



# VENTANA RESEARCH



## Eliminating the Risks of Spreadsheets in Finance

Better Tools Allow More Time for Strategic Action

Research Perspective

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My Accounting Team



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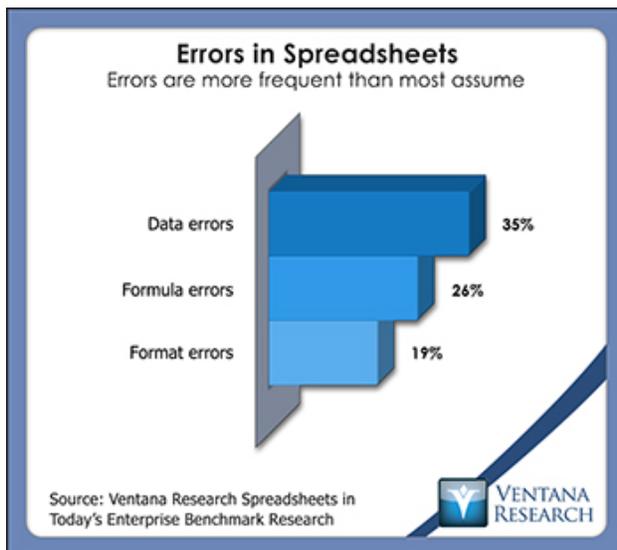
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## The Case Against Spreadsheets

Finance organizations, especially those in growing midsize companies, often find their workloads overwhelming. They'd like to find ways to operate more efficiently but think they're too busy to look for ways to save time. As our research makes clear, the most practical step these departments can take to free up time is to replace desktop spreadsheets being used for specific tasks with software designed for and dedicated to finance activities. Such software can automate steps, facilitate data entry, simplify reporting, curtail errors and streamline processes by reducing steps.

Spreadsheets are indispensable for some personal productivity functions, but when used inappropriately they can be a barrier to effective processes in finance departments. For one thing, they are error-prone. Our research on spreadsheets in the enterprise shows that one-third (35%) of companies find data errors in their most important spreadsheets.



Opting for software-driven automation to replace manual spreadsheet-based tasks enables more rapid delivery of financial performance information by providing reliable data in a continuous flow. With access to timely insights, organizations can respond to market changes faster, drive growth and improve customer satisfaction.

Executives, especially those in midsize companies, increasingly want their finance departments to play a more strategic role in the organization. Nearly all (91%) participants in our research on Finance Innovation in Midsize Companies said that it's important or very important for their finance organization to exert more leadership in the company. However, finance executives are challenged by a lack of time and other resources.

A pragmatic approach to improving efficiency involves methodically identifying processes that currently are handled using spreadsheets



and exploring the benefits of transitioning each to dedicated software. Three primary financial activities offer useful examples of task categories in which replacing spreadsheets with dedicated software saves substantial time. One is automating a complex task such as revenue recognition. The second is reducing or eliminating the use of spreadsheets in a core finance process such as the accounting close. And the third is improving the accuracy and efficiency of the seemingly straightforward process of collecting and reporting time and expense information.

## Expediting Revenue Recognition

The process of recognizing revenue when physical goods are sold is relatively straightforward. That is not the case for intellectual property such as software or some types of services, especially when these are governed by a contract that covers multiple items to be provided over a period of time and contains certain terms and conditions. Additional complications arise when contracts are changed to add or subtract items or the terms and conditions are modified.

Companies that face complex revenue recognition requirements should avoid using spreadsheets for record-keeping and analysis.

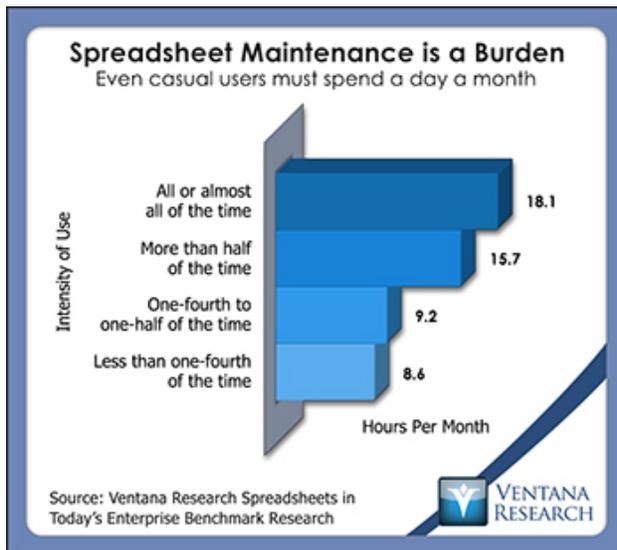
For these reasons, companies that face complex revenue recognition requirements should avoid using spreadsheets for record-keeping and analysis. Spreadsheets are error-prone, do not easily enable oversight and controls and by themselves do not offer an audit trail to track changes.

