A BPM Partners White Paper

Company Profile: XLerant

Achieving Accountability in Mid-Market Budget Processes

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Introduction

Formed in 2005 by financial and systems professionals Lawrence Serven and Charles Pevsner, XLerant has developed BudgetPak, an analytic application which targets improving and simplifying the budgeting and planning process. The founders applied their experiences working hands-on with budgeting processes at Fortune 500 companies and Deloitte Consulting. From these experiences they realized that the annual budget, a core business process for most organizations, was broken and not effectively driving a culture of budget accountability. Moreover, they recognized that inadequate corporate planning is a fundamental cause of companies missing their financial projections. For many organizations, the budgeting process fails to generate sufficient foresight or actionable plans, nor does it incorporate knowledge that rests with front line managers. The result is budgeting as a financial exercise as opposed to a value producing business process improvement opportunity.

With a focus on technology to enable an improved budgeting process, XLerant addressed the needs of line managers with limited financial or accounting backgrounds. XLerant continues to grow at a rapid clip with users of spreadsheets as well as users of larger enterprise resource planning (ERP) solutions attracted to their solution. XLerant's target market is organizations that have 10 – 300 users, with 10 – 1,000 cost centers and up to 2,000 natural accounts.

XLerant is focused on collaboration-oriented budget processes. If the whole process is driven top-down by the financial team instead iterative involvement of front line managers, then a different model-centric approach would be a more appropriate alternative.

It is estimated that 70% of mid-market companies still use spreadsheets as the primary technology tool for budgeting and planning. In addition, in the 2011 BPM Pulse Survey, the majority of performance management professionals claim that budgeting and planning is a business process that needs further improvement. XLerant focuses its solution on ease of use, flexibility of deployment and accountability improvements.

This paper will discuss some of the technology alternatives to displace spreadsheets, XLerant's unique value proposition and additional considerations for organizations considering technology options to improve their internal budgeting processes.

Spreadsheets: Once a Lifesaver, Now an Obstacle in Budgeting

Since the advent of spreadsheets as an analytical tool used by finance and non-finance executives, the widespread adoption and diverse usage of this multi-purpose tool has been remarkable. In addition to the obvious applications as an automated ledger, a multitude of

formerly inefficient business processes have been supported by spreadsheets with varying degrees of success.

An early application for the spreadsheet was facilitation of the budgeting and planning process. The ability to summarize revenues and expenses by category, geography and over time made it an easy win for an individual analyst. But with the adoption of spreadsheets as a de-facto tool for budgeting and planning, a series of new issues cropped up.

The fact remains that spreadsheets are not pre-programmed database products; they require human intervention to manage the process. Financial people are typically not software programmers and spreadsheets were not designed to be programming languages. This all leads to limitations in controls and user flexibility for organizations as their needs evolve.

The budget process normally entails distributing an established plan to contributors to the budget (typically department heads), allowing these contributors to provide information from their department and then rolling up this same information across multiple departments. An administrator can help the process of assembling the information, and then a senior manager can look at the output, make top down adjustments, and distribute the modified plan to the contributors.

Although this approach seems sound and logical, it brings a number of challenges. The first is that spreadsheets are designed to be flexible tools. If you allow a model to be distributed, the integrity of the model must be protected. Although enhanced cell security and locking down various elements of the model has reduced this problem, it is still a primary contributor to broken budgeting models. The second involves the granularity of detail. Department managers may require greater detail than the central plan administrator, but then when questions arise, senior managers would like to see the detail behind the story. More importantly, with changes made to the model after the roll-up, the department managers who were initially responsible for their contribution feel that they lose ownership of the model due to top level adjustments. Their sense of personal accountability to the model is greatly diluted, and the organization proceeds into a fiscal year without the enthusiastic buy-in from their important front line managers.

Finally, different managers have different operating styles and needs. Some only touch the application one time per year, and they need hand-holding through the process. An easy to follow workflow and the flexibility of a wizard-like interface helps the process significantly. Others are more knowledgeable about budgeting and require advanced capabilities. And then there are many users between those two extremes.

It is against this backdrop that XLerant positions its BudgetPak solution. Dozens of technology solutions have been introduced to solve the woes of spreadsheet budgeting and planning, and hundreds of millions of dollars invested to displace spreadsheets with more advanced budgeting and planning analytic solutions. XLerant has aimed to fill a market space where user flexibility, easy collaboration and navigation, and internal controls are balanced

for the midsize organization that has moderately complex budget models and rollups. The company has successful implementations in a variety of industry segments.

