Why you need a planning tool and how to sell the concept to the senior management team

By David Parmenter

Introduction

Spreadsheets have no place in forecasting, budgeting and many other core financial routines. Spreadsheets were not designed for many of the tasks they are currently used to accomplish. In fact, I often remark in jest at workshops that many people, if they worked at NASA, would try to use Microsoft Excel for the US space program, and many would believe that it would be appropriate to do so.

A spreadsheet is a great tool for creating static graphs for a report or designing and testing a reporting template. It is not and never should have been a building block for your company's planning systems. The high level of errors in spreadsheets is the main reason why. A major accounting firm pointed out that there is a 90 percent chance of a logic error for every 150 rows in an Excel workbook.[1]

Better alternatives are available. In this paper, you will learn how to get management to understand why an investment in a planning tool is essential. The paper will cover why you need a planning tool and:

- Making the planning tool sale to your senior management team
- Getting the green light from influential sages at your business
- Evaluating potential planning tools
- Selecting a planning tool

Why the need for a planning tool

A decade ago, the electronic spreadsheet was still state-of-the-art for the budgeting process and the only practical option for most midsize companies. However, what might have started as a simple budget model often grew into a spreadsheet that soon got out of control.

Moreover, considering the time and effort required to turn that mass of spreadsheets into a coherent budget, they should not have been considered "inexpensive."

With the introduction of dedicated planning tool software for all sizes of organizations, spreadsheets are not the optimal approach any longer.

Rule of 100

I believe you can build a forecasting model in a spreadsheet application and can keep it within 100 rows without much risk. Pass this threshold and you expose yourself, your finance team and the organization.

Forecasting requires a robust tool, not a spreadsheet that was built by an innovative accountant and that, now, no one can understand. I always ask in workshops, "Who has a massive spreadsheet written by someone else that you have to pray before you use it?" You can see the pain in the instant response. Most people know that the person who built the spreadsheet certainly was not trained in operational systems design. The workbook will be a collage of evolving logic that only the originator has a chance to understand. Often, the main hurdle is the finance team's reluctance to divorce itself from the spreadsheet program. It has been a long and comfortable marriage, albeit one that has limited the finance team's performance.

Career limiting

Acquiring a planning tool is the major step forward, and one that needs to be pursued, not only for your organization's future, but also for the future careers of the finance team. Soon, a career prerequisite is likely to be planning tool experience, and, conversely, being a spreadsheet guru is likely to be career limiting.

To those readers who believe a spreadsheet is still appropriate, I say to them, why not build your general ledger in a spreadsheet program and while you are at it, all your operations systems? Try explaining to the CEO that only one person knows how these systems work and he or she left four years ago. You might as well clear your desk now.

Common problems with spreadsheets

Senior management is often blissfully unaware of the risks they take every time they rely on information from large spreadsheets.

New CFO finds an error

A financial controller came to me with a great tale. He had just completed the annual budget that his team had been working on for many weeks long into the night and on weekends. Proudly, one Friday afternoon, he walked into the office of the recently appointed CFO and announced the first cut of the annual plan. The CFO spent five minutes looking at the plan and after quickly calculating some numbers said, "This annual plan is wrong; the numbers do not make sense."

The financial controller was taken aback, because he had made a special effort to conduct quality assurance on the numbers, and he had done comparisons to last year's plan, along with a few other things. He had wanted to make the best impression.

The CFO called him over to look at his brief calculation, "Pat, we know the planned sales have been signed off already, gross profit margin historically has been around x percent, overheads are roughly $XX, and thus, I am expecting a number around $XX- $YY." The financial controller could only agree.

That weekend, the team poured over the spreadsheet, which was enormous and included the consolidation of many worksheets from many sources. Late on Sunday, they experienced a "eureka" moment. An error was found and rushed to the financial controller. As they processed the correction, they looked with disbelief because the new number was within the outline the CFO had suggested. "We have a pretty smart CFO; let's see how long this error has been around. Please look at the last two year's annual plan models," Pat requested.

As Pat recalled to me, with a wry smile, the error had been in the plans for the previous two years and had gone completely undetected.

Some of the common problems with spreadsheets are:

