CashAnalytics
A GTREASURY SOLUTION

Building the business case for better cash visibility

6 STEPS TO WINNING YOUR ORGANISATION'S SUPPORT

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Introduction

Visibility over current and future cash flow is a must have for most businesses. Understanding how much cash a business has and how much cash it may need in the future is essential for a broad range of operational and strategic tasks.

The process of establishing cash flow visibility is in fact so fundamental that it's probably the first planning exercise any business owner or CFO ever carries out and as such it usually starts and grows as a manual process, in a spreadsheet.

In the early stages, forecasting cash flow and analysing bank statements is quite straightforward to do in spreadsheets. As a business grows, however, its cash flow will also grow with many more customers and suppliers and often numerous banks and bank accounts holding cash across different business units and in foreign countries.

With business growth the challenge of maintaining adequate and reliable cash flow visibility in spreadsheets also grows. The valuable tasks of analysing data and planning often play second fiddle to the manual process of collecting cash flow data and shoehorning this data into a format that makes it useful for analysis and forecasting purposes. In short, most time is now spent on data administration and preparation and not on value adding analysis.

For people in Controlling or Treasury the need to move away from spreadsheets to a more automated process may seem obvious however any change will require some form of investment of time and money and, as a result, will need to be justified with a business case.

Luckily, viewed the right way, the process of building the business case is relatively straightforward for companies who spend time on cash reporting and forecasting and use the output to support meaningful business activities such as day to day cash management and investment planning.

Introduction, continued

A mistake to avoid is to assume that everyone, including the CFO, will just get the need for change and improvement without too much persuasion. This may be the case, however best to plan for a scenario where a business case needs to be justified to secure budget in the face of other competing demands and projects.

This short document will help you build a winning business case.

Six Step Business Case

It's highly unlikely that the CFO or VP signing off on the project will understand the ins and outs of the cash flow monitoring, forecasting, and reporting that happens on a day-to-day basis. They will need to understand the magnitude of the tasks undertaken but don't bombard them with too much information as this will impede the decision-making process. This is the first challenge, however, building the business case around the following six areas will help it remain focused while giving it the impact it needs to get approval.

1. **Define why cash flow is important to the business**
2. **Provide an overview of the current process**
3. **Outline current process costs and risks**
4. **Align proposal with strategic goals**
5. **Propose solution & cost**
6. **Calculate Return on investment**

01: Define why cash flow forecasting is important to the business

Defining why cash flow visibility and forecasting is important to the business is a critical first step in building a business case. Again, don't take it for granted that the audience understands this. The business case should focus on the highest value areas and align with broader business strategy (e.g. growth through acquisitions) to have the most impact.

ACTIVITY	DESCRIPTION
Daily cash flow monitoring	Keeping track of cash flowing in and out of bank accounts and cash balances across all accounts.
Payment run planning	Short term forecasting to plan payment runs (1 – 4 weeks into the future).
Business unit/ cash pool funding	Planning the short to medium term working capital and cap ex cash needs of business units and subsidiaries.
Management reporting	Weekly or monthly reporting actual and forecast cash flow reporting to management.
Investor/ bank reporting	Reporting to investors/ owners or banks on a periodic basis (e.g. 13 week forecast).
Period end planning	Planning into the next significant reporting period end to guide management and/ or investors.
Acquisition planning	Planning the cash impact of a new acquisition including integration.
Debt and interest management	Managing internal cash flow to minimise debt levels and reduce interest costs.
Cash investment planning	Deploying excess cash to interest bearing investments at term to maximise income.

02: Give an overview of the current process incl. time and effort

Next to each activity outlined in the previous section outline what is involved to gain the visibility necessary to adequately support the activity. Include what tools are used in the process and the time it takes to complete on a daily, weekly or monthly basis and ultimately how much time is spent on the activity every year.

For example, the process of daily cash flow monitoring could be broken down as follows:

1: Log-in to four online banking platforms every day
2: Download all bank and transaction data into spreadsheets
3: Manipulate data into a common format
4: Classify transactions into categories
5: Compile reports for circulation to management

This could take two hours per day for one resource which equates to over 500 hours per year (assuming a 260-business day year).

Another example could be the compilation of a 13-week forecast for distribution to investors every week.

