

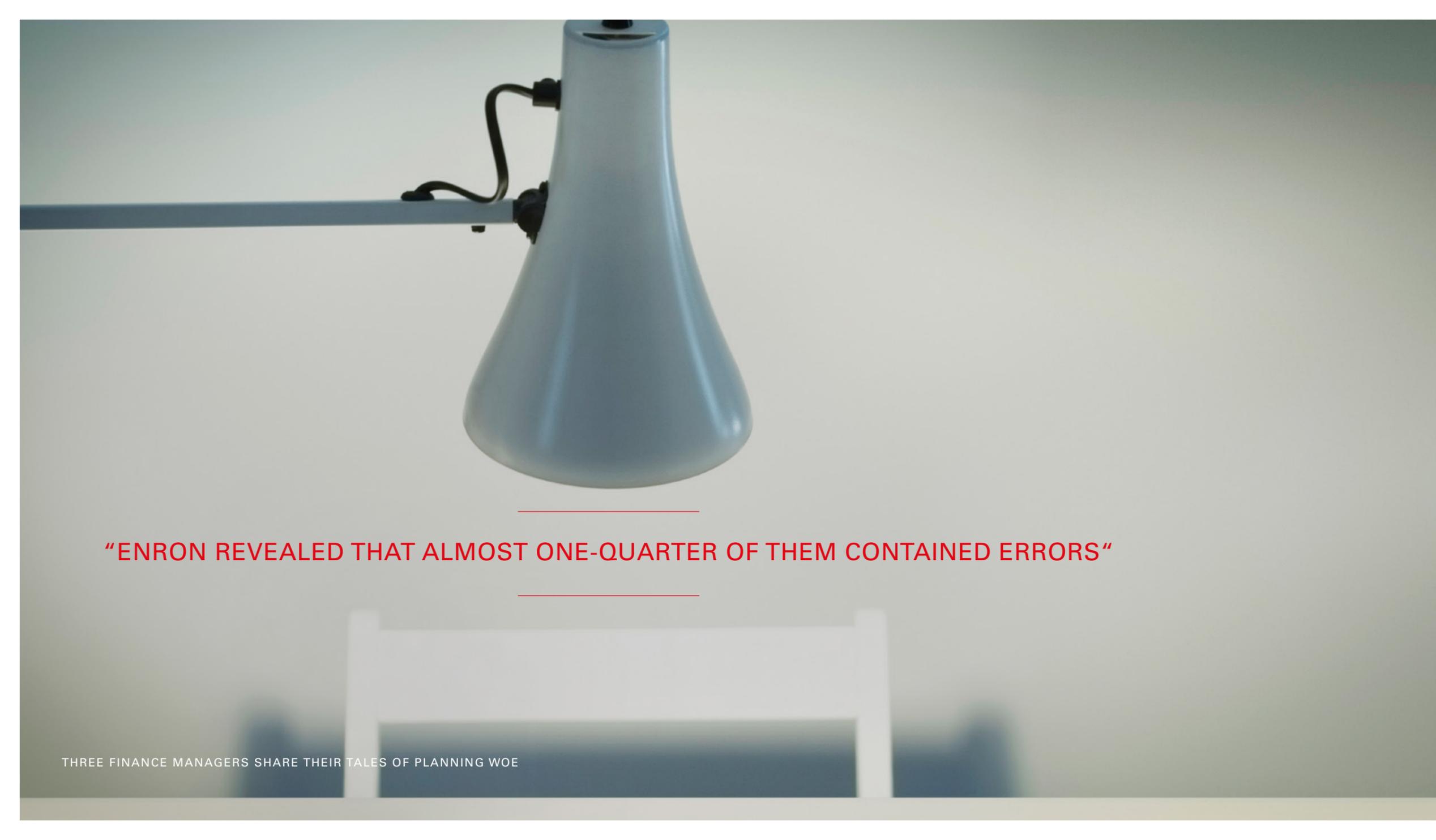


CONFESSIONS OF A FINANCE MANAGER

SPREADSHEET NIGHTMARES

THREE FINANCE MANAGERS SHARE THEIR TALES OF PLANNING WOE

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“ENRON REVEALED THAT ALMOST ONE-QUARTER OF THEM CONTAINED ERRORS”

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INTRODUCTION

THE TROUBLE WITH SPREADSHEETS

No one ever said spreadsheets were a great way to run a business. In one of the biggest studies of its kind, an analysis of 9,120 spreadsheets from the archive of failed energy giant Enron revealed that almost one quarter (24%) of them contained errors¹.

