ERP and FPM systems

Enterprise Resource Planning (ERP) and Financial Performance Management (FPM) are crucial for running your business profitably and strategically, and they're most effective when combined. Though they play very different roles, this guide will highlight their similarities and differences, and outline when it may be time to reevaluate your existing tools.

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ERP vs. FPM

Before we begin, let’s understand what an ERP and FPM is, and their connection.

An ERP solution is a transactional system of record designed to capture individual transactions in operational processes. This allows organizations to maintain accurate records across financial accounting, customer and revenue management, procurement management, and personnel management. An ERP helps companies scale the volume of transactions they can process with increased accuracy, auditability, and control.

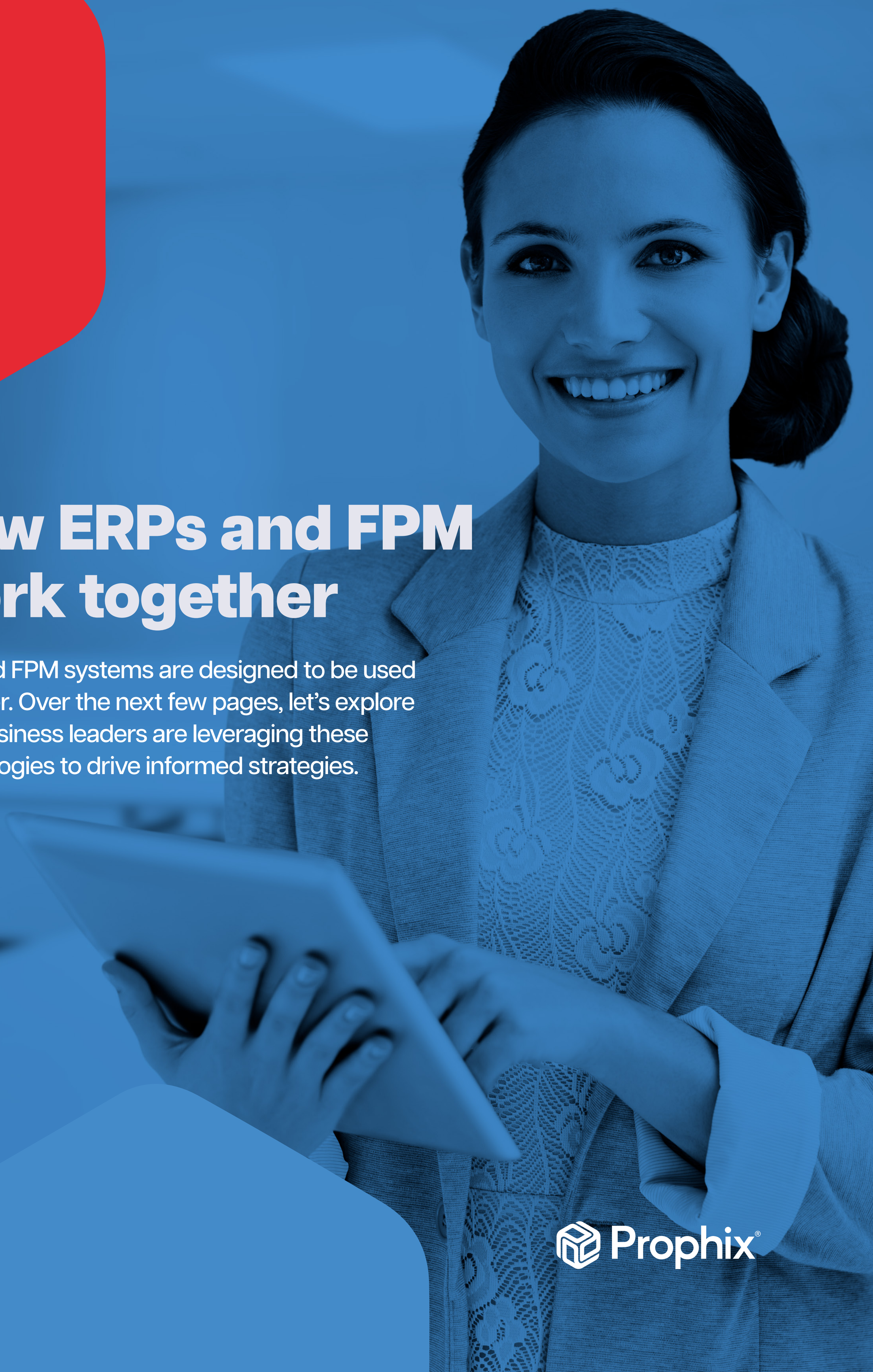
A Financial Performance Management (FPM) solution supports forward-looking processes such as budgeting, planning, forecasting, and what-if analysis, as well as financial and operational reporting and analysis. Central to an FPM solution is its integration with ERP, Customer Relationship Management (CRM),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

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

Example: While an ERP tracks month-to-date revenue and actual hours worked, an FPM solution can give your organization a holistic view of your performance by estimating the revenue and hours needed for the entire month. It combines actuals with forecasts, automatically updating reports to highlight potential margin shortfalls.

