12 Reasons You Should Stop Using Spreadsheets for Financial Reporting

Success starts with timely, accurate, and powerful financial reporting.

In this ebook, we'll share 12 reasons why you should stop using spreadsheets for financial reporting.

Microsoft Excel is the world's most widely used analytic tool, with estimates as high as 750 million users worldwide. When used for financial data, Excel works well as a personal productivity tool, allowing a single user to manipulate clean data and examine specific tactical questions such as "What were my revenues for our Western Region last year?" Excel quickly becomes problematic, however, as you add more users, data sources, formulas, and questions—all of which are critical to understanding and optimizing financial performance.

Nothing throws financial reporting off its axis quite like the chaos of managing multiple regions or currencies, conflicting financial close schedules, and a wide range of products and services. With so many moving pieces influencing your financial performance, spreadsheets quickly fall short. If you are still using a spreadsheet application to generate financial reporting, it's time to stop. Spreadsheets are not only extremely time-consuming to maintain but also rife with potential errors. And when your margin tracking, cash flow, profitability, and statutory reporting rely on reports generated by those spreadsheets, you can't afford the risk.

Additionally, financial analytics and reporting has often meant looking to the past, digging up some metric or KPI based on what has already taken place last month, last quarter, last year. Today, those metrics remain important because measuring and analyzing past performance is critical to what finance teams do. Increasingly, however, finance leaders are understanding that this traditional form of financial reporting only tells half the story. More importantly, they're recognizing that attempting to take action based on historical financial performance is much more difficult and less effective than taking action with a view into future outcomes. Most businesses have tried to forecast future financial outcomes using traditional ERP systems or, more often, spreadsheets. But, as we'll explain, this is nearly impossible.

In this ebook, we share the 12 reasons why you should stop using Excel and other spreadsheet applications for your financial reporting..

1

Spreadsheets are intimidating.

Especially among employees who don't often use spreadsheets, opening an Excel file can be intimidating. Whereas a financial analyst might find spreadsheets useful, people in other roles may find them off-putting or downright confusing. That means you've already alienated a portion of your data-hungry audience from the outset. Many people won't even bother opening a spreadsheet sent over email, let alone get excited about analyzing them to uncover insights.

2

Spreadsheets are not built for human visual perception.

Because a spreadsheet present all the raw data at once, it's difficult to interpret what's important and what's not. Visualization tools can be used to highlight the important aspects of a data set or results, but in spreadsheets it's hard to see the forest for the trees. When raw financial data is presented in rows and columns, it is not easy to determine outliers, exceptions, or areas of focus. Your spreadsheet supporters are missing the point if the rest of the team finds it difficult to identify core financial elements, trends, or relevance to their day job. And when it comes to viewing spreadsheets on a mobile device: open up a financial spreadsheet on your phone right now and try to find a specific cell. Enough said.

3

Financial reporting spreadsheets done right are too expensive.

How much time, effort, and skill does it take you to generate a proper financial spreadsheet? If it feels "too expensive" in the time it takes to gather the information you need, the effort to rationalize the various data inputs, and the skill required from your top people to massage and interpret the data daily, then it probably is too expensive. Also, any financial spreadsheet that has an intimidating or impressive name ("Skynet," "Sauron," and "Godzilla" are popular) or one that requires specific skills or a dedicated person to deliver is probably too expensive for the benefits derived. And that assumes you and your team have correctly mixed financial data from all your regions and groups, maintained calculation logic, and created consumable, actionable financial reports without errors.

Spredsheets are error-prone.

Perhaps you feel that the accuracy and integrity of your own company's spreadsheets are just fine. That's assuming that you and the last three people that modified your spreadsheet have always used "AverageA" instead of "Average" from the formula drop-down list, have always selected the precise amount of cells from the order quoting spreadsheet, and have never accidently entered data into a formula cell. If you believe your spreadsheets are accurate, you could be the exception, as studies have shown that 94% of spreadsheets have significant errors[1] and nearly every spreadsheet has at least a 1% error factor within a formula cell.[2] Don't worry though, errors in your financial spreadsheet most likely won't end up costing your company $6 billion like it did JP-Morgan[3] after misreporting its overall Value at Risk (VaR) for years, or push your government into implementing austerity measures after a few rows were hidden, like what happened in the UK in 2010.[4]

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1 "What We Don't Know About Spreadsheet Errors Today, European Spreadsheet Risk Interest Group, Raymond R. Panko, 2015
2 Sorry Spreadsheet Errors, Forbes, 2014
3 How A Rookie Excel Error Led JPMorgan To Misreport its VAR For Years, Forbes, 2013
4 The error that could subvert George Osborne's austerity programme, The Guardian, 2013

5

Spreadsheets can't show real-time data.