And Enron was hardly alone: a 2015 study of 1,200 UK decision makers by FIF9 revealed that nearly 1 in 5 large businesses have suffered direct financial loss due to poor spreadsheets, and one-third have made poor decisions due to spreadsheet problems².

But despite that, Ventana Research found in 2015 that 70% of companies still use spreadsheets across their planning processes- even though 48% say they make the process difficult to manage³.

THREE FINANCE MANAGERS SPEAK OUT

But exactly why are spreadsheets so unreliable - and why do so many finance functions still rely on them for strategic tasks like budgeting, planning and forecasting? For this ebook we spoke to three senior finance professionals who hold - or have held - FP&A roles in midsize to large organisations.

We wanted to find out- straight from the horse's mouth- what kind of challenges spreadsheets create for finance teams, and how those challenges impact their role and the wider organisation. In doing so, we've uncovered the top 7 things finance managers hate about spreadsheets, and the one reason they can't let them go.

We've collected their personal tales of spreadsheet misery, as well as historical examples where spreadsheets were responsible for major financial disasters. Finally, we offer an easy way out of the spreadsheet morass with Oracle Planning and Budgeting Cloud Service.

OUR CONTRIBUTORS

TERESA

Over the past 30 years, Teresa has been a key finance manager in a number of positions ranging from Global ICT, EMEA Car Leasing and more recently for a large EMEA government organisation.

JIM

In a career spanning 30 years, Jim has held financial director and financial controller positions in a range of companies of up to \$1bn revenue.

SHANNON

Working within the telecommunications and finance industries, Shannon has been instrumental in the budgeting and planning functions across EMEA and North America.

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7 THINGS

FINANCE MANAGERS HATE ABOUT SPREADSHEETS

Talking to our three finance professionals, there's a lot of agreement on why spreadsheets are a less-than-ideal way to handle the planning, budgeting and forecasting processes.

Here are their top 7 problems - and some real-life stories to show what those problems feel like on the ground.

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#1 TEMPLATES GET IGNORED

The planning process usually starts out very organized. Finance will create a template for budget-holders, and distribute it to everyone who needs to complete it. But often, that's where any semblance of control ends.

"Even when it's password-protected, people find a way around it," says Teresa. "They copy and paste the template into a different spreadsheet, then start adding their own rows and columns and formulae."

That all adds up to a massive headache for Finance when it comes to consolidating the information. What started out as a uniform set of spreadsheets turns into myriad different documents that all need to be reconciled back into one master budget or forecast.

Jim thinks the problem may be partly due to Finance not clearly setting the context for the planning.

"People should be made aware of how their budgets and forecasts tie into high-level objectives, and will be used to drive the business," he says. "That can keep budget-holders focused on providing only the information that management needs."

#2 FORMULA ERRORS ARE RIFE

One of the most fundamental problems with free-form spreadsheets is that they rely on formulae that are all too easy to break or get wrong.

While the figures in a spreadsheet may look reliable, when you dig under the surface you can uncover all kinds of horrors - like incorrectly entered formulae, formulae not copied across the right rows and columns, and formulae that aren't right for the desired calculation.

According to Teresa, the risk of formula errors creates a massive headache for finance managers. "It means we can't take figures on trust - we have to comb through every cell to make sure the formulae are correct and appropriate."

"Budget-holders change formulae all the time," says Teresa. "They add their own calculations and fields, but they don't always get things right." Jim agrees: "There's a high risk that a budget-holder will accidentally (or purposely) alter a formula," he says. "And that means a consequent corruption of data."

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1995

At Fidelity Investments' Magellan Fund, an accountant entered a \$1.3 billion capital loss as a gain by accidentally typing a plus instead of a minus into Microsoft Excel. Shareholders were subsequently under the impression the company was making major profit, only to be deprived of their expected year-end pay-out.

2004

An employee of the University of Toledo made a formula error in a budget spreadsheet, which mistakenly showed the university would enrol 10 percent more graduate students in the coming year, rather than 10 percent fewer. As a result, it overestimated its projected revenue, and saw a corresponding \$2.4m cut in its funding from the state.

JIM'S STORY:

BUSINESS SALE RUINED BY FORMULA ERROR

"Company A was considering the business case for the acquisition of another company. The financial data submitted by the target company was largely created using spreadsheets.

