

Getting Started with Performance Management

Table of contents

Executive summary	3
Performance management overview	4
Making the case for a planning and budgeting application	5
The performance management gap in accounting/ERP software	5
The downside to spreadsheet-based planning and budgeting	5
Infor PM Business Edition: Planning and budgeting in action.....	7
Planning.....	8
Budgeting.....	10
Reporting and analysis	12
Implementation	13
Business Edition technical details.....	14
Conclusion	15

Executive summary

When it comes to planning, an airline pilot can't wing it—and neither can your business.

No pilot would ever attempt a cross-country flight without first creating a detailed flight plan, even though he or she knows the plan will change once the vagaries of weather and traffic congestion come into play. For the pilot, the flight plan is always the first step in charting a course, but it's never the last. In-flight course corrections are inevitable and must be made quickly to avoid veering too far off the route.

The airline industry's approach to planning provides important lessons for today's business leaders—specifically, that it's essential to have a plan, as well as the ability to quickly adapt that plan as the situation changes. As companies increasingly operate in a global marketplace, it's become more of a challenge to chart a course that ensures long-term success. And no matter how good your business plan is, there are always forces—both inside and outside your company—that necessitate changes in strategy and tactics. In the past, business decisions at most companies would not have been driven by natural disasters, political disruptions, and economic crises that occurred half a world away. But times have changed, and so has the need to more proactively manage business performance.

Planning and monitoring the business environment to better manage performance is nothing new. It's been practiced since commerce began, albeit in rudimentary forms until recent decades. And although there was a vast improvement in the 1980s with the introduction of spreadsheets and software solutions for accounting and enterprise resource planning (ERP), those solutions aren't capable of serving the current performance management (PM) needs of even moderate-sized companies. Fortunately, though, performance management has taken a leap forward just in time to help companies cope with the challenges of doing business in a highly competitive global market.

In this white paper, we describe the contemporary business requirements that make a performance management solution critical to the growth strategy of virtually all companies, from small- and medium-sized businesses (SMBs) to large, multibillion-dollar enterprises. Leveraging Infor's extensive expertise in performance management, we take the analysis a step further and describe how planning and budgeting functions are generally the right place to start for companies seeking to establish their first formal performance management strategy. And finally, we provide an overview of Infor™ PM Business Edition, a cost-effective performance management solution designed specifically to help SMBs and small teams within large organizations quickly and easily implement a performance management strategy.

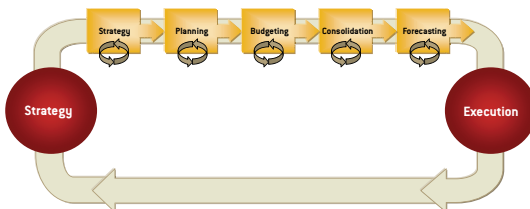
Performance management overview

Performance management is really the essence of any business. A series of business processes through which a company links strategy with operations, performance management reveals how the business is performing against objectives, and then produces the actionable insights necessary to generate desired business results. Performance management can take into account everything from business strategy and objectives, to employees and their responsibilities, to the company's systems and technology. While the basic principles of performance management are well-established, individual companies take a range of approaches to effectively manage their performance. In the most comprehensive implementation, performance management incorporates an integrated, closed-loop approach to the following business processes:

- *Strategy*: Direct the focus and actions of the organization.
- *Planning*: Prepare financial and operational plans.
- *Budgeting*: Allocate resources.
- *Consolidation*: Capture business results and produce financial reports.
- *Forecasting*: Predict future performance.

The reality for most businesses, of course, is that their approach to performance management is not this formal—or not at all formal. The question for these companies is how to get started. Based on analysis by Infor performance management experts, we believe it is neither feasible, nor necessary, for a company to put all performance management processes in place at once. In fact, we believe it makes the most sense for companies to focus first on their most significant pain points. We have found that for most SMBs, the highest priority performance management processes are planning and budgeting.

