

I D C T O P L I N E

Transcending Spreadsheets: Using Technology to Better the Books — and Your Business

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Slow Financial Data Leads to Flying Blind

For a small to midsize business (SMB) in today's economy, survival is more than just keeping afloat — it requires the constant improvement of core business processes. No business process is more important than basic bookkeeping, which tracks the flow of money in from sales, the flow out for expenses, and the net profit that remains. As an SMB grows, there will be key inflection points when technology will need to be updated to keep pace with the complexity and demands of the business.

At first, many small businesses run their companies using a “shoebox” filing system of accounts receivable and payable. Receipts, invoices, and other paperwork may be sorted by date, but that's often the extent of any formal organization or analysis. Companies starting at the simplest level soon upgrade to a basic spreadsheet application that facilitates essential computation and categorization, as well as an assessment of upcoming cash flow.

To run a growing business more effectively, an SMB should invest in centralized, value-added technology that can incorporate all of the moving parts of its financial operation to accurately show a firm's current position and provide a longer-term perspective.

Assessing the Dangers of "Dead Reckoning"

When cloudy weather prevented 19th-century seafarers from getting a fix on the stars to determine their location, they would use “dead reckoning” to figure their location based on the time, speed, and direction of travel from their last position. This worked as long as unanticipated currents and other factors didn't complicate things.

Similarly, if an SMB doesn't fully understand its accounts receivable picture until the end of the month — or worse, the end of the quarter — it may fail to make good business decisions in a timely way. The company might not recognize a “sea change” until it's too late.

When navigating by financial information that's a month old, a company can end up squeezed for cash. Business expansion and investment in new marketing initiatives need to be properly timed and based on the latest information. It's also important for an SMB to have a clear picture of customer history. Today's business pace demands that organizations know which customers are on time with payments, which have fallen behind, and which are seriously late — i.e., beyond 90 days.

Analysis of buyer behavior can also reveal which customers are the most profitable — and they may not always be the biggest ones (which will often command the biggest discounts even as they regularly pay late). The greatest profits may come from low-maintenance customers that encourage innovation by always buying your latest offering and might serve as a reference accounts.

Although simple spreadsheets can make life easier for SMBs, they simply can't accommodate, integrate, nor analyze all of the information needed to succeed in business today. Spreadsheets are easy to learn and use, however, and may have been refined, customized, and institutionalized to the point where everyone is comfortable and familiar with the level of information they provide. The problem is that what was sufficient and timely enough for past successes may be inadequate to support future growth.

Using Technology to Get Your Financial Bearings

Ideally, an SMB can monitor its financial position in real time. At the most basic level, this includes insight into:

- The magnitude and type of funds coming in and being paid out today; of special interest in tight economic times is which expenses really need to be paid today and which can be delayed.
- What do receivables look like for the rest of the week, month, quarter, and year? How do expenses compare over the same time period?

Given the state of the economy and how quickly things change, timely and accurate financial information is essential to effective near-term and long-term decision making. It's useful for a business to understand its monthly financial position, but even better to understand it in real time, enabling the rapid adjustment and refinement of market programs and competitive initiatives. The continually changing (and increasingly rigorous) competitive environment gives companies less room for error when they are implementing new initiatives and programs.

The key is putting into place the right resources — a system that transcends a simple "shoebox" spreadsheet application that is limited to looking backward. SMBs need a solution that can drive decision making with a continuous flow of up-to-date financial information; the perspective must shift from looking backward (at the week's or the month's closing) to looking forward.

The good news is that the financial accounting technology once reserved for large enterprises has become a cost-effective investment for SMBs. New approaches to software development, deployment, use, and management have made value-added technologies such as enterprise resource planning (ERP) more accessible, affordable, and easier to use for SMBs — even those with limited IT resources or expertise.

Distributed applications, centralized management and, most important, the increasing availability of software as a service have enabled smaller firms to tailor functionality to immediate needs but also increase capabilities as the organization grows. Hosted solutions can be especially effective in making sure that multiple locations are all equipped with the latest software. Branch office coordination and consolidation can be a major headache as a company grows. Even greater challenges can come from acquisitions or international expansions, where different approaches need to be aligned.

Better Navigation Through Business Intelligence

Advanced financial and business management solutions can impose greater discipline in the collection of account information. Moving toward greater standardization in collecting and processing financial information can yield important financial and business insights. There are two directions this can take — from inside out and from outside in.

For example, customization of advanced solutions to conform to a firm's business processes allows for a company's unique practices to be captured. This can help minimize disruption and maintain competitive advantages that current processes may provide.

Also, there may be vertically specific solutions available that can advance a company's understanding of what information is most useful. For instance, not every retailer might capture same store sales on a year-over-year basis, although all should. In effect, a firm can benefit from understanding which metrics are considered most useful by other companies in the same industry.

Centralizing enterprise software, whether it's ERP or customer resource management (CRM), can deliver additional benefits. SMBs can add applications to take further advantage of financial information, essentially leveraging it in new ways. At a basic level, inventory management can be linked directly to orders and shipping manifests, customer payments and financials can be linked to planning and analysis applications, and so on.

For example, leading global retailers keep track of what color sweaters are most popular by region to dramatically reduce out-of-stock exposure. SMBs can benefit from similar intelligence. The value gained by this integration of information becomes a key competitive advantage (or at least it lets you keep up with your largest and most advanced competitors).

A broader business intelligence (BI) solution can go even further, supporting better decision making by providing tools that help businesses track, measure, and analyze current and historical performance and offer actionable guidance for the future. Although increasingly available and affordable, BI software is still relatively scarce in SMBs — even among midsize firms, penetration is under 10%, suggesting a competitive opportunity for companies that can do a better job in understanding and sharpening basic operating practices.

Given current economic challenges, improving coordination internally — among employees across different departments, offices, and locations — and externally — with contractors, partners, and suppliers — has become more important than ever. ERP, CRM, and BI solutions can also serve as a central repository for company information, which can support the task of documenting compliance with industry or government regulations.

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