Alternative Approaches

As mentioned, the majority of small to mid-market companies still use spreadsheets as the primary tool to support them in the budgeting and planning process. Spreadsheets create an inherent trade-off between financial controls and user flexibility. The only way to truly control a spreadsheet is to lock it down, which all but eliminates end user flexibility.

A crop of new purpose-built solutions appeared over the past few decades targeted at this particular business issue. Some of the technology providers targeting the mid-market more recently include Adaptive Planning, Centage, Host Analytics, IBM Cognos Express Planner and PROPHIX. These vendors fall into two general categories: traditional on-premise software solutions and cloud-based applications.

Traditional client/server applications, are an improvement over spreadsheets, but can carry certain challenges. Typically, each of these on-premise deployments will start with a professional services engagement to customize or configure the vendor's base application. In this process, internal or external staff establish application workflow, implement connectivity to incoming data sources and outgoing data feeds, and configure reports that will align with internal company standards – or how your team wants to consume the information.

Often a choice must be made between a top-down (fewer inputs) or bottom up (many inputs) approach to the model. Once implemented, the budget models may require a second professional services project, or an expert administrator, to modify the application. This often results in users having a great "point in time" application, but not one that evolves over time and that can easily be re-configured by non-expert resources.

In some deployments, end user adoption (driven by ease of use and system flexibility) can be the biggest challenge. In cases where that adoption is below expectations, the perception remains "budgeting is still broken."

Turning our attention to cloud-based computing, users can feel confident that they are always on the current version of software. New releases typically come out every three to six months, and are largely transparent to users. Some training may be necessary if functionality or system layout changes. Although these systems are designed with ease of use in mind, they may not have the ability to be a custom application for each company – you are required to follow some basic design steps in the set-up, but it is difficult to significantly change the model. Some organizations are still uncomfortable with having sensitive financial data in the cloud, but with the heightened focus on security and success of applications like Salesforce.com, cloud security may well exceed the security of an on-premise application and

internal IT environment. Companies considering a cloud based application should always review the provider's security policies and infrastructure.

XLerant's Value Proposition: Emphasis on Improving the Budget Process

XLerant provides both user flexibility and effective financial controls to drive greater budget accountability. BudgetPak emphasizes the process of creating the budget, versus providing complex financial modeling that may be required for larger enterprises. XLerant is better suited for organizations where user knowledge drives the budget creation process, as opposed to a centralized financial model or complex equations driving it. XLerant appears to have captured a user base of organizations across industries with various size ranges.

XLerant offers its product as a server application and will shortly be offering it in a cloud computing environment. Like other budget applications, XLerant offers the standard features of currency conversion, roll ups and consolidation, reporting, centralized data repository, graphical organization structure management, dynamic Excel integration, data exchange with general ledger systems, payroll and fixed asset data integration as well as forecasting capabilities. The company has implemented several customers very rapidly, with limited consulting and training time (3 weeks is the reported norm).

XLerant allows the budget administrator to define which accounts are discretionary (meaning users can enter their own budgets) and which ones are calculated or pre-populated. For any discretionary account, XLerant offers a number of different options for developing the budget, most of which do not require the end user to write a formula. That capability is one fundamental way that XLerant's BudgetPak provides the control that Finance needs with the flexibility desired by end users.

Most budgeting systems are designed to look and feel like a spreadsheet and this is the primary interface budget holders use to interact with the system. XLerant takes a very different approach. BudgetPak replaces traditional budget templates with a customized budget navigation map.