You may wonder why reporting is not identified as the most significant pain point, since report requests account for a large portion of your internal resources. It is true that many companies have identified reporting as their biggest pain point. And, reporting occurs with each of the processes in closed-loop performance management. However, upon further discovery, reporting turns out to be a symptom of a larger issue: the need for improvements to underlying business processes. If the underlying business processes are addressed—and reporting is integrated into those processes—reporting pains are no longer an issue.



Closed-loop performance management

In its most comprehensive iteration, a performance management process involves strategy, planning, budgeting, consolidation, and forecasting in a closed-loop system. Companies just getting started in formal performance management quite often gain value the quickest by focusing first on planning and budgeting, as those business processes are easily understood across the entire organization.

Making the case for a planning and budgeting application

Companies with no formal performance management strategy often depend on their existing accounting and ERP applications to address planning and budgeting requirements. These applications admittedly serve an important function by recording business transactions. But they lack the functions and ease of use necessary for a company to link its strategy and operations to achieve true performance management. At many companies, an over-reliance on spreadsheets to support planning and budgeting processes compounds the problem.

The performance management gap in accounting/ERP software

Accounting and ERP applications are designed to focus on a company's chart of accounts, classifying transactional details into segments for reporting purposes. From a finance perspective, the process begins with the general ledger and then addresses the sub-ledgers of accounts payable, accounts receivable, purchasing, inventory management, and asset management.

Accounting and ERP software fails to support true performance management, as these solutions don't allow:

- Dimensional views
- "What if" modeling
- Headcount planning
- Annual, quarterly, or weekly accounts periods
- A process-focused approach to business

Since accounting and ERP applications are focused strictly on business transactions, they aren't capable of establishing the business processes, assumptions, and models that are a critical part of performance management.

The downside to spreadsheet-based planning and budgeting

Spreadsheets have long been the preferred way to support planning and budgeting cycles. While it may be tempting to continue to use free spreadsheets, these applications are ill-suited for any company serious about adopting a strategic approach to performance management. Spreadsheets fall short in three interconnected areas:

Time

Cobbling together spreadsheets received from multiple departments and locations is time-consuming. As a result, it delays the time it takes to capture insights into operations in a meaningful, actionable package.

Cost

Using spreadsheets to manually drive planning and budgeting processes is, by nature, costly. It's not just that this time-consuming approach creates more administrative costs. It also keeps skilled financial professionals busy with administrative data gathering and consolidation tasks, when they could be engaging in higher-value activities such as data analysis. In other words, by administering the spreadsheet models required to support any moderately complex business, many finance professionals are serving as "spreadsheet jockeys" rather than adding value to the actual planning process.

Quality

Spreadsheet-based planning and budgeting processes are inherently error-prone and cumbersome. When multiple people (regardless of their skills) enter data into spreadsheets, errors inevitably occur. Formulas are often overwritten, causing additional errors in calculations. In fact, instead of supporting planning and budgeting, the spreadsheet model can constrain the processes. That's because this model supports only a fixed planning cycle rather than the more flexible, continuous planning approach required by business.

Taking into account the insufficiencies of spreadsheets as well as accounting and ERP software, the question becomes: What can you do to enhance your company's planning and budgeting capabilities and achieve better performance management?

Infor PM Business Edition: Planning and budgeting in action

Infor PM Business Edition has been designed specifically for SMBs that recognize the need for formal performance management, and believe that planning and budgeting is the right place to start. Preconfigured with best-in-class capabilities for automating planning and budgeting processes, the solution addresses the need for simplicity and ease of implementation, providing you with:

- Access to data sources required for planning and budgeting, compiled in a central database
- A web or Microsoft® Excel® interface that retains the familiar look and feel of spreadsheets, but eliminates the inherent drawbacks
- The ability to quickly adapt to business changes by adjusting a budget, automatically saving it to the database, and automatically updating reports and other documents affected by the change

With PM Business Edition, you can visually link your budget and business plan to better understand how changes affect your ability to achieve high-level corporate goals.

