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JON KONDO, CEO of **Host Analytics,** and guest industry analyst **KATHLEEN WILHIDE,** Research Director for Business Performance Management Solutions and Corporate Governance and Risk Management Solutions at **IDC,** discuss CPM strategies in the current economy particularly within the mid-market

Kathleen Wilhide Based upon IDC's research and from a performance management market perspective, what adoption strategies are your customers opting for?

Jon Kondo We are in an economic market that is creating a lot of turmoil and angst among large and small customers. The need for greater visibility into our customers' business operations and to plan to do multiple iterations of a budget or plan is ever more important. I have talked to several companies who within a three-week period, have re-planned 2009 over five times simply because the market kept changing so rapidly. Therefore, the overall performance management value is the ability to plan for unexpected events.

KW IDC is re-forecasting based upon the economic crisis. The whole area of business intelligence and performance management did not forecast quite as large of a downturn in these markets compared to the rest of the software industry. Vendors and end-users alike ask us where to place priorities. Certainly, there is a lot of blocking and

tackling that can be done by putting financial consolidation, planning and budgeting in place in an automated fashion — especially budget updates. I can remember being in business and having to do them not monthly, but, as you said, weekly.

KW Corporate performance management (CPM) has experienced growth in larger organizations, but what are you seeing in terms of mid-market requirements for CPM either currently or in the past?

JK The mid-market companies have the same needs as the large corporations. Their ability to control their destiny is even more important through a better planning process, as they have bigger levers to pull to improve profitability or reduce expenses, or take advantage of a market opportunity. So we're seeing companies as small as $50 million to $100 million in revenue, depending on the industry, demonstrating the need to have performance management. They may not do the full-blown balanced scorecard or some of the traditional high-level elements of CPM, but certainly the need to replace a spreadsheet model that has gotten to 20 tabs and multiple thousands of rows is very important to them. What we're also seeing in the mid-market is financial consolidation becoming very important because they need to be able to bring multiple sets of books together, consolidate and present them — either they may be public and they certainly are on statutory reporting — but there is always other management reporting. The needs in the mid-market are certainly catching up to the needs of large enterprises.

KW Even in large enterprises, they're not deploying the whole formal balanced scorecard. A lot of issues are the same around financial consolidation, planning and budgeting. Larger organizations take these initiatives one at a time, whereas there is a more cohesive strategy in the mid-market and they're being more expedient than some of the larger organizations — if you're smaller, you're more nimble.

KW In terms of solving business problems, what industry trends are you seeing within your installed base?

JK Host Analytics has seen a lot of traction in three areas — manufacturing, healthcare, and the public sector. We've done well with a lot of city municipalities and some non-profits, but there are several $500 million to $1 billion mid-size manufacturers that are experiencing heavy competition. They are in market conditions that are well beyond their control, so their ability to plan and be nimble in the way they run their business is really important.

KW In the mid-market, from what we see in software in general, being able to cater to industry-specific capabilities within the solution is something that is really appreciated, whether you do that with the solution itself or whether you do that through implementation partners, or different versions, and so on. You mentioned the use of spreadsheets earlier. How do you see customers using the solution but also continuing to work with spreadsheets?

JK Our goal is not to replace the spreadsheet, but to use spreadsheets in an appropriate manner. Spreadsheets were never intended to be a collaboration tool or a data collection tool. When we designed Host we tried not to break the spreadsheet paradigm. If you look at our product it feels like a spreadsheet and has similar functionality, but it works off of an integrated data model that also allows business rules to be put in behind it.

One of our customers recently said that they share labor between divisions. In the old "spreadsheet world," if somebody was out of balance, they would just say, "Oh, I'm going to loan labor to that other division," without the other division's knowledge. They wouldn't know until all the spreadsheets were rolled up and out of balance. By using Host, companies can implement a rule to stop these types of actions.

KW Now, there are tools that can actually manage and control spreadsheets as well. You mentioned two things earlier — management reporting and planning and budgeting — these are certainly adding financial consolidation from a statutory standpoint to the mix that we're seeing. IDC has seen a real resurgence in this area due to regulatory requirements.

KW How do your customers get started with their implementation? What's that first driver and what's that "quick win" that they need to show their management teams to validate the project?

JK A week ago, I would have said about 60 percent of our customers want to start with budgeting and planning, but as I've just returned from visiting some of our customers, many of them have started with consolidations — one customer had done 80 acquisitions over the last two years. Their goal was to figure out how to get 80 different entities' books to roll up into a single division. When most people think of moving to a performance management solution, their greatest challenge originates from creating a budget and a plan, and that is a driver. Consolidations are also a very strong driver, especially in the public environment. When an acquisition is made it needs to be on to the books very quickly, and if a solution is not in place to do that, it proves to be a very difficult task.

