Five steps to accountable cash forecasts

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Relation: Core Process is a close partner to Addedo

Accountable cash forecasts have always been a challenge for large, global organisations – but yet critical for cutting financial costs and avoiding temporary insolvencies. The corona pandemic underlines the need for cash visibility and frequent and accountable cash tforecasts. So, how do you succeed in this?

The short answer is: Invest in an integrated Treasury Management System (TMS). Forget complex, cluttered and hard-to-analyse Excel-reports, that are no stronger than it weakest or delayed report. Now you may think, of course the TMS-consultant recommends TMS whenever he gets a chance. Even when talking about cash forecasts. But give me a minute to explain and present the longer answer as five steps to accountable cash forecasts. And, I hope you will see my point.

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1) Set policies and guidelines

All levels of your organisation need to be capable to produce forecasts, whenever the group management or board requires it. But you also need routines for the regular reporting. These routines should be based on policies and guidelines that clearly reflects the board's expectations. This is a prerequisite for accountable cash forecasts.

2) Define your KPI:s

All businesses direct its sales force and procurement team with key performance indicators, KPI:s. Define which KPI:s are critical for a sound cash conversion cycle and financial stability. Make these visible and an obvious part of the reporting process. This will show the value of the cash forecast for the subsidiaries, converting it from an administrative burden to a tool for achieving or even exceeding the KPI:s the organisation is measured on.

3) Map and categorise

The next step is to map where you will find the information you need. This might be different depending on your business vertical. Find a method that suits your business: What do you need in your reports, what level of details is optimal for you, what is a normal frequency for you? This must be based on your experience and the business you are in. Categorise your cash flow in a way that gives you a good overview and a base for reliable analysis.

4) Choose the right TMS

Now you know which KPI:s are relevant for the cash forecast, what critical information you need, where it is and how it is categorised. You are now ready to look at an integrated Treasury Management System that suits your needs and requirements. The point is that the TMS will do all the work for you when it comes to presenting accountable cash forecasts. Once the first step is done, in mapping and categorising, the TMS will instantly give you and your subsidiaries identical cash forecasts and transaction reports. Of course, you must produce a reporting process and train your team and subsidiaries in using the TMS, but that is just an hour or two of work. Once installed and implemented, you will always have an accountable cash forecast at hand. As will the rest of the organisation.

5) Open up for analyse and feedback

The big win is that all involved gets an overall analysis and feedback instantly, within the system. And this might be the most critical part of the cash forecast process: bringing value adding analysis and feedback down to the subsidiaries and up to the board.

An integrated TMS makes this easy, fast and transparent. It gives you cash visibility and forecasts simultaneously. The board as well as controllers down the line will love it. You can choose the level of detailed reports. Deviations extending certain intervals need further reporting. Within the interval no further action is needed. This method facilitates and speeds up the administration throughout the organisation and provides a reliable basis for business-critical decisions, not least in situations of financial stress. For me, that is the definition of accountable cash forecasts.

An advice to all treasurers is to take an over-look of the organisation in terms of cash visibility and question yourself: Are you accountable for your cash forecast?

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