In addition, keeping track of all of the elements of every contract and their attributes (such as dates, status, billing and payments) isn't easy in a spreadsheet. When details of the contracts change, as they often do, it's difficult to ensure that the spreadsheet is up-to-date and accurate.

A revenue recognition spreadsheet effectively becomes the system of record, but such a system must tie back to the company's ERP or financial management systems. Even with a modest number of items, managing this can consume a considerable amount of time in keeping the spreadsheets and the financial system of record synchronized.



According to our benchmark research, spreadsheets that are used all or almost all of the time on average require two to three days of maintenance per month to ensure they are reliable. Consequently, companies (especially rapidly growing ones) may find that they aren't able to scale and hold down administrative expense as they process increasing amounts of data and generate more reports.



Even when a revenue recognition spreadsheet is well documented, it can be difficult for anyone other than its creator to use. This leaves the

company vulnerable to disruption in a key process if the spreadsheet's creator leaves its employ.

## Closing Faster

Our benchmark research finds that three-quarters (75%) of midsize companies are extensive users of spreadsheets in their closing process. In addition to other issues, using spreadsheets to handle allocations and analyses associated with the close also consumes time. As a result, heavy users of spreadsheets take longer to complete their quarterly close than those that limit their use or use them only for complex calculations and one-time events.

Our research also finds that a majority (53%) of midsize companies use spreadsheets to manage their consolidation process, and that companies that use spreadsheets for this purpose take longer to complete their monthly and quarterly closes than those that use their ERP system or a dedicated consolidation system.

Organizations that have multiple entities and use spreadsheets for consolidations must cope with a time-consuming and error-prone process that involves various sets of calculations and adjustments in the spreadsheets and manual journal entries to adjust balances among entities. When the reliance on spreadsheets is eliminated, the time saved in the accounting close enables a company to generate financial and managerial reports faster, in time to take corrective actions



sooner. It also frees up staff time that can be used in more productive ways and can save money if overtime is reduced or eliminated.

## Streamlining Time and Expense Processes

Companies that have professional services organizations must be able to collect, approve and account for time and expense data accurately and quickly. They then must be able to use the information to create financial and management reports, bill clients and reimburse employees.

In a spreadsheet environment, collecting this data from employees can be tedious and frustrating for both the employees who must supply it and those in accounting who must re-enter the data in the financial system. Spreadsheets do not offer controlled workflow to ensure that information is collected and processed in a timely fashion and that controls such as approvals take place.

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It's also surprisingly difficult to handle the routine complexities of tracking time and expenses in a two-dimensional grid. Some expenses are billable, but others are not. Some are tax-deductible, others are not.

Professionals often are assigned to multiple projects and must be able to easily allocate time and document expenses for each. Analyzing and allocating expenses can be time-consuming, especially if they involve creating multiple sets of pivot tables to provide full insight into all expense types – for example, tracking expenses by client, by project, by type, by time period and whether it is billed or unbilled.

To ensure client satisfaction, companies must be able to provide detailed invoices that are timely and guaranteed to be accurate; doing so enables them to accelerate cash flow and reimburse employees promptly. They also must be able to respond quickly and correctly to billing inquiries. Relying on spreadsheets to track time and expenses can make it difficult to provide clients with the transparency and detail they want.



## When Spreadsheets Don't Fit

Spreadsheets are seductive because they are easy to set up and people are familiar with them. However, they have inherent technological flaws that make them time-consuming and error-prone. Replacing spreadsheets with some form of an enterprise system such as ERP usually saves a company time and money. It also improves accuracy and increases control and auditability.

Reducing a finance organization's reliance on spreadsheets enables it to begin reallocating the time it spends on mechanical, repetitive transaction processing and report generation to activities such as analytics that enhance the value of its contribution to the company. Implementing these changes doesn't have to be risky or burdensome. A sequential, step-by-step program will get results and free up time – time that finance executives can use to greater effect in improving their company's performance and their department's standing in it.



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