

**A BPM Partners White Paper**

## **Cutting Through the Forest of Consolidation Spreadsheets with 'Enterprise Excel' and CPM**

**Automating Financial Consolidations while Retaining Excel  
Investments**

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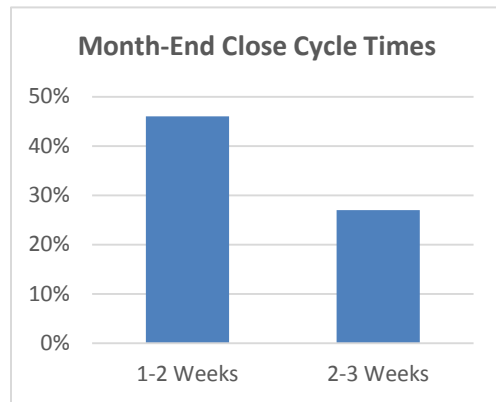
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## Executive Summary

Many companies have yet to consider – and indeed, may not even be aware of – financial consolidation solutions to replace the highly tailored stand-alone spreadsheets that currently drive their month-end close process. With Excel entrenched as the *lingua franca* of finance and accounting worldwide, Finance departments at such companies tend to tolerate a mostly manual approach to consolidations. They struggle through the quarterly and year-end close and reporting cycles, often with a forest of linked spreadsheets.

This error-prone and time-consuming approach exposes companies to costly financial reporting and reputational risks. A common example: when links break between the spreadsheets that make up an intricate accounting process. The errors that result may be very visible, or nearly impossible to detect.

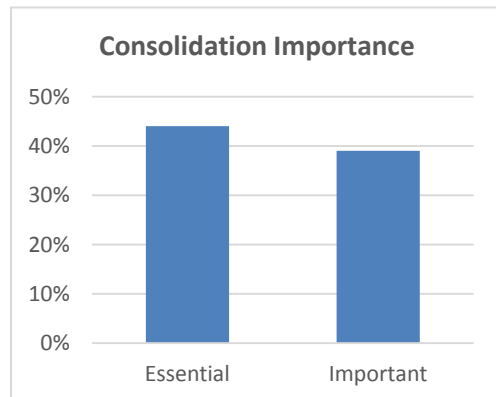
The month-end close remains difficult and stretches out time-wise at these companies. According to BPM Partners' Pulse Survey, for 46% of respondents, the close requires between one and two weeks, while for 27% it takes two to three weeks.



Finance groups are reluctant to abandon their investments in Excel, even when considering a dedicated consolidation solution. Their consolidation models likely rely on many of Excel's 400+ functions, which are at best difficult to replicate in specialty financial and corporate performance management (CPM) applications.

In addition, Finance values independence from using professional developers or IT resources to create and update models that may need to change frequently. There are cost barriers, too. Dedicated applications for financial consolidation can require a heavy capex investment, long implementation cycles and disruption to existing processes.

Some organizations take small steps to address financial consolidations with tightly targeted or point solutions. Others look to include financial consolidations in an end-to-end CPM solution. Pulse Survey<sup>1</sup> respondents view financial consolidation functionality as essential (44%) or important to have (39%) in picking a new performance management system.



<sup>1</sup> 2015 BPM Partners Pulse Survey.

Excel, on the other hand, continues to be the preferred complement to 80% of CPM implementations, and is the de facto platform for shadow analysis outside the controlled environment of a CPM or ERP solution.

Excel on its own is inadequate as a complete consolidation solution, however; it lacks native version control, compliance, and workflow capabilities. That changes when it becomes what some call Enterprise Excel – when it is married to the same controls, workflow and centralized database of a traditional CPM solution. A key advantage of an Enterprise Excel-based solution is retaining the considerable Excel investments that already make up part of a company’s approach to financial consolidations and larger financial close processes.

## Financial Consolidation Solution Trends

This white paper focuses on the use of corporate performance management (CPM) based on ‘Enterprise Excel’ as a financial consolidation solution that retains and builds on the legacy spreadsheets on which Finance relies.

Note: Performance management is often referred to as corporate, business or enterprise performance management (CPM, BPM, or EPM). In this document, the term CPM is used for simplicity.

### Financial Software Moving to the Cloud

The Pulse Survey for 2014 indicated that only 8.3% used a cloud-based financial consolidation system. A year later, that had risen to 19%.