On one sheet, which used past performance data to predict future growth, there was a formula error which led to an overstatement of the predicted growth. Despite due diligence by the acquirer, the error was not detected and the acquisition went ahead.

The purchase price was based partly on historic profitability and partly on future projected performance. Post-acquisition, the predicted growth did not materialise and, when examining the reasons for this, the new management detected the spreadsheet error.

The warranties in the Sale and Purchase Agreement protected the purchasers and, following a court case, the sellers (all individuals) were required to repay a significant amount of the purchase consideration that they had received.

Since one of them had led a rather extravagant lifestyle on the strength of his new-found wealth, the court order led to his personal bankruptcy. A cautionary tale not only about the use of spreadsheets but also about warranties in sale agreements and profligate spending!"

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TERESA'S STORY:

SALES TEAM WORKING OFF DIFFERENT ASSUMPTIONS TO THE BOARD

“At a large mortgage lender, the board had set strategic goals based on a certain volume of production. But when the sales team put their budget together, they were working to different production numbers, because the high-level strategy hadn't been properly communicated to them.

If the discrepancy hadn't been noticed, it would have meant the sales team being paid commission on different results from the organisation's strategic goals. It was only when Finance sat down with the budget-holders in Sales to walk through their assumptions that it came to light that they were working to a different goal.

The lesson learned? It's dangerous to work solely off spreadsheets when consolidating budget submissions. You have to have an ongoing discussion with budget-holders to ensure their budgets are properly aligned with overall business strategy.”

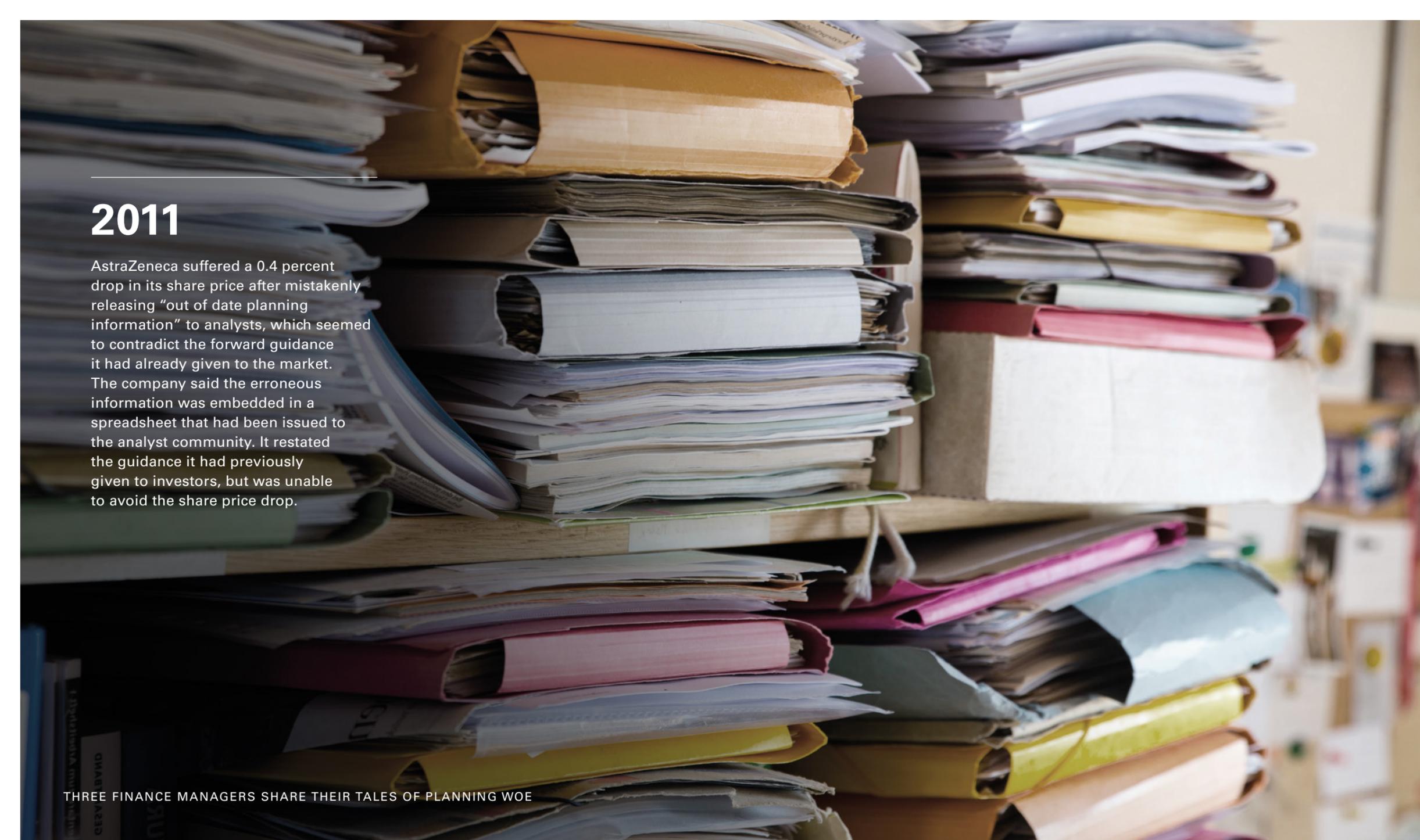
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#3 SPREADSHEETS THAT ONLY MAKE SENSE TO THE OWNER

