



# Control

THE END OF THE SPREADSHEET BUDGETER

by Tad Leahy

ANALYTICS

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When the automobile was invented, people put their horse carriage in the barn. When the personal computer came along, people put their typewriters in the closet. When the video recorder was invented, people put their Super 8 cameras away for good. Throughout history, the better tool replaces the more cumbersome one.

The same is true when it comes to budgeting. In today's business world, companies can no longer afford to spend four or five months or more creating their budget with an obsolete tool, that is, through the cumbersome process of pulling together dozens and dozens of spreadsheets.

The reasons are clear:

1. Spreadsheets were never designed to process reams and reams of information quickly and easily.
2. Spreadsheets are cumbersome to change whenever there's a budgeting revision, prolonging a protracted process even more.
3. Spreadsheets offer poor security, which compromises the integrity of the budgeting documents, enabling changes to the budget to be made surreptitiously and risking exposure of confidential information to outside parties.
4. Spreadsheets are error-prone, so their accuracy is constantly in question.

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## GAINING CONTROL

Ultimately, it all adds up to one thing: lack of control. Companies are seeking more control over the amount of time it takes to put the budget together, more control over how long it takes to make a change in the budget whenever it's needed, more control over the accuracy of the data, and more control over who can access that data.

Fortunately, there's a solution to these problems: budgeting and planning software applications. They enable you to:

1. Accelerate the budgeting cycle so you can complete it fast.
2. Increase confidence in the accuracy of the numbers.
3. Change budgeted numbers without undue delay or tedium.
4. Engage more users in the planning process.
5. Help users become more efficient and productive.
6. Gain dynamic control over business results.
7. See immediate 'snapshots' of where the company stands in relation to the budget.
8. Achieve implementation quickly and cost effectively.

Anyone who's ever been saddled with the spreadsheet budgeting chore knows that it means long days and countless weeks of collecting information from different departments and business units, then checking the accuracy of each spreadsheet. Even simple changes to a spreadsheet result in a major undertaking. Finance managers and budget analysts tend to spend as much time verifying that all of the spreadsheets are actually linked together properly or that formulas are pristine, as they do anything else in the budgeting process. That leaves little time for more value-added activities like analyzing discrepancies, conducting what-if scenarios, and planning.

With a budgeting application, finance managers are no longer bogged down with a morass of information that must be linked together. Those tasks are handled automatically. In addition, the amount of time spent checking and verifying the numbers is reduced substantially. That gives finance managers more time to assess what the numbers mean, gain greater visibility into the future health of the company, treat sore spots before they become major infections, and make strategic course corrections that keep the company focused on its goals.

### DYNAMIC BUDGETING

Forward-thinking companies give their front line managers the tools they need to create their own budgets. The result: budgeting accuracy improves. It becomes a flexible, dynamic process that can be adjusted when external conditions warrant a change in direction or emphasis. Instead of a once-a-year event, budgeting becomes an ongoing, dynamic process that establishes a tighter connection between corporate strategy and operational activity. Spreadsheets, on the other hand, are inherently inflexible, making them incapable of serving as a living document that moves in tune with the business.

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Suppose you needed to overhaul your budget because your company was adding a new sales division, requiring the infusion of investment to support the effort. Or, perhaps your company decided to open a series of non-budgeted new branch offices over the next several months? What if you faced an unplanned expenditure that required financial impact analysis? How would you fund those unforeseen projects using a static, calendar-based budget that's already earmarked where all the money will go over the next 12 months?

A budgeting and planning application can accommodate such major adjustments to the budget within a matter of minutes. A spreadsheet approach might take weeks, leaving funding for these new projects in limbo and opportunities at risk. In addition, there's the ever-present concern that spreadsheet-generated data may be wrong, whereas applications for budgeting and planning have built-in controls that insure accurate, reliable results. They also help identify anyone who attempts to "sandbag" budget numbers with misleading information, since the data is now so much more transparent. Managers gain the ability to control the bottom line as never before.

With real-time information at your fingertips, you gain access to that longer window of opportunity in which to act. That gives you more control over correcting variances.



Easier access to historical data can reduce the need for IT resources and involvement and get you going more quickly.

## BETTER, MORE UP-TO-DATE INFORMATION

Budgeting applications provide the controls that produce more accurate and reliable information. For example, let's say sales of \$30 million were budgeted for the upcoming year, but external conditions such as the economy, shifts in customer behavior, or unusually poor weather conspires against your company, causing you to fall short of that goal. How valuable would it be to have that information a month earlier rather than a month later? If you had one extra month to work on correcting the shortfall, it would give you a longer window in which to solve the problem, perhaps by hiring more salespeople or opening up a customer hot line. With real-time information at your fingertips, you gain access to that longer window of opportunity in which to act. That gives you more control over correcting variances.

Gaining a higher degree of certainty about activities like future sales can send a positive ripple throughout the company. The marketing department, for instance, might react to a decline in sales performance by initiating a more robust promotional program that focuses on the company's most promising new products. Or, let's consider the reverse scenario: sales that are expected to be higher than originally anticipated. Operations might respond by considering outsourcing more activities to handle the additional workload. The accounting department might respond by making preparations to handle a larger number of invoices. The advantage: you can respond with the right amount of resources at the right time in the right place.

