A BPM Partners White Paper

Alternatives to Spreadsheet-Based Budgeting

A Highly Effective Budget Process Requires Data Governance, Workflow and Collaboration, and Multidimensional Analysis

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Executive Summary

Spreadsheets versus Packaged Applications in Enterprise Budgeting

Over the past decade, organizations of all sizes moved to elevate their budgeting process from the limits of spreadsheets. They had ample reason: the rise of data governance cast a harsh spotlight on the risks inherent in using spreadsheets alone for serious enterprise work. Budgeting, of course, was always difficult and error-prone – long before corporations hit on the idea of having every manager fill out their budget on a spreadsheet and then assign to an unlucky group the responsibility for consolidating those spreadsheets into an overall budget.

The shortcomings of spreadsheet for enterprise applications are no mystery. Atop the list are version control, formula errors, and complex linking and macros—how many of us have actually written even a simple macro? Not to mention the difficulty of pulling in and consolidating input from mandatory participants.

Especially for larger companies, there was a pendulum swing to packaged applications to eliminate spreadsheets. Understanding the preference of many users for Excel, a number of vendors used a spreadsheet-like interface. Still, the transition away from spreadsheets is not free of bumps.

Some companies that adopted packaged applications saw that budget contributors still preferred to use spreadsheets—to assemble and check numbers before inputting them, and then to manipulate the numbers once the budget emerged. A data governance gap existed as the numbers were hopped back and forth from spreadsheet to packaged application.

At many organizations, however, the budget process stayed firmly entrenched in spreadsheets. This is not a commercial for Excel, but many professionals have used it their entire career and IT cannot easily pry their fingers from their familiar Office tools.

This white paper seeks to do more than focus exclusively upon the problems that go with spreadsheet-based budgeting, and the advantages of packaged applications. It also acknowledges the viability of wrapping data governance around the spreadsheet as input vehicle, and around the budget numbers that export to a spreadsheet for analysis and usage later.

In other words, spreadsheet users and Finance groups may be able to have their budget cake and eat it too, with a continuum of options.

The goal of this document is to 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.

Budgets in 2013: Still Much Room for Improvement

Every organization with a budget—regardless of size--faces certain common budgeting-related challenges. Primary among them; how to construct and deliver the budget quickly and on time, but without significant errors.

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 would fall short in their limited ability to slice and dice.

Finance professionals, regardless of company size, need the capability to quickly evaluate current and past performance against a predefined set of performance data (goals and forecasts), present clear facts and uncover trends. Both finance and line-of-business managers demand accurate, timely data that can be easily updated as business conditions change. Business managers need to know if they are slipping off their budgets in time to correct the issue.

For the Fortune 1000, with their greater resources, and for the SMB as well, some budgeting challenges overlap. There are differences related to company size, however. The bigger the company, the more challenging it is to use spreadsheets alone to distribute templates for budgeting, and even more difficult to collect and consolidate.

Finance leaders must also accept that users are quite 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.

The Spreadsheet in Budgeting: Significant Drawbacks, but Plenty of Good, Too

Although they are the quintessential personal productivity tool, spreadsheets alone are not adequate to support the critical nature of budgeting and forecasting because they fall short on workflow and data governance. Data governance may have become their most glaring concern. Spreadsheets are not designed to maintain data confidentiality; they can't hide payroll data from an unauthorized user, for instance. These are drawbacks for corporate governance and make the audit process more difficult. For the great majority of users, trying to gear Excel to impose data governance and consolidation would be a completely frustrating exercise.

The spreadsheet is also very limited as an analytical engine. Multidimensional, in Excel terms, means either rows and columns, or awkward sets of subtotals that are difficult to set up and maintain. Finally, the spreadsheet does not "do workflow" nor manage a collaborative process.

However, Excel is the only budgeting platform that many businesspeople have ever used. That is not justification for using a tool that can't perform the task, but let's be realistic—it has an impact on user acceptance of packaged budgeting applications.

Moreover, the spreadsheet is a familiar data entry interface. On the output side, it is a fast and powerful platform for allowing users to manipulate and charts and reports without calling IT for help.

The spreadsheet is embedded in business culture. Attempts to expunge it completely from the budgeting process may be counterproductive. It can provide a comfortable way to draw business managers into the budgeting process—provided there is a way to impose structures and governance.

Must-Haves for Your Budgeting Process

When the budget process breaks down, it can severely hamper decision-making and handling of cash flow. The company may pay a steep price in reduced productivity and missed business opportunities. If your budget process lacks the Must Haves below, it might be time to make a change from spreadsheet-only budgeting..

