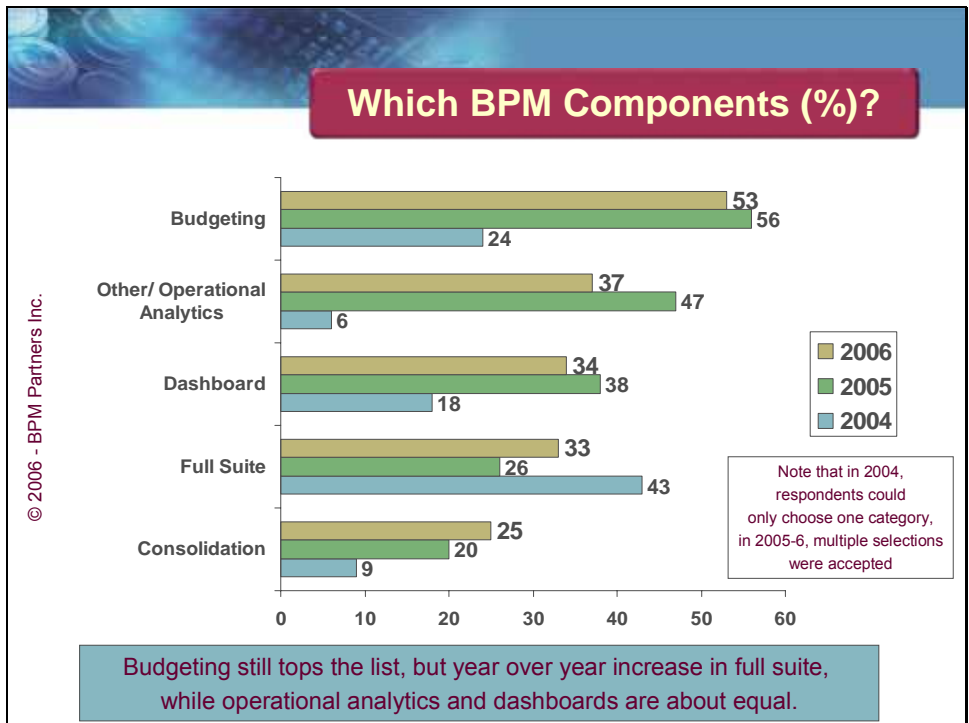
*Source: BPM Standards Group*



Before a company can proceed with a BPM 2.0 initiative, it is desirable to have completed the implementation of some of the core elements of BPM. The 2006 BPM Pulse Survey results indicate that many companies will be in that position fairly soon: 83% of respondents had either completed a BPM initiative, have one planned or are in progress. This is up from 74% in 2005. Also note that the 2006 survey found a significant increase for “in progress” projects (55%) compared to 2005 (43%). Organizations have continued the trend of pulling their projects forward to address existing business issues or to get earlier benefits from their BPM investment. Also note that only 17% of respondents have “no plan”, down from 26% in 2005.



A focus on budgeting and planning is indicative of a core BPM initiative. A focus on operational analytics signals a move to BPM 2.0. The 2006 BPM Pulse Survey showed that while the majority of BPM projects were still focused on the core, BPM 2.0 (specifically operational analytics) was not far behind. In the chart below, the year to year drop in operational analytics can be partially explained by the increase in full suites.



## **Business Performance Management 2.0 Defined**

BPM 2.0, a logical outgrowth of core performance management, consists of several important components: a focus on operational analysis and performance measurement, a deeper dive into critical areas of financial management, an attempt to be able to better anticipate future results and enhanced vertical depth and breadth. Let's examine each of these.

### **Operational Analytics**

The area with the greatest short-term potential payback is operational analytics. These initiatives can bring performance management to all areas of the company, making BPM meaningful and relevant in departments across the enterprise. This functional analysis utilizes the same basic performance management structure as the core: planning, consolidation and reporting, and scorecards of key measures. One of the first areas to receive attention in many companies is sales. Improving sales performance can have a huge impact on the bottom line. While helping companies better understand the relative sales performance by product, by region and/or by rep, many of these systems also improve the compensation process by tying pay to results, and reducing labor costs and errors. Other areas receiving focused performance management attention include: product development, product marketing, services and IT itself.

One of the most key areas, almost in a class by itself, is employee performance management. This is where BPM 2.0 can really magnify the benefits obtained from the initial core performance system implementation at a company. Employee performance management takes the high level corporate or departmental goals and measures and brings them down to the individual contributor level. It spells out how each employee can specifically contribute to the company's performance goals and defines the measure of success for that employee. It often follows that compensation is then tied to that employee's performance as part of the corporate performance management initiative. This, in turn, impacts behavior, which is important in transforming an organization to be one that is culturally more performance-focused.

### **Focused Financial Analysis**

Financial analysis is not neglected in BPM 2.0, it's just deeper and more focused. Two specific areas of interest are cash flow and profitability. While core performance management addresses both of these areas, in the BPM 2.0 world there are entire applications built around them. Working capital/cash flow is analyzed, forecasted and measured on dashboards with a level of detail that is just not there in a core performance management system. A second area of enhanced focus is profitability. The overall goal is profitability optimization, and this is usually accomplished by gaining a better understanding of individual customer and product profitability. With this detail in hand, an organization can better determine the customers and products that drive bottom-line profitability and redirect its efforts to support growth in each area.

