IN THIS SESSION

• We will highlight the importance of cash flow forecasting and working capital

• We will look at the 2015 state of the union

• We will look at the most common tools and techniques currently used
WHAT WE’LL COVER

• INTRODUCTION
  • Why cash forecasting and working capital are important
  • 2015 State of the union
  • Available Tools, Techniques, and Strategies
  • Conclusion
CASH MANAGEMENT AND LIQUIDITY MANAGEMENT

Short-term liquidity management
- Daily cash position and liquidity forecast
- View on bank accounts and their future account balances

Operational focus

Mid-term to long-term liquidity management
- Analysis of cash flows according to their source and application of funds
- View on liquidity drivers and their development

More strategic focus
WORKING CAPITAL AND “CASH CONVERSION CYCLE”

The cash conversion cycle defines the length of time between the firm’s payment for materials and the date that it gets paid by its customers.

DSI (Days sales in inventory)

DSO (Days sales outstanding)

DPO (Days payables o.)

CCC = DSI + DSO - DPO
Cash conversion cycle

Purchase of raw materials
Payment for raw materials
Sale of finished goods
Cash collected on sales and receivables cleared

Companies strive to reduce their working capital cycle by collecting receivables quicker or sometimes stretching accounts payable.
WHAT WE’LL COVER

• Introduction
• WHY CASH FORECASTING AND WORKING CAPITAL ARE IMPORTANT
• 2015 State of the union
• Available Tools, Techniques, and Strategies
• Conclusion
WHY CASH FORECASTING IS IMPORTANT

ALWAYS A BRIDESMAID
Always the bridesmaid, never the bride
• Used to talk about someone who is never the most important person in a situation

GLOBALIZATION/REGIONALIZATION
Process of international integration arising from the interchange of world views, products, ideas, processes, etc.
• Generating further interdependence of economic activities

GLOBAL/REGIONAL ECONOMY RISKS
In an interdependent, fast-moving world, organizations are increasingly confronted by risks that are complex in nature and global in consequence
• Such risks can be difficult to anticipate and respond to, even for the most seasoned business leaders. Generating further interdependence of economic activities.
WHAT WE’LL COVER

• Introduction
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CASH FORECASTING — 2014 MARKET SURVEY INSIGHTS

PEERS’ DEVELOPMENTS

Cash Visibility Achieved

- Nice to have
- Talked about
- Inflection
- Majority

Cash Visibility Achieved:

- 2007
- 2010
- 2011
- 2012
- 2013

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CASH FORECASTING — 2014 MARKET SURVEY INSIGHTS (CONT.)

CASH FORECASTING – CASH POSITION USE AND FREQUENCY

Which tools are you currently using for cash reporting?

- Excel or other spreadsheet(s) (38%)
- Bank portals (16%)
- Treasury workstations (18%)
- ERP/other back-office systems (AP/AR) (27%)
- Other (1%)

How often do you receive cash position information from regional offices/headquarters?

- Daily
- Weekly
- Bi-Weekly
- Monthly
- Other

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CASH FORECASTING — 2014 MARKET SURVEY INSIGHTS (CONT.)

FORECASTING VARIANCE ANALYSIS

Forecasting Variance Analysis

- Manual: 45%
- We do not perform variance analysis: 25%
- Partially automated with significant manual activities: 15%
- Fully automated: 5%
FORECASTING VARIANCE ANALYSIS – WHY NOT?

The Reason We Do Not Do Variance Analysis Is:

- Not our business model: 45%
- No access to the information required: 32%
- Other (please specify): 23%

Reason Variance Analysis Not Performed – Yearly Change

- Not our business model: 2012 (45%), 2013 (5%)
- No access to the information required: 2012 (33%), 2013 (12%)
- Other (please specify): 2012 (0%), 2013 (15%)
WHAT WE’LL COVER

• Introduction
• Why cash forecasting and working capital are important
• 2015 State of the union
• AVAILABLE TOOLS, TECHNIQUES, AND STRATEGIES
• Conclusion
TOP FIVE EXCUSES FOR NOT FORECASTING

5. “WE ARE CASH RICH.”

4. “THE INTEREST STRUCTURE MAKES FORECASTING UNPROFITABLE.”

3. “WE CANNOT FORECAST OUR INCOME, EXPENSES, ... SO THERE’S NO POINT.”

2. “WE CAN’T EVEN FORECAST PROPERLY IN THE SHORT TERM, SO WHY GO FOR A YEAR FORECAST?”

