ERP and FPM systems

Enterprise Resource Planning (ERP) and Financial Performance Management (FPM) are both great solutions that are necessary to run your construction business profitably and strategically, and they are better together.

The two systems play very different roles. In this article, we will highlight the similarities and differences of each, as well as outline when it may be time to reevaluate your existing tools.

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ERP vs. FPM

Before we jump in, let's first lay the groundwork by reviewing what is an ERP, what is FPM, and how do they relate?

An ERP solution is a transactional system meant to capture the individual transactions in an operational process. This allows organizations to accurately maintain records for a variety of areas, including financial accounting (general ledger, accounts receivable, accounts payable, etc.) and project management (job cost, work orders, change orders, etc.). An ERP helps companies scale the volume of transactions they process in different operations with increased accuracy, auditability, and control.

A Financial Performance Management (FPM) solution supports forward-looking processes such as budgeting, planning, forecasting, and what-if analysis, as well as financial/operational reporting and analysis. Central to an FPM solution is integration with ERP, Project Management (PM), Customer Relationship Management (CRM), and Human Resources Information (HRIS) systems, as the tool pulls together data from all business systems into a single platform for performance planning processes and analysis.

Essentially, an FPM solution helps you leverage your data for financial and operational decision-making.

Example: Where an ERP tracks job estimates and actual labor hours used on the job, an FPM solution can give the organization a holistic view of estimated labor hours required to complete the jobs with actual hours performed and the forecasted remaining hours to complete the job. An FPM solution will also automatically update all associated reports to identify potential shortfalls on your job margins.

How ERPs and FPM work together

ERP and FPM solutions are meant to be used together. On the next few pages, let's explore some ways that contractors are leveraging these technologies to run their business with an informed, thoughtful strategy.

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Leverage your data for forward-looking planning

Where an ERP system records your transactional and historical records, an FPM solution leverages your data to automate the processes of forward-looking data creation and planning.

Examples include budgeting, forecasting and projections, cash planning and analysis, and what-if scenarios. From there, an FPM solution can also automate the reporting and analysis of this data, such as budget vs. actuals, providing you with real-time insights into your performance.

> "Forecasting job revenue has vastly improved with Prophix. We now interface our ERP, project scheduling, and bid management platforms with Prophix. Previously, we were gathering multiple spreadsheets for 100+ different projects with estimated monthly billing and compiling it all into a single Excel spreadsheet. We can now forecast production based on actual quantities coming from MS Project and compare it to the budget to determine if a project is tracking on margin."
>
> **Marty Gardner**
> Chief Financial Officer
> Wilson Construction

Gain deeper insight to drive strategic decision-making

When it comes to data analysis, an FPM solution is the way to go. The flexibility of reporting allows you to use simple click-and-drag functionality to view your data in different ways.

For example, construction companies use FPM to analyze their margin fade across project managers, geographic regions, by customer, etc. They are also able to view trend analysis over time and by project phase, with the ability to drill down to the transactional level detail.

> "Prophix gives you a great ability to use your current financial data and forecast future revenues and expenses. The additional level of data analysis ability pushes it over the edge. If the data is in your ERP and you want to know something about it, Prophix gives you a way to get that answer."
>
> **Andrew Commons**
> Assistant Controller
> Gaylor Electric

Integrate multiple data sources to model the health of your business

An FPM solution integrates your ERP with all your other data systems (CRM, PM, HRIS, etc.) to provide a holistic view of business performance. This integration can be used as a foundation for analysis and reporting, and forward-looking planning.

Examples include projecting potential projects from the CRM in combination with your work-in-progress (WIP) to provide more accurate forecasts or integrating these various data sources and increasing cross-departmental collaboration in order to perform accurate detailed cash planning.

"Cash is critical to the long-term success of any company, so being able to project and plan cash flow is very important. We build cash flow projections so we can plan ahead and make better decisions related to funding purchases in the future or reallocating investments to generate higher income."

Stephanie Baccam
Accounting Supervisor
Interstates Companies

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How to reassess your software environment

When re-evaluating your current software environment, the timing of events will be critical in determining the ease at which you are able to migrate to new platforms.

Additionally, it is important to understand which changes are necessary. There is no sense in ‘fixing what isn’t broken’. Trying to implement too much too quickly can cause confusion and frustration among employees.

Migrating to a new ERP is a massive undertaking, so if it’s established that a change of ERP is necessary, it is critical to implement the appropriate tools to make this transition as smooth as possible. Many contractors use their FPM solution to help ease this transition.

Should you switch your ERP?

Don't 'fix what isn't broken'. Before investing time and resources into any project, it's important to thoroughly evaluate whether a change is necessary.

There are three common situations that warrant a replacement of your ERP system, which are covered in detail on the next pages. Overall, you should consider switching your ERP when the problem comes from the ERP's ability to capture the data you need.

When to add FPM:

When your ERP is capturing the data you need, but you are having to export to Excel in order to consolidate the information, run analysis, and share with other stakeholders, then it is time to look at FPM. Excel is not a Financial Performance Management solution. Exporting to Excel is a clear sign that you've outgrown your current tools. It's time for an FPM solution.

Three scenarios that warrant an ERP switch

There are three common situations that warrant replacing your ERP system:

1. Legacy ERP replacement

Making an ERP change is a large undertaking that can be very disruptive to the company as it impacts every aspect of operations. These projects often span multiple years depending on the size of the company.

