

A BPM Partners White Paper

Extend BPM and Lower Risk with a Hybrid Approach

Disrupting Performance Management by Preserving the Value of Spreadsheets

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Executive Summary

Can you extend performance management, and impact more business processes, while lowering risk? The idea seems counterintuitive. How does one extend BPM (business performance management) with less risk?

For a decade the predominant approach to BPM was that companies replaced spreadsheets with packaged BPM applications. A new approach disrupts that trend by mixing spreadsheets with key aspects of packaged solutions. To lower risk and cost, this hybrid method innovates—by retaining and “rehabilitating” the indispensable yet much-maligned spreadsheet.

Today, in 2013, when you look at organizations relative to their use of performance management (CPM or BPM), they tend to be either:

1. Early adopters, often with packaged BPM from an ERP mega-vendor already implemented in core processes like budgeting and consolidation. They tend to have processes unique to their company that are still managed via spreadsheets.
2. Recent adopters, often still using Excel as their financial database and reporting vehicle, yet keenly aware of the risks and inefficiency of doing so.

The first group, early adopters, has realized significant benefits from BPM. They’d like to extend CPM to their unique business processes. But it is either too expensive, due to the cost of customizing a mega-vendor application – or their current package is just too inflexible.

The new adopters, on the other hand, have in many cases built their organizational wisdom into an intricate web of spreadsheets. Companies that grew rapidly and informally are likely to have dozens, if not hundreds, of spreadsheets that tie up dozens of finance professionals each month. If they switch to a packaged application, there are obstacles such as the risk of losing their accumulated practices now embodied in spreadsheets. Moreover, their finance people *think* in “Excel” and understand the business via their dozens of spreadsheet models. A cold-turkey cutover would shake them up. The “Big Bang” is risky.

There is widespread resistance to giving up Excel. Many professionals have used it their entire career and IT cannot easily pry their fingers from their familiar Office tools.

This white paper examines the tradeoffs of the relatively new hybrid approach, how it wraps data governance around the spreadsheet as an input vehicle, and how it imposes workflow on data collection and the protection of audit capabilities around budget and report numbers that export to a spreadsheet for analysis and usage.

The Indispensable, Unviable Spreadsheet

As a database and consolidation application, the spreadsheet is out of its depth. For almost any critical enterprise process, the spreadsheet is not viable. At the same time, however, the spreadsheet is necessary. You can't get away from them.

Spreadsheet users and Finance groups have more options if they consider a relatively new hybrid approach which combines a centralized database, workflow, and protective governance of spreadsheets as both input and output vehicles.

The goal of this document is to examine the pros and cons of this risk-reducing approach to BPM whereby existing spreadsheet models are encased in “enterprise-grade” controls and joined with a multidimensional data engine. We believe this approach can assist the transition of your budgeting from a spreadsheet-only platform to an enterprise packaged application, regardless of your company size. If you are in a spreadsheet-dependent organization, you can still plan the transition to a budgeting solution that delivers sufficient collaboration but with the requisite control, accountability, and budget compliance.

It is unrealistic to completely discard spreadsheets when implementing a packaged application for performance management.

For over a decade, one predominant viewpoint has prevailed in BPM—namely, that companies should replace spreadsheets with packaged BPM applications. Recently, we have seen a new approach which mixes spreadsheets with key aspects of packaged solutions. To lower risk and cost of ownership, this hybrid method innovates by retaining and “rehabilitating” the familiar yet much-maligned spreadsheet.

The Hybrid Approach to Performance Management

The blended approach complements spreadsheets with:

- An analytic engine / multidimensional database that holds a single, complete-as-possible set of performance management information
- Built-in workflow and collaboration
- Security, auditing, and data governance features

The hybrid solution also:

- Retains spreadsheets for input and modeling
- Retains spreadsheets for output and modeling

- Leverages all the productivity tools available in spreadsheets, such as conditional formatting, formulas, auto-fill, charts, graphs and more.

	2001 – 2012	2010 →
Approach to implementing BPM	Replace spreadsheets with packaged applications using a centralized database, workflow, reporting, and analytics.	An added option: Keep the spreadsheets, but encase them in an application with centralized database, workflow, reporting, and analytics.

