Software with Financial Functions

Top 5 ways to ensure software that include financial features works

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Published on 30 November 2015

Financial management based applications and tools have evolved a great deal over the past 2 decades and have come from a variety of origins from business intelligence software such as TM1, Cognos or Business Objects through to cost modelling tools and the more traditional ERP solutions such as SAP. Then there are the systems whose primary purpose is not the financial function but which contain financial features, such as Contract Management, Project Portfolio Management (PPM) solutions and Configuration Management tools (CMDB's), which is the focus of this article.

These tools are usually 'fit for purpose' for their intended primary use with add on functions to show how much things cost. They may also provide detail and insight into the underlying costs of transactions such as contract management and cost modelling solutions.

I have seen a lot of this software fail and succeed for a variety of reasons, from my own experience here are the top 5 ways to ensure any financial functions work:

1. Executive Trust – Consider the involvement of the CFO or appropriately qualified finance representatives as key stakeholders in planning or implementation activities as soon as possible. This includes governance, sourcing and design activities and ensuring they are involved and have sign off on the business rules and are closely involved in the testing. This also includes ongoing qualified assurance of business rules and data;
2. Only what is needed - Design the financial functions so that they are 'fit for purpose' and are not replicating the existing finance system;
3. Value for money – This begins with determining why the financial function is being considered and includes a cost benefit assessment taking into account the Total Cost of Ownership (TCO), Return On Investment (ROI) and payback period, as well as assessing a range of realistic viable alternative solutions;
4. Integration - At the heart of the success of any of these solutions is the integrity and currency of the data. Design the software implementation so that the maintenance is as automated as much as possible. This includes investing up front in appropriate integration to corporate systems;
5. Configuration – Opt for to configure as opposed to customise. If the software doesn't come with the required financial features 'out of the box', trying to customise a solution comes with more cost and risk than the benefit it provides.

These reasons are common for nearly any application and are equally applicable to COTS, cloud or internally developed software.

Overview of Software with Financial Features

Analysis of Software that provide financial functionality

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Published on 4 December 2015

There can be significant benefits in utilising financial management features of software that's primary purpose is not financial management. These benefits range from providing greater transparency of cost drivers, being able to properly verify invoice charges, through to supporting more accurate forecasting and budgeting processes for projects and BAU. Here is a sample of some of these systems and from my experience what works and what doesn't.

Project Portfolio Management (PPM):

- Financial Function Overview - Captures costs and financial benefits associated with projects, programs and portfolios throughout their lifecycle (pre-project through to post implementation review). Costs can be as detailed as the task level within a project schedule;
- Top Software Challenge – Reconciling to corporate financial system for actual costs taking account of accruals, maintaining people rates tables by role and named resource and any financial system integration;
- What Works – Configuring a PPM solution to capture initial baseline costs to support budgeting for a project and for forecasting costs. Enter actual costs at a high level and leave the actuals for the

corporate finance system. Set up an Internal Order or equivalent process in the finance system that maps to the Project object in the PPM solution.

Contract Management:

- Financial Function Overview - The traditional contract management function in an ERP solution includes integration into the Ledger and Payables functions. Standalone Contract software usually ties into the procurement lifecycle. Then there is the Invoice Reconciliation component of contracts usually applicable to large complex contracts;
- Top Software Challenge – Not being able to drill in at a detailed enough level to automate the validation process for checking the invoice and the support data each month. For example, an IT outsource or Telecoms agreement that includes hundreds of thousands of records to support each monthly invoice;
- What Works – Using specialist Invoice reconciliation tools that automates the validation process and integrates with the finance system to automate chargeback and budgeting functions.

Configuration Management Databases (CMDB's):

- Financial Function Overview – Provides ability to cost all ICT resources from a Configuration Item (CI) object viewpoint. This supports understanding the true TCO of assets to inform decision making and cost forecasting;

- Top Software Challenge – The reconciliation between the Finance system asset register and the CMDB can prove challenging if integration isn't automated (which I haven't seen work), and the value of such an investment needs to be clearly appreciated;
- What Works – Using data from a CMDB (such as ICT resource consumption and utilisation) as an input into a broader costing solution such as corporate ERP or budgeting/cost modelling tools.

Service Catalogues:

- Financial Function Overview – For ICT Service Catalogues, a list of standard services delivered to the organisation in a language the business can understand and easily utilise. The cost of these services can be used for cross charging business units or at least exposing the cost of services;
- Top Software Challenge – Knowing the right level to price the services and aligning the price to the impact on the ICT budget;
- What Works – Start with a trial to at least provide visibility of the cost of ICT to the business. Refine over time to determine what works in terms of the extent of the cost attribution rules and the ongoing maintenance required.