Figure 1 is one example of a budget navigation map. It represents categories and sub-categories of revenue or expenses. When a user wants to budget an account, they can click on that account and are shown a screen that presents the various options for budgeting an account (including a free form spreadsheet option, if desired).
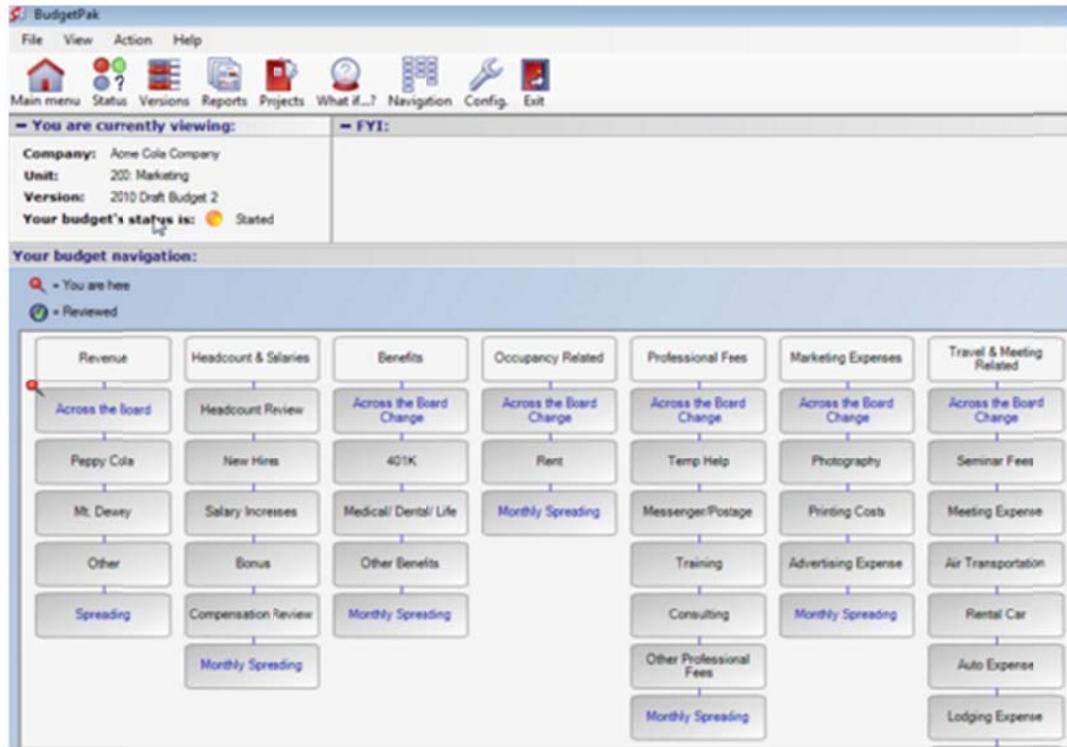
Figure 1: A sample budget navigation map

Figure 2 shows a different section of the same screen and presents additional insight including total headcount in your plan (with additions/reductions), various comparisons of the current budget to previous time periods as well as different models, and some summary information.
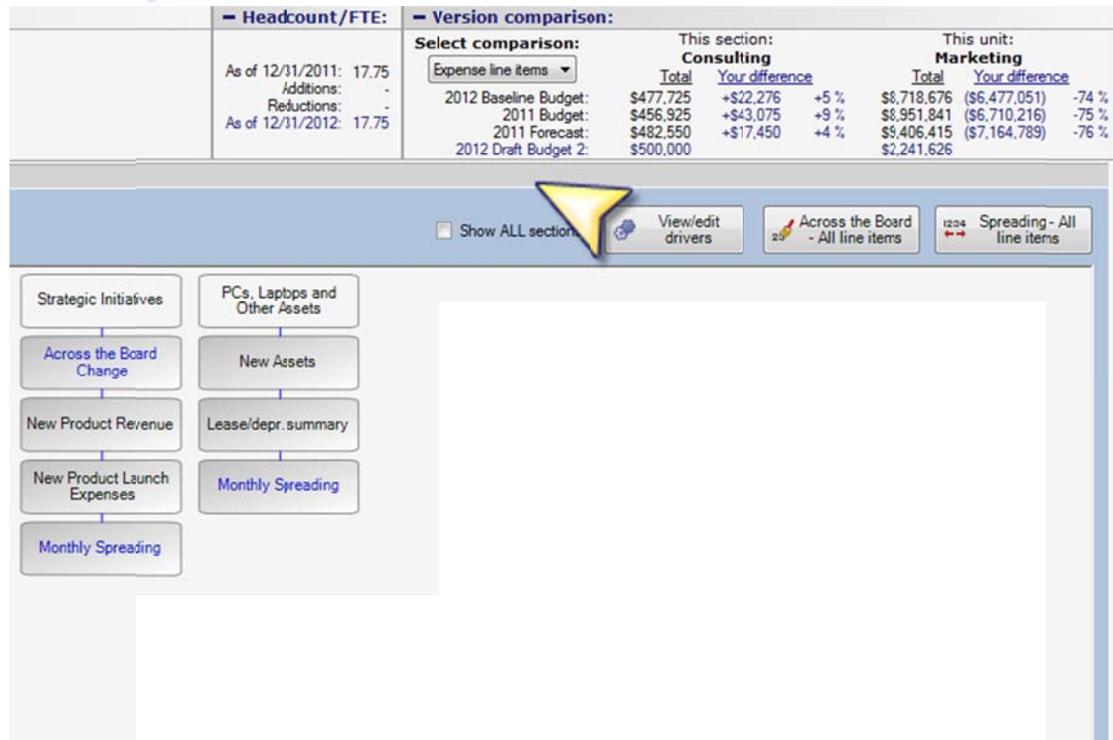
Figure 2: BudgetPak can provide running real time comparisons

For each category, you can view/edit overall cost and revenue drivers, impact "across the board" items, or spread costs/revenue over a range of line items. Figure 3 highlights these capabilities.

