



**The Transition from Spreadsheet Budgets to a
Packaged Application:
A Practical Guide for Small to Mid-sized
Businesses**

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Executive Summary

Most large companies have already liberated their budgeting process – at least on the official level – from spreadsheets. Small and medium-sized businesses (SMBs), a term that refers to companies with 25 to 2,500 employees, in many cases still manage the difficult and error-prone process of budgeting on these same challenging spreadsheets.

Once the SMB is hit with budget-related issues too painful to ignore in budgeting, such as version control, complex macros, formula errors, and inability to easily draw in and consolidate input from needed participants, it would seem likely they'd adopt a packaged application for budgeting. But breaking the spreadsheet habit is a difficult step for many, and finance executives often postpone the decision to migrate to a more purpose-built budgeting solution and stick with "the devil they know."

This white paper details the problems that go with spreadsheet-based budgeting as well as the advantages of packaged applications. It also proposes a road map to help start the transition of your budgeting from a spreadsheet platform to an enterprise packaged application. The goal is to help SMBs plan their transition to a budgeting solution that delivers more collaboration but with more control, accountability, and budget compliance.

Challenges Confronted by the Finance Professional in an SMB

CFOs and those who work for them at small to mid-sized organizations face unrelenting pressure to align operations and strategy, deliver accurate and timely financial information and monitor progress toward goals. Unlike the Fortune 1000, with greater resources and tolerance for risk, or the small office/home office (SOHO) business, with its greater agility, mid-market companies are stuck in the middle. The challenges their executives confront are different. They must struggle with increased competition from global suppliers and buyers, shortened business cycles, uncertain access to capital and increased regulation – all with limited support and fewer resources. Time is their greatest constraint.

Consequently, the finance professionals in an SMB need business tools that help them quickly evaluate current and past performance against a predefined set of performance data (goals and forecasts), present clear facts and uncover trends. These managers demand accurate, timely data that can be easily updated as business conditions change.

When the Spreadsheet Becomes a Disadvantage in Budgeting

Good budgeting practices are structured to minimize errors and inconsistencies, drawing in all the necessary participants to contribute their business experience and the unique perspective of each department. Best practice in budgeting entails a mixture of top-down guidelines and standards, combined with bottom-up individual knowledge and experience. Excel, the de facto tool for budgeting, is a powerful personal productivity tool. Its current capabilities, however, often are inadequate to support the critical nature of budgeting and forecasting.

There comes a point when a company's reliance on spreadsheets for budgeting becomes an impediment to effective decision-making and analysis. There are several clues to detect this transition point *before* it leads to severely ineffective decision-making, lost productivity and lost opportunities. (See sidebar.) If a number of these conditions apply to your organization, it's probably advisable to consider migrating out of the spreadsheet environment.

Spreadsheets can accommodate many tasks – but over time some of the models running in Excel may grow too big for the spreadsheet application. When companies regard budgeting as a key business process, it becomes more apparent that it should be separated from the idiosyncrasies that spreadsheets allow.

Programming in a spreadsheet model requires complex macros, creating opportunities for formula errors and broken 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 distribute and even more difficult to collect and consolidate. Data confidentiality is almost impossible to maintain in spreadsheets, which are not designed to hide or expose data (i.e., payroll) based upon each user's role. These are drawbacks for corporate governance and make the audit process more difficult.

Cash flow management can go hand in hand with budgeting. Larger enterprises have usually led the way in removing spreadsheets from the budgeting process, and along with that transition they often graduate cash flow management to an enterprise packaged application. SMBs, on the other hand, usually have a more pressing need to accurately forecast and manage their cash flow, but are still tightly tied to spreadsheets to do so.

12 Warning Signs That Your Budget Process Has Outgrown the Spreadsheet

- #1 No single version of the truth guides or emerges from the budgeting process. Managers need to roll multiple budgets into a single enterprise perspective, but it's too hard to do because there are too many variations in roll-up structure.
- #2 Ownership and accountability by business users have disappeared, and control over consolidating the budget has been concentrated to a single person.
- #3 Executives can't answer the following questions:
 - Who are my most profitable customers?
 - What managers are the most productive?
 - What product line is most profitable?
 - Why are certain metrics "out of sync"?
- #4 Financial statements are not fully integrated because it is too time-consuming to set up or the model was modified too many times to ensure no errors.
- #5 Detail becomes impractical and almost unattainable. Spreadsheets grow so large that budgeting for some line item expenses or revenue items is done only at a consolidated summary level.
- #6 Budget calculations become too complex for most budget preparers to follow and the model gets too large for users to assimilate.
- #7 It takes more time to manage and maintain the spreadsheet than to perform the actual analysis and planning.
- #8 The budgeting models break frequently with changes to data structure or roll-ups.
- #9 There are data integrity issues – mistyped data, broken formulas, missing links, logic errors – that make budget models unreliable.
- #10 Comparing current year actual results to plan and/or last year's actual results is a manual, cut-and-paste exercise that takes too much time, invites errors and slows down month-end analysis and reporting. Summary or high-level variance analysis lacks underlying detail.
- #11 It's difficult to accurately track payroll, taxes and benefits expenditures for all employees, including contract, part-time, and seasonal workers, resulting in over-budgeting for payroll taxes such as FICA or underestimating total employee costs impacting year-end cash flow.
- #12 Deferred revenue projections (for projects, maintenance contracts, royalties, renewals, subscriptions, etc.) are too complex to model, requiring the layering of multiple revenue schedules within multiple periods to create the waterfall effect.