Spreadsheets are very easy to customise, and that's great - for the person doing the customising. But when hundreds of customised planning spreadsheets are submitted to Finance for entering into the main budget, it can be impossible to tell what information they are trying to convey.

“People don't just format the spreadsheets in the way they prefer, they also base calculations off their own assumptions, without listing those assumptions in the spreadsheet,” says Teresa. It can be impossible to understand what people meant. You actually have to physically go and sit down with every budget-holder and ask them to walk you through their assumptions, otherwise you could end up interpreting the spreadsheets completely wrongly.”

Shannon agrees with the principle, but warns that in a large organisation Finance may not have time to meet personally with every budget-holder. “In a large company it's more practical to meet with departmental representatives of a group of budget-holders, rather than everyone individually,” she says.



2011

AstraZeneca suffered a 0.4 percent drop in its share price after mistakenly releasing “out of date planning information” to analysts, which seemed to contradict the forward guidance it had already given to the market. The company said the erroneous information was embedded in a spreadsheet that had been issued to the analyst community. It restated the guidance it had previously given to investors, but was unable to avoid the share price drop.

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#4 POOR DOCUMENT MANAGEMENT

Spreadsheets are very easy to edit, rename, save and delete - and those four things add up to a nightmare. When multiple people are saving their own versions of a spreadsheet, sometimes to their own local hard drives, it's frighteningly easy to lose track of which version has the most accurate, up to date information. Unprotected files are easy to rename

and delete, so vital spreadsheets can be lost - either temporarily (if they have an unassuming name) or forever (if they're accidentally deleted). And that's without even considering the data security aspects of having employees walking around with budget and forecast spreadsheets on laptops, phones and USB keys.

SHANNON'S STORY:

THE PERILS OF POOR DOCUMENT NAMING

“At one company I worked at, we ran a very complex, interlinked set of spreadsheets to manage the revenue budget. The entire set of assumptions for this ramshackle system were contained in their own spreadsheet - which for some reason was simply named “Book2”. I shudder to think of it: “Book2” could have been just about anything! A document with that name could be easily lost or deleted in error. It just shows how precarious some core, business-critical systems can get when they're managed with spreadsheets.”

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#5 KEY PERSON DEPENDENCY

It's quite common for there to be only one person in the finance function, department or budget group who really understands how the budget or forecast spreadsheets work.

Sometimes, this kind of key person dependency only comes to light when urgent changes or updates need to be made, and the person is out sick or on holiday.

Shannon recalls that at one company where she worked, only one person in the finance department understood how the highly complex revenue budget spreadsheets worked.

"Basically, when that person was on holiday, we couldn't run any scenarios based on revenue," she says. "We couldn't see what impact a certain scenario would have, so we couldn't plan to manage our risk. It meant we couldn't always respond on the fly to changing circumstances."

2014

Walgreens CFO Wade Miquelon was forced to resign after the company made a \$1bn forecasting error in its Medicare business. According to the Wall Street Journal, the pharmacy chain had not factored in a spike in the price of some generic drugs that it sells as part of annual contracts.

#6 BUDGET-HOLDER RESISTANCE

All of our finance executives agree on one thing: budget-holders do not usually enjoy the planning and forecasting process. And that means they're not always motivated to submit timely, high-quality information.