- *Broken links or formulas.* An individual might add or eliminate a row or column so that, when a group of spreadsheets is rolled up, the master spreadsheet is taking the wrong number from the one that was modified.
- *Consolidation errors.* Often, a spreadsheet will lock up or show a screen full of "REF", "REF" "REF" errors, because it was not designed to be a tool for handling a rollup of dozens of different worksheets.
- *Input of the wrong numbers.* Entering the wrong number can happen in any process, but spreadsheet-based systems often require rekeying of information, which can produce data inconsistencies. A spreadsheet might use a look-up table that is out of date or an entry might have been inadvertently or mistakenly overwritten.
- *Incorrect formulas*. A subtotal might omit one or more rows, columns or both. An individual might overwrite a formula because they believe theirs is more accurate. Or, someone might use an outdated spreadsheet. Or, allocation models might not allocate 100 percent of the costs. Allocation methods might be inconsistent.
- *No proper version control*. Using an outdated version of a spreadsheet is very common.
- *Lack of robustness.* Confidence in the number a spreadsheet forecast churns out is not assured. Many times you cannot check all the formulas because they can be found in any cell of the spreadsheet.
- *Inability to accommodate changes to assumptions quickly.* What would you do if your CEO asked, "If we stopped production of computer printers, what would be the financial impact? I need the answer at the close of play today." Your spreadsheets are not able to provide that quick answer.
- *Design is by accounting staff who are not programmers*. Most accounting staff have not been trained in system documentation and quality assurance, which you expect from a designer of a core company system.
- *Lack of corporate office control*. Many people in a business can use spreadsheets to create their own forecasts at a ridiculous level of detail. This can lead, as a friend once said to me, "To the march of a million spreadsheets."

Making the planning tool sale to your senior management team

A finance team must make two sales. The first is selling the planning tool and the second is selling a move away from the annual planning process. In addition, the team must learn to sell differently.

Selling by emotional drivers

Rarely is anything sold by logic. Sales are made with emotional drivers. Many finance team initiatives fail because the team attempts to change the culture through selling by logic and issuing commands. It does not work. The planning tool project needs a public relations machine behind it. No presentation, email, memo or paper should go out unless it has been vetted with the help of a PR expert. All your presentations should be tailored to suit the emotional drivers of your different audiences and these should be tested in front of the PR expert.

I believe you could contract this service for less than four days of fees for the whole project and not regret it.

To understand selling by emotional drivers, consider how a secondhand car salesperson sells cars.

Selling by emotional drivers: How a car sale is made

Three customers on the same day arrive to look at the "car of the week" that has been featured in the local newspaper. The salesperson does not sell the car by logic (price, features, car reviews); instead, he or she tailors the approach to the buyer's emotional drivers.

The first person is a young information technology guru from the Y generation with the latest designer gear, baggy trousers proudly showing the designer label on his boxer shorts. The salesperson first ascertains that this young professional has enough resources and with some probing finds out that he is a highly paid IT specialist. The salesperson is looking for signs of the potential buyer's feelings and beliefs, such as clothing, the car that the prospect arrived in and more.

The sales pitch could be targeted on the performance and handling of the car and the prowess of the young professional's driving skills. The opening line could be, "Have you had any experience driving powerful cars around a track?" "Great, you will need to have the skills of a racing driver to handle the 280 BHP, the twin turbo and the phenomenal cornering." Sold.

The second person could be me, with my gray hair visible. The salesperson would say, "This car is the safest car on this car lot. It has a five-star rating for safety, eight air bags, enough power to get you out of trouble, unbelievable braking when you have to avoid the idiots on the road and a cornering capability that will keep you on your side of the road, no matter how you come into the corner." Sold.

The third person, with Italian designer clothing and leather briefcase, such as a highly paid IT consultant, is asked to sit in the car. The focus is on the luxury. "This car has won many awards for its design. See the quality of the leather finish? It is Italian leather similar to your immaculate briefcase. You will notice that everything is in the right place. If you don't mind me saying, Pat, you look a million dollars in your outfit and I can assure you that every time you drive this car you will feel like a million dollars." Sold.

How would accountants sell the car? I often joke to accountants that they would be so busy, buried in a monster spreadsheet, that on sighting a customer, they would slump their shoulders in a resigned way while thinking, "This is the last thing I need."

Walking up to the customer, they would remember that they needed to smile and appear welcoming. However, the frowns on their foreheads would give the game away. They would point out to the customer, "As you know, this car has been reduced by another $5,000 and it is full of features as you would expect in this top of the line car. I have listed all the features on the window and have printed Jeremy Clarkson's review: his only five star rating this year." Handing over the keys, they would say, "Make yourself comfortable, start the car and if you are still interested, come over to my office and I will take you out for a test drive."

I can assure you that selling by logic seldom works and is the prime reason why many initiatives put forward by the finance team fail.

The emotional drivers for a planning tool sale

Some of the emotional drivers to use in selling senior management on a planning tool acquisition include:

- "Spreadsheet solutions for forecasting involve many long evenings and weekends away from family and friends."
- "Spreadsheet forecasts are expensive to run." Provide an estimate of the huge costs (because costs motivate boards).
- "Spreadsheet forecasts are likely to be materially wrong and could possibly lead to legal action by investors because experts have already stated publicly that large spreadsheets, with more than 150 rows, are not appropriate for forecasting."
- "Smart organizations have planning tools."
- "In today's world, working without a planning tool is like trying to operate without a general ledger application."
- "A planning tool can improve decision making because it can be linked to main performance drivers. For example, the CEO can receive an answer in hours about the ramifications of pulling out a product line."
- "A planning tool can improve the quality of reporting and often incorporates performance measures such as balanced scorecards."

More information about making the planning tool sale can be found in Appendix 1.