KW That lines up with the data from my market analysis and forecast. About 36 percent of the market is planning and budgeting. Secondly, in the financial consolidation area we've seen resurgence and we also consider it to be a growth market. Four years ago, there was the Hyperion Enterprises standard, but organizations really do need a more robust statutory reporting platform that can be a system of record, and one their auditors can rely on. It makes the whole process easier from an audit perspective as well as a process perspective, particularly if you're in a heavy mergers and acquisitions mode. A third area that I've seen in the mid-market companies — and is probably the fastest-growing area — is profitability management.

KW How are your customers using your solution to support that?

JK Over the last three months, we introduced a module called revenue planning. It allows customers to draw down a sales forecast from a CRM system. For example, the sales force may have three customers that they're predicting to do a set amount of revenue. That forecast can be translated to the operation side and they may only be able to fulfill demand for two customers or fill a partial demand for all three. It allows them to go through and do a financial analysis on what the most profitable mix would be and then translate that operational plan into their

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— **Kathleen Wilhide,** IDC

financial plan. So we have multiple customers successfully using that system today to manage and drive profitability.

We have a customer that supplies heavily to the housing market. You would think that given the U.S. housing market conditions that they would be seeing shrinking margins and revenue. Although they're certainly seeing revenue go down, they're seeing an expansion in their margins. They attribute a lot of that to their ability to do multiple iterations and plans within the Host Analytics solutions.

KW You can expect to see a lot more demand for that because if end-users are successful at pushing out profitability information, that's when a performance management project is perceived as successful on the operational side of the house. One of your differentiators is your software-as-service-model. IDC tracks software-as-a-service trends and we're seeing a compound annual growth rate through 2012 of over 30 percent.

KW How is the software-as-a-service model impacting the demand for performance management?

JK Software-as-a-service took some time to roll out in the market. When *Salesforce.com* first came out with CRM-on-demand the general consensus was that it wouldn't work and companies would never want to push their sensitive customer data offsite, but it has obviously been successful. We're seeing the current standards in terms of security, data center control and compliance providing a level of comfort to our customer base that their data is secure.

Our software-as-a-service has allowed our customers to plan and activate a budgeting system for 2009 in a short amount of time versus a full-on onsite implementation process encompassing additional overhead such as hardware, software networks, and so on. We see software-as-a-service as a great enabler for a much broader audience and the mid-market is really adopting this.

Of course, we have customers with IT departments in large enter-

prises that use Host on demand because they need to manage multi-billion dollar IT budgets and software services, and Host has been a great alternative and fits into their budget.

KW In 2009, we'll see that large enterprise spending will start to grow even faster. In large organizations there are often decentralized operations, so it makes sense to put this model in place. I've even seen it on the GRC side, where the only way organizations could manage the whole survey in the Oxley environment, from a compliance standpoint, was with a hosted solution. So, certainly in a disparate environment, it can provide just as much benefit and efficiency as it does in a mid-market situation.

From an IDC standpoint, organizations need to become more nimble, and while they may be a little bit more conservative with their IT investments, certainly they can't shortchange the ability to see information and see how they're doing from a performance standpoint. We're quite bullish on the performance management space in spite of the economic times.

KW What's your advice for companies evaluating performance management solutions right now?

JK The idea of the annual plan is becoming an older concept as no one I know could have planned for the market turmoil that we saw in the second half of 2008, and people are not sure what's going to happen in the broader economy of 2009. So your ability to quickly re-plan your business and have multiple iterations or multiple scenarios that you can work through is very important. Of course you want to do that without costly implementation, upfront license fees and additional hardware. So on-demand delivery is really critical and allows customers to get the benefit or fulfill the requirement of being able to have all of that transparency in their business, but at a much lower cost. On demand can also be treated as an operating expense rather than a capital expense. It's a great use of how companies can use their financial resources and get value on them very quickly. **BTQ**

JON KONDO is the Chief Executive Officer of Host Analytics. Prior to this, Mr. Kondo was Group Vice President of North American Enterprise Performance Management at Oracle, where he was responsible for all EPM revenue. Prior to Oracle's acquisition of Hyperion Solutions, Mr. Kondo was Vice President and General Manager of the Americas where he had full P&L responsibility for the entire Americas Field Organization with revenues in excess of $560 million. Mr. Kondo was instrumental in integrating the Hyperion Americas team into Oracle.

KATHLEEN WILHIDE is the Research Director for Compliance and Business Performance Management (BPM) solutions research at IDC, a worldwide research firm with headquarters in Framingham, Mass. Ms. Wilhide directs IDC's research efforts on software solutions, supporting compliance and risk management and related business assurance processes. She also directs the research for BPM applications and participates on teams related to general enterprise applications research with a focus on enabling finance and corporate governance through technology.

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