

Financial Software's Winners and Losers

Controls-monitoring software is overly bothersome, the recession adds value to budgeting and receivables packages, and other observations from Forrester Research.

Just about every organization has an automated accounting system. Almost as popular are technologies that facilitate financial reporting, cash management, and tax planning. But there are lots of other types of financial management applications out there to evaluate. For a small or midsized company that doesn't have account-reconciliation software, would getting some be a smart investment? How about internal controls monitoring applications or expense-reporting systems?

A new report from Forrester Research analyzes the state of 12 categories of financial applications. It focuses on their relative or potential levels of "success" (defined as adding value to businesses, not in terms of product sales), and on their movement along a technology-maturity spectrum. The study results are mostly qualitative, not quantitative; the methodology involved examining past research, interviewing experts, studying the functional and technical aspects of the solutions, and factoring in intelligence gained by responding to client inquiries.

Three categories were deemed to be in the "survival" phase of maturity (which follows chronologically after the phase of "creation" in labs and early pilot projects, and before the "growth" phase when product adoption starts to take off):

Internal controls monitoring. Technologies in this area so far have demonstrated a low level of success, or business value-add, and are on a trajectory for minimal success over their lifespan, according to Forrester. There is potential payback in error reductions, efficiency, and risk avoidance, but most installations have yet to prove what they will ultimately be worth. And while internal controls monitoring is important because of Sarbanes-Oxley and other compliance directives, "many of the solutions just raise red flags," Paul Hamerman, vice president of enterprise applications for Forrester, tells CFO.com. "Somebody has to go through these flags to figure out what they mean. If the application doesn't have the built-in intelligence to do that, its value is diminished."

Accounts payable automation. This still-youthful set of technologies, also known as electronic invoice presentment and processing (EIPP), is on a path toward at least moderate success, in Forrester's estimation. "In addition to the efficiency benefit of paper elimination, the automated matching of invoices with purchasing authorization and workflow for unmatched items has a big benefit to finance," the report states. But adoption rates are fairly low so far, given corporate cultural reliance on paper-driven processes and, in some jurisdictions, tax requirements for retaining paper invoices.

XBRL. A variety of products have been hitting the market that enable companies to prepare data-tagged financial reports and let users of the reports perform automated analyses. But business value-add is the lowest among the 12 technologies and is expected to remain low. "Adoption is being driven by compliance mandates rather than by internal needs such as process automation or system integration," Forrester says.

Five groups of applications were categorized as being in the "growth" phase:

Receivables and collections management. This category has leaped in success because of the recession. As companies fight off the debilitating effects, they're keeping customers on shorter leashes for balances due. That is unlikely to change after the economy bounces back. In forecasting significant continued success for this technology, the report says, "Clear ROI on the collections cycle has enabled many companies to optimize [Days Sales Outstanding]." Meanwhile, the supply chain is evolving: vendor consolidation has eliminated

some competitors, but enterprise resource planning system providers are said to be "giving specialists a better run for their money."

Budgeting and forecasting. The shaky economy has boosted this one too, especially by pushing mid-market companies to transition from spreadsheet-based processes. The mid-market segment will drive strong growth for these applications for a few more years, depending on the development of more affordable solutions, Forrester says. Added growth is coming from large companies, which typically own those solutions and are often inclined to replace them with newer products. The business value-add is high, driven currently by more agile and transparent forecasting processes in the software.

Account reconciliation. The outlook is much more modest for this technology, which matches and compares figures from accounting records against external sources and reconciles internal account balances to subledgers. It's been available for more than a decade, and adoption increased after Sarbanes-Oxley was passed. But while adoption is still growing, account reconciliation software overall provides by far the least value among the five in the growth phase. Its main selling point is efficiency, in that it automates a labor-intensive process, and most companies are addressing that with applications not built expressly for that purpose.

Expense reporting. This technology could add more value if it were better integrated with spending and travel management processes, according to Forrester. "Greater benefits are available to users that seek reduction of travel expenditures via policy adherence and integration with travel booking solutions," the report says. But growth prospects are solid, because while adoption and integration levels are high among large companies, many smaller ones are still using rudimentary, internally developed expense reporting processes.

Cost and profitability management. Homegrown solutions are common for this purpose as well. In fact, Forrester says, many companies aren't even aware of this product category, which analyzes development, production, and operating costs against revenues for specific customers, products, and business lines. That means the growth potential is high, though interest is less in service industries with lower customer or product complexity. Forrester says customers can realize 10 times or higher ROI on this software in one or two years by recognizing unprofitable products or customers. But the research firm still only pegs the software's value-add as medium. "Effort levels to realize benefits are substantial in terms of modeling effort and data integration," the report says.

Finally, four product categories are identified as being in the "equilibrium" phase, with high, steady adoption levels:

Treasury and cash management. The market for this kind of software has gone through significant consolidation, leaving a small number of players. In fact, demand for solutions may fall within the next 10 years as companies outsource treasury functions, and this product category may be the first to change from the "equilibrium" phase to the "decline" phase. At present, payback from an implementation can be fast, particularly where large asset values are at stake. ROI is based on maximizing portfolio returns while minimizing risks of exposure to market fluctuations. "Solutions are mature but continue to evolve to take advantage of open standards for integration," Forrester writes.

Financial reporting and consolidation. This is mainly a product-replacement market. Compliance changes in some industries drive some of the churn. Companies with many subsidiaries, numerous legal entities, and overseas operations often need a consolidation package to meet financial reporting requirements. This category is very mature and limited to a small number of key vendors, but regulatory imperatives such as International Financial Reporting Standards keep the business needs evolving.

Tax planning and compliance. Consolidation has been occurring here too, and some types of tax software are moving toward becoming commodities. Applications that calculate tax and prepare returns are more mature than those that automate tax provision and planning.

Accounting. "How would you run a business without an accounting system?" Hamerman asks rhetorically. Adoption is universal, and a transition to the decline phase is not envisioned. "The accounting paradigm is unlikely to change significantly for the foreseeable future," the report states.

By [David McCann](#) - CFO.com