

CPM Expert Series⁸
Getting out from beneath
the sheets.

*A rinedata white paper
Updated 1st September 2009*

GETTING OUT FROM BENEATH THE SHEETS

Finance teams love spreadsheets. They're easy to use, quick to set up and simple to distribute. They allow staff not versed in Information Technology to create and maintain simple business models, develop new scenarios and share them with their colleagues.

It's ironic then, that the very flexibility and openness that make spreadsheets ideal as personal productivity tools undermine their suitability for corporate budgeting and reporting.

To illustrate this, let's examine the budgeting process of a global manufacturing company with a handful of sales offices, three production centres and twenty cost centres in multiple locations around the world.

Pieces of the puzzle rather than the full picture

The budget manager develops a spreadsheet pack for the data collection and consolidation process of the annual planning cycle. The pack is based on the chart of accounts and can be consolidated using a macro built into the master spreadsheet. The pack also contains a Word document extracted from the strategic plan that lists key goals that budget holder's should focus on during the planning process.

The problems typically begin before any numbers are even collected. Since spreadsheet applications are single user and contain poor built-in features for working collaboratively, the

budgeting pack must be sent to users via email. This means that users sometimes lose the pack or worse still receive the wrong sheet altogether.

Once the sheets have been distributed to the budget holders at the production sites, they use their own in-house models to develop raw material cost estimates. However, because growth assumptions are not stored centrally these models are driven from a previous version of the revenue forecast.

Other departments fair no better: The sales managers generate their cost projections based on outdated expense policies, whilst managers in the personnel and finance teams add extra lines into the discretionary spending category to capture items that are not in the ledger.

The result is a disjointed and error-prone data collection process. Information is not shared between departments and incorrect assumptions are propagated throughout the plan. Rather than giving a clear picture of where the business is going, the assembled budget resembles a jigsaw puzzle with missing pieces.

No time for analysis

Things become even more complex when there are changes. Halfway through the second pass of the budgeting process the macro-economic assumptions change and the board decide that the sales targets should be increased. The pack has to be reissued with an updated timetable and a new assumptions document.

Not only do budget holders have to go through the process of re-

entering their numbers, but since there is no version control some complete the wrong pack. Similarly, the extra lines added by the personnel and finance departments play havoc with the consolidation process and many figures must be re-keyed and consolidated manually.

Given these problems, it is no surprise that a recent report by KPMG indicated that up to 91% of spreadsheets contain undetected errors. Moreover, research has shown that the data collection and consolidation process consumes around 80% of the available time in the typical budgeting cycle. This affords management teams little or no opportunity to analyse the content of the budget itself.

A lack of joined up thinking

Once all the budget data has been collected, consolidated and approved a fundamental problem arises: there is no reliable way for senior management to be confident that the budget is going to achieve their goals. This is because the budget pack and legacy reporting systems focus on the chart of accounts and the strategic plan is forward-looking and activity-based.

Spreadsheet-based budgeting: not the tool for the job

This example reveals a number of the flaws of spreadsheet-based budgeting systems:

- They are non scalable. Because they are personal productivity tools, spreadsheets do not provide a collaborative, scalable planning environment. Once a budgeting process grows beyond a few users the simple act of managing the

spreadsheets becomes a job in itself.

- There is no single version of the truth. With a spreadsheet-based solution everyone has their own version of the numbers. This leads to time-wasted in non-productive disagreements about who has the correct figures and other data integrity issues.
- There is not enough time for analysis. In a spreadsheet-based budgeting cycle, too much time is spent collecting data and not enough time is spent on analysis and scenario modelling.
- They don't support strategic planning. Spreadsheet-based budgets and reporting tools tend to focus on the historical reporting structure of the organisation. Strategic planning is concerned with business activities.
- They are inflexible. Spreadsheet-based budgets are difficult to change. Once the pack has been sent to departmental budget holders, updating assumptions or adding new lines can only be done by reissuing the budget pack. This creates a version management headache and leads to problems with data integrity.
- They do not support compliance processes. The current regulatory environment demands that data integrity controls and audit trails exist in all financial processes. Spreadsheets were never designed to provide this level of auditability. As a consequence, it's almost impossible to find out who

changed a given figure and when.

- They discourage re-forecasting. A rigid, "one-shot" budgeting process simply fails to reflect the complex, dynamic nature of today's business environment. In order to remain competitive organisations must re-forecast regularly and consistently, something that is not feasible with a spreadsheet-based planning system.

Get out from beneath the sheets: Move to an integrated corporate performance management solution

The budget is the cornerstone of all other business planning processes. It should enable an organisation to align its resources and activities so that executing corporate strategy becomes everybody's every day job. Unfortunately, most organisations continue to struggle beneath the burdens imposed by spreadsheet-based budgeting systems.

Corporate performance management (CPM) applications provide the best practice solution to these problems. They deliver a single-source, scalable and easy to use technology platform that takes the effort involved in the budget data collection exercise and converts it into time for scenario analysis. BPM solutions support complex budgeting processes, scenario modelling and integrated strategy management and allow organisations to transform a once-a-year planning chore into real business insight and competitive advantage.

"At Hamworthy Plc, we have recognised that spreadsheets have reached their limits for all Group data-collection and reporting processes. Some of the problems we come across each year are include:

- *The initial time to set up the templates and circulate them around the Group*
- *The impact of subsidiaries introducing new product groups in to the templates - typically identified for the first time during the budgeting process*
- *Version control, with subsidiaries preparing more versions than are actually submitted to Group, as well as ensuring everyone is kept in the loop as to what changes need to be made / have been made from one version to the next*
- *General integrity checks and ensuring consistency between P&L, Balance Sheet and Cashflow*
- *Since we re-forecast our current year on a monthly basis - ensuring that the 'opening position' for the budget period reflects the most up-to-date position is a major issue."*

Gary Coleman
Group Chief Accountant
Hamworthy Plc



Quality through Partnership

Rinedata specialise in the selection, development and support of corporate performance management solutions. For over ten years Rinedata has delivered successful CPM solutions to numerous blue chip organisations across a wide range of industries. Our portfolio of experience encompasses SAP BPC, Infor PM, Oracle Hyperion, IBM Cognos and a selection of independent vendor solutions including Tagetik CPM and KCI Control.

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