



GUIDE TO SETTING UP A DIRECT CASH FORECASTING PROCESS

DEFINING GOALS AND UNDERSTANDING WHAT IT TAKES TO BE SUCCESSFUL



CASHANALYTICS

Treasury Management Software



GETTING STARTED

Designing a new cash flow forecasting process or re-engineering an existing process to provide more value to an organisation can seem like a daunting task, particularly for large companies operating across numerous locations and in multiple currencies.

This guide has been developed to help you as the person responsible for liquidity management in your organisation to lay the foundations for a cash forecasting process that provides long term value to you and your company.



KEY CHALLENGES

The key challenges associated with operating a cash forecasting process include creating efficient lines of communication with business units, capturing data from disparate sources and handling the manual administration usually associated with managing forecasting in spread sheets.

Ahead of embarking on the implementation of a new cash forecasting process it is critically important to clearly define what the project is trying to achieve – its goals – and to clearly understand what factors will make cash forecasting successful in your organisation. Aligned with this, recognizing the current focus of a cash forecasting process is an important step in designing a more valuable process.

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SETTING OBJECTIVES

NEW SET-UP – WHAT ARE WE TRYING TO ACHIEVE?

For companies seeking to implement a new cash forecasting process the first question that needs to be asked is 'what exactly are we trying to achieve?'

The most effective approach is to clearly define what the key reporting output and goals of the cash flow forecasting

process will be and to implement a structure that can reliably meet these requirements.

Table 1 below lists a number of common forecasting goals with suggestions on what type of process would help a company achieve these goals.

	REQUIRED STRUCTURE	NOTE
SHORT TERM CASH MANAGEMENT	Daily breakdown covering 10 to 30 business days compiled at least weekly.	Used to closely manage working capital such as funding accounts payable and other expenditure.
INTEREST AND DEBT REDUCTION	Weekly breakdown extending to 13 weeks/three months compiled weekly.	Provides the visibility that allows excess cash to be used for debt repayment purposes.
KEY REPORTING DATE VISIBILITY	Monthly breakdown for 12 months compiled every month. This increases in frequency towards key dates.	Provides visibility and comfort over cash levels at key reporting dates such as half and full year end.
LONG TERM PLANNING/BUDGETING	Multiyear projection with quarterly breakdown compiled on a semi-annual or annual basis.	This type of forecast is usually a by-product of longer term profit and loss and balance sheet forecasting.

TABLE 1: CASH FORECASTING OUTPUTS/GOALS

EVALUATE EXISTING PROCESS

If you already have a forecasting process in place, it's useful to understand the focus and pitfalls before embarking on a project to create a new process.

Broadly speaking the focus of cash forecasting is on one of three areas; administration, reporting or decision making. Table 2 below splits these focus areas into three 'value levels' and outlines the headline characteristics of each.