### **Predictive Analytics**

The concept of predictive analytics has been around for some time, but in BPM 2.0 this once complex modeling exercise becomes more mainstream. No one likes surprises, and

any analysis that can more accurately “predict the future” within a range of certainty is desirable. For most vendors, this is a specific set of functionality and algorithms that work with core performance management capabilities. Other vendors have taken an exclusive focus on this area and provide additional depth. The main idea is to both analyze trends and project their future trajectories while also trying to understand the root causes of certain results to enable a company to, in effect, change its destiny.

### **Vertical Depth and Breadth**

Built-in vertical market domain expertise is also part of BPM 2.0. This enables organizations to obtain specific modules and functionality to address unique characteristics of their industry that generic performance products and services cannot. For example, financial institutions spend a good deal of time analyzing risk-related aspects of their business. Most out-of-the box performance solutions do not specifically address this. Vertically focused offerings for financial services firms include this functionality as a matter of course. Professional services firms live and die by their billing hours and rates. Performance solutions specifically for their industry would include entire modules dedicated to tracking and analyzing billing hours.

### **Keys to Business Performance Management 2.0 Success**

BPM 2.0 is both more strategic and more pervasive than what has gone before. This makes it even more challenging. Certain technical and organizational capabilities can help put you on the path to success.

### **Technology**

If you have already implemented core BPM it will provide a strong foundation for moving forward with BPM 2.0. You will likely have some of the key technologies required for this next stage of performance management. Operational analytics is dependent on tools that can handle both high-volume transactional data and sparse matrix multi-dimensional analysis, in some cases in near real-time. A high-performance OLAP cube is well-suited for this task. Most of the core BPM vendors make this tool available as part of their suites. BPM 2.0 can also utilize planning, consolidation, reporting, and dashboard components included in your core BPM initiative. Some capabilities beneficial for BPM 2.0 projects that may not already be in place include: the ability to handle unstructured data, data visualization tools, and a service-oriented architecture. When analyzing operations across the company the need to manage both structured (numeric) and unstructured (documents, comments, etc.) data becomes more pronounced. The volume of data being analyzed also increases the demand for a more intuitive, more visual way to quickly get to the data that matters. Many vendors today are starting to add or expand their offerings in this area. A service-oriented architecture should both improve interoperability and speed the delivery of new components. This is useful in BPM 2.0 since the number of data interfaces will likely increase as you move into new departments combined with the need to deploy specific modules that better address an individual department’s business challenges.

### **Additional Useful Capabilities**

Customer and product profitability management and optimization requires an understanding of the associated sales, product, service and support costs at a fairly detailed level. Activity-based costing (ABC) is one approach to address this challenge. Only a handful of products today inherently support ABC. As you examine the performance of each functional area against its internal targets you will also find it useful to compare that performance to that of a peer group. External benchmarking (both the technology to ease the process and the partnerships to provide the data) is an area just beginning to be addressed by some of the core BPM vendors. Lastly, and most importantly, is the area-specific applications and modules themselves. As an example, sales performance management or IT performance management require specific domain expertise and knowledge of best practices. If you build the solution in-house you need to identify or hire experts in each area you are planning to address. There are a small group of vendors today delivering pre-built applications with the domain expertise built-in. Some of the larger BPM vendors have developed partnerships with them so they can offer more complete solutions themselves. Other vendors encourage their vast consulting partner networks to deliver operationally specific applications on top of their core offerings.

Since a key element of BPM 2.0 is to reach more employees throughout the company, any approach that makes this easier and more cost-effective will help speed adoption. Some approaches just beginning to gain wider acceptance are on-demand hosted solutions, open source BI and BPM, and hardware appliances. Several of these areas are still in their early stages, but worth considering depending upon the requirements of your initiative.

### **Organization**

As important as it is to have the right technology infrastructure, it is also essential to have a performance oriented culture along with committed and driven leadership. While executive sponsorship is always important to successful BPM, it is critical for BPM 2.0. To achieve this comprehensive, holistic view of the business it will require a large group of managers across the company to put aside territorial and political baggage and work together as a team. A strong senior leader with the time and vision to make this happen is required. It is highly likely that the BPM 2.0 initiative will require standardization of charts of accounts, organization structures, calculations, terminology, and report formats across the company. Somebody senior needs to drive that and be the tie breaker. From a cultural perspective, is senior management prepared to share more information with more employees than ever before? Do the employees understand how to utilize this data and the confidential nature of some of it? To truly instill a performance culture the output of the BPM system should directly impact individual incentive compensation. This is a sensitive topic and needs to be tightly managed with employee education around what is being measured and why and how this will impact their income. Employee buy-in and trust is critical before you can move forward with this key aspect of BPM.

## **Conclusion**

As you can see, Business Performance Management 2.0 is not a radical departure from what has gone before, but a natural outgrowth that builds upon and leverages what is already in place. Organizations that have completed their implementation of the core business performance management capabilities now have a choice of next steps to further enhance the benefits they are already receiving. Organizations that have not yet started a basic performance initiative need to look at moving sooner rather than later because it's possible their peers are already on to the next phase.

## **Reference Resources**

The BPM Standards Group: <http://www.bpmstandardsgroup.org/>

The BPM Pulse Survey: [http://www.bpmpartners.com/bpmcentral\\_whitepapers.shtml](http://www.bpmpartners.com/bpmcentral_whitepapers.shtml)