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Predicts 2016: Financial Management Applications

23 November 2015 | ID:G00293032

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Summary

Financial management business applications are going through a period of significant change, due to changing enterprise priorities and technology evolution.

Overview

Key Findings

- The corporate performance management (CPM) suite has broken up into two components — financial corporate performance management (FCPM) and strategic corporate performance management (SCPM).
- Technology improvements are providing better linkage of F/SCPM to financial ERP processes, along with improvements to link HR, supply chain management (SCM) and CRM with financial processes.
- SaaS core financial management applications are becoming more viable for large enterprises (organizations with revenue greater than $1 billion per annum).

Recommendations

- Identify opportunities to link financial and operational planning processes through SCPM business applications, while leveraging FCPM to improve accounting processes, from the opening of the accounting cycle through "the last mile of finance."
- Examine corporate planning initiatives with the goal of designing a more inclusive, dynamic approach that links critical planning components by expanding plan participation, leveraging related operational data and employing appropriate technologies.
- Consider SaaS offerings against on-premises and hosted solutions when evaluating your core financial management applications.

Strategic Planning Assumptions

By 2018, at least 25% of new core financial application deployments in large enterprises will be public cloud SaaS.

By YE18, 60% of organizations will have replaced their CPM suites with two separate components — financial corporate performance management (FCPM) and strategic corporate performance management

(SCPM).

By YE18, 40% of organizations will build end-to-end processes linking F/SCPM to financial ERP processes and to HR, SCM and CRM with financial processes due to technology maturity.

Analysis

Deploying a CPM suite has been a major initiative for many of our clients. Gartner Magic Quadrants on this topic have been used extensively by our clients when forming a framework for CPM and selecting business applications in this area. When Gartner defined the market (and for many years after), there was a coordinated effort to select more unified solutions for the office-of-finance and strategic CPM. However, market activity has shown a distinct buying trend of organizations considering these as separate products to support accounting and finance/business planning departments, particularly in the upper market.

Many of these changes in buying behavior are due to new capabilities provided through technology advances. The cloud, in-memory computing (IMC), hybrid transactional/analytical processing (HTAP) and embedded analytics are changing the game for the finance department. As a result, there is an increase in demand for best-of-breed solutions to meet the needs of the finance department in organizations.

In the past, these organizations would have considered nothing less than consistency from their megasuite vendors. This postmodern ERP approach has extended further into finance, where end users have taken back more control of their business applications from IT and extended their use of solutions to address new and existing tasks. They will need to understand these developments and figure out what role they should take going forward in support of finance business applications initiatives.

What You Need to Know

This is a time of major disruption in the financial business applications markets, for both ERP and F/SCPM. The following strategic planning assumptions describe how the CPM suite has split into financial and strategic components, how IMC is altering ERP and F/SCPM approaches to business applications, and how other leading technology solutions are changing financial business applications.

Strategic Planning Assumptions

Strategic Planning Assumption: By 2018, at least 25% of new core financial application deployments in large enterprises will be public cloud SaaS.

Analysis by: Nigel Rayner, John Van Decker, Chris Iervolino

Key Findings:

Core financial applications provide visibility into an enterprise's financial position through automation and process support for any activity that has a financial impact. These include the core functional areas of general ledger (GL), accounts payable (AP), accounts receivable (AR), fixed assets (FA) and project accounting (PA). To date, adoption of SaaS for core financial applications has been prevalent among small and midsize organizations. Most large enterprises (organizations with revenue greater than $1 billion per annum) have been reluctant to adopt SaaS for core financial applications due to the immaturity of SaaS for large, complex organizations and their innate conservatism concerning a core enterprise system of record (including cybersecurity concerns). Ripping and replacing core financial applications in a large enterprise can be a complex task due to the high number of interfaces/integration points with the GL.

Consequently, most SaaS ERP adoption by large enterprises has been part of a postmodern ERP hybrid deployment, where the core financial applications have remained on-premises but other ERP business capabilities (like HCM and indirect procurement) have moved to the cloud (see "2015 Strategic Road Map for Postmodern ERP").

However, two factors are driving a shift in the market:

1. **The increasing maturity of SaaS core financial applications from vendors like Oracle and Workday that can be considered by large enterprises.** Although Gartner estimates the number of $1-billion-dollar-plus organizations live with SaaS core financial applications (from all potential vendors) is probably fewer than 200, more proof points in this segment will emerge in the next 12 months. Also, newer offerings from SAP and Infor are entering the market, while established vendor NetSuite is more actively targeting larger organizations. Thus, within the next 12 to 18 months, large enterprises will have more SaaS core financial applications to choose from.
2. **An increasing replacement cycle as more organizations "flip" their full ERP portfolio to the cloud.** Many organizations are being driven by vendor roadmaps to reconsider their strategy for core financial applications that may have been in place for 10 or 15 years. This means many organizations that may already have deployed some SaaS applications are evaluating when would be the right time to "flip" the rest of their ERP applications to the cloud. Many service-centric organizations (where the focus is on an administrative ERP strategy) are ready to take this step and are just waiting for greater maturity in the SaaS offerings.