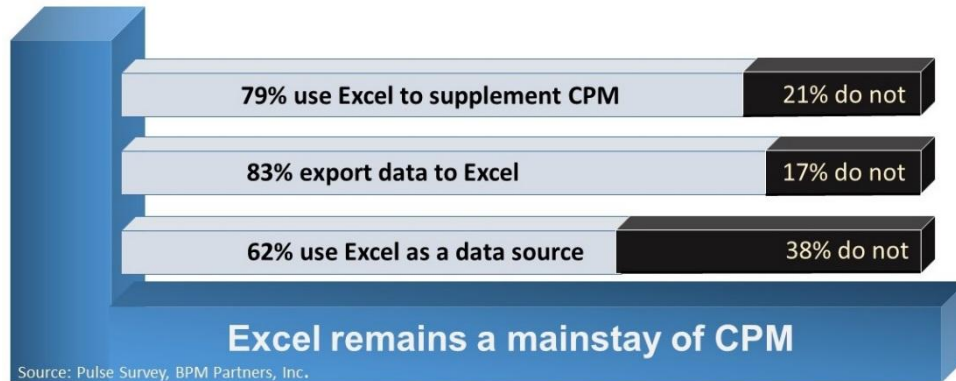
<b>Pulse Survey Results</b>	<b>2014</b>	<b>2015</b>
Stand-alone spreadsheets	18%	13%
ERP / Transactional System	29%	38%
On-Premises Financial Consolidation Application	30%	21%
Cloud Performance Management / Financial Consolidation	8%	19%

Light-footprint financial consolidation solutions are gaining ground. In 2014, the Pulse Survey found that 18.1% conducted consolidation **primarily** within conventional spreadsheets, and 7.8% used a system developed in-house. A year later, only 12.7% were consolidating primarily on spreadsheets. Heavier-footprint, on-premises applications are clearly on the fade.

Meanwhile, cloud-based solutions (most often CPM suites) for financial consolidation gained the most ground, almost doubling in use from one year to the next.

## Excel Remains Integral to CPM

While using spreadsheets on their own is on the decline, recent BPM Pulse Surveys<sup>2</sup> reveal that Finance continues to **rely heavily on Excel alongside CPM solutions implemented.**



Excel is the only application that spans KPIs and performance data across every department and industry, and one of the few software applications found on every desktop in Finance. Especially when Excel is coupled with enterprise-grade features, it should come as no surprise that companies are increasingly open to using it as a mainstay CPM platform. Financial consolidations are just one of the Finance processes that require governance, control, and data integrity and accuracy.

## Large Investment in Conventional Spreadsheets

Many businesses have poured their collective finance knowledge into spreadsheet models that are finely tuned to their unique financial consolidation requirements and workflow. This often begins with simple Excel templates but can quickly become much more complex than anticipated.

Financial consolidations might entail a half-dozen – or several hundred – separate linked spreadsheets, each with multiple tabs or worksheets. The links between them are difficult to document, track, and maintain. On the other hand, this tangle of legacy, conventional spreadsheets typically contains a large amount of built-in value and how-to knowledge. Indeed, the functionality to handle the month-end close process may be distributed in an unpredictable fashion across a large number of such linked spreadsheets.

The same spreadsheets will overlap in functionality, at least to some degree, with a unified CPM suite. Each, on its own, is likely to have functional gaps, especially in the integration of processes and aggregation of data. Off the shelf, CPM suites do not provide a ready and 100% fit. Enterprise Finance departments need the best of both worlds.

<sup>2</sup> BPM Pulse Surveys are created and administered by BPM Partners.

Eventually, most companies will outgrow standalone Excel spreadsheets and need a more unified, automated financial close solution. How can companies get the scalability and control they need, while keeping the Excel software their staff know and prefer?

How does a team responsible for financial consolidation best go about this, and when is it time to start the initiative?

## Options for Financial Consolidation and Reporting

The current options for financial consolidation and reporting solutions include:

- **An existing ERP system**, which is costly, relatively difficult to use, IT-dependent, and often has limited self-serve analysis and reporting.
- **A dedicated consolidation application** which can be costly, rigid and may require extensive IT involvement to install and maintain, typically with limited or no integration with other financial, ERP or CPM solutions.
- **Standalone spreadsheets** – the status quo – which require extensive manual set-up and maintenance, offer no governance or controls, and do not link in a robust manner to other databases or CPM processes.
- **A light-footprint, cloud-based solution** for consolidations – either as its focus or as part of a larger CPM suite – incorporating existing spreadsheets into the process. Enterprise Excel platforms fit into this category.

