

## CPM: A Strategic Deployment of BI Applications

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Corporate performance management (CPM) combines business intelligence (BI) with performance methodologies, processes and metrics. Enterprises can use CPM to leverage BI initiatives and gain insight into their business.

## ANALYSIS

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Executives and managers have always needed to understand how their businesses are performing. However, recent events, such as the "dot-com" crash, the tough economic climate and the fallout from high-profile corporate failures like Enron have sharply increased executive focus on understanding and managing corporate performance. Gartner has highlighted the importance of business intelligence (BI) in providing insight into the business (see "Business Intelligence Imperative," AV-13-8785). A challenge for many executives is to understand how BI melds with performance management methodologies (such as the balanced scorecard) and management processes (such as budgeting, planning and forecasting). Too many enterprises have treated these as disconnected initiatives, perhaps implementing a balanced scorecard in isolation from the BI strategy. Gartner defines corporate performance management (CPM) as the combination of methodologies, metrics, processes and systems used to monitor and manage the business performance of an enterprise (see SPA-14-9282, "Corporate Performance Management: BI Collides With ERP"). Understanding the convergence between these aspects of CPM is key to enterprise success — enterprises that effectively deploy CPM solutions will outperform their industry peers.

### Methodologies Only Go So Far

During the past 10 years, there has been a boom in "performance management" methodologies. Performance management purports to solve executives' management challenges through the application of a methodology, which often appears enticingly simple and straightforward. Although most methodologies have some merit, they also have limitations. None of the performance management methodologies currently in vogue provide a perfect answer. In "A Starter's Guide To CPM Methodologies" (TU-16-2429), we identify some of the most well-known performance management methodologies, and highlight some of their strengths and weaknesses. Gartner recommends that enterprises review these methodologies and use those that make the most sense in their business context. Don't be afraid to mix and match elements of different methodologies. If there isn't one that works for your enterprise, don't be concerned, because new methodologies are constantly emerging and, like buses, there will undoubtedly "be another one along soon."

The balanced scorecard is the most widely adopted performance management methodology. The Harvard Business Review, which published the first major article about the balanced scorecard in 1992, has called it one of the most influential ideas of the last 75 years. However, as good as it is, if slavishly followed, it can cause challenges. In "The Unbalanced Enterprise Is More Able to Stay on Course" (TU-15-9477), we describe the underlying paradox of the balanced scorecard, and why striving for balance may not be a good thing.

Methodologies on their own cannot deliver a full solution to an enterprise's CPM needs. Many pure methodology implementations fail to deliver the anticipated benefits because they are not integrated with the fundamental CPM processes. In "The Processes That Drive CPM" (COM-16-2849), we describe the main process areas that underlie CPM. Although each enterprise's actual implementation of these processes may vary considerably, the building blocks are fundamentally similar. Many balanced scorecard implementations fail to deliver anticipated benefits because they are not integrated with the CPM processes, particularly those used at an operational level. By 2003, 80 percent of enterprises that fail to integrate the balanced scorecard into their planning and control cycles will drop the balanced scorecard and return to a less-organized set of metrics (0.9 probability).

### Measuring Performance

Another important aspect of CPM is deciding how to measure performance. Each functional area has metrics that are reasonably well-established (for example, financial ratios, workforce metrics or the supply chain metrics defined by the Supply Chain Council). In addition, some performance management methodologies may highlight certain metrics (such as Economic Value Added) that need to be measured and tracked. One metric that has become increasingly important is profitability, which now needs to be measured not only at company or business-unit level, but also by product, channel and customer. Correctly measuring and interpreting profitability is a vital part of a CPM solution for customer-centric industries such as financial services. In "Profitability Analysis: Strategic Financial Services CPM Tool" (SPA-15-9894), we describe the challenges for financial services providers (FSPs) in calculating and interpreting profitability in a complex environment. Although focused on FSPs, other customer-centric enterprises will also find this analysis relevant. We also identify the importance of activity-based costing as part of a CPM solution.

Enterprises must not focus CPM efforts around measuring purely financial metrics. This is where methodologies such as the balanced scorecard, which encourage the use of nonfinancial metrics, can be helpful. However, even without the influence of a methodology, enterprises must combine CPM initiatives with more operationally focused performance measurement initiatives. Customer relationship management (CRM) is currently a high priority for many enterprises, and in "CRM Analytics' Role in Corporate Performance Management" (COM-16-1419), we identify why and where CRM performance measurement initiatives should integrate with CPM.