Your organization's budget requires:

- A single version of the key numbers and account structures. With one roll-up structure, individual budgets can be consolidated into the company budget. You need data governance to ensure that what goes into the budget matches the roll-up structure, and that dates don't get entered as dollar amounts in error.
- Best practice in budgeting entails a mixture of top-down guidelines and standards, combined with bottom-up individual knowledge and experience.

- Standardization of key drivers and cost assumptions. This part of the budget should be top-down. You can still have one revenue target for sales, and another, lower target to guide travel expenses, but these numbers are set as policy from above.
- A sense of ownership and control by individual contributors of their particular domain, and their budget targets and figures.
- Pro forma financial statements are a requisite for some businesses.
- Detail on line items can be included and well-covered; if the model is limited to consolidated or summary level numbers, rest assured that managers are investing a great deal of time in modeling to a detail level on their own, in Excel.
- A form that mere mortals can assimilate and understand. When your budget model is too big for a spreadsheet, it will be extremely difficult to maintain and update. How do you know when it is too big? That's a subjective assessment, but if you cannot figure the budget model out by looking at it and reading the formulas and embedded notes, that is a red flag. As for the budget templates that are distributed throughout a company to contributors, keep in mind that the more users, the smaller the data entry templates should be.
- A model that speeds up the process, instead of slowing it down.
- Multi-user capability. In spreadsheet-only budgeting this often takes the form of unsupervised work by several people on individual worksheets that are part of the model—and it tends to create version control issues.
- The ability to easily handle changes to data structures and roll-ups.
- Easy quick and automated comparison of actual results to budgets.
- Functionality to handle detailed projections of complex portions of the budget such as employee taxes and costs, and deferred revenue numbers.
- Insulation between budget contributors and spreadsheet programming; it should not be possible for unauthorized users to change corporate formulas or accidentally break links between workbooks.

It is common for spreadsheet budget models and their intricacies to be known and maintained by a single person, who becomes a vulnerability point with no backup. There are other maintenance and usage issues. Spreadsheet budget models are difficult to document and update.

It's important to keep in mind that the spreadsheet is not "the problem in budgeting." It can play a very useful role, if its data governance shortcomings can be overcome. .

Pros and Cons of Incorporating a Packaged Application into Budgeting

Packaged application software designed specifically for the budget process can either eliminate, or "work with" spreadsheets in the budgeting process. Among the outcomes that can be expected from building a budget using such an application are:

- Cost factors – There will be licensing, setup and support fees, but with a promising tradeoff: eliminating the cost of support and maintenance of often-faulty spreadsheet models, as well as the cost of employee time lost in coping with spreadsheet problems.
- Fewer or no errors – Generally, a packaged application will build formulas for your models based upon your assumptions and workflow, utilizing built-in financial intelligence and business rules to ensure complete accuracy. A hybrid approach can incorporate formulas and assumptions directly from existing spreadsheets, while protecting them from improper modification.
- Centralized, multidimensional database – Applications typically use a centralized database which provides the ability to view data across any choice of dimensions. The central repository also eliminates the data discrepancies that often occur when linking worksheets together. Changes to estimates or assumptions are automatically updated in real time so all participants work with a single version of the truth.
- A "safer" data entry interface – On the data entry side, the user is not "involved with" spreadsheet formulas and there is a much reduced danger of formula errors. A number of packaged applications use a spreadsheet interface for limited user activities, but there is not a spreadsheet behind this front end.
- Accounting application integration – An important feature of some packaged applications is an automated process to import data from commonly used accounting applications and spreadsheets, with the ability to support a rolled-up budget and forecast from multiple systems. This expedites data transfer and minimizes errors. The application should work naturally with your chart of accounts, aligning accounts with those in your general ledger to facilitate variance reporting at a summary level down to the detail level.
- Reduced programming – A budgeting packaged application should do away with the need for spreadsheet-type formulas and manual combination of input templates. This should eliminate formula and consolidation errors in rolling up from bottom level to top.
- Contingency planning and sensitivity analysis with "What if" scenario generation – Budgeting with a packaged application, users typically can change drivers to see their impact on outcomes. A user can generate a series of scenarios to search for preferred outcomes.
- Integrated reporting – Packaged applications can generate profit/loss, balance sheet, and cash flow statements from budget scenarios with speed, ease and—

best of all—little confusion between possible versions and scenarios. Packaged applications usually include some pre-formatted reports and the ability to customize a wide range of reports.

- Collaboration and workflow – The application should support involvement and collaboration by more end users and contributors to the budget process, encourage their participation with reminders and communication automatically, and govern the consolidation of their input in a rollup.

From Spreadsheet-Only to Enterprise Budgeting: A Quick Road Map

Before plunging in, it's helpful to build a step-by-step approach, mindful that this solution will probably be used by many people, but not often enough that they will become experts. Most organizations do not budget more frequently than quarterly.