Consequently, we anticipate that at least one in every four new core financial application deployments among large enterprises will be public cloud SaaS (rather than hosted or managed private cloud deployments). These will primarily be in service-centric organizations that do not require complex operational ERP capabilities, or those using financials purely as a system of record.

Market Implications:

The choices for large enterprises considering replacing core financial applications will increase in the next two to three years. Although public cloud SaaS options will become more credible, on-premises solutions will still be viable and there will also be an increase in cloud hosting and managed cloud services from many vendors. This will also create significant changes in the ecosystem that support implementation of core financial applications in large enterprises. Service providers will need to adapt their services to focus more on configuration than customization and extension, which will reduce margins. This will allow new players to enter the market and thus the "usual suspects" may not be the obvious choices when implementing SaaS core financial applications. Also, moving core financial applications to the cloud creates new integration challenges because many feeder systems may remain on-premises; so service providers will need to provide new cloud-to-ground integration services and help organizations manage analytic needs across cloud and on-premises applications.

Recommendations:

- Large enterprises with revenue between $1 billion and $10 billion can consider SaaS core financial applications now. However, check availability of any required functionality for your industry, along with support for geographies and languages.

- Organizations with revenue of more than $10 billion that are keen to be early adopters of new technology and are prepared to work as co-development partners with vendors could consider these applications now. If you do not want to be an early adopter, monitor peer adoption over the next 12 to 24 months to decide when you should include SaaS core financial applications in any evaluation.
- Evaluate service providers on their ability to support your move to public cloud core financial applications, and address new integration and analytics challenges.

Related Research:

"IT Market Clock for Financial Management Applications, 2015"

"Don't Believe the Hype: Implementing SaaS ERP/Business Applications Is Not Fast and Easy"

"Survey Analysis: Critical CFO Technology Needs: 2015 Gartner FEI Study"

Strategic Planning Assumption: By YE18, 60% of organizations will have replaced their CPM suites with two separate components — financial corporate performance management (FCPM) and strategic corporate performance management (SCPM).

Analysis by: John Van Decker, Chris Iervolino, Nigel Rayner

Key Findings:

CPM has experienced significant innovation over the past five years, and the traditional CPM constructs that Gartner has tracked needed to be modified in 2015. The CPM suite as we know it has evolved and is causing Gartner to decouple the CPM suite into two separate market segments: FCPM and SCPM. This can be attributed to many aspects that have influenced this important change:

- Postmodern ERP approaches are causing organizations to consider components of the CPM suite separately.
- Online analytical processing (OLAP)-based budgeting, planning and forecasting (BP&F) solutions are leading the way to corporate planning and modeling solutions leveraging new platforms and extending functionality.
- BP&F has evolved past finance using CPM tools to integrated financial planning (IFP), led by IMC and cloud innovations.
- Management reporting now contains more robust visualizations and an integrated performance perspective.

Market Implications:

The above factors are largely responsible for breaking the CPM suite into two distinct, yet related, markets. In this research, we describe what the suite has evolved into and how organizations should seek to leverage its capabilities. For firms that have already made significant investments in CPM suites, there is no need to disrupt your current investments immediately, but you will need to consider new capabilities that are being provided, such as integrated financial planning and reconciliations management.

The split in CPM enables finance application strategists to leverage FCPM applications to better target improvements in accounting processes, as well as management reporting and analysis, without settling for unnecessary, suboptimal or nonexisting SCPM solutions that may be part of that particular CPM suite. The split also enables finance and corporate application strategists to leverage SCPM solutions to provide enhanced business planning and best practices for corporate planning and modeling, performance reporting and strategy management, this time without the concern of purchasing or considering FCPM capabilities.

On the other hand, a combined FCPM and SCPM suite approach is often still appropriate for small or midsize businesses (SMBs), and when a single technology stack provides a unique advantage. Considering the market constructs and capabilities that are offered from vendors outside the traditional CPM suite realm, hybrid approaches could provide many new opportunities to gain efficiency and competitive advantage.