## When to Upgrade Your Financial Consolidations Process

There are several common indicators that show when an organization needs a robust and reliable financial consolidation and reporting solution. In general they fall into two categories:

The need for more control over the consolidations process:

- The Office of the CFO determines that the process requires auditability and governance.
- The charts of accounts are subject to change, or general ledgers are added or removed, whereby conveying the changes properly through other spreadsheets is subject to errors.
- Finance's 'forest of spreadsheets' is evaluated and deemed to present undesirable risk because of its complexity, breakability, or lack of controls.

The business and its finance processes become more complex:

- Multiple general ledgers, transactional systems, or ERP systems.
- The likelihood of a merger or acquisition.
- Currency conversions, subsidiaries with partial ownership and/or intercompany transactions.

- Finance needs alternate organizational hierarchies or rollup structures, or the general ledger/chart of accounts structure is subject to change, both of which increase the risk of errors when using conventional spreadsheets.

## Light-Footprint CPM for Financial Consolidation

In general, there are three options for moving a company's existing Excel spreadsheets into a CPM framework for consolidations:

1. Translate them over to a dedicated, standalone consolidation application.
2. Build out the consolidation module of a legacy CPM or ERP application.
3. Integrate them with a unified, cloud-based CPM platform with built-in consolidation functionality and a light footprint.

As discussed below, BPM Partners believes the light-footprint, cloud-based CPM approach is appropriate for many organizations. Here's why.

### Cloud-Based Solutions: Native Excel vs. Excel-Like

Some cloud-based CPM suites contain pre-built financial consolidation features, although few have robust enterprise-grade functionality for the full month-end close process. Most aim to replace existing spreadsheets with an Excel-like interface, while others offer a true, native Excel experience. The latter offers important benefits including familiarity, flexibility, and analytical power.

*“BPM Partners believes the light-footprint, cloud-based CPM approach [to consolidations] is appropriate for many organizations.”*

CPM platforms that retain existing spreadsheets are of particular interest to companies that have a strong, vested interest in staying with their existing spreadsheet infrastructure, and handling CPM processes in a native Excel environment.

### The Role of a Centralized Database

A CPM platform is expected to maintain a single version of the truth, with all users working off the same trusted, real-time numbers. An OLAP, in-memory database is the current standard, because it enables multidimensional queries and analytics, and delivers fast calculations on large volumes of data.

A centralized cloud database ensures that lost files and version control issues are virtually eliminated, and all models, forecasts, plans, and workflows are centrally tracked.



It also has the virtue of replacing all links *between* spreadsheets; instead, they all link to the central database. As mentioned above, an in-memory, OLAP database provides speed and the ability to query data on any dimension.

For applications (like CPM) handling sensitive financial data, the issue of security must be taken into account. While cloud security is outside the topic and scope of this white paper, cloud-based applications for the enterprise must conform to a number of standards and best practices. Providers of cloud-based CPM applications have demonstrated they can provide high levels of security, scalability, and stability that satisfy the requirements of very demanding customers.

Finance departments have shown their confidence in the cloud's security and trustworthiness by adopting cloud-based CPM suites at an ever increasing rate. The gain in one year – from 2014 to 2015 – exceeded the cumulative gain in all prior years combined.<sup>3</sup>

## Capabilities Needed for Financial Consolidations

Recent Pulse Surveys show a sharply rising interest in key aspects of financial consolidation.

### CPM Components of Most Interest to Companies

Source: Pulse Surveys	2014	2015
Financial Reporting	50%	75%
Financial Consolidation	27%	38%
Disclosure Management	16%	22%

The 2015 Pulse Survey provides insight into the relative importance of different financial consolidation and reporting features for respondents in Finance. They can be summed up in the following checklist:

- **Audit trails** of all journal entries or adjustments to financial data and workflow.
- **Consolidating** all entities along with budgeting and forecasting **as part of a single database**.
- Support for **alternate rollup** hierarchies.
- **Workflow automation** so that processes are completed correctly every time, with no manual intervention.
- Intercompany matching reports, **automatic intercompany eliminations**, and the ability to manage complex **intercompany reconciliations**.
- Ability to post back to the **general ledger**.
- The ability to make **journal entry adjustments** outside the general ledger.
- **Translating** native numbers into multiple currencies.