Benefits of Budgeting with a Packaged Application

An attractive solution for replacing the spreadsheet in the budgeting process is packaged application software designed specifically to support the budget process. Among the benefits that can be expected from budgeting using such an application are:

- Greater accuracy – 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.
- Centralized database – Applications typically use a centralized database, eliminating data disparities that evolve when you try to link worksheets together. Any changes to estimates or assumptions are automatically updated in real time so everyone is working with a single version of the truth.
- An easier-to-use common interface – As with your accounting and ERP applications, the user is not exposed to spreadsheet formulas and there is reduced danger of formula errors. Applications are built from the business perspective to maintain consistency with business entity names rather than database conventions.
- Accounting application integration – Many packaged applications have automated processes to import data from commonly used accounting applications, 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, with all accounts aligning with those in your current 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, yielding more robust results by eliminating formula errors in rolling up from bottom level to top. As a result, your budget and forecasting model becomes an accurate reflection of your business.
- Contingency planning and sensitivity analysis with “What if” scenario generation – In a spreadsheet, this requires changing key variables, then saving the outcome as a separate file or worksheet. Budgeting with a packaged application, users typically can change variables to see their immediate effect on outcomes. A series of models can be replicated, enabling additional analysis and comparisons.

- Integrated reporting – Packaged applications can generate profit/loss, balance sheet, and cash flow statements. Spreadsheets must be manually developed to match these reporting capabilities. Packaged applications usually include some pre-formatted reports and the ability to customize a wide range of reports.
- Collaboration – The solution should support involvement and collaboration by more end users and contributors to the budget process.

First Steps Toward Enterprise Budgeting

A best-practice approach to moving beyond spreadsheet-based budgeting would start with these steps:

- Fully understand your current budgeting model. It's likely to contain embedded assumptions, formulas, reporting requirements and experience that are important to transfer over to a packaged application.
- Determine what works and what does not work in your current process. For example, if your particular business model requires the bottom-up forecasting of many participants, you need a packaged application with strong collaborative features.
- Create the vision. Project the ideal vision of your budgeting process, including who would participate, what integration would be helpful, which general ledger or other transactional systems your budget should link to, and the reporting needed.
- Conduct user analysis. What kinds of users today take part in your budgeting process, who is missing, and who are the people you want to draw in? By documenting their needs, you can set the stage for a good level of user acceptance of the budgeting application.
- Secure high-level executive sponsorship and ensure that you will have sufficient project justification and funding.

Developing Your Vendor Checklist

Once you have set forth a vision, lined up internal support for the project, and know what you need, start a vendor selection process. The following criteria will be particularly useful for a project leader:

- Determine your preferred user interface from possibilities that include spreadsheet, 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.
- Ensure that your implementation will be measured in days/weeks, not months. For many SMBs, resources are stretched thin and rapid payback is often a reality. Target a solution that will cause minimal disruption to your business during implementation.
- There are alternatives where on-site implementation is not a requirement. 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.
- Make sure the chosen solution meets your budget. The price point for your anticipated user population should be within range of your company's resources.
- Pick a solution that will scale to support growth in the short to medium term.
- 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.

SMBs should be cautioned against choosing the budgeting application with the best marketing. 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 budgeting to a packaged application is a more accurate, inclusive, and timely budget with significantly reduced cycle time. Companies often report that they can move from annual budgeting to quarterly budgeting as a result. Faster, more informed budget-related decisions can also be enabled. For the SMB, the ability to assess profitability by product line, customer, region, and channel in real time helps determine where to put 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.

The implementation and maintenance requirements of the solution should be carefully considered. The project's strategic aims, budget, and executive sponsorship need to be clearly defined. Recognize that your firm will likely depend upon this system as part of standard operations for a five-to-ten-year period. Conducting the necessary due diligence to explore available alternatives is a worthwhile investment.