Infor PM Business Edition highlights:

- *Integration with underlying data*
- *Structure and data loading*
- *Web data entry*
- *Distinct user security roles*
- *Predefined templates*
- *Ad hoc and standard management reporting*
- *Prebuilt reports*
- *Infor methodology for implementation*

Planning

In the planning process, users model what they need to do to achieve the targets set for them. With Infor PM Business Edition, individual plans are immediately consolidated with all other submitted plans. If one piece of the plan is dependent upon other plans, business rules prevent it from being completed until the required information is received. Once plans are submitted, they are vetted against established business rules to ensure the plan is balanced and meets overall objectives. The system knows when plans have been submitted and informs the dependent planners. If updates are required, you can quickly incorporate a new version into the global plan. Because of the ease with which you can view data, it becomes simple to do “what if” scenarios. You can prioritize projects or look at product mix, and gain insight into marketing plan returns.

The planning module within PM Business Edition models aspects of the business or future plans. You can link these models to create an overall perspective for the business. Plus, you can share and synchronize model dimensions so changes in one model are automatically applied to other models. Data in the PM Business Edition planning module is stored in a relational cube, where it is aggregated based on the dimensional structure. The PM Business Edition planning application has both a web-based administrative console and an Excel-based client that you can use in either an online or disconnected state.

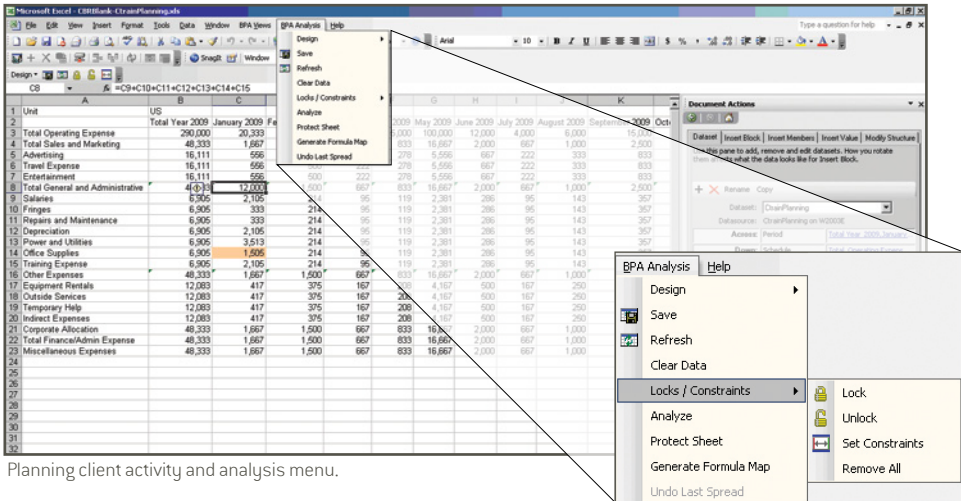
Administrative console

Using this console, administrators can set up and create base models that connect to the budget structures within PM Business Edition. The console supports maintenance tasks such as synchronizing structures and/or making data changes. Since the administrative console is web-based and links to the underlying database, it is always online and can be operated from any browser by anyone designated as an administrator.

Excel client

This client allows planners to use any functions and formats within the Excel application, as well as some planning-specific functions within PM Business Edition. A set of actions in the task pane links back to the database and retrieves the model structure. The Excel planning client lets you link to many models or datasets within one workbook. It also allows you to determine the dimension display (for example, columns, rows, or pages), input members and dimensional blocks, and create and modify the custom dimension members.

The use of formulas within the Excel client allows for top-down spreading. With top-down spreading, you can enter data into a summary-level member or a member with a formula. In both instances, the application adjusts the elements that make up that member. This makes it possible to set high-level targets and ensure that details are adjusted to reach that target.



Planning client activity and analysis menu.