Performance Management Today

Organizations Ripe for a Hybrid Approach

Today many organizations fall into one of these two categories relative to performance management (CPM or BPM):

Early adopters, often with packaged BPM from an ERP mega-vendor already implemented in core processes like budgeting and consolidation. They tend to still have certain unique processes running via spreadsheets, because company-specific processes are often difficult or costly to address with packaged applications

Recent adopters often still use Excel as their financial database and reporting vehicle. They are increasingly aware of the risks and inefficiency of stretching Excel beyond its natural limitations.

Taking the first group, most of the early adopters have realized notable benefits of performance management. Many are now motivated to extend BPM to their unique business processes, which may be their secret sauce which gives them a marketplace advantage. But they cannot easily apply BPM to these differentiated processes. It's either too expensive, due to the cost of customizing a mega-vendor application – or their current package is just too inflexible. As an aside, at these companies, many employees have maintained a strong preference for Excel over any new application.

The second group, new adopters, has in many cases built their organizational wisdom into an intricate, unplanned web of spreadsheets. Particularly companies that grew rapidly and informally are likely to have dozens, if not hundreds, of spreadsheets that keep dozens of finance professionals fairly busy with maintenance, linking, and error-checking. Now they are big enough to switch to a packaged application, but there are two obstacles: first, the risk of losing their accumulated practices now embodied in spreadsheets and second,

their finance people *think* in “Excel” and understand the business via their dozens of spreadsheet models. A cold-turkey cutover would shake them up. The “Big Bang” is risky.

The Early Adopters: a Stealth Hybrid Approach

Paradoxically, early adopters who licensed a packaged BPM application from a mega-vendor have been using a de facto hybrid approach because—according to a consistent finding in the BPM Partners Pulse Survey over multiple years—over 80 percent of companies using packaged BPM applications continue to use spreadsheets in their BPM / CPM processes.

These spreadsheets continue to carry the deficiencies already mentioned; they are not auditable, have no security, are difficult to consolidate, and offer weak collaborative features. Yet the employees at most organizations are not willing to let go of spreadsheets.

Now, many of these companies are ready to apply BPM to additional business processes, including those unique to their business, which may share four prime characteristics:

- The process represents part of the company’s competitive advantage.
- They are currently handled by fairly complex spreadsheets, and significant best-practice intelligence is built into these spreadsheet models.
- The “spreadsheet exposure” is a significant risk issue.
- There is no purely packaged application at an acceptable price point to automate and improve these processes, and none that will easily configure to fit.

The early adopters often use packaged BPM applications from ERP vendors. They are now looking to extend the benefits of performance management into unique (non-commodity) business processes, but the cost and difficulty of reconfiguring a rigid packaged application deter them.

	2001 – 2012	2010 →
Approaches to implement BPM	Replace spreadsheets with packaged applications using a centralized database, workflow, reporting, and analytics	An added option: Keep the spreadsheets, but encase them inside an application with centralized database, workflow, reporting, and analytics.
Which processes?	<ul style="list-style-type: none"> • Budgeting • Consolidation • Reporting • Planning • Forecasting • Analytics 	←All of those, PLUS: <ul style="list-style-type: none"> • Inventory Management • Healthcare Management • Order Fulfillment • Logistics • Marketing and Advertising metrics • Employee Compensation • Hospitality Management • Other processes that confer competitive advantage

The New Adopters

Recent and new adopters are often sizable companies that still run key, core BPM processes on spreadsheets. May have resisted jettisoning Excel as their database as they grew, because so much organizational best-practice and knowledge is embedded in their spreadsheets.

They may also have resisted BPM packages because none fit their specific combination of business processes.

Example: a distributor of HVAC components has built its operation up with tightly connected order processing, cash flow and budgeting, inventory tracking, fulfillment and purchasing all on spreadsheets that feed into one another. Management is reluctant to adopt a packaged application which addresses only part of this ensemble, as it would leave the rest behind and create integration issues.