1. “WE ARE DIFFERENT FROM THE REST, SO WE CANNOT USE A STANDARD TOOL.”
COMMON CURRENT TOOLS AND TECHNIQUES

EXCEL DOMINATES TREASURY MANAGEMENT SOLUTION
EuSpRIG Horror Stories – World’s only independent, authoritative, and comprehensive Web-based information on the current state of the art Spreadsheet Risk Management.

• www.eusprig.org/

ERP INTERNAL DATA
Complexity of leveraging ERP internal data (AP/AR/Inventory).
• Multiple ERP’s across business units, entities, regions, etc.

VARIANCE ANALYSIS
Tool for budgetary control by evaluating performance by means of variances between budgeted amount, planned amount, or standard amount and the actual amount incurred/sold.
• Not always performed – Why Not?
YOUR CURRENT SITUATION

Annual budget by region (P/L and B/S) → Monthly forecast by department → Reconcile monthly forecast to budget → Track daily cash movements and compare to forecasts → Identify variances & act to meet budget → Report to leadership
THE PLANNING CYCLE

1. GENERATION OF FORECASTS
2. ASSIGNMENT OF ACTUAL DATA
3. FORECAST / ACTUAL COMPARISON
4. VARIANCE ANALYSIS

Planning Cycle
THE ERP AS FORECASTING TOOL

GETTING FORECASTS
From SAP/Oracle
From file
Manual input
Internet input
Workflow on input

GETTING ACTUALS
Interpreting statements
Interpreting booking chain

MANAGING FORECASTS
(Automatic) rolling
(Automatic) aggregation
Make forecasts based on history
Break down monthly figures into daily figures
Make and handle scenarios/what-if analysis

FORECAST/ACTUAL ANALYSIS
Difference reporting
Drilldown to origin of difference
Forecast/forecast analysis

REPORTING & AUDIT
Cross-dimensional reporting
Audit trail of all changes
FORECASTING — SOURCES OF INFORMATION

INTEGRATION AND EDITING OF PLANNING FIGURES

- **AP/AR**
- **Payroll (HR)**
- **Sales Orders**
- **Projects/Material**
- **Treasury**
- **Add’l. forecast data source**

**Operational Planning**

**Import Plan Data**

- **Planning Figure Pool**
- **Manual Planning**
- **Liquidity Management**
- **Assignment of Actual Data**

**Derived Cash Flow / Plan Group**

**Historical data**
- Data
- Patterns
- Statistics

**Collection/Completion Plan Data**

**Cash Flow Planning Figures**

**Cash Flow Actual Data**
MULTIPLE SOURCES, MULTIPLE TIME HORIZONS

Initial forecasts

From SD / MM

From AR / AP

From Operational Budget, converted to cash, part from subs, part historical forecasts

NOV   DEC   JAN   FEB   MAR   APR   ...

Time
MULTIPLE SOURCES, MULTIPLE TIME HORIZONS (CONT.)

- Initial forecasts
- Roll-over 1
- Roll-over 2

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SAMPLE FORECAST STRUCTURE

INCOMING CASH
Small customers
Major customers
• Customer1
• Customer2
Service business
Tax refunds
Investments

OUTGOING CASH
Raw material costs
• Other raw material costs
Returns small customers
Returns major customers
Advance return for tax on sales/purchases
Channel costs
Income tax
Social security contributions
Salary/wages
IT/telecommunication payments
Corporate income tax
Purchase fixed assets
Purchase share holdings
Expenditures from subsidiaries (Pooling)
Payments for loans
• Interest
Payments for treasury (forex)
Dividend distribution
Misc. outgoing payments

Making a plan is difficult enough…

The direct cash flow method is theoretically the best

… but where do the actuals come from?

And the actuals are right in SAP! We just need to label them right …
THE PLANNING CYCLE

1. GENERATION OF FORECASTS
2. ASSIGNMENT OF ACTUAL DATA
3. FORECAST / ACTUAL COMPARISON
4. VARIANCE ANALYSIS
ISSUES

• Planned figures seem to match actuals at a high level
• Unable to detect true variance
• Only granular detail can show the true variance details

OBJECTIVES

• Detect risks and variance early in order to optimize cash
• Be proactive, don’t react!
1. Account reconciliation

**Account reconciliation**

For the account reconciliation, the plan group of the short-term planning is inherited to the bank statement item with which it is reconciled.

2. Analysis of bank statement

**Bank Statements**

"Telekom" as payee and BTC "005" for direct debit: Telephone costs and plan group "Office expenses".

3. Analysis of posting chains in ERP

**Accounting Research**

If the posting chain in the ERP includes “Product A” in the field Profit center, the plan group is “Product A”.