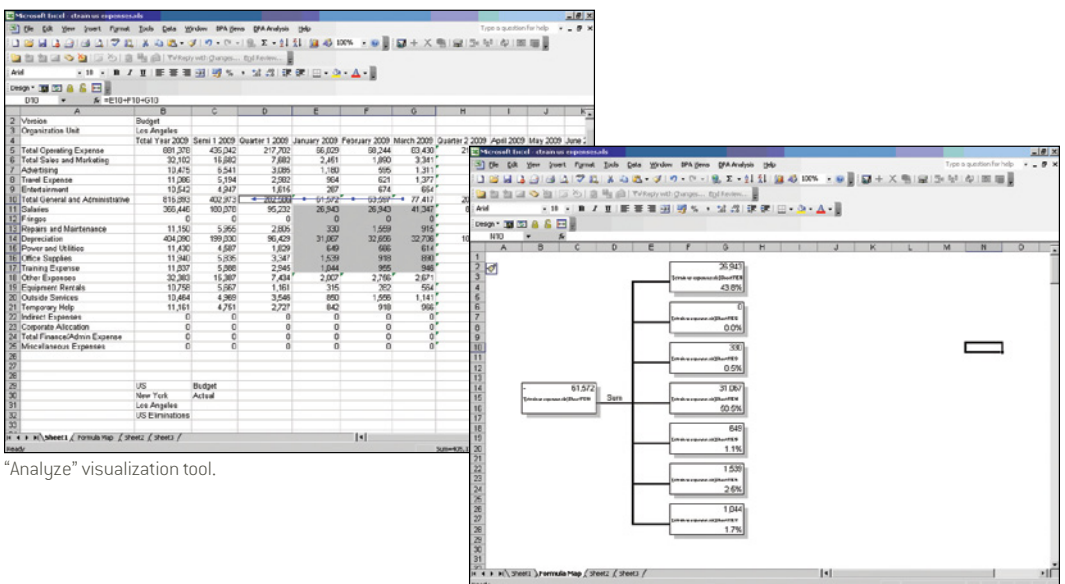
When you type a number over a formula in the Excel spreadsheet, the number will spread to the levels below in accordance with the following rules:

- If data exists in the levels below, the number will be used as the spread weights.
- If no data exists in the levels below, the new data will spread evenly.
- You can lock one or more cells so they don't form part of the spread.
- You can set minimum/maximum constraints on a cell. These constraints will be taken into account in top-down spreading.

The PM Business Edition planning module also makes it possible to undo the last spread.

Visualization tools

Useful tools such as “Analyze” and “Formula map” are accessible either through a right mouse click or from the Analysis menus.



“Analyze” visualization tool.

“Formula Map” visualization tool.

Budgeting

The budgeting process—often used as a way to allocate funds across an organization—is the manner in which budget producers show the value they generate from the dollars they spend. The process itself usually begins with a review of the prior period and an assessment of strategic goals. Using the Infor PM Business Edition budgeting module, you begin the process by loading prior year or period data. You can then review department-level or senior management-level data online, through Excel, or in printed reports.

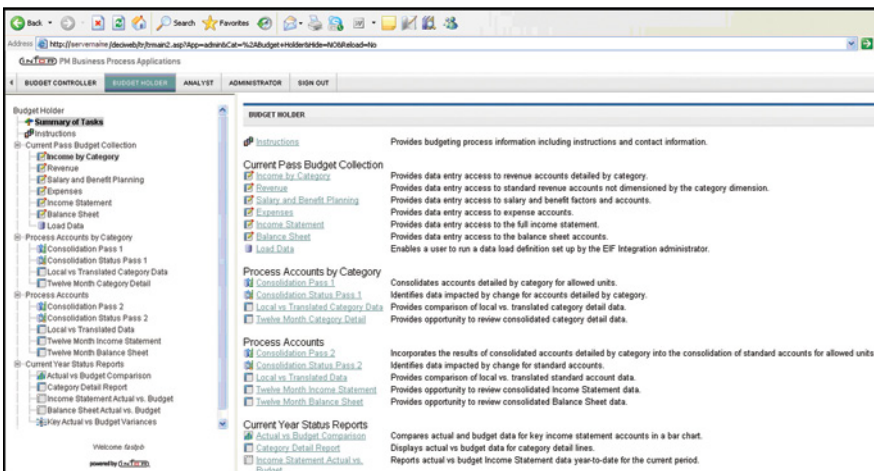
Budgeting is usually implemented as a “bottom up” approach, meaning data from many contributors is consolidated to form your corporate budget. The process is often iterative, meaning revisions are made until the budget receives approval from your finance department, management, and executives. Different organizations perform their budget process in different ways and at different levels of detail. For instance, some organizations perform zero-based budgets—building budgets from the ground up—while others extrapolate based on the prior year or the operational plans. Others will perform a combination of these or spread seed data across the organization. Once you enter and consolidate data, you can compare it to prior year actual and/or budget data.