Spreadsheets: Insufficient by Themselves, Yet Tenacious

Over recent years, expectations have risen for analytic capabilities such as multidimensional analysis and drill-down. Even if spreadsheets had collaborative features, and data governance, they fall short in their limited ability to slice and dice.

Nevertheless, finance leaders have had to accept that users are strongly attached to their spreadsheets. In some enterprises where packaged budgeting applications were mandated as “the way” to participate in budgeting, managers commonly carried out shadow budgeting for convenience and reassurance – on spreadsheets. The attempt to eliminate spreadsheets actually *increased* the time that budget contributors poured into budgeting, due to duplication of their efforts.

How the Hybrid Approach Lowers Risk

One way to explain the hybrid approach is to compare it with the approach that relies entirely on packaged applications. Similar to packaged applications, the hybrid approach:

- eliminates spreadsheet risks
- automates delivery of multidimensional views of data
- includes workflow or process flow
- includes capabilities for auditing and data governance

Unlike the exclusively-packaged application method, the hybrid approach:

- avoids wholesale replacement of logic and processes created over years
- requires review and fine-tuning, not porting and programming
- retains familiar Excel models that employees know
- cuts risk of slow user adoption
- lets users continue to operate predominantly in a familiar environment
- avoids dependence on packaged reports

- leverages the productivity tools available in spreadsheets, such as conditional formatting, formulas, auto-fill, charts, and graphs
- reduces implementation effort and risk
- easily extends to company-specific, differentiating processes

Benefits of Hybrid Approach for Extending BPM

We believe this hybrid approach brings a number of advantages. One of them is lower cost of ownership, in part because the models and calculations are often implemented already in spreadsheets, and do not require conversion to the database of a BPM application. Instead, they are carefully reviewed, in some case better organized, and then locked in. This has the effect of reducing risk from the status quo, instead of heightening it during change.

Other benefits:

- User adoption is typically easier, with less resistance than one might encounter with unfamiliar new applications, and there is less training required.
- Customization to individual processes beyond the core BPM activities is easy, since the models can be built in Excel.

The Hybrid Approach and Competitive Advantage

Packaged applications are well-suited to familiar core CPM/BPM processes, but rarely are they designed for the activities that distinguish your organization. Companies do not achieve a competitive advantage from most packaged applications that focus on the core, common BPM processes. The packaged application improves a universal process such as budgeting, but any of your competitors can license the same software and achieve similar efficiency in the budgeting process.

Competitive advantage is usually found in business processes that are somewhat unique to their organization. These can include, as examples:

- Inventory Management
- Hospital and Care Provider Processes
- Order Fulfillment
- Logistics

- Marketing and Advertising metrics
- Employee Compensation
- Hospitality Management
- Any process that a company handles with its accumulated wisdom, experience, original workflow, and/or what it considers best practices.

It's inherently difficult for a typical packaged application to extend to these semi-unique processes. It is relatively easy, on the other hand, for the hybrid solution to incorporate spreadsheets that are tightly woven into unique business processes.

Examples of Extending BPM with Hybrid Approach

Extended CPM helps automate and add performance management to unique, differentiated processes. This ease of extension, via Excel, keeps costs down.

The following examples of companies that have utilized the hybrid approach to BPM show they addressed diverse processes, and achieved successful outcomes. Their initial implementation is just the start of an evolution in how they take advantage of BPM and analytics.

National Foodservice Company – Automated Budgeting and Planning

A national foodservice organization successfully deployed a hybrid approach to automate its budgeting and planning. The solution promotes collaboration and streamlines the collection of their budget and supplementary expense requests across the country. The finance group now leverages a built-in process flow engine to automate the distribution and review of Excel templates. The solution:

- automatically extracts data from their source systems
- creates business rules and input validations to ensure data integrity
- provides visibility to track user submissions and workflow statuses
- consolidates all approved budget data through a centralized database

Financial Institution Adds Workflow and Audit Trail to Consolidation and Close

A mid-size financial institution needed to improve **documentation, control** and **auditability** of multiple, disparate spreadsheet processes. It implemented a hybrid solution as an automation platform to add workflow and audit trail capability to its **Pre-Statement Close & Consolidation** process. The hybrid solution enabled a helpful increase in the integration between its Excel templates and its SAP and Cognos applications. The bank now has:

- a global view to analyze the progress and status of the entire process
- eliminated concerns from its Internal Audit group about gaps in the unregulated spreadsheet-based processes
- increased accountability; for example, each Excel spreadsheet and document version is date, time- and user-stamped within the solution.