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<sup>3</sup> BPM Partners Pulse Survey, 2014 and 2015.

- **Automatic mapping** from different departments, subsidiaries and account structures into a **master chart of accounts**.
- Ability to account for **minority interests**.
- A collaborative **disclosure** process.

A workflow engine is a key element in using enterprise-grade Excel for financial consolidations. Currency conversions, adjusting journal entries, reviews, and supporting disclosures call for workflow automation to keep them in the right sequence and on the right timetable. Automatic notifications to contributors, reviewers and managers are integral to making workflow effective.

With workflow, existing Excel models for financial consolidation, disclosure, and reporting can be simplified and improved, as Finance creates a highly customized consolidation solution – and ultimately a company-wide CPM solution.

## Excel As an Enterprise CPM Platform

CPM solutions today typically encompass automation, guidance and control of critical financial processes and data. The most common examples include budgeting, financial close management and reporting. The process capabilities of CPM play an important role in all these areas.

To improve business processes most effectively, CPM solutions require:

- Workflow and collaboration.
- Governance and controls.
- Integration with disparate data sources, from the general ledger to ERP and supply chain management systems.
- A single, stable data repository, ideally based on an OLAP database with in-memory computing.
- Cloud access and architecture.

Excel is an attractive and familiar performance management environment for most end-users, particularly where self-service is a desired aspect of the business process. To be considered enterprise-grade, and perform effectively as a CPM or consolidations solution, Excel needs to incorporate all the features described above.

### Case Study: Global Financial Consolidation in Enterprise Excel

With over 25,000 employees in 25 countries, The AES Corporation is a global power generation, distribution and utilities company. AES must file comprehensive summaries of corporate performance with the New York Stock Exchange (NYSE). In addition, it must deliver three unaudited quarterly reports, the 10-Qs, and one audited annual report, the 10-K, to the Securities and Exchange Commission (SEC) within 45 days of the end of the accounting period.

Every quarter, the Financial Reporting team at AES distributed and then collected 170 spreadsheet templates that captured detailed financial information and footnotes about worldwide business operations.

The original consolidation process was manual in nature and relied on a combination of Excel templates and macros. However, the need to adjust to mandatory changes in SEC reporting requirements, in addition to the hundreds of Excel templates AES had to maintain on a regular basis, put the accuracy and timeliness of their reports at risk.

AES wanted to continue working with their existing spreadsheets to prevent any major disruptions to their operational and organization structures. With an enterprise-grade Excel and cloud-based solution, AES streamlined its data collection, consolidation and reporting processes without forcing the Finance team to abandon the reports, formulas and templates it was accustomed to using.

## Conclusions

Companies are increasingly turning to light-footprint, cloud-based solutions for financial consolidations. It is beneficial to use a single platform for analytics, workflow, modeling and financial consolidation, all based on the same trusted data. The benefits of such an approach are quickly seen in scalability, reliability, better compliance, and reduction of errors.

With the right workflow, controls, and underlying high-performance database, Excel successfully makes the leap from desktop tool to enterprise platform. This gives Finance departments the power and control of traditional CPM solutions with the familiarity of their Excel spreadsheets. Especially in cases where complex financial consolidation and close requirements are embedded in linked spreadsheets, the ability to retain the investment in Excel models can be a determining factor in selecting the right financial or CPM solution.

## 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.bpmpartners.com>. Follow BPM Partners on Twitter [@BPMTeam](https://twitter.com/BPMTeam).

## About Vena Solutions

Vena turns Excel into an enterprise-class business solution with a centralized database, workflow, detailed audit trail and more. With Vena, hundreds of leading global brands now get trusted numbers and insights – fast – without sacrificing the investments they've made in Excel templates, models and reports. Our customers use Vena for corporate performance management (CPM) applications including budgeting, financial close management, reporting, and automating other spreadsheet driven processes across and beyond finance. Vena is the fastest growing cloud CPM vendor, and the only one to embrace – not replace – Excel spreadsheets. For more information, visit [www.venasolutions.com](http://www.venasolutions.com).