



Evolving Financial Performance Management Beyond Spreadsheets



Introduction



More than half of all enterprises are still using spreadsheets for Financial Performance Management (FPM) in some capacity. Yet the same organisations report challenges with spreadsheets due to their manual data input methods, version control issues, inaccurate data and lack of security, among other issues.¹ Simple spreadsheet keystroke errors frequently result in reputational damage and financial losses that run into millions of dollars.²

FPM is a critical function for organisations that want to manage financial and operational risk, seize opportunities with agility, plan for the future and achieve profitability goals. In today's highly volatile business environment, FPM must now more than ever enable fast and well-informed decision-making. Spreadsheets might not be the most appropriate tool for high-performing enterprises.

Familiarity is one factor explaining continued use of spreadsheets for FPM despite known issues. Microsoft Excel is a popular application that is already installed at many organisations, and one that many finance people feel comfortable using. However, modern FPM solutions such as IBM Planning Analytics help overcome this familiarity barrier and offer the best of both worlds by incorporating Excel into their toolsets. The time is right, then, to understand the risks of spreadsheet-based FPM and to know the right criteria for evaluating new and better solutions.

CASE STUDY

Too much manual work



Multi-national digital marketing company Acceleration was using a combination of spreadsheets and ERP software to manage its budgeting and month-end consolidation processes. The company began to explore alternative systems after experiencing a range of issues, including the following.

Too many errors: Manually building spreadsheets, populating them with data and consolidating multiple versions presented many opportunities for errors to be introduced. "Reporting on budgets was also largely manual, which meant we had to copy and paste into a big spreadsheet, leaving us unable to present and review our data at different views," said Commercial Director, Christiaan Uys.

Long processing times: "When corrections were required, the consolidation process had to be reversed, the entries corrected and the consolidation re-run, which could take anything from 30 minutes up to an hour," said Uys. "This delayed our reporting."

Complex reporting: "The reporting functionality was complicated and hard to construct and edit," said Uys. "There was no drag and drop/slice and dice functionality, which limited the different ways to view our data."

The problem with spreadsheets

For organisations that want to evolve FPM, but for whom spreadsheet errors are simply “business as usual”, a useful first step is to identify issues with the existing setup. Quantifying the risks and weaknesses of spreadsheets can help IT decision-makers to see the value of a modern solution.

88% of spreadsheets are prone to some kind of error, according to an analysis of several studies, with three kinds of error proving most typical.³

- **Mechanical errors:** Mistakes in typing, cutting and pasting, and other simple manual operations lead to FPM errors.
- **Logic errors:** Inappropriate formulae or algorithms are used, leading to errors.
- **Errors of omission:** Important components are left out of a financial model, leading to ineffective financial planning and reporting.



IBM has also identified common hazards of using spreadsheets for FPM. These hazards can present limitations and drawbacks at organisations undertaking large-scale FPM.



Wasted time

The generalised nature of spreadsheets leads to a lack of standardisation in the financial planning process, creating inefficiencies. Too much of employees' time is also spent on the manual work of spreadsheet maintenance. According to one FP&A consultant quoted in CFO, "as much as 70% of the work still consists of acquiring, verifying, and reconciling data."⁴



Conflicting versions of the truth

Using spreadsheets requires each team member to use a separate version of each file. Each version might contain unique edits, leading to a lack of data integrity and transparency.



Limited scope

Incorporating operational data in FPM can help management to create and examine a range of what-if scenarios, anticipate future developments and is seen as a "forecasting game changer" by senior finance executives.^{5,6} But spreadsheets are not equipped to handle non-financial data.



Limited collaboration

Traditional spreadsheets do not allow teams to collaborate on the same project. It is therefore difficult to involve and include insights from the front lines of business.



Reduced agility

Maintaining spreadsheets and aggregating data are time-consuming manual processes, which hamper organisations' ability to react quickly to changes.

CASE STUDY

Saving 84 hours



South African consumer goods company RCL Foods moved away from spreadsheets when its financial consolidation processes became cumbersome, time-consuming and prone to errors.

"The use of spreadsheets was becoming more onerous as the group grew in size, and with it came the risk of errors and even data corruption," said Lucinda Deane, Management Accountant, Group Services.

Time savings realised by RCL Foods' new IBM Cognos Controller solution "centers around the preparation of forecasts and balancing of the console. The total saving for monthly reporting is 20 hours, and for forecasting and budgeting, it clocked up an impressive 64 hours."

The real impact of spreadsheet errors

These hazards have led to many real-world cases of mismanagement, which are often reported by the media and result in financial and reputation damage.