Global Steel and Parts Manufacturer: Data Collection and Time Saved in Closing Process

A tier-one supplier of quality steel and aluminum parts to the automotive industry employs over 10,000 in 37 plants around the world. The manufacturer had a spreadsheet-based process for collecting currency values, cost data and supplementary data from its global plant network, but it was difficult to track and consolidate the submission and accuracy of data. A hybrid BPM solution gave this tier-one supplier a global collaboration platform that now facilitates controlled collection of remote plant data, including supplementary information for financial reporting that is not handled by its packaged consolidation application. The company also:

- benefits from direct source integration and data validation, with significant improvement in data integrity
- manages and distributes data over the web using its Excel environment
- has given its business users the ability to assign ownership to each process task, attach spreadsheets and documents to be completed, and attach relevant information such as instructions and due dates.

Power Generation and Utilities: Data Integration, Version Control, and Footnote Disclosure

One of the largest power generation and utilities companies in the United States operates power generation and distribution businesses in 27 countries. Data collection for the company's footnote disclosures relied on an unmanageable volume of Excel spreadsheets from over 200 contributors. With a hybrid BPM solution, the energy company integrated its data collection directly into its financial statement reporting system (Cognos FSR) for improved data integrity and version control. The energy company now:

- manages the process with its Excel spreadsheets; users stay in a familiar interface, thus promoting ease of use and high user adoption
- has automatic data integration from SAP BPC and other source systems that pre-populate Excel templates, to eliminate re-keying of data
- eliminates version control issues between preparers and reviewers
- sees a holistic view of the footnote data collection process, including who owns the spreadsheet and its status in the process (submitted, approved or rejected)
- has automated Quarterly Line of Business Reporting, and Financial Reporting

Conclusions

For approximately a decade, what we call BPM (EPM / CPM) developed with one predominant approach: replace inefficient spreadsheets in budgeting, consolidation, planning and modeling with packaged applications.

That is a long time for a new concept to remain new. It's no surprise that beginning in 2010 and 2011, a disruptive approach came into play: the spreadsheet and BPM application are combined into one seamless solution, which addresses not only core BPM processes, but other business processes which may be company-specific and contain competitive differentiators that impact financial results at the organization.

This "disruption" comes with lower risk and lower cost of ownership, however, because it requires less change and less migration of logic. The key spreadsheets remain, with the analytic models that were built and refined over several years. The hybrid approach then adds centralized data in a single repository with the ability to slice and dice on any dimension, plus workflow, auditability, and data governance controls, and finally the ability to extend performance management easily to additional business processes.



About BPM Partners

BPM Partners is the leading independent authority on business performance management (BPM) and related business intelligence solutions. The company helps organizations address their budgeting, planning, financial reporting, regulatory compliance, profitability optimization, key performance indicator (KPI) development, and operational performance challenges with vendor-neutral experts who can guide companies through their BPM initiatives from start to finish while both reducing risk and minimizing costs. For further details, go to <http://www.bmpartners.com>. Follow BPM Partners on Twitter [@BPMTeam](https://twitter.com/BPMTeam).

About Vena Solutions

Vena Solutions delivers the most flexible performance management solution available for budgeting, forecasting, planning, reporting, analytics, and other mission-critical finance and accounting processes to large and mid-market companies around the world. Vena's unified web-based software platform embraces all the power and flexibility of Microsoft Excel yet provides powerful workflow management, control and reporting capabilities. This unique approach is complemented by a dedicated consulting, advisory and training team. The result is fast time to benefit for our clients at a lower cost of ownership of a solution that is easily managed by our clients. Vena's rapid growth is due to our success in improving our clients' business processes to increase efficiency, performance and drive true business value. Visit Vena Solutions online at <http://www.venasolutions.com>