A sequence of initial preparations that has worked well for other organizations:

- Map out your current budgeting model, so you understand what it does, and precisely what drivers it contains. It almost certainly contains embedded assumptions, formulas, reporting requirements and experience that need to be institutionalized in the new system.
- Define the ideal outcome. To create the vision of your budgeting process, consider who would participate, whether bottom-up forecasting by many participants is required, what integration would be necessary, which general ledger or other transactional systems your budget should link to, and the kinds of query capabilities and reporting needed. Also consider the desired frequency of budgeting and reforecasting. If it's high-frequency, you will need an interface that allows for swift navigation. If low frequency, then the front end should probably be familiar—spreadsheet-based or actual spreadsheet—to minimize the time spent gaining fluency in usage.
- Recruit secure high-level executive sponsorship, to clear funding and other roadblocks.

With the vision for a new budgeting process defined, internal support recruited, and user requirements documented, you are ready to determine specific solution requirements.

Specify Your Solution Requirements

The following criteria should be useful in defining requirements:

- Determine your preferred user interface from possibilities that include spreadsheet, spreadsheet-like, menu-driven application interfaces, and various web-based options. To reduce budgeting time and errors by eliminating formulas, you should give priority to a menu-driven application or a browser-based interface—or verify that the system imposes data governances.

- Work to get an accurate read-ahead on implementation time. Longer implementations almost always mean more cost. Match this up against your company's tolerance for payback period. Target a solution that will cause minimal disruption to your business during implementation.
- Cloud-based alternatives relieve most of the on-site implementation. Consider this option if your firm is cost-sensitive about the implementation part of the project.
- Choose an application that aligns with the available IT support at your firm. For many SMBs, business users will have to carry out much of the implementation work, and some applications are built to require less IT support.
- Analyze total, lifetime cost of ownership without forgetting key factors such as training and ongoing support. Learning a new interface for inputting data boosts the cost of adoption and in general will slow down participation, consuming employee-hours. When it comes to budgeting, support is often needed when finance leaders change their models, or data governance rules change. In response, they need to modify input templates, formulae or rollups. Changes in product hierarchies and codes can also tax the abilities of users. The finance teams should be able to handle all these changes fairly easily, and not have to get into the queue for IT support.
- Ensure integration with general ledgers and other transactional systems that support your business. That would generally mean pre-designed links to various mid-market ERP systems, general ledgers and payroll/time-keeping systems.
- The package's reporting should include the ability to generate integrated financial statements.
- Look for sufficient scalability to absorb your organization's likely growth—including via merger or acquisition—over the next five to eight years.

Larger organizations, with numerous specialists working in their Finance group, may be more open to an application which handles budgeting alone. Smaller companies may be well served by looking for a solution that integrates budgets, reports, and forecasts. The price point is an issue – ERP-level budgeting applications are likely to be above the threshold for SMBs.

Budgeting is an area where functionality is more than important than marketing power. The company needs to careful consider capabilities—for instance, does your company require integrated financial statements?—as well as the ease of adoption and how independently system users will be able to operate.

Dig into the application functionality to make sure it meets your business requirements. This may include considering a solution that is not promoted by your current ERP or transactional system vendor.

Conclusion

The primary benefit of graduating from pure spreadsheet-based budgeting to incorporating a packaged application is a more accurate, inclusive, and timely budget with significantly reduced cycle time and data governance assurance. The downside of going to an all-packaged application approach is that user acceptance and adoption—especially away from headquarters—may be challenging and more costly.

Organizations may find they can increase the frequency of budget planning once they address the shortcomings of spreadsheets. Faster, more informed budget-related decisions can also be enabled.

The ability—delivered by a true multidimensional analytic database-- to assess profitability by product line, customer, region, and channel in near real time helps managers decide and adjust how they allocate resources, cash, and personnel. The enterprise budget gives a complete view of your financial organization, blending top-down and bottom-up perspectives, incorporating historical and forward-looking information.

Other benefits include less maintenance, more collaboration and participation, easier audit support, and stronger reporting. The greater accuracy delivered by packaged applications means fewer errors in calculation and consolidation of the budget, and a budget that does a better job of forecasting the actual expenses and revenues. At the same time, users need to learn the package, even if the interface is Excel-like.

The implementation and maintenance requirements of the solution should be carefully considered. An enterprise-grade business process with dozens or hundreds of participants will probably need support. One approach to consider would be a blended solution between the extremes of all-spreadsheet and packaged-application only; this would entail placing a centralized database between spreadsheets as input forms and spreadsheets as output modeling and charting tools, with data governance imposed on the input side.