Figure 3: Options for how you want to make and apply an across the board change to an entire category or expenses or revenue

These examples demonstrate just a few aspects of how XLerant is focused on the budget creation process, with a balance of user flexibility versus internal controls to support improved budget accountability. .

One of the challenges BudgetPak was designed to address is that most organizations have a wide range of users and skill levels when it comes to budgeting. Addressing the entire range of users is necessary to win over willing participants in the process.

In Figure 4 you'll see the options for budgeting discretionary accounts (this particular budget holder chose the "By line item detail" option tab but you can see the others listed as well). They range from simple, straight forward options like entering a budget number or budgeting based on a percent increase/decrease from prior year to more complex options like budgeting by driver, or unit times rate, or even by advanced modeling.

At the bottom of Figure 4 you can note that users can document their rationale for creating a budget; which can make the budget review process more effective.

Figure 4: Options for budgeting any discretionary account

BudgetPak improves communication and collaboration in the budget process by making it easy for the budget holder to provide their rationale supporting their budget requests. In the example above, the budget holder has provided written commentary to support their request for $500K in consulting expenses, and line item detail to build up the budget. Even

without a phone call, the Finance department can begin to get an understanding of the rationale behind the budget request.

One unique capability of XLerant's BudgetPak is the ability of the budget holder to create and budget for initiatives. So, for example, if a marketing manager would like to budget for marketing campaigns, or if an IT manager would like to budget for IT projects, or a human resource director would like to budget for training programs, they can be guided through a logical approach in BudgetPak.

Workforce planning is another area of focus for BudgetPak. BudgetPak can automate the typical interview process that someone from Finance or human resources would normally go through with a department head. The system can inquire (in plain English) about planned departures or new hires, assign raises and/or bonuses. This system can also calculate benefits and payroll taxes – all by following on-screen prompts and selections.

The last area to highlight is what the user never sees. It's the behind the scenes set up and configuration of the system. The developers of BudgetPak were devoted to making BudgetPak easy to set up, using a graphical interface that requires about a half day of training to learn and maintain. For example, the configuration BudgetPak requires to calculate federal or state payroll taxes is simply the rate and the cap on the year (two numbers) and BudgetPak will do the rest. No complex formulas to write, and no links to audit.

What's Next – Key Considerations

As you prepare an initiative to improve the budget process, it is crucial that you first prioritize your requirements, i.e. what works, what does not – in your existing budget processes. The following are some key considerations as you advance your initiative:

1. Do your department managers feel that they "own" their budget numbers? How important is this ownership for your organization? This is an important question to tackle early in the process.
2. After deciding the importance of accountability in your organization, determine the balance between user flexibility and financial control. User flexibility can sometimes be a driver for budget ownership, and if users of the system are not regular financial system users, the flexibility is even more important.
3. Don't overlook the budget creation process – many tools can provide a framework/template for budget and reporting structure, but may not provide sufficient help to create initial budgets in bottom-up fashion with contribution from knowledge workers. This is another core element assigned to accountability.
4. Do your internal finance and information technology (IT) departments support a best of breed approach? There are attractive systems that focus on specific business processes that can be integrated with broader in house ERP and financial systems. Balance the trade-off of being dedicated to a single technology vendor versus choosing solutions that supplement your systems but may come from a best in breed independent vendor.
5. Determine how important a specific workflow and integrated communications are within the budget process. Collaboration across departments has proven to build more robust planning models.

Conclusion

XLerant's BudgetPak provides a unique solution for corporate budgeting, forecasting and reporting. It is designed for those organizations that need to get high participation and engagement from their budget holders. We would contrast BudgetPak with other budgeting applications that are designed primarily for organizations that want to drive their budget process through detailed financial modeling and iterative collaboration as opposed to driving the model through line manager operational knowledge.

The unique approach from XLerant will support a culture of budget accountability for mid sized organizations, while increasing accuracy and collaboration across the enterprise.