

# The Issue

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## Is Excel Dead?

*Obit for the most versatile analytical tool of all time is greatly exaggerated*

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### **Chris Chillingworth**

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At the recent Proformative™ Technology Conference in Burlingame, CA, a conference dominated by the large cloud-based ERP vendors and their collaborative solution providers, one breakout session was entitled to “Trashing the Spreadsheet”, leading the potential attendees to question, “Is Excel Dead?” Those of us who have been around long enough to experience the evolution of the spreadsheet from its nascent version, VisiCalc™, through Lotus123™ to today’s Microsoft Excel™ answer with a resounding, “No!”

Yes, the spreadsheet’s versatility and power as an analytic tool have allowed users to take it into realms where it’s flexibility have worked against it as an accident-free reporting tool. Just to be fair, we’ll discuss its short-comings in this article. But its ubiquity has made and, will continue to make, it one of the most essential tools in a computer-based environment, a program that will reside on nearly every computer worldwide for the foreseeable future.

### **Its shortcomings**

Ok, let’s explore the case against Excel. First, and foremost, the ability to place either formulas or values in the same cell allows the user the exposure to writing over a key formula with hard data. As spreadsheets have grown exponentially, the ability to discover formula errors with thousands of cells and cell dependencies becomes extremely difficult. If you base your financial reporting on Excel-based analyses, you must be extremely vigilant that errors introduced inadvertently into a spreadsheet do not impact the accuracy of reported financial results. The advent of the Sarbanes-Oxley Act of 2002 has caused companies and their auditors to view Spreadsheet Controls as a major

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risk area, and adopt procedures designed to test key spreadsheet controls.

Second, the later versions of spreadsheets have introduced complex, built-in formulas for scientific, statistical, or financial use that depend on the proper selection of input ranges to produce accurate results. Making sure that the proper ranges have been selected, whether fixed or relational is the key to getting a satisfactory result from the use of built-in formulas.

Some of these risks can be mitigated by using Excel's companion program, Microsoft Access™, a relational database program that replaces the ability of a field to carry both a formula *and* a value, by specifying fields as either data or expressions. Formulas written as expressions in queries in Access carry throughout the query, minimizing the types of programmer error common to Excel. The two programs interface with each other, making the use of both programs to solve complex problems with large amounts of input data, relatively efficient.

Third, modifying existing spreadsheets, particularly by someone other than the original author, or by the original author months or years after the spreadsheet was initially developed, may introduce unintended consequences. To combat this problem, I find it useful to devote one tab within the Excel workbook to describing the purpose of the spreadsheet, its key inputs, key formulas, and intended results. Thus, a latent programmer or new user of an existing spreadsheet can quickly grasp the intent of the spreadsheet, and hopefully avoid the pitfalls of making edits to the spreadsheet without a clear understanding of the impact of those edits on the intended results.

Most of the risks associated with spreadsheets can be overcome with the use of control totals, where calculated results are measured against known totals, or ranges, to identify internal spreadsheet errors. Excel, itself, has tools which allow the user to visually view precedents and dependencies between cells and worksheets, provided those tools are actually used.

### **Targeted Solutions**

Responding to perceived needs in the marketplace, a number of software developers have introduced solutions to the marketplace which address targeted needs.

For instance, a number of vendors have sprung up to meet the complex requirements of Stock Compensation Accounting. The accounting literature alone exceeds 400 pages of very technical accounting requirements. If you have more than a dozen employees, with an active stock option environment of grants, vesting, exercises, terminations, expirations, and repricings as well as a combination of Incentive Stock Options (ISO's), Non-qualified options (Non-Quals, or NQ's), Restricted Shares (RSA's), Restricted Stock Units (RSU's), Stock Appreciation Rights (SARs), and an Employee Stock Purchase Plan (ESPP) thrown into the mix, you simply can't afford not to have a Stock

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Compensation Administration and Accounting system. Yet, one of the leading vendors, with whom CFOs2Go has a strategic relationship, informs us that their leading competitor is Excel.

Similarly, and well represented at the Proformative Tech Conference, are software solutions that provide budgeting and forecasting support that are either a part of, or directly interface with the major ERP vendors. Most would admit that their primary competitor prior to their founding was Excel. The primary benefit of their solutions is the tight integration with the underlying ERP system, the ability to play what-if with actual data, strong reporting features, and with the introduction of new data fields, the ability to measure a company's performance against key performance indicators (KPI's).

Companies such as SalesForce™ have introduced Customer Relationship Management solutions which now interface with their customer's ERP systems.

More recent entries garnering major support from the technologically-driven younger generation are solutions such as Expensify™ and Shoebox™ that promise to make the orderly conversion of paper receipts into electronically recognizable data for both storage and the direct interface with online accounting systems as simply as scanning or using your mobile device to take a picture of the receipt, business card, or document at the point-of-contact.