### **CPM: An Emerging Market**

While the foundation for CPM is a combination of methodologies, processes and metrics tailored to an enterprise's needs, a CPM solution will only become truly effective when it is embodied in systems. This is where BI plays a crucial role. CPM represents the strategic deployment of BI (see "Strategic BI: Its Definition and Impact on Infrastructure," SPA-14-7169). BI applications deployed as part of a BI strategy provide an environment that can effectively embed CPM in an enterprise. Vendors recognize this and are rushing to deliver CPM "suites." However, most product offerings are relatively immature, and vendors' marketing often exceeds their product capabilities. In "Choosing a Vendor for Corporate Performance Management," we define the main vendor classes that are offering packaged BI applications (often called CPM "suites"), and describe how enterprises can identify which vendors may be most appropriate. Certain aspects of CPM have been targeted by stand-alone application solutions. In "Choosing Technology for Balanced Scorecard Applications" (DF-15-9473), we identify how the emergence of CPM is reducing the attractiveness of stand-alone balanced scorecard applications.

### **Deployment Challenges but Potential Benefits**

The concept of CPM sounds attractive, and vendor marketing materials only add to the hype. However, successfully deploying a CPM solution that encompasses methodologies, processes, metrics and BI applications is fraught with challenges. In "Challenges for FSP Corporate Performance Management" (SPA-15-9919), we identify the business and technical challenges FSPs face in moving to the concept of CPM, and suggest ways to address them. However, this analysis is not just relevant to FSPs — it will resonate with any enterprise moving to a customer-centric environment.

The architecture for the BI applications that form part of a CPM solution is a particular technical challenge. It is tempting to create specialized data models and tactical data marts to support quick deployment of CPM solutions, but this can lead to longer-term problems. In "Data Model Options That Support CPM Deployments" (DF-15-9618), we explore data integration and implementation options for CPM solutions and provide a framework for deciding which approach may be most suitable for your enterprise.

Although there are many business and application challenges to overcome, deploying CPM solutions can deliver true business benefits. Few enterprises are deploying CPM today — by year-end 2002, less than 10 percent of Global 2000 enterprises will have implemented corporate performance management solutions, although this will increase to 40 percent by 2005 (0.8 probability). However, there are some early examples of visionary enterprises that are moving toward a vision of CPM and delivering real benefits, and in "Corporate Performance Management Benefits Early Adopters" (COM-15-9802), we describe a number of examples.

For most enterprises, the question is where to start a CPM deployment. In "Guidelines for Deploying CPM Successfully," we describe how an enterprise can create a potentially high-value CPM initiative by identifying business "pain points" and leveraging current BI initiatives.

Finally, success in CPM requires the alignment of business needs and BI strategy. A BI competency center can be a key factor in building this alignment, and our previous research on this subject is highly relevant to any CPM initiative (see "The BI Competency Center — Organizing for Success," AV-14-4898).

## Features

"A Starter's Guide to CPM Methodologies" (TU-16-2429). Understand the strengths and weaknesses of some of the most popular performance management methodologies. **By Frank Buytendijk and Nigel Rayner**

"The Unbalanced Enterprise Is More Able to Stay on Course" (TU-15-9477). Measure strategic objectives by defining performance indicators using the balanced scorecard process. **By Frank Buytendijk**

"The Processes That Drive CPM" (COM-16-2849). Enable the successful implementation of enterprise initiatives with a cross-functional view of CPM. **By Nigel Rayner, Frank Buytendijk and Lee Geishecker**

"Profitability Analysis: Strategic Financial Services CPM Tool" (SPA-15-9894). Develop successful strategies for FSPs with a multidimensional view of customer profitability. **By Kimberly Collins**

"CRM Analytics' Role in Corporate Performance Management" (COM-16-1419). Understand how customer-centric analytics work with a broader CPM solution. **By Nigel Rayner and Gareth Herschel**

"Choosing a Vendor for Corporate Performance Management" (DF-16-0802). Select vendors carefully because of the wide variety of CPM solutions available to enterprises. **By Alan Tiedrich and Nigel Rayner**

"Choosing Technology for Balanced Scorecard Applications" (DF-15-9473). Implement balanced scorecard software as part of a corporate performance management suite. **By Frank Buytendijk**

"Challenges for FSP Corporate Performance Management" (SPA-15-9919). Tightly align business strategies and business intelligence processes with IT architecture and infrastructure to successfully implement CPM in FSPs. **By Mary Knox and Nigel Rayner**

"Data Model Options That Support CPM Deployments" (DF-15-9618). Choose the data model option that will provide the best foundation for a CPM solution. **By Bill Hostmann and Kevin Strange**

"Corporate Performance Management Benefits Early Adopters" (COM-15-9802). Understand how early adopters of CPM are generating business benefits and competitive advantage. **By Nigel Rayner**

"Guidelines for Deploying CPM Successfully" (TG-16-0957). Ensure a successful implementation of a CPM solution by planning it well. **By Nigel Rayner**

This research is part of a set of related research pieces. See "Corporate Performance Management Enhances BI Solution" for an overview.

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