## OVERCOMING IMPLEMENTATION ISSUES

Anything as comprehensive as a budgeting application may cause you to wonder about the complexity and time required to implement such a tool. However, implementation frequently does not require an undue amount of time or effort. One reason is that some budgeting applications provide access to your existing chart of accounts, making it easier to create a structure for your budgeting system. In addition, easier access to historical data can reduce the need for IT resources and involvement and get you going more quickly.

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## OTHER WAYS TO SPEED UP IMPLEMENTATION INCLUDE:

- Hiring a consultant and conducting a planning session before starting the implementation. During this planning session, consultants can walk through the current process and determine what changes or improvements the company would like to implement, as well as the requirements of the application from an IT perspective, so IT has the information they need to ensure the environment is set up properly.
- Determining what works well in your existing budgeting process and changing what doesn't work well.
- Implementing the budgeting application in phases. As an example, you might start with your operational budget, then add more budgeting capabilities within other parts of the organization, such as human resources, over time. In addition, software installation can be completed via the Web, which reduces implementation costs and time.
- Appointing an internal champion. The champion typically has a comprehensive understanding of the internal process and who does what. Committees have the potential to slow implementation down.
- Training, available via traditional or virtual (Web) classroom. Quite often, managers can begin budgeting after a one-hour orientation.

## RECOUPING THE COST OF YOUR INVESTMENT

Using a budgeting application doesn't automatically mean abandoning the investment you may have made in spreadsheets. Some budgeting applications are designed to work with Excel, giving you the best of both worlds: the control of an application to simplify and streamline budgeting, along with the freedom of Excel for input, manipulation and presentation.

Perhaps most importantly, the budgeting application is a solution that has the ability to pay for itself over time.



Saving time and money, in many cases as much as 40% of the time it takes to do budgeting in a spreadsheet.

## HOW?

- By automating many of the manual tasks, such as managing all the spreadsheets (creating, populating, distributing, gathering), consolidating the information, verifying formulas, formatting, adding accounts, and verifying and validating the data-the most time consuming chore of all.
- Eliminating human error. If managers forget to change one number in the spreadsheet, they have to communicate that error with the budget administrator and hope that the number gets changed. In a budgeting application, managers make their own changes.
- Reducing the amount of time spent in meetings by providing collaboration via e-mail memos, notes and attachments, so managers can understand the rationale behind important numbers and assumptions.
- Letting people do their own jobs, instead of letting budget chores pull them away from their jobs.
- Justifying use of the application throughout the year to facilitate better business execution, monitor business conditions and adjust plans, giving the organization the potential to take advantage of new business opportunities-opportunities that might have been missed using the old, traditional spreadsheet budgeting process.
- Increasing management's ability to recognize inflated numbers and unrealistic assumptions.
- Giving users a simpler way to keep score of how they're performing in relation to the budget, making the budgeting process more meaningful and relevant for them.
- Making it easier for more people to be involved in creating their own budgets and to understand the impact of other budgets on their own.

*In short, what value do you put on a tool that gives your company the power to capitalize on more business opportunities than ever before?*

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## GAINING CONTROL AT IVI CHECKMATE

Among the conveniences of today's budgeting software capabilities are the security controls to keep prying eyes from discovering confidential information, such as how much their department vice president is paid. Such controls also eliminate tinkering with the numbers after the information has been sent to the finance department.

"It puts you in control. I can restrict the kinds of data that users are able to access, and I can control what kinds of data users put in," says Dave Stauffer, finance analyst at IVI Checkmate in Roswell, Georgia, the third largest electronic transaction solutions provider in North America.

When it came to what-if scenarios, it used to take Stauffer two days to show senior management the impact of a change in the budget. "Now if our CEO asks, 'What if we do this?' or 'What if we do that?' I can show him the results in 15 minutes," Stauffer says. "We don't need to worry about a formula getting destroyed. It gives us more time to analyze the numbers and different possible courses of action."

Stauffer adds that the new tool gives him the ability to show users what the impact of a change in one part of the budget would have on the rest of the budget, and on the rest of the company. "That helps educate people about the importance of working within budgeted thresholds," Stauffer says. "For example, we can show our sales force the results of cutting this part of their budget or that part. We also ask them to pin down their cost management goals to determine what areas [of the sales budget] they would be most comfortable in cutting."

"We grew so fast as a company that using spreadsheets to do our budgeting just became too cumbersome."

## HANDLING STRONG GROWTH AT CORBIS

The spreadsheet approach to budgeting may seem tolerable when a company's growth remains flat. Management rationalizes it by saying "It's been working for us so far, so why change?" However, when the company experiences strong, rapid growth, the amount of difficulty and tedium associated with the spreadsheet process tends to multiply exponentially. That was the case at Corbis. Founded in 1989, Corbis is the leading provider of photography and fine art on the Internet. The company had been using spreadsheets for budgeting until the fall of 2000, at which point Corbis began looking for better alternatives.