One component of the budgeting process is frequency. Annual budgets tend to take up to four months to produce, after many iterative meetings where managers trade resources and targets. Infor PM Business Edition accelerates the process by gathering data from across your organization, making the data available for analysis, and seeding your budgets in a collaborative environment.

The PM Business Edition budgeting module is a collaborative solution that functions primarily as a web-based system and handles all budgeting approaches. The module is made up of three basic components—administration, web data entry and reporting, and Excel data entry and reporting.

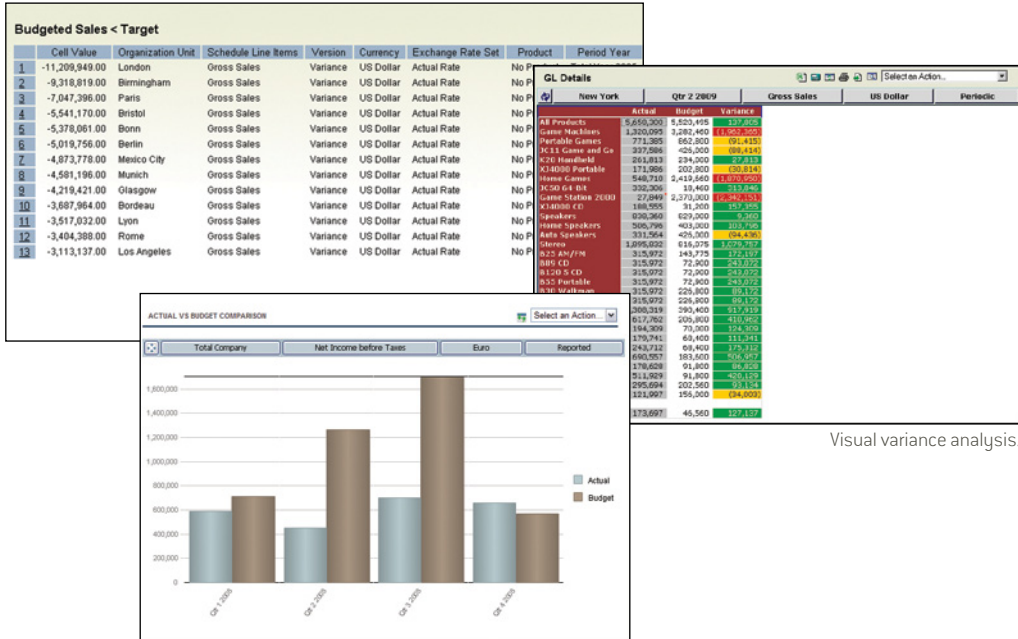
Administration

This component allows you to set up the core database, models, security, and dimensionality your organization wishes to use in budgeting. You can also use administration components to define how views will be visible on the web. You can define different web applications, using different uniform resource locators (URLs) and data access views with dimension profiles to limit the information displayed to end users (or budget holders and analysts).



Central web location for all end user budgeting activities.

Alert exception reporting.



Visual variance analysis.

Charts/graphs.

The budgeting module provides various visualization options (shown above) to highlight budget details.