Recommendations:

- Leverage the new technologies to widen solution adoption, enhance process collaboration and improve corporate planning and modeling accuracy.
- Identify opportunities to link financial and operational planning processes through SCPM business applications.
- Consider FCPM to improve accounting processes, from the opening of the accounting cycle through "the last mile of finance."
- Monitor your ERP/finance system vendor roadmaps to identify the degree to which they are using IMC and HTAP to deliver significant business value through integrated FCPM and SCPM solutions.
- Continue to select integrated FCPM and SCPM if you have a high degree of integration between these functions. This may remain the preferred approach for SMBs.

Related Research:

"The Breakup of the CPM Suite"

"Magic Quadrant for Corporate Performance Management Suites"

"Getting More Value From CPM: Strategic Versus Office-of-Finance CPM"

"Enhanced Finance Controls and Automation Fills the Gaps in ERP and CPM Processes"

"In-Memory Computing Reinvents Integrated Financial Planning"

"Integrating Financial and Workforce Planning"

Strategic Planning Assumption: By YE18, 40% of organizations will build end-to-end processes linking F/SCPM to financial ERP processes and to HR, SCM and CRM with financial processes due to technology maturity.

Analysis by: *Chris Iervolino, Nigel Rayner, John Van Decker*

Key Findings:

Several trends, fueled by technological change, are providing new opportunities to empower finance's ability to help optimize overall enterprise performance. These trends include:

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- The availability of in-memory-enabled HTAP and cloud-based solutions
- The popularity of hybrid cloud/on-premises and multivendor environments in support of additional business-user-focused flexibility and ease of use
- The expansion of embedded analytics within business applications

These changes are significantly improving organizations' ability to manage their corporate performance. SCPM solutions enable CFOs and other business leaders to manage and optimize organizational performance and guide strategic direction. Unfortunately, these solutions have only partially delivered on this promise. They've been more successful at providing control, compliance and transparency for budgeting and planning than they have at orchestrating overall enterprise performance. This shortcoming will become more problematic as competitive pressures necessitate the use of real-time feedback provided by customers, Internet of Things-enabled devices and other sources for strategic financial planning purposes.

Market Implications:

Business applications with consumer-grade usability and improved analytics have aided product adoption within the different business domains. These solutions have improved performance management capabilities in individual areas; however, the office of finance typically focuses on reporting on the aggregated result of these siloed efforts instead of facilitating their coordination. Finance organizations have recognized this shortcoming for more than a decade. Unfortunately, insufficient solutions such as those related to integration, ease of use and performance have hampered their ability to fully address this shortcoming. The office of finance must re-evaluate its competencies within the context of new possibilities enabled by cloud, IMC and other technologies. These technology forces have changed the way SCPM applications function alongside FCPM applications.

The following improvements will be made in financial business application linkage:

HTAP and cloud enable greater financial and operational plan coordination — HTAP architectures enable applications to analyze large volumes of real-time data. This means planning applications can handle more complex and granular models and will be able to perform simulation in real time on "live" transaction data, significantly improving responsiveness of planning and forecasting processes. Also, these applications will be able to handle more sophisticated models that link operational and strategic planning processes, thereby enabling an enterprisewide approach to performance management. Many applications have been designed or re-engineered to meet demands around usability, decreased implementation and support complexity, and cloud-delivered solutions are frequently best able to meet these requirements. They generally have a greater potential to foster wider end-user adoption, increase end-user collaboration and provide a faster time to value. This makes them available to a broader set of users, again supporting a more enterprisewide approach to performance management.

Embedded analytics tighten performance feedback loops — Embedded analytics will redefine how certain SCPM processes are executed; for example, analysis will become an integral part of the planning process itself, rather than a separate activity performed at specified points (such as a monthly or weekly management reporting review). This will enable new types of real-time, business-driven decision-making processes. It's possible to envisage solutions that contain the full spectrum of analytic capabilities (descriptive, diagnostic, predictive and prescriptive) as a "closed loop"-type system. This will allow the automation of structured decision making within ERP-based transaction processes to produce more optimized business outcomes aligned with corporate strategy. It will also help inform more complex, unstructured, SCPM-based decisions by utilizing analytics behind the scenes to present the user with information, options, recommendations or warnings as part of the natural user experience flow.

Less precise delineation between ERP and SCPM — HTAP architectures enable significant performance improvements and allow advanced analytics to run, in real time, on transactional data. This will bring ERP and SCPM closer together for certain processes such as integrated financial planning. At a high level, more integrated ERP-SCPM planning processes will allow for greater agility and analytic insight and will allow traditional, finance-focused "board book" reporting to evolve into more comprehensive, collaborative and real-time performance reporting. These "performance playbooks" will provide additional performance explanation that incorporates both financial results and the operational activity behind them to more effectively guide executive decision making. The blurring of the boundaries between ERP and SCPM will be driven by SCPM vendors leveraging new technologies such as IMC (which will allow them to source transaction data in real time from ERP applications) and vendors such as SAP and Workday that leverage a common in-memory platform for both ERP and SCPM. Other vendors will also use the cloud to obscure application integration points as the user increasingly focuses on business processes and not the individual software product supporting them.