Your financial spreadsheet is only going to provide data as timely as the last time it was updated. Because of the time, effort, computing, and skills required to make these updates, teams are not likely to do this frequently enough in order to effectively act in volatile markets.

Most organizations using spreadsheets are looking at financial data from last month's "soft close" at best, or more likely at a moment in time several weeks or quarters behind. This limits your time and ability to course correct issues and monetize opportunities..

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Spreadsheets don't provide views of financial history or trends.

If you are able to quickly compare financial data for a particular region, group, or practice or product across months, quarters, or years automatically within your spreadsheet, you are in the rare minority. Most financial spreadsheets are snapshots of a moment in time (last quarter, June, etc.) because of the expense of storage and data collection constraints of Excel. For the rest of you, just looking at a single number such as "$73M" without context or history hampers your ability to actively and effectively improve your financial performance.

7

Spreadsheets don't let you drill into invoice, purchase order, or journal entry.

Because it's so challenging to view historical data in a spreadsheet, your ability to drill down into the key transactional data driving financial performance is limited. Are revenues down because your three largest projects are behind schedule and you can't recognize the revenue? Is it because of currency fluctuation? Are your sales reps all selling a product in which you lack the stock to deliver in a timely fashion? Or are they just not including add-on products or services with your core offerings? Without transactional data, these questions either remain unanswered or, worse, fuel new spreadsheets, finger-pointing, and arguments over who has the right data.

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Your financial spreadsheet is the "single source of truth" until it isn't.

If your organization maintains a single definition of all your services, products, prices, regions, and practices, that's impressive. But what happens when you add a new product or service organically or through acquisition? Do you try to combine multiple spreadsheets? You may hear things like "We define things differently" or "Those numbers are wrong, here's how we track it." Suddenly you have a mishmash of financial data. And that's not to mention the potential formatting inconsistencies of combining European and U.S. date conventions, or commas and decimal points.

9

Spreadsheets are difficult to share.

Even with cloud solutions like Google Sheets, it's difficult to collaborate on a spreadsheet among multiple team members. Because of the possibility that data could accidentally be deleted or changed, many important spreadsheets are still shared as static documents.

At best, a financial spreadsheet might get emailed once a week, which makes it easy to get lost in inboxes. As for collaboration, filling your revenue forecast spreadsheet with everyone's individual comments, or using the "just read my email to see what I'm asking" method is rarely efficient either.

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Data is not secure in spreadsheets.

Too often the answer to the collaboration issue cited previously is to lock your financial spreadsheets, so you can share them without worry of alterations or edits. Unfortunately, most people figure out a workaround, saving a local copy that they can edit themselves. Now instead of being more secure, you are less secure, and everyone has their own copy to alter or take with them if they leave the company. This can also lead to issues around auditability ("Who knew what when?") and wasted resources as multiple organizations try to determine who has the final final version of the budget spreadsheet.

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Spreadsheets lack development rigor.

Most people think of their financial spreadsheets as "just a report", but the reality is that it is much more than that. Because most financial spreadsheets combine transactional financial data, aggregated numbers, calculation logic, and a presentation layer, your spreadsheet is more like a development environment than a simple report. However, most users will use it as a simple report and look only at the data they need at that very moment. This sacrifices traditional development rigor such as proper data modelling, testing of formula logic, documentation, versioning, user types and training, device form factors, auditability, and many of the other elements mentioned earlier, such as collaboration and security. What happens when the original creator of the VBA code in your financial spreadsheet leaves, or the multiple version problem becomes so widespread that no two regions, groups, or practices can align? How long could your organization thrive without a real picture of your financials?

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Financial spreadsheets aren't built to scale.

For most software, the more people in your organization that use it, the better it is for the organization. Excel and the like are the opposite. Spreadsheets multiply in ways they shouldn't, and the more versions with your financial data that exist, the less likely it is that you'll ever have an accurate picture of your financials.

"Locking it" won't work (see #9 and #10), the more versions, the great chance for errors to creep in (see #4), and once the propagation has occurred, the chance of getting it back in line are minimal at best (#8), and immensely expensive at worst (#3).

What is the best alternative to a financial spreadsheet?