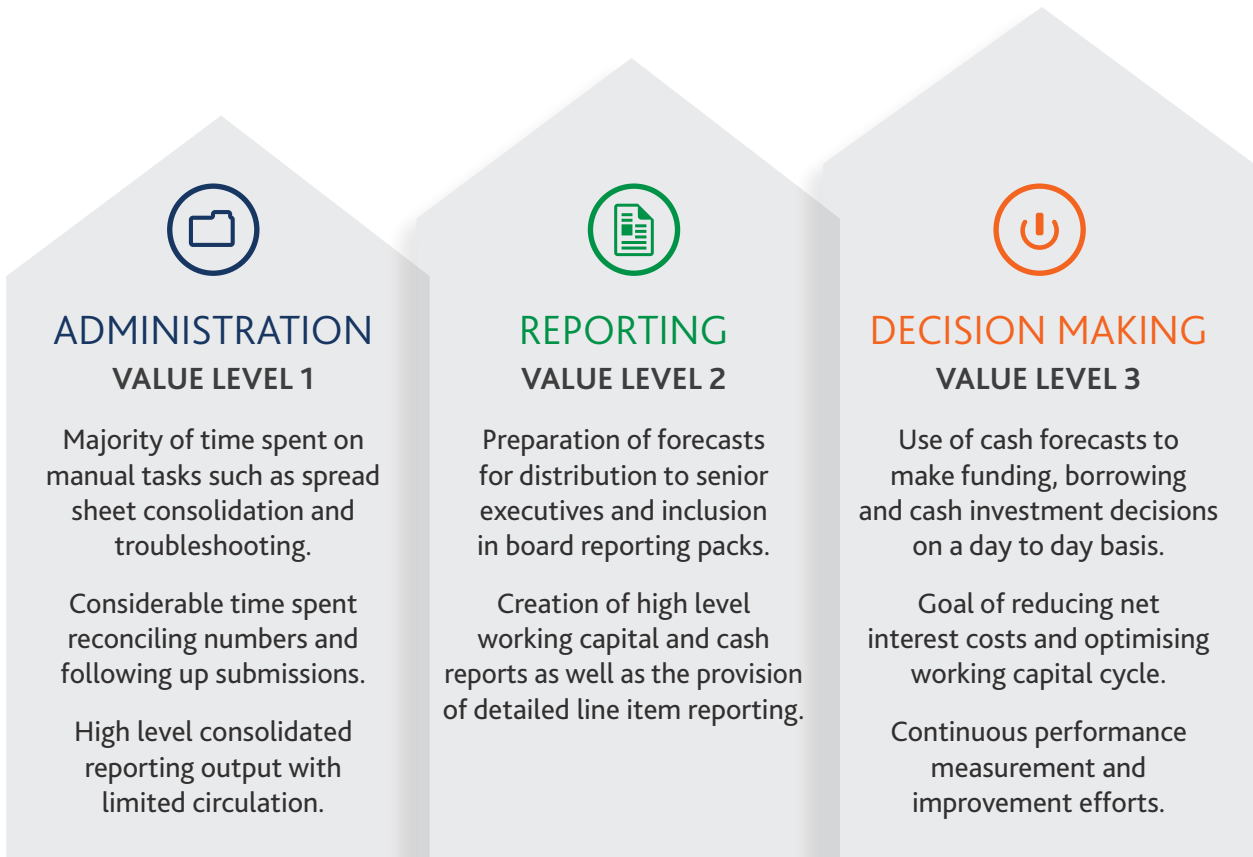
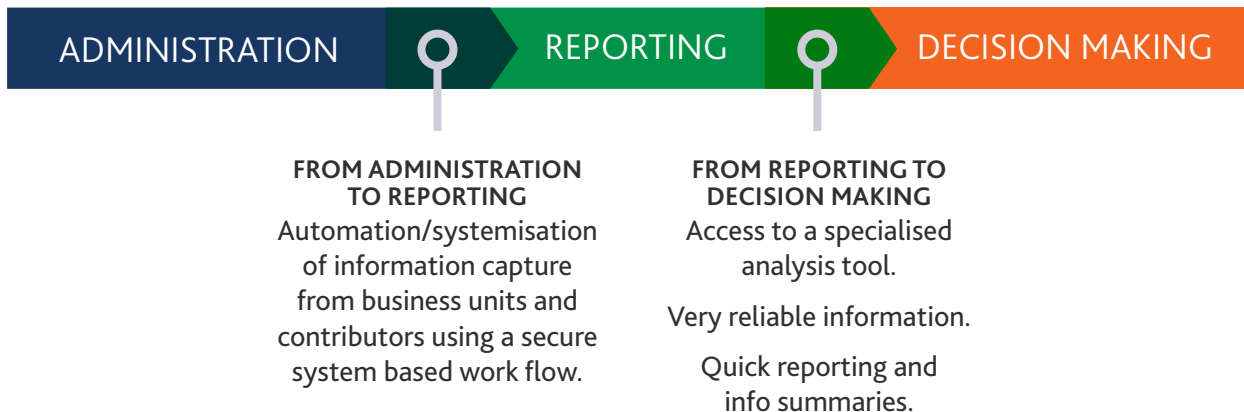
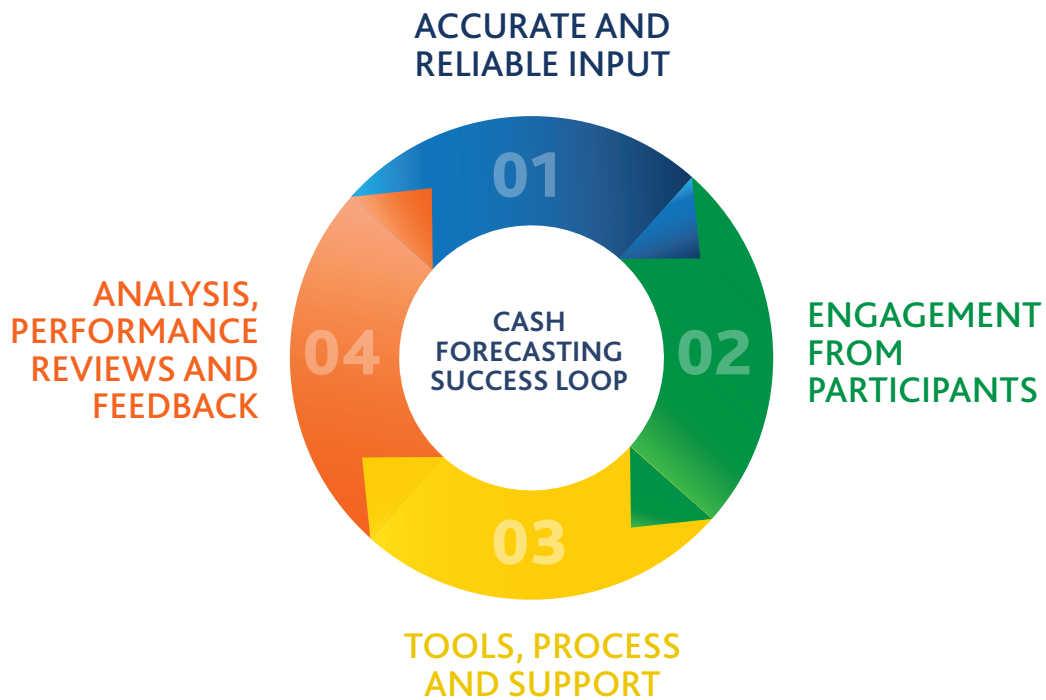


