Five Costs and Perils of Spreadsheets for Business Analytics

VENTANA RESEARCH

Managing performance effectively requires that a company be able to provide executives, managers and employees with accurate, timely information and make it possible for them to work interactively with that information – to see the numbers behind the numbers. Our research repeatedly confirms that spreadsheets remain the dominant method companies use for analysis and reporting. For example, our Business Planning benchmark research found that 70 percent of organizations use them as their preferred technology supporting a broad range of planning processes. Yet spreadsheets are challenged when it comes to accuracy and timeliness because they lack the dimensionality and interactive capabilities necessary for effective business analysis. Spreadsheets also pose risks in governance and control.

It's obvious that accuracy is important; decisions based on inaccurate information can have material financial consequences. In this respect, spreadsheets pose ongoing risks. Because they are notoriously error-prone, spreadsheets are a poor choice for the sort of repetitive enterprise reporting and analysis companies routinely do. To ensure that their spreadsheets are accurate, organizations must spend time reviewing and revising them, which delays their availability. Nearly half of organizations (47%) in our benchmark research on business intelligence (BI) and performance management said such errors must be corrected often or very often after the spreadsheet has been shared with others. Spreadsheets also have limited dimensionality, which makes it more difficult than it should be to examine results from multiple perspectives. Moreover, stand-alone spreadsheets (as opposed to server-based spreadsheet software) are limited in their ability to enable users to work interactively with the reports. It is far too difficult to drill into the numbers behind the performance issues to better understand what's driving results.

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Despite these limitations, companies use spreadsheets extensively. The same research shows that 40 percent of organizations use them universally for BI, and 47 percent use them regularly for that purpose. Although they recognize that spreadsheets have issues, people depend heavily on them. They do so because spreadsheets are familiar and in every company there are large numbers of people who have extensive experience using them. But they also do so because too often they are not aware that there are reporting solutions available that address spreadsheet shortcomings and yet are not expensive or time-consuming to set up and use.

The Five Costs and Perils of Spreadsheets

Accuracy

Spreadsheet errors are common. In 13 published field audits, 88 percent of spreadsheets contained errors, 5 to 30 percent of them either serious or very serious and some having material financial consequences. This occurs because it's surprisingly easy for errors to occur and go undetected, especially if several people are working on the same spreadsheet. In our research on BI and performance management, 39 percent of organizations frequently find errors in spreadsheets; only 8 percent rarely or never find errors. Data in cells also can be inaccurate, especially if it is entered or updated by hand. Moreover, links to other spreadsheets or data feeds can break.

Most spreadsheet work consists of consolidating multiple spreadsheets for analysis and reporting. But even users who have 10 or more years of experience find it hard to consolidate spreadsheets, with the result that consolidation is another source of spreadsheet errors.

Timeliness

Analyses must be timely if companies are to be able to respond quickly to the changing business environment. Half of the companies we benchmark are not able to provide metrics within the first business week after the month end, and our research on finance analytics found that in more than half of organizations, stale or outdated data is present in their metrics and performance indicators. That usually means that weeks, and likely most of a month, will have gone by before the organization can address an issue that impacted their performance, by which time it may be too late to seize an opportunity. Our research finds that when spreadsheets are used in a business process, half of companies find the time required to complete it is lengthened by having to resolve spreadsheet issues. More than half say that multiple versions of spreadsheets circulate frequently or all the time, which likely is a contributing factor to delays.

Dimensionality

Spreadsheets are two-dimensional grids but businesses operate in multiple "dimensions" – organization (divisions, business units or functional groups) or product (families, sets or individual stock-keeping units or SKUs), as well as geography (continents, regions or territories). There also are the general dimensions of time and currencies. Translating these dimensions into a grid is challenging and one reason why spreadsheets don't work well as a business tool. Spreadsheets are able to handle a few dimensions reasonably well, especially for static reports, but they are a problem when people want to look at results from multiple dimensions.

Data Interactivity

Static displays of data are no longer enough when it comes to managing performance. When a key high-level metric is out of scope with expectations,

executives and managers need to know why, and the answer may only be found many layers down in the data. Organizations participating in our research on finance analytics named the ability to search for specific answers to standard business questions and to drill down and around to find the reasons behind numbers as the two most important capabilities they need. But spreadsheets do not do a good job of enabling users to do this and make it hard to pinpoint the drivers of a positive or negative disparity or trend.

Compliance

Companies are focusing more than ever on how they manage governance, risk and compliance (GRC). Process management and workflow tools are built into most transaction management systems such as enterprise resource planning, customer relationship management and supply chain management to ensure compliance with company policies. However, cutting and pasting information into spreadsheets invalidates existing controls. The potential consequences of failures in GRC management are too serious and wide-ranging for companies to continue to use desktop spreadsheets for critical business analysis. Tools that leverage the controls of the transaction management systems create more secure and reliable analytical processes.

Use the Right Tool for the Job

Spreadsheets have been around for more than 30 years because they are an indispensable tool that promotes productivity and insight. They are the right choice when used by individuals or by small groups in one-off situations. But they have serious limitations when used collaboratively in enterprise settings, especially when applied to manage performance. Individuals reflexively turn to spreadsheets because they think they are easy to use and inexpensive. It's true that spreadsheets are easy to set up, but the time saved in design and setup is quickly lost searching out and correcting errors, dealing with limited dimensionality, assembling presentations and searching for answers to the inevitable question, "Why?"

Spreadsheets may appear inexpensive because everyone seems to have one and there are many skilled users, but the cumulative costs of time lost and less-than-optimal decisions quickly adds up. Moreover, companies have far more cost-effective options today to help them manage performance more effectively. Ventana Research advises organizations that are using spreadsheets for analytics to explore and evaluate these other options. They are likely to find tools that will deliver a richer set of more accurate information that provides deeper insight, enabling executives and managers to make better decisions more consistently.

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