"We grew so fast as a company that using spreadsheets to do our budgeting just became too cumbersome," says Julie Jordan, director of financial reporting at the company's Bellevue, Washington headquarters. "We had 50 to 70 different departments that were each producing their own spreadsheets. We had to link them all up and make sure the numbers were right. And if we wanted to see the world differently, it was a major undertaking to make any changes in the budget."



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Jordan and her colleagues were looking for a budgeting application with the ability to use different roll-ups, from a location and a functional group point of view. “They started the selection process in mid-September and were ‘live’ with their budgeting application by October. Our new system gives us as many roll-ups as we want, and we don’t have to update the roll-ups when one manager wants to update his or her numbers,” Jordan says.

Determining whether the numbers submitted by the company’s managers were “final” or not had been an ongoing concern for Jordan when she and her colleagues were using spreadsheets for budgeting. “Anyone could be working on the numbers at any time, so you never really knew when they were done,” she says. “Now you know. The security built into the budgeting software guards against people changing formulas or key fields. You can also use it to see the progress managers are making with their budget, even to the point of reminding them via system alerts that their deadline is in a few days.”

Jordan does detailed head-count compensation budgeting. When spreadsheets went out to different managers, it was difficult to prevent those managers from seeing compensation information. “So if there was a vice president in a department who wanted his managers to do the budgeting, but wanted to keep his salary from being viewed, that wasn’t possible. Now it is. You can block access to salary or other sensitive information.”



The time it used to take to input data into a spreadsheet is now devoted to more analytical activities, according to Jordan. “This new budgeting tool has saved us a ton of time and resources because our roll-ups are automatic,” says Jordan. “It also makes the planning process much more effective. Instead of it being a once or twice a year event, it’s an ongoing process.”

She adds that any of the company’s 75 users anywhere around the world can log on and with their browser access the company’s latest budgeting information. “That’s all they need to do to see where they stand versus actuals uploaded from our accounting system each month. I don’t have to format reports and e-mail them to each manager. I just send an e-mail out to all the managers each month and tell them the reports are now available.”

### **INCREASING FLEXIBILITY AT NEOFORMA**

Financial managers are constantly searching for ways to spend more time on value-added activities and less time on manual chores. Amy Lewis, manager of financial planning and analysis at Neoforma, which builds and operates Internet marketplaces that connect healthcare suppliers and buyers electronically, felt she had been spending an inordinate amount of time linking the company’s more than 100 spreadsheets.

“Making one change in the budget used to create a sort of domino effect, causing everything else in it to change, too,” says Lewis. “We found ourselves working more on the spreadsheet links and just getting the numbers in front of us than on analyzing what those numbers meant.”

In December, 2000, the company chose a budgeting application. “I have so many budgeting managers in the field, and now it’s easier for them to simply log on to the budgeting information using the new tool,” says Lewis. “Instead of it taking days for us to alter the budget, we can do it in a matter of hours.”

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Time that used to be devoted to calculating the numbers can now be spent on analysis, helping to promote greater insights into where managers can use their budgets more effectively. “It gives us more flexibility to make ongoing alterations to the budget without disrupting the entire process. Plus, I can show managers how their budgeted amounts compare to their actual expenditures and drill down to see exactly where they were over or under their threshold.”

### **A COMMON THREAD – MICROSOFT® BUSINESS SOLUTIONS FOR ANALYTICS-FORECASTER**

Each of these case studies relied upon a budgeting and planning application from FRx Software Corporation. Microsoft® Business Solutions for Analytics-Forecaster. Forecaster is an advanced budgeting and planning system that is designed for today’s dynamic business environment. It makes it easy for you to immediately realize the benefits of implementing a budgeting and planning application. It enables you to quickly implement a comprehensive budgeting and planning solution that saves you time and money throughout the year. Perhaps most importantly, it gives you immediate control over the entire planning process, because it eliminates the nightmares associated with spreadsheet consolidations. And it allows you to make the process a more collaborative effort by using notes, attachments and e-mail messages as an integrated part of the budgeting and planning process.

Forecaster gives everyone involved in budgeting a higher level of confidence that the final budget is realistic. It allows users to take into account more factors and involve more people in the process, especially those closer to the customer. And it provides a workflow for budget approval that enables you to monitor the process and keep it on schedule.

The budget becomes more predictive of the future by increasing the amount of feedback and providing more checks and balances throughout the process. It is easier to understand assumptions behind specific numbers, why changes were made to the numbers or the model, and it reduces the chance of manipulating the numbers.

It makes it easy for you to immediately realize the benefits of implementing a budgeting and planning application.

**In the fullest sense, Forecaster makes business sense because it makes sense of the complex business budgeting process. It's how smart companies budget and plan.**

#### **ABOUT THE AUTHOR**

Tad Leahy has written hundreds of articles for national business magazines as well as white papers, on topics such as activity-based costing/management, performance measurement and reporting, budgeting and planning, process management, change management, shared services, and IT financial management. Leahy has more than 20 years of business writing experience. He has chaired roundtable discussions at a number of national conferences, and recently wrote a book on budgeting, entitled "Better Budgeting," published by London-based Contentcan.



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