TABLE 2: CASH FORECASTING VALUE LEVELS

Moving the focus of cash forecasting up the value chain will require both investment and additional effort on behalf of all participant parties.





SUCCESS FACTORS

CASH FORECASTING SUCCESS LOOP

The success of a forecasting process is ultimately determined by the reliability and accuracy of the reporting output it generates. This success is dependent on a number of closely related factors that form what we call a 'Cash Forecasting Success Loop'.

01 ACCURATE AND RELIABLE INFORMATION INPUT

Like most data intensive processes, cash forecasting is subject to the 'rubbish in – rubbish out' principle. This means that the quality and accuracy of the information input into the process will determine the quality and accuracy of the final reporting output.

Reliability is also a major factor in the performance of a cash forecasting process. Delayed or infrequent data submissions from business units will result in missing pieces of the forecasting puzzle which will have a knock on effect on the process as a whole.

02 FULL MEANINGFUL ENGAGEMENT FROM PARTICIPANTS

Accurate and reliable information input is to a large extent dependent on each person involved in the process engaging with it in a meaningful way. Gaining the initial buy-in required to implement a process and then ensuring that it is engaged with in a meaningful way are two of the biggest challenges faced by head office when setting-up a new forecasting structure.

Methods to drive process engagement include gaining visible executive level sponsorship, providing training and carrying out regular performance/accuracy reviews.

03 APPROPRIATE TOOLS, PROCESS AND SUPPORT

The tools chosen to assist with cash forecasting will ultimately depend on the goals of the overall process as well as the resources available. Cash forecasting can be a time intensive process and specialist tools may be required to avoid burdening both business units and head office with additional manual workload.

The amount of detail required from a forecast, the number of data sources (both systems and people) and the frequency of data submission/collection will ultimately determine how much work is involved in a process and what tools are needed.

04 ANALYSIS, PERFORMANCE REVIEWS AND FEEDBACK

The true value of cash flow forecasting lies in the analysis of information produced by the process. Understanding the nature and timing of cash movements will allow a company to unlock hidden value from their cash and working capital cycles while giving full visibility over upcoming cash requirements and exposures.

Monitoring and measuring the accuracy of forecasts over a period of time is crucial to building this confidence and trust in the data that is used for decision making purposes. Feeding these findings back to business units so that they too understand the accuracy and reliability of their forecasts forms a key part of any performance improvement effort.



BUILDING THE BUSINESS CASE

INVESTING IN A NEW FORECASTING PROCESS

Redesigning an existing forecasting process or implementing a new one will require a strong business case to justify the investment. Generally, the business case for better cash forecasting falls into three categories:

- **Enhanced Cash Visibility** – Essential for critical risk and control processes.
- **Strategic Decision Making** – Make better use of excess cash through working capital and long term investments.
- **Operational Efficiency** – Speed up processes and reduce manual administration.

When building a business case remember that improved forecasting benefits numerous stakeholders including business units, executives, risk and audit. These wider organisational benefits should be at the core of any business case.

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ABOUT US

Here in CashAnalytics we build software that solves problems. Using the latest cloud and web based technologies we deliver a range of focused software solutions that help large companies overcome their day-to-day treasury, risk and compliance challenges.

We work with a broad spectrum of organisations ranging from mid-tier private equity backed companies to stock market listed multinational enterprises who all benefit from our focused approach to solving problems.

The CashAnalytics team has extensive expertise in the areas of corporate cash and treasury management, compliance, software development, customer service and project management. This range of skills has allowed us to develop a product that will dramatically change the way companies manage treasury, risk and compliance.

Contact us today to find out how CashAnalytics can help your company.