Reporting and analysis

Infor PM Business Edition provides you with the ability to deliver information about plans and budgets to management and other decision makers. You can take advantage of reporting and dashboard capabilities such as graphs, charts, tables, gauges, alerts, ad hoc navigation, user-driven color coding, and exception monitoring. Infor PM Application Studio, the core reporting component of Infor PM Business Edition, works with Infor PM Planning and Budgeting to provide production-quality financial statements and support improved decision making.

With PM Application Studio, you can present planning and budgeting data, as well as data from other external sources, in a single report. Essential background information on customers, contacts, and more is often stored in text files, spreadsheets, or other semi-structured files. Infor PM Application Studio allows you to supplement planning and budgeting reports with links to relevant documents, so all the information necessary for decision making is in one location. Information is integrated via standard interfaces, such as object linking and embedding database (OLE DB), OLE DB for OLAP (ODBO), and others. You can instantly deploy all reports using standard web browsers via a corporate intranet or the web.

Infor PM Business Edition also provides you with many prebuilt reports to help you quickly and easily share financial results across your organization. As you can see in the table below, prebuilt reports include essential financial statements, comparisons of actual to planned performance, and performance based on different time intervals. Not only will you save time by not having to build these reports, you'll be able to get this information into the hands of decision makers more quickly. That means decision makers will have more time to analyze the content of the financial reports and make decisions that improve performance.

Prebuilt reports in Infor PM Business Edition

	Income statement	Balance sheet	Cash flow	Expenses
Actual vs. budget (long)	■	■	■	
Actual vs. budget (short)	■	■	■	
Periodic/YTD actual vs. budget (long)	■		■	
Periodic/YTD actual vs. budget (short)	■		■	
12-month statements (long)	■	■	■	
12-month statements (short)	■	■	■	■
Quarterly statements (long)	■	■	■	
Quarterly statements (short)	■	■	■	
Year on year (long)	■	■	■	
Year on year (short)	■	■	■	

The screenshot displays the 'Income Statement' report in Infor PM Application Studio. The report is titled 'Profit and Loss Account' and is set for February 2009. It compares actual performance against budget and year-to-date figures. The report includes columns for 'Periodic Actual', 'Budget', 'Variance', 'Year-to-date Actual', 'Budget', and 'Variance'. Key line items include Gross Sales, Returns, Discounts, Net Sales, Cost of Goods Sold, Total Sales and Market, Total General and Admin, Other Expenses, Total Operating Expenses, Operating Income, Interest Income, Share of Assoc PTP, Income Before Taxes, Income Tax, Net Income, Other Non Op Income/E, Minority Interest, Income after Minorities, Average Shares Outstanding, and Earnings Per Share.

	Periodic Actual	Budget	Variance	Year-to-date Actual	Budget	Variance
Gross Sales	46,857,689	44,803,318	2,054,371	94,690,937	44,803,318	49,887,619
Returns	1,807,695	2,662,663	(855,178)	3,658,221	2,662,663	995,558
Discounts	6,988,617	6,777,949	210,668	14,034,972	6,777,949	7,257,023
Net Sales	38,061,367	35,362,506	2,698,861	76,997,744	35,362,506	41,535,238
Cost of Goods Sold	12,621,695	10,277,200	2,344,495	25,349,687	10,277,200	15,072,487
Gross Profit	25,439,672	25,085,306	354,366	51,548,057	25,085,306	26,462,811
Total Personnel Costs	2,913,410	2,361,087	552,323	5,536,436	2,361,087	3,175,349
Total Sales and Market	3,020,873	6,276,195	(3,255,322)	6,332,650	6,276,195	56,455
Total General and Admin	6,807,100	6,291,993	515,107	16,279,697	6,291,993	9,987,704
Other Expenses	727,727	3,896,464	(3,168,737)	1,964,169	3,896,464	(2,332,295)
Total Operating Expenses	15,269,168	18,825,739	(3,556,571)	28,712,351	18,825,739	10,886,612
Operating Income	18,170,504	6,459,567	3,711,017	22,835,706	6,459,567	16,376,139
Interest Income	226,969	301,908	(74,939)	416,100	301,908	114,192
Share of Assoc PTP	0	0	0	0	0	0
Income Before Taxes	18,397,473	6,761,475	3,636,878	23,251,806	6,761,475	16,489,331
Income Tax	3,633,815	2,369,495	1,264,320	9,129,571	2,369,495	6,759,076
Net Income	6,763,658	4,391,980	2,369,758	15,122,235	4,391,980	10,727,565
Other Non Op Income/E	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0
Income after Minorities	6,763,658	4,391,980	2,369,758	15,122,235	4,391,980	10,727,565
Average Shares Outstanding	46,694,699	47,637,448	(942,749)	0	47,637,448	(47,637,448)
Average Shares Outstanding	49,552,087	49,542,946	909,141	0	49,542,946	(9,542,946)
Earnings Per Share	0	0	0	0	0	0