Cost Modelling solutions:

- Financial Function Overview – Provide detailed costing solutions to support Activity Based Management (ABM), Proposal costing and whole of life costs for asset management planning and budgeting;

- Top Software Challenge – Limitations of software in being aligned to structure of organisation and corporate financial systems. This can and often means customisation;
- What Works – Consideration of business intelligence software that allows for more flexible configuration to meet the specific needs of the organisation that is integrated into the corporate financial process and solution.

Financial Management Architecture:

I suggest having a Financial Management Architecture for the organisation taking into account the processes first, and then the design of the underlying technology to support this architecture. The design maps the technology to the process, as well as the relationships between the processes and the integration points between these technologies. This then forms a reference point to all technology decisions involving financial management components.

For a Top 5 of considerations when implementing financial functions in software refer to my post on 30 Nov.....Software with Financial Features Top 5

Embracing Innovative Enterprise Finance Solutions

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Published on 12 September 2017

This article follows on from 2 other articles I have written on software with financial features:

https://www.linkedin.com/pulse/overview-software-financial-features-brett-petersen/

https://www.linkedin.com/post/edit/software-financial-functions-brett-petersen

I have spent a lot of time in a variety of roles working with software that has financial functionality ranging from the big ERP systems through to specialist tools that perform budgeting, TCO and ROI, costing, reporting, analytics, contract and invoice management. The integrity of the system in terms of business rules and reconciliation has always been one of the foundation criteria in assessing and deciding which systems to use for what, as it should be. What I have also noticed though is that some large ERP providers will exploit this point to their commercial advantage, reminding me of the adage ‘No-one ever got sacked buying IBM’ (a generalisation that has been proved wrong).

The CFO needs to utilise their scarce time wisely and knowing that a well established provider’s system will work allows them to focus their efforts elsewhere, sometimes at the detriment of new and emerging

software solutions that can do the same job with better reporting and analytics for less cost.

That aside, never have there been better opportunities for CXO's to embrace finance based technology to improve their bottom line, through productivity improvements (the goal of public and private sectors alike) as well as increased revenues in the more profitable service lines through data analytics. And never has there been better opportunities for niche or specialist providers to provide clients with this technology to deliver significant benefits.

For smaller niche providers, what I have found is that the key is to be able to prove business rule integrity to the CXO (usually CFO or CIO) and to quickly and easily integrate with existing and embedded ERP solutions. This all pre-supposes that prospective solutions are able to deliver value for money and provide an acceptable ROI.

Engaging vendors through a proof of concept allows them to prove (or not) whether the solution will work for the client, and with the increasing use of cloud, the footprint and capex is minimised, helping cashflow and reducing investment risk.

Common barriers to engaging innovative or smaller providers relate to the real or perceived risk of the ongoing viability of the vendor to provide ongoing support for clients or the resistance to vendor or solution proliferation, both are now explored further.

The ongoing viability of a small entity is an important consideration for a customer, particularly when making a decision to invest in a software

solution. This can be overcome by having escrow clauses in contracts and by ensuring data ownership resides with the customer and that in the event of a vendor collapse data is handed back to the client.

Another barrier to engagement for a customer can be an internal policy or intent to minimise or consolidate the volume of vendors to reduce overheads. When considering this, it is important to ensure any incremental overhead associated with having another vendor on the books is taken into account as part of the ROI analysis. This also needs to include the possible offsets associated with removing any vendors from introducing the new vendor and software. Too many times the ROI assessments are incomplete and don't properly account for the true cost (TCO) of the investment as part of the decision making process.

Quite often the CIO organisation will also have some guidance around application or software rationalisation planning, that is, have fewer software vendors and solutions perform more functions. This in its crudest terms means reducing the number of software solutions in the organisation, with the view this will reduce overlap, doubling up and administration overhead etc. And if done right, this can be a very effective strategy. In today's app and mobile driven society, the norm is an ever increasing number of applications to perform very individual tasks. And really for an organisation to get ahead in terms of decreasing BAU budgets, the needs for productivity gains, reduced risk and to be more competitive the same nimble and agile approach should apply. This doesn't mean not applying appropriate due diligence, but it does

mean that solutions that can easily integrate (plug and play) and can deliver benefits within managed risk levels should be considered.

Increasingly the roles of the CIO's and CFO's are too support and partner the business. By employing and engaging SME's and niche solutions to simplify and make their lives easier and to reduce costs, they can be seen as exemplars of innovation in their organisations. Visionary CXO's engage with the vendor community (including SME's) in an effective way that removes the risk, but exploits the benefits that their solutions can provide.