The answer is simple: Rely on your ERP vendor to provide financial reporting and financial analytics as part of their offering. If they can't do that, look for a new vendor. If your company isn't using a modern financial solution today, now is the time to switch, as improving margins or cash flow by just a few percentage points can pay for the entire solution.
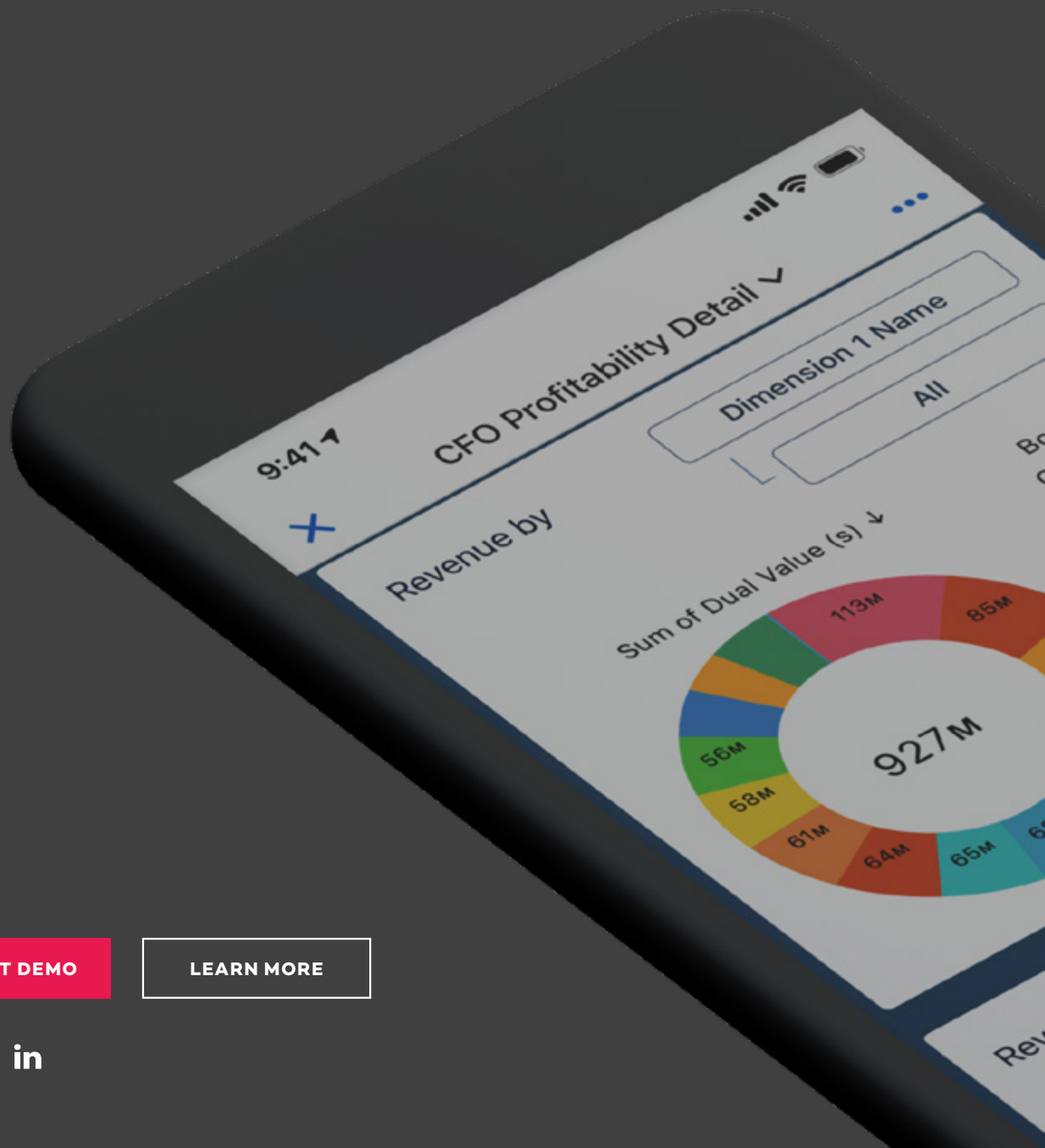
It's also more important than ever to make sure that you're leveraging an ERP solution tightly connected to your CRM. Managing financial and customer information on the same platform helps teams run more efficiently by saving time and resources. Additionally, using a financials solution with embedded reporting and analytics on the same platform as your CRM allows you to make decisions with unprecedented access to real-time information about your business.

If sales are down significantly for a product or service, a modern ERP can notify you with visual reports the minute the trend begins, days or weeks before your Excel-based financial reports has the same data entered into its cells. By unifying all the data related to your customers, products, resources, and financials in one solution, not only does it make calculating financial performance and optimizing it easier, but it accounts for every detail – from cash to costs to demand, forecasting revenue and protecting margins. It's the smartest move a financial leader can make today.

EXPERIENCE MODERN ERP

FinancialForce delivers the #1 professional services automation (PSA) and the only customer-centric ERP. We accelerate business value with comprehensive best practices and the most intelligent analytics—all on the leading business cloud platform from Salesforce.

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