- At the London Olympics in 2012, synchronised swimming events were overbooked by 10 000 tickets when an employee of the London Organising Committee of the Olympic and Paralympic Games (LOCOG) made a single keystroke error in a spreadsheet. The employee accidentally typed 20 000 instead of 10 000. The cost to LOCOG and ticket agent Ticketmaster was in contacting ticketholders, providing replacement tickets to other events and loss of reputation.⁶
- A research paper by Harvard University economists Carmen Reinhart and Kenneth Rogoff, which linked high national debts to low economic growth and shaped policy in the UK and elsewhere, was discredited when it was discovered that a spreadsheet error had significantly affected the numbers that supported its conclusions. Bloomberg called it “the Excel Error That Changed History”.⁷
- During preparations for the sale of American analytics firm TIBCO Software in October 2014, a single spreadsheet error led to a miscalculation of the number of outstanding shares in the company. As a result, the agreed sale price of the company was overstated by US\$100 million; so, when the sale went through, TIBCO shareholders received \$100 million less than they had expected.⁸



Evaluating new solutions

A useful way forward is to evaluate possible solutions against criteria that describe the organisation's important requirements.

Every organisation has different FPM needs. So, while businesses might share a common goal of eliminating the risks of relying on spreadsheets, the right solution may vary.

This guide outlines six key criteria and describes how a leading solution, IBM Planning Analytics, supports them.

IBM Planning Analytics automates planning, budgeting, forecasting and analysis processes. It integrates Microsoft Excel and its functionality while eliminating manual tasks to increase efficiency. Organisations can connect many data sources, including both financial results and operational plans, for faster execution and more comprehensive analysis. With a dynamic workspace designed for FPM, organisations can model information, create compelling data visualisations and use what-if analysis to explore many different scenarios. Insights are timely, reliable and actionable. IBM was named a Leader in the Gartner 2018 Magic Quadrant for Cloud FPM.



Integrated data

Spreadsheets often exist in many versions. Each version can be easily changed by its owner, leading to errors and data management challenges. A goal for FPM improvement is therefore to provide a single source of truth, i.e., where everyone works with a single environment, as a trusted basis for insights.

IBM Planning Analytics connects multiple ERP, general ledger and business intelligence data sources and allows analysts, line of business managers and others to explore and analyse data. This helps improve data integrity, collaboration between teams and the quality of insights produced.



Reduced manual data management

Managing FPM data more efficiently is an important goal for organisations that currently spend excessive hours on manual spreadsheet tasks.

Automation can greatly increase efficiency. IBM Planning Analytics automates extraction of financial and operational data from a wide range of sources, both internal and external. Data is stored centrally, not in multiple spreadsheet versions, so changes do not need to be manually reconciled.



Specialised tools

Spreadsheet applications are general-purpose tools. Organisations can benefit from having a specialised solution, with tools designed to meet analysts' needs and workflows that make FPM more efficient.

The customisable workspace in IBM Planning Analytics is a good example. As well as providing a single and consistent view of KPIs, users and teams can customise their interface with graphic visualisations and build powerful, multi-dimensional queries. Non-experts can also create analyses and reports quickly.



Familiar controls including Excel

Even when a modern FPM solution offers improved efficiency and productivity, migrating from spreadsheets can still be a costly process in terms of training requirements and time required to learn new tools. It may be important for the new solution to ease this transition by providing familiar tools.

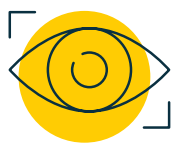
With IBM Planning Analytics, organisations can keep using Microsoft Excel's full functionality and formatting, including graphs and functions as a user interface into IBM Planning Analytics.



Timely reporting

Laborious spreadsheet maintenance can delay production of reports that inform important business decisions. Slow decision-making makes organisations less agile. Timely reporting is therefore an important goal for many businesses upgrading their FPM solution.

As well as greatly reducing time spent on data management, IBM Planning Analytics includes comprehensive features for measuring and monitoring performance and distributing reports in a range of formats, helping organisations drive better strategy execution.



Reliable business insights

Spreadsheet applications also lack the specialist FPM-focused tools for uncovering useful insights. A useful goal of FPM evolution might be to improve the quality of analysis and insights.

Employing cognitive computing is one way to do this. IBM Planning Analytics incorporates IBM Watson Analytics, which allows analysts to ask questions in natural language. Predictive analytics help organisations see what is likely to happen and how they can react, helping them improve their forecasts.

Conclusion

Where organisations require efficient and effective FPM, the case against using spreadsheets is compelling. While spreadsheets offer a familiar and readily available set of tools, they are also time consuming, error-prone and lack important features when compared to modern FPM solutions.

Using spreadsheets is the norm at many organisations, but those who have evolved their solution report significantly improved outcomes. The first steps in transforming FPM are to recognise issues with the existing setup, identifying the value a new solution can provide and evaluating potential solutions. IBM Planning Analytics is one industry-leading candidate, offering valuable efficiency gains, cognitive analytics, data automation and business insights.

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