Examples:

- Individual items of bank statements
- "Telekom" as payee and BTC "005" for direct debit: Telephone costs and plan group "Office expenses".
- If the posting chain in the ERP includes “Product A” in the field Profit center, the plan group is “Product A”.
### PLAN/ACTUAL COMPARISON WITH A SWITCHED ENTRY OF COLUMNS AND ROWS

#### Plan / actual comparison

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<th>Plan value</th>
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<th>Diff. by percentage</th>
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YOUR CURRENT SITUATION — CHALLENGES AND OPPORTUNITIES

Challenges

• Creation of cash forecast manually intensive
• Forecast maintained in Excel
• Time wasted chasing input from departments and regions
• Non-forecasted or parked invoices create unplanned disbursements
• Limited to 30-day forecast window
• Variance analysis limited

Opportunities

• Cash management culture
• Automation
• Auditability
• Internal communication
• Insights
• Extend horizon and predictability
• Accountability
• Incentives to improve
YOUR CURRENT SITUATION — MOST COMMON CHALLENGES

MOST COMMON CHALLENGES ENCOUNTERED

• Limited horizons
• Highly manual process
• Excel spreadsheet and non-forecasted AR/AP ...
• External/Internal risks (do not have control over)
• Fragmented ERP(s) landscapes and processes (limited visibility over AP/AR)
• One-sided vision (top-down or bottom-up approach, forecasts without actuals)
• Major deviations between forecasts vs. actuals > 20 + %
YOUR CURRENT SITUATION — POLLING QUESTION

WHAT ARE YOUR MAIN CURRENT CHALLENGES?

a) Staffing
b) Business processes
c) Leveraging internal data (AR/AP/Inventory, ...)
d) Technology
e) All of the above
INTERACTIVE STRATEGY SESSION
YOUR GOAL – OBJECTIVES AND STRATEGY

Streamline Variance Analysis
Automation, Understand variances, Proactive decision support to identify variances and act to meet budget.

Optimize Working Capital
Using your own cash first, repaying Debt, Reduce cost of borrowing, Increase yields, control volatility in FX P/L, assist in acquisition strategy,...

Monthly Forecast Submissions from Dept's/Regions
Automated collaborative dashboard solution for submissions, reviews from Dept.'s/Regions

Extend Planning Horizon & Increasing Accuracy
Go beyond a few days to 90+ days rolling forecasts, Increase quality and reducing deviation < 10%

Quality and Accuracy of Information
BUSINESS CASE – BETTER KNOWLEDGE = BETTER DECISIONS...

1. CURRENT INFRASTRUCTURE AND PROCESSES
   - Detail the current situation with your technology platform, human capital platform, and process management platform

2. GAP ANALYSIS – CURRENT STATE VS. GOALS/OBJECTIVES
   - Requirement definition determined by all stakeholders will lead to identifying gaps, inefficiencies, under-utilization enhancements need to be inserted.

3. OPPORTUNITIES
   - What results should be achieved, and the capacity gains, FTE savings, and efficiency gains...along with Return investment calculated and road map for scalability

4. RECOMMENDATIONS
   - Tactical and strategic recommendations and best practices will be drafted for how to tactically achieve the accomplishments

5. SOLUTIONS
   - Process orientated, infrastructure, and technology based solutions will be reviewed and presented to specifically accomplish the recommended options and strategies
WHAT WE’LL COVER

• Introduction
• Why cash forecasting and working capital are important
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• Available Tools, Techniques, and Strategies
• CONCLUSION
YOUR GOAL

Planning
- Horizon extended
- Single WW cash forecast
- Higher planning accuracy
- Streamlined automated process

Actuals
- Allocated automatically
- Increased accuracy and granularity
- Manual maintenance eliminated

Reporting
- Granular and summarized views
- Corporate CF visibility increased

April 19, 2015
7 KEY POINTS TO TAKE HOME

• Cash forecasting was never a top priority until now ...
• Globalization and global risks are prevalent
• Understand the limitations of current tools and techniques
• There are multiple tools available to more accurately forecast cash
• Go from manual to semi-automatic to fully automatic processes
• Go from data gathering and 30,000 feet views to added-value tasks such as cash trending, cash and liquidity driver insights, ...
• Cash insights and increasing quality and accuracy of cash forecasts allow you to be ahead of the curve to keep on your financial plan and provide a robust foundation for accurate cash projections and reduction of liquidity risks
YOUR TURN!

Questions?

How to contact me:
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THANK YOU VERY MUCH FOR YOUR ATTENTION!

APRIL 19, 2015   |   HANSE ORGA