1: Capture and classify actual cash flows
2: Create short term forecast using AP and AR data
3: Model budget/ other business plans for medium term forecast
4: Capture data from business units/subsidiaries/other departments
5: Consolidate into a single cash flow
6: Carry out variance analysis
7: Compile reporting with commentary

Building this type of forecast can take many hours a week. In this case, let's say it takes six hours of a single resource and another six hours for other people feeding into the process. That's 12 hours a week or 624 hours a year.

These two activities alone take up over 1,100 hours per year which is a substantial investment in what are mostly manual tasks. Add in conversations around the data, requests for more information and follow-ups and cash reporting can seem like a never-ending process. Capturing all of this activity in a clear and concise way will highlight the time and effort invested in cash flow visibility on an ongoing basis.

03: Outline current process costs & risks

While the previous section sets the scene and highlights the manual and time-consuming way in which cash visibility is managed, it's important to frame the potential impact on the business from the perspective of both risk and cost.

Risk

Risk is a powerful driver for improving cash flow visibility. As a basic level, cash flow monitoring and forecasting is a risk management exercise. Highlighting the risk to the business of poor visibility and how the current manual process adds to this risk should be front and centre to the business case, particularly if the risks can be clearly quantified.

It is important to differentiate between process and business risks, however. Process risks include:

- **Key person risk:** the person running the spreadsheet is unavailable for whatever reason and the reporting/ monitoring process falls over.
- **Error risk:** this is where the process itself introduces an error (bad formula etc.) that impacts the quality of the output and therefore visibility.
- **Capacity risk:** this is where the process itself just runs out of capacity for whatever reason (e.g. an enormous spreadsheet grinds to a halt)

While these process risks may be at the centre of the problem, they themselves aren't the problem. The problem is the impact they have on completing the activities outlined in section 1. These risks are many and varied and will mean different things to different businesses at different times. Some examples include:

- **Low quality management and investor reporting:** the manual cash forecasting and reporting process produces a low-quality output that does not guide management and investor decision making appropriately leading to lower growth and missed opportunities.
- **Missed vendor payments:** Poor short term cash visibility results in insufficient funding for vendor/ AP payment runs leading to potential supplier issues.
- **Fraudulent activity:** Lack of efficient daily cash flow monitoring leads to a fraudulent payment being missed until past the point of recovery.

03: Current process risks & costs, continued

Costs

Aside from the costs of some of the risk outlined above, poor cash flow visibility can have some very other direct costs.

These can be quite easily mapped out when revolving cash facilities and other working capital facilities are used to fund the business. In this case, idle or unused cash that is not used to repay these facilities comes with a very real interest cost. Often poor or unreliable cash flow visibility is reason excess cash is not used to repay these facilities.

In a rising interest rate environment this cost will only become higher, but a new opportunity cost also emerges. For business who don't have facilities to repay, excess cash should be put into liquid interest-bearing investments to generate a return on an ongoing basis. Putting excess cash to work in this way is a healthy way to ensure cash is always working.

04: Align proposal with strategic goals

Every business has a strategy and the closer the business case for better cash visibility aligns with the core strategy of a business, the higher the chances of receiving approval. It's likely the person who signs off on the project, for example the CFO, will be more strategically than operationally aware and as such aligning with high level business strategy will be key.

Some example strategic objectives with cash visibility alignment are:

STRATEGIC OBJECTIVE	ALIGNMENT
Growth	Clearer and more reliable short to medium term cash flow visibility will ensure there is always sufficient cash and liquidity to support growth.
Debt Reduction	Proactive use of cash to reduce and continuously minimise debt levels requires detailed and robust cash reporting and forecasting.
Return cash to Investors	Paying dividends, fees and buying back stock from investors will require a way to predict future cash availability and the impact of large cash outflows more accurately.
Capital Expenditure	Investment in plant, machinery, property and equipment requires large ongoing cash flows that need to funded and provided for sufficiently in advance so as to not impact the timelines of the project.
Acquisition planning	Planning the cash impact of a new acquisition including integration.
Debt & interest management	Managing internal cash flow to minimise debt levels & reduce interest costs.
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05: Proposed solution & cost

The business case is prepared to secure funding for investment in a new solution and/ or process. Often this will be for a software solution such as CashAnalytics which has two cost elements; the annual subscription and the implementation cost (including timelines.)