Profit and loss statement with budget variance using Infor PM Application Studio.

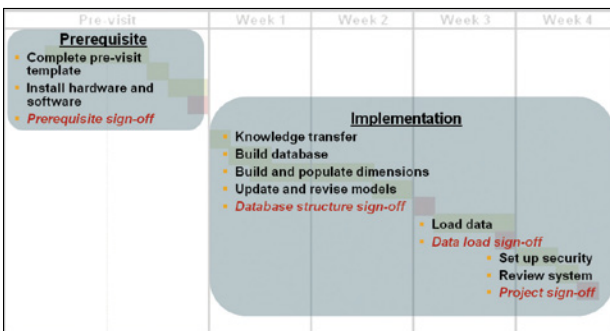
Implementation

We designed Infor PM Business Edition to help you get your base budgeting application up and running in 25 days. It all starts with pre-visit templates that help you organize and document your performance management needs. You provide details about your unique structure on your own time. Then we provide templates to help you easily specify your needs in areas such as:

- Dimensions
- Time and versions
- Currency
- Organization
- Activity accounts
- Standard accounts
- Activity specification

Once we complete the pre-visit templates and install hardware and software, the project implementation begins. Using an Infor methodology, we work with you to:

- Build a database.
- Build and populate dimensions.
- Update and revise models.
- Load data.
- Set up security.
- Review and revise systems.
- Transfer knowledge.



Implementation time frame and milestones.

PM Business Edition technical details

Infor PM Business Edition supports both Microsoft SQL Server® and Oracle® database platforms. A prebuilt performance model is delivered with the solution.

You can extend the prebuilt model with up to four custom dimensions with one hierarchy on each of the unit and custom dimensions. In order to ensure efficiency in the actual model, the implementation can accommodate up to 500 members on each of the unit and custom dimensions, with a cross-dimensional limit of 150,000 intersections.

Initial security is applied at the unit and version dimensions. This provides for the most common views based on the organizational structure, and provides security for viewing actual or budget versions.

The schedule dimension (chart of accounts) will have an initial population. You can replace these items with your existing chart of accounts.

Integration to one general ledger system is included and will be configured during implementation.

Conclusion

Implementing a formal performance management strategy has become a fundamental building block of business success. In the past, most companies, especially SMBs, could get away with planning and budgeting processes that were only loosely connected with day-to-day business operations.

But today, SMBs like yours must contend with more business variables. You also have a greater need to make timely and precise mid-course corrections to keep on the right trajectory. In response to these challenges, Infor has developed Infor PM Business Edition, a cost-effective performance management solution designed specifically for SMBs.

There is a better way.

At Infor, we work with a core belief. We believe in the customer. We believe that the customer is seeking a better, more collaborative relationship with its business software provider. And a new breed of business software: created for evolution, not revolution. Software that's simple to buy, easy to deploy and convenient to manage. Our 8,000+ employees in more than 100 countries and 70,000 customers stand with us. We look forward to your sharing in the results of our belief. There is a better way. For additional information, visit www.infor.com.

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