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IMAGINE THERE'S NO EXCEL

With the rise of analytics and Big Data, replacements for Excel are proliferating and CFOs of companies large and small are beginning to pay attention.

BY DAVID ROSENBAUM

Even the people selling business analytics (BA), business intelligence (BI), and financial planning and analysis (FP&A) software — jobs traditionally performed through Excel — sing Excel's praises. And why not? In a 2011 study, accounting and tax advisory WeiserMazars found that 87% of the CFOs they surveyed relied heavily on Excel spreadsheets in their financial close and also in their FP&A activities, as well as for budgeting and reporting.

"I use Excel," says Greg Schneider, vice president of marketing for budgeting, planning, and forecasting software provider Adaptive Planning. "If I'm going to look at three different lease options, Excel is perfect for that. It's a great personal productivity tool."

"I love Excel," Jim Burleigh, CEO of software-as-a-service (SaaS) sales forecasting and management provider Cloud9, says rhapsodically. "Excel is the number-one forecasting, inventory-management system in the world. It's everywhere. So pervasive. So flexible. Under your control. Amazingly cheap and powerful."

Of course, those encomiums all come with a "but."

"But," says Adaptive Planning president Rob Hull, who founded the company because of his frustration with the time he had to spend inputting data in Excel, sending it out in e-mails, making sure the right people had the right versions, and error checking, "if you have a process that requires integrating data from other sources — SaaS or on-premises — and if you need to consolidate it and add analytics and share that broadly over a number of players who are going to add their own stuff, Excel is a poor application for that."

Adds Burleigh: "It's not an enterprise tool. The error rates in spreadsheets are huge. Excel will dutifully average the wrong data right down the line. There's no protection around that."

And some analysts are even less generous to good old Excel. "Excel's great for checking scores in your bowling league, but it's a loser," says Barry Wilderman, Constellation Research principal analyst. "CFOs can use it for personal use, but that's it."

The Rise of Analytics; The Persistence of Excel

There's certainly evidence that BI, BA, and FP&A software designed to replace Excel are gaining market share, especially as the volume of data that businesses (and their finance departments) collect, store, and analyze — and the velocity with which it streams into the organization — ramps up and becomes capitalized as Big Data. An IDC study released this month reported that the BA market would reach almost $40 billion in 2012, up a little more than 8% from 2011. That said, no one believes Excel spreadsheets are going to go away anytime soon. Several companies, according to the WeiserMazars study, "reported using more than 500,000 spreadsheets as part of their quarterly close." This swamp of spreadsheets, WeiserMazars warns, creates obvious risks for manual errors and entails perhaps not-so-obvious manpower and opportunity costs.

Of course, it's widely accepted that the financial functions of large, multinational corporations with revenues over $1 billion simply cannot safely or sanely be based on Excel spreadsheets. Big companies typically use big, expensive FP&A and BI tools supplied by big ERP vendors such as Oracle (Hyperion), SAP (Businesses Objects), and IBM (Cognos).

James Deuschle, CFO of Rich Products, a $2.9 billion global processed-food supplier, still uses Excel, "but only for ad hoc, separate analysis. Our base reporting and analytics come out of SAP, and our close happens within Oracle." His BI tool, which he implemented last year, is Oracle's Integrated Operational Planning, which draws from Hyperion, enables cost of goods sold modeling and product allocation, and allows him to do price forecasting as well as supporting the rolling forecast model that replaced Rich's annual budget two years ago. At Rich's scale, Deuschle says, "Excel is not reliable. You need a solid, single source of truth."

But what if you're a small business? What if you're a start-up? What if you're the founder of a start-up and you just don't know Excel?

The Non-Excel CFO

A company called Movable Ink launched a service late last year that allows e-mails to pull real-time content from the web. For example, a retailer could send customers e-mails that would automatically update with discount offerings or inventory updates; a news site could embed streaming Tweets in its e-mail alerts. Movable Ink raised $1.3 million in funding last fall, but company co-founder and CEO Vivek Sharma, who has a degree in computer science, admits that getting the business up and running has been a challenge. The problem is not with Moveable Ink's product; the problem is finance. Sharma's just not that knowledgeable about it. But, he says, "as a founder, you have to ramp up."

As Sharma makes the rounds seeking cash for his company, potential investors want to know how his sales are trending, they want P&L projections, they want to know the lifetime value of a Movable Ink customer, they want to compare plan to actuals, and they want to be shown where investments (or cuts) could be made to improve performance. In short, they want to meet with the CFO that Movable Ink doesn't have.

"Most start-ups I know of do not have a CFO until they reach a certain size," Sharma says. "We have a part-time accountant. He manages the books. But as a start-up, I've got to keep my burn under control. I need to know what I have to do to become profitable, how much time it will take, how my business model plays out, and the key performance indicators. Most technology founders are pretty unaware of that stuff.

"I'm not an Excel jockey," he confesses. "When we were pitching VCs, my wife put the spreadsheets together for me. Having best practices codified in software would really help me. I'd pay money if someone would solve that for me."

In fact, Sharma is paying a company (about $50 a month or a discounted $400 a year) to solve his problem. Profitably Inc., which provides SaaS FP&A primarily to start-ups and small-to-midsize businesses (SMB) such as Movable Ink, gives Sharma the codification that's not embedded in an Excel spreadsheet, says Profitably CEO Adam Neary.

Profitably is pretty new itself, co-founded in March 2010 by Neary, who says he saw a gap in the marketplace: younger folk starting businesses (like Sharma) who "haven't done much financial planning and analysis" or who (again, like Sharma) have not gone to business school "to learn how to use Excel in a powerful way.

"An SMB is making jam," Neary says by way of example, "and [the finance staff] wants to know how much jam to make, and they don't love Excel as there's no structure, no framework. All they know is how much revenue they think they're going to need, and their expenditures. If you ask them what the key revenue drivers are or what the conversion rates are going to look like on their website, they're not going to find that in Excel.

"Or, say you've got an architecture firm, and all the architects are working at different pay levels, and you want to understand employee profitability. That's hard to do in Excel. People aren't sure they're doing it right. Other people would love to understand sales-channel profitability to calibrate their spend. They wouldn't know how to do that in Excel either."

Neary is not claiming that Excel can't do these things; he's only saying that his software — which links to QuickBooks (widely estimated to own 85% of the SMB accounting software market) — can provide "a framework for planning, not a blank sheet."

Inevitably, there will be more entrepreneurs like Sharma who will not even think about Excel as they get their companies up and running, and talented data analysts coming into enterprises who will not have grown up with Excel.

"Finance is slow to adapt," says Sanjay Sehgal, global enterprise performance management practice leader at The Hackett Group. "But young kids — who've had iPhones and iPads — are coming into financial organizations and perceiving them as IT museums. Young kids don't want to be reconciling 18-page spreadsheets. Organizations that get this right, and get this right quickly, will win in the market and in the talent marketplace."

With or without Excel.