The business case should outline the proposed solution and how it addresses the problems, risks and costs outlines in the previous sections. The solution overview should contain:

1: An overview of the vendor and why they were selected

2: How the solution addresses the problems, risks and costs outlined in the previous sections

3: How the solution aligns with the strategic objectives of the best

4: How much it costs and how long it will take to implement

5: The internal resources required to implement the solution

6: Any ongoing costs (e.g., annual subscription)

Knowledge of the audience and how information they will require will inform how detailed the information on the solution itself should be. This will need to be judged on a case-by-case basis.

06: Calculate return on investment

This is where everything discussed in the previous sections is pulled together in a return-on-investment calculation.

Following the steps in the previous sections it's a straightforward return on investment calculation that covers the investment that needs to be made and the benefits expected.

Investment

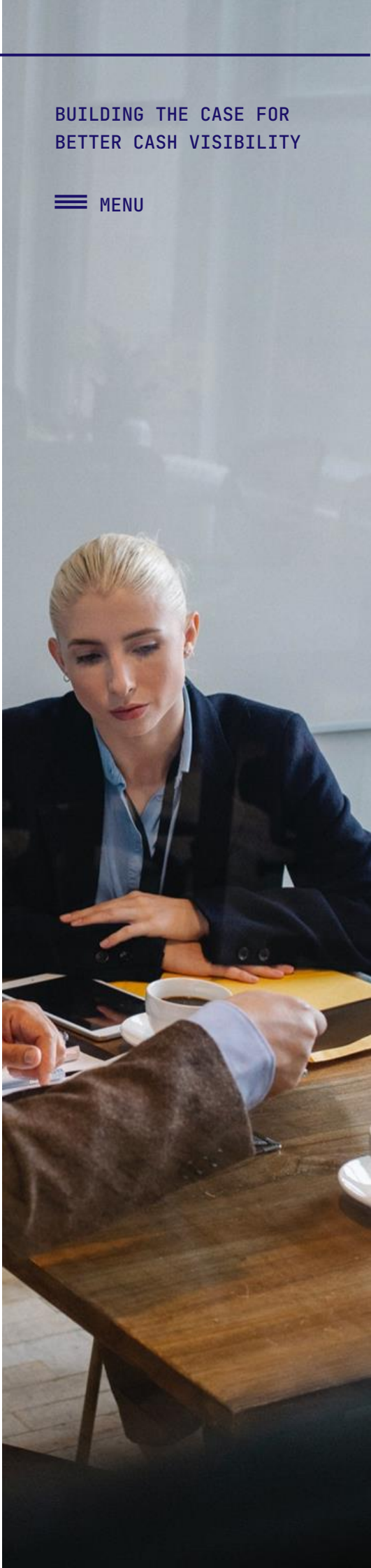
The investment required is simply a sum of some or all of the following cost components.

- Ongoing cost of new solution (e.g. subscription, licence, internal resources etc.)
- Once off set-up/ implementation cost
- Any other once off or ongoing overheads (e.g. I.T. support etc.)

Return

The return is calculated by adding up the quantified benefits provided by the new cash reporting and forecasting which can include:

- Time saving
- Interest earned on invested cash
- Interest saved on debt paydowns
- Working capital benefits from better cash management
- Improved forecasting accuracy



About CashAnalytics

BUILDING THE CASE FOR
BETTER CASH VISIBILITY

MENU

CashAnalytics is a dedicated cash forecasting & liquidity reporting software solution.

Our mission is to help large companies to better understand their current and future liquidity positions.

We are differentiated from other software providers through the depth of functionality and intuitive interface of our solutions, the speed at which they can be rolled out and the ease with which they can be integrated with existing systems, as well as the high level of ongoing support we provide to clients.

We have developed a thorough yet efficient set-up process that enables quick and easy roll-out of our software. During this process, comprehensive project management with senior members of the CashAnalytics team ensures smooth collaboration across a company's business units with minimal impact on day-to-day operations.

To see our software in action, and to see the value it can help you to deliver, contact us to book a demo now.

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