How ERPs and FPM work together

ERP and FPM systems are designed to be used together. Over the next few pages, let's explore how business leaders are leveraging these technologies to drive informed strategies.



Leverage your data for forward-looking planning

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

Examples include budgeting, forecasting, cash planning, and what-if scenario planning. 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.

BayCoast BANK

> “Prophix One allows you to have all your data at your fingertips. For us, this was huge because we were able to consolidate multiple systems into one. We can produce reports much more quickly and without manual intervention by simply updating the dates.”
>
> **Emma Pontes**
> AVP, Senior Financial Analyst
> Baycoast Bank

Gain deeper insight to drive strategic decision-making

When it comes to data analysis, an FPM solution is ideal. Flexible reporting allows you to use click-and-drag functionality to view your data in different ways.

For example, companies use FPM to analyze their resource utilization across services or products, by geographic region, or by customer. They are also able to view trend analysis over time and by revenue driver, with the ability to drill down to the transactional level of detail.

BOULAY

"The key from day one was improved efficiencies and strengthening the accuracy of our data. Before Prophix One, the bulk of our forecasting was time-consuming data entry. With Prophix One, we have elevated the process and can have those good conversations about the assumptions and dive in deeper into what drives our forecast and make smarter decisions."

Kris Braaten
Director of Business Intelligence
Boulay Group

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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 revenue from your CRM, in combination with your current ongoing expenses, to create more accurate forecasts. You can also integrate your various data sources to increase cross-departmental collaboration and make smarter decisions.

“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

How to reassess your software environment

When re-evaluating your current software environment, timing is crucial for a smooth migration to a new system.

Identifying which changes are necessary is key – there is no need to ‘fix 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 substantial undertaking. If a change of ERP is indeed necessary, it is essential to implement the appropriate tools to ensure a smooth transition. Many businesses use their FPM solution to help with this transition.

Should you switch your ERP?

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

There are three common situations that may warrant a replacement of your ERP system, which are covered in detail on the next pages. Overall, you should switch your ERP if it fails to capture the necessary data.

When to add FPM:

When your ERP is capturing the data you need but requires an export to Excel to consolidate the information, run analysis, and share with other stakeholders. Excel is not designed for Financial Performance Management, and so, exporting data to Excel is a clear sign that you’ve outgrown your current tool. It’s time for an upgrade to an FPM solution.

Three scenarios that warrant an ERP switch

Here are three common reasons to replace your ERP system:

1. Legacy ERP replacement

Changing your ERP system is a large undertaking that can be highly disruptive to the company, as it impacts every aspect of operations. Depending on the size of the company, these projects often span multiple years.

As a result, many organizations delay making a change until long after they've outgrown their ERP. Legacy systems often become unsupported products, relying on outdated technologies that become very problematic for IT teams to maintain. Incompatibility and outdated system architectures can prevent companies from leveraging modern solutions and limit their ability to remain competitive.

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 project, many companies continue to use the SMB financial accounting systems 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, as your company grows and evolves, there comes a time when it is necessary to implement a true enterprise-level ERP system with broader business process applications that address the needs of every area of your operations beyond finance and accounting.

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

Horizontal ERP systems are designed to serve a variety of industries and business models. They have a broad range of base functionality and function as a primary finance system, while partner systems are integrated to send and receive data for specialized processes. Rich partner ecosystems round out base functionality in horizontal ERP systems.

In contrast, vertical ERPs support specific business processes unique to a particular industry and offer a high degree of customization. While these ERPs often have deep vertical specialization, they often lack depth on broader industry-agnostic functionality.

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

Get the timing right

Organizations who are switching to a new ERP should focus on three key concerns:

1. Ensuring continuous access to critical data and reports you need to run your business
2. Getting it right the first time
3. Maximizing your return on investment (ROI)

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

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

Upon going live with your new ERP, it is not uncommon for an organization to realize that they are missing some key reports, metrics, and functionality needed to run their business.

Employees are left disempowered, lacking critical insights and data at a time when they need them most.

To proactively avoid this situation, invest in the tools you need to maintain business as usual through this transitionary period.

Implementing an FPM solution first ensures your team will never be without the data 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 also 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, organizations who are investing in an ERP transition will often choose to test changes in their FPM solutions first. This approach ensures that when they implement their ERP, they will get it right the first time.

A common example of testing changes is when revising your chart of accounts. Switching ERP systems presents an ideal opportunity to implement organizational changes. Often, organizations leverage their FPM solution to facilitate this process. You can model different charts of account hierarchies in your FPM solution and view associated reports and templates, while maintaining the flexibility to change them as you review. Once finalized, 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 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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