All of these solutions have developed major followings. And not without reason. The real question is whether they will relegate Excel to the scrapheap of technology?

### **The Case for Excel**

With all its foibles, many of which are outlined above, Excel will remain the number one analytical tool for years to come. Why?

- It's flexibility
- You've already invested in it
- Not every user is a large enterprise
- The power of its Macro and Virtual Basic Programming Languages
- It's ability to interface with other programs is almost universal

Let's tackle these issues one at a time:

#### *Flexibility*

Most of the targeted solutions mentioned above require some sort of installation, interface, implementation or programming effort to get them to work the way they are designed. Once implemented, they provide repetitive output and flexible formatting that is comprehensive and based on the underlying system. But what if you want an ad hoc analysis TODAY?

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Most of us were trained or self-taught in Excel or other spreadsheet formats. There is a lot of demand for ad hoc information. Its universality spans more than just financial functions, but expands to scientific, statistical, and database use.

#### *Target Systems Cost Money*

In case you haven't noticed, most of the Target Solutions mentioned come at a cost. The free versions have limited functionality, and even though some may represent a value when measured against the cost of keypunching or storing data manually, multiply the single seat cost by a number of users and the costs start to mount up. Even Software-as-a-Service (SaaS) models, which are subscription-based at the fraction of the cost of the installed version, have drawbacks that commit you to a certain platform or technology that is difficult to divorce yourself from.

In many cases, the purchase of a Windows or Apple based computer comes with Excel, and its Office suite of products. So the investment in Excel has already been made.

#### *There are more SME's than large enterprises*

Let's face it. Most of the large ERP vendors are targeting larger customers. According the U.S. Census Bureau, about three quarters of all U.S. business firms have no payroll, and of those with payroll, more than 89% employ fewer than 20 employees. C'mon, man! Less than 2% of the firms in the US are in a financial position to purchase (or rent) an ERP product that proclaims the death of Excel!

#### *Powerful Programming*

Excel, Access, and some of the other Microsoft Office<sup>™</sup> suite of products come with a fairly powerful programming language that makes static spreadsheets "come alive". Many of the solutions companies use are "home grown" solutions, solutions that meet the unique business processes and environment of a particular company. When you adopt an ERP system, in most cases you adopt *their* business processes, many sold under the banner of "best practices". But because ERP systems push transaction processing out beyond to the accounting department to purchasers, sales force, material handlers, human resource professionals, project management and many other non-accounting-trained individuals, the design of an ERP system to meet the pre-existing needs of prior business practices, would require customizations which are expensive to program, and maintain through a never-ending cycle of upgrades to the ERP software functionality.

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We at CFOs2Go have developed Virtual Basic Application-based programs in Excel and Access which solve unique analytical problems not addressed by most ERP vendors:

- Cash Flow forecasting translating A/R and A/P agings (see The Issue, Vol 1, Issue 1, Aug 2011)
- Revenue Recognition
- Spares Inventory tracking and depreciation
- Demo inventory tracking and depreciation
- Excess & Obsolete Inventory
- Bad Debt Reserve Analysis
- Sales Commission Accounting
- Sales Pipeline management
- Dashboard for Executives
- HR Database
- Non-standard Stock Option Accounting
- Restaurant Supply Chain Management

Many of these solutions involve complex regression, and step volume analysis that the ERP vendors have not invested in, probably due to a belief that there is insufficient market potential for them to recover their investment. This is where CFOs2Go can cost-effectively bridge the gap between your ERP functionality and the analysis and reporting necessary to run your business.

#### *Universal Interface*

Say what you will about all the other Targeted Solutions, one thing they will have in common is the ability to either export or import data in an Excel or Excel compatible (such as .csv) format. This allows almost any program to be indirectly compatible with almost every other program on the planet. Yes, perhaps it's a two-step process, downloading to an Excel format, uploading from an Excel format, but it can be done! Generally, without a great deal of training or expense.

### Summary

As strong and as powerful as the current ERP solutions are, the flexibility, cost-effectiveness, and power of the modern spreadsheet will never be replaced.

We, at CFOs2Go, have built many applications around Microsoft's companion programs of Excel<sup>™</sup> and Access<sup>™</sup> to solve our client's particular needs. Whether its automating cash forecasting, sales commission calculation based on threshold achievement, slow-moving or obsolete inventory analysis, or any of the other VBA programmed applications mentioned above, don't hesitate to call Chris Chillingworth at (408) 309-1343 or your CFOs2Go Partner to support your unique analytical requirements.



*Chris Chillingworth is a partner with CFOs2Go Partners specializing in the high tech manufacturing, software, and service industries. He has over 30 years experience in financial leadership including multiple roles as a CFO in both the public and private sector. He leads our financial systems, stock compensation accounting, equity crowdfunding, and corporate governance practice groups.*

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