"There are lots of reasons budget-holders don't like the process," says Jim. "Some don't like being asked to commit to figures they'll later be held to. Others just don't have enough time to devote to it. Some people don't like the tools and templates they're given. Sometimes they're not clear on what they need to do, because it hasn't been communicated to them properly."

Teresa agrees. "Planning tends to be seen as a chore - a one-off number-crunching exercise. The purpose of it is often poorly communicated, so budget-holders don't understand the role that planning - and then re-forecasting - play in enabling the business to achieve its objectives. So not as much thought goes into it as you might hope. And that creates a lot of extra work for Finance."

When budget-holders aren't committed to the process, that means spreadsheets are submitted late, they don't have the right information, or they don't have enough information

to enable good decision-making. Jim points out that often, budget-holders themselves don't have access to enough operational data to be able to provide an accurate plan or forecast. "That results in an inability to drive the business based on quality forecast data," he says.

In volatile times, waiting for (potentially inaccurate) re-forecasts to come through from every business unit means the business can't react fast to changing conditions - negating the whole reason for planning and forecasting in the first place.

#7 FINANCE GETS THE BLAME

The biggest headache for our finance professionals is the impact it has on their working lives. One particularly painful issue is that any errors or delays are always blamed on Finance.

“If the budget isn’t in the system in time for the first board meeting of the year, Finance loses credibility,” says Teresa. “And if there are any errors that haven’t been spotted, it’s always Finance’s fault.”

Making sure that doesn’t happen creates a huge workload for finance teams. “When you have so many budget-holders, there’s often not enough resources in Finance to pull the spreadsheets together,” says

Teresa. “It means working long, stressful hours - consolidating the data and checking and rechecking for errors.”

Jim adds that developing and maintaining the spreadsheets also takes up time that could be dedicated to more strategic activities, like analysing financial data and advising the board on how to respond to it. “Essentially, the role of planning, forecasting and budgeting should be about making sure strategic goals can be achieved in reality,” says Teresa. “That requires Finance to analyse the numbers and advise on the right business decisions to take in response to them. But that’s hard when most of the time is taken up just getting the data into one place.”

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WHY ARE SPREADSHEETS STILL SO POPULAR?

It’s clear that spreadsheets can cause as many problems as they solve. But our interviewees agree that spreadsheet use is still rife because they’re a way of life for finance professionals.

“In 1997, I was working for a multi million-dollar revenue IT company,” recalls Teresa. “A new CFO arrived, and one of the first things he said to us was ‘you cannot run a company of this size on spreadsheets’. Twenty years later, and for a lot of companies nothing has changed!”

“I could talk all day about the problems with spreadsheets,” says Jim. “But try taking them away from us - you’d have a riot.”

IS THERE A WAY OUT OF THIS MESS?

But is there a way for finance professionals and budget-holders to have their cake and eat it? To preserve all the familiarity and flexibility of planning, budgeting and forecasting in spreadsheets, but without the enormous headache of gathering, consolidating and checking hundreds of individual spreadsheets?

That’s what Oracle offers with Oracle Planning and Budgeting Cloud Service.

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SUPERCHARGE YOUR SPREADSHEETS WITH ORACLE PLANNING AND BUDGETING CLOUD SERVICE

Oracle Planning and Budgeting Cloud Service is an integrated planning platform that gathers and delivers insight from all lines of business.

Its familiar, customisable interface offers the flexibility of a spreadsheet, but because it's a centralised system, there's no need to collect and consolidate individual spreadsheets. And it's hosted in the cloud, so there are no upfront infrastructure or licensing costs to pay - just a regular monthly subscription.

Oracle PBCS has many advantages for budget-holders and finance teams alike, with advanced functionality for predictive modelling and creating what-if scenarios, as well as linking sales, operational and strategic plans. In doing so, it provides:

- Scalability to reach all budget-holders and other contributors to the plan without constraints
- Accurate forecasts using most likely outcomes based on trends
- Visibility into alternate possibilities and changing business conditions
- The ability to quickly reforecast and change direction as conditions change

Oracle PBCS also automates workflow, with clear task lists that provide control and visibility over the whole process. Finance teams that use Oracle PBCS say they spend 38 percent less time in the forecasting process, 23 percent less time gathering data, and 35 percent more time analysing data than peers who rely on disconnected spreadsheets.

That's a huge win when you consider that, according to an IBM study, CFOs who are effective at integrating financial and operational data, embedding analytics in every process, and using advanced analytical techniques to predict future trends outperform their peers by 70 percent on measures of profit and revenue.

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