Cloud applications available for all SCPM and FCPM processes — Delivery of both SCPM and FCPM applications in the cloud will be the norm, providing organizations with additional tactical and strategic options to support the evolving role of the CFO. These offerings can provide greater cost control, flexibility, agility, support and end-user autonomy, as well as innovative new social, mobile and analytic capabilities. Examples of these new capabilities include better collaboration, improved efficiency, better profitability planning and faster plan turnaround.

Recommendations:

- Consider separate solutions for SCPM when a single product suite or vendor cannot provide both centralized control and the functionality and flexibility required by a more diverse set of cross-functional business users.
- Examine corporate planning initiatives with the goal of designing a more inclusive, dynamic approach that links critical planning components by expanding plan participation, leveraging related operational data and employing appropriate technologies.
- Plan to exploit embedded advanced analytics to support more sophisticated and organizationwide planning processes.
- Assess your SCPM vendor's ability to leverage the cloud, IMC and embedded analytics to support more effective SCPM.

Related Research:

"Get Ready for Digital Business With the Digital Business Development Path"

"The Breakup of the CPM Suite"

A Look Back

In response to your requests, we are taking a look back at some key predictions from previous years. We have intentionally selected predictions from opposite ends of the scale — one where we were wholly or largely on target, as well as one we missed.

On Target: 2015 Prediction — Through 2018, 20% of large enterprises will deliver real-time visibility into financial performance, using IMC with their finance systems.

The prediction was on target because IMC technologies in ERP and CPM applications deliver the following benefits:

- *Performance improvements* — IMC technologies can improve the performance and scalability of ERP and CPM applications. This means most processes in ERP and CPM are likely to run faster, include combined financial and operational data, and provide more insightful analytics, while the applications will be able to handle more intensive query and reporting workloads.
- *Advanced analytics* — Most ERP applications use highly normalized relational architectures to support high-volume transaction processing. This architecture can support simple reporting and inquiry in real time; but it struggles to support more complex analytics and queries that require the creation of summaries, aggregates and cubes, which are best handled by analytic applications running against a separate data mart or data warehouse. This has led to CPM applications that perform complex business analytics outside the transactional ERP environment working on point-in-time "snapshots" of data extracted from ERP and other systems.
- *Process innovation* — The combination of performance improvements and real-time advanced analytics enabled by IMC has enabled organizations to use ERP and CPM applications in ways that were not previously possible.

Missed: 2011 Prediction — By 2015, SaaS-based core financial applications will be deployed in at least 25% of midsize organizations.

This prediction was off due to the estimated number of organizations that have already deployed SaaS being much lower (approximately half of this number). SaaS-based core financial management solutions are increasing momentum and are picking up in the midmarket (see above revised prediction). According to the 2015 Gartner Financial Executives International CFO Technology Study, when a set of financial executives were asked: "When do you estimate that your finance organization will support more than half of its transactions on a cloud infrastructure using a SaaS model?," one in 10 organizations were already there, with another 10% planning to achieve this cloud migration in 2015. Another 19% plan to meet this in 2016, 8% in 2017 and 35% in 2018 or later. When compared to the 2014 study, more organizations have pushed this out to the future, with 35% citing 2018 or later in this year's study, against 30% in 2014.

Acronym Key and Glossary Terms

AP	accounts payable
AR	accounts receivable
BP&F	based budgeting, planning and forecasting

CPM	corporate performance management
FCPM	financial corporate performance management
FA	fixed assets
GL	general ledger
HCM	human capital management
HTAP	hybrid transactional/analytical processing
IMC	in-memory computing
OLAP	online analytical processing
PA	project accounting
SCM	supply chain management
SCPM	strategic corporate performance management
SMB	small or midsize business

Evidence

Client inquiry and market responses to changing customer requirements are evidence for the development of these predictions. We have experienced increased call volumes from clients that are seeking to make improvements in financial management business applications:

- Clients are planning to leverage SaaS financial management solutions in financial management suites and F/SCPM solutions as part of a postmodern ERP approach.
- The 2015 Gartner Financial Executives International CFO Technology Study shows an increased interest in the adoption of SaaS solutions.
- More organizations have split there CPM suite approach into financial and strategic CPM business application strategies year over year.
- Organizations are increasingly moving away from an isolated financial planning approach toward an integrated financial management approach, in which operational areas are integrated into the planning process.