For that reason, most organizations hold off on making a change many years after they've outgrown their ERP. These systems often become unsupported products that use dated technologies. They also become very problematic for IT teams to maintain. Incompatibility and older solution architectures can leave a company behind in its ability to leverage modern mobile solutions for the field that give a greater competitive advantage.

2. Small-medium business (SMB) financial accounting system to ERP

For the same reason a company might delay changing systems to avoid company-wide disruption and a lengthy and costly project, many companies continue to use the SMB financial accounting platforms they adopted as a much smaller organization.

Low cost, "out-of-the-box" accounting systems like QuickBooks can help SMBs get off the ground quickly. However, there reaches a time in a company's growth and evolution that warrants the implementation of a true enterprise-level ERP system with broader business process applications that address the needs of every area of operations beyond finance and accounting.

3. Change in ERP strategy – from horizontal to vertical or vice versa

Horizontal ERP solutions are designed to serve a variety of industries and business models. They have a broad range of base functionality and serve as the core system. Other partner systems are integrated to send and receive data for specialized processes. Rich partner ecosystems round out broad and flexible base functionality in horizontal ERP systems.

Vertical ERPs support specific business processes unique to a vertical. They support a high degree of verticalized customization. These systems are focused on solving specific vertical business challenges and they reduce the need for customization. While they often have very deep vertical specialization, they often lack depth on broader industry-agnostic functionality.

There are pros and cons to both, but a company may want to shift its technology strategy from one to the other.

Get the timing right

Contractors who are switching to a new ERP are concerned with three things:

1. Ensure you are never without the critical reports, and data you need to run your business
2. Get it right the first time
3. Maximize your return on investment (ROI)

For these reasons, it is best to implement an FPM solution first, before getting started on an ERP transition.

Ensure you are never without the critical data and reports you need

It is not uncommon for contractors to run into this scenario: upon going live with their new ERP, they realize that they are missing some key reports, metrics, and functionality that they require in order to run their business.

Their employees are disempowered by a lack of insight and data, and in that critical moment they are left without the reports and data they need.

It is best to avoid this situation altogether by proactively investing in the tools you need to maintain business as usual through this transitional period.

By implementing an FPM solution before an ERP switch, your team will never be without the data and insight that they need. Throughout your ERP implementation, you will have access to all your existing systems, reports, and processes. Once the new ERP is ready to integrate, it's a simple remapping exercise to start bringing the new ERP data into your FPM solution.

Your FPM solution can hold all your historical data, so this is not lost in the transition. This can be leveraged for trend analysis, period-over-period analysis, and for prepopulating budgets and forecasts.

Get it right the first time

Another key difference between ERP and FPM solutions is the degree of flexibility. Setting up your ERP is like building in concrete—rigid and fixed—whereas setting up your FPM is more like building with Lego—adaptable and easy to modify.

For this reason, contractors who are investing in an ERP switch will opt to test out changes in their FPM solutions first. That way, when they implement the ERP, they will get it right the first time.

A common example of this is changing your chart of accounts. Switching ERP platforms is an opportune time to implement organizational changes, such as changing your chart of accounts. And as is often the case, contractors leverage their FPM solution to aid in this change. You can model different chart of accounts in your FPM solution and view associated reports and templates, while maintaining the flexibility to change them as you go. Once you have this right, you can implement the chart of accounts into your new ERP.

This approach helps to ensure ROI on your ERP implementation by limiting the time and resources spent on setup.

Maximize your ROI

An ERP transition is a significant investment of both time and resources, so it's crucial to maximize your ROI by selecting a tool that delivers on its promises.

Be cautious of ERP vendors that claim to offer FPM functionality. While many ERP vendors offer some level of FPM functionality as part of their system, this is often more of a marketing tactic than a true solution, ultimately shortchanging customers.

- ERP companies are not FPM specialists. Many ERP vendors offer FPM-like features to promote their ERP and attract new customers, but these solutions often fail to deliver genuine FPM functionality. As a result, they may not fulfill all their promises.

- A homogenous solution does not fit a heterogenous environment. Often the FPM functionality offered by your ERP vendor will only work with general ledger (GL) data and will break down as new data sources are added. This limits the ability of the system to incorporate the data required to model your business performance.

- Diversifying your portfolio of software vendors gives you more leverage and helps to ensure better service and support from each vendor.

Conclusion

ERP and FPM solutions are most effective when combined to run your construction business smoothly and strategically.

When reassessing your software environment, it is important to understand the unique role each system plays, helping you identify opportunities for improvement.

Investing in an ERP is a significant commitment and should be pursued only when necessary. Before undertaking this project, ensure you have the right software in place to facilitate a smooth transition and maximize your return on investment.

About Prophix®

Ambitious finance leaders engage with Prophix to drive progress and do their best work. Leveraging Prophix One™, a Financial Performance Platform, to improve the speed and accuracy of decision-making within a harmonized user experience, global finance teams are empowered to step into the next generation of finance with no reservation. Crush complexity, reduce uncertainty, and illuminate data with access to best-in-class automated insights and planning, budgeting, forecasting, reporting, and consolidation functionalities. Prophix is a private company, backed by Hg Capital, a leading investor in software and services businesses. More than 3,000 active customers across the globe rely on Prophix to achieve organizational success. Additional information at www.prophix.com.

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