



eBOOK

# Perfecting the Cash Forecast

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A Kyriba quick reference guide

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# Introduction

**Cash forecasting is an art that is difficult to perfect. Every organization talks about forecasting more effectively, but few allocate sufficient people, time, and technology to build an effective program. Understanding the importance of an accurate cash forecast that can be relied upon for key financial decisions is critical to making the right investments in forecasting.**

While there are many reasons to forecast, such as protecting against currency volatility and the need to mobilize cash globally, there are a few key areas that should be addressed to help CFOs and treasurers further make the connection between accurate cash forecasting and bottom-line financial performance.

In this new reference guide, we will outline why organizations should forecast, and discuss best practice methods for perfecting the cash forecast.

## KEY STAT

The #1 treasury issue that causes CFOs the most potential concern is unreliable cash visibility and forecasts, according to a Nov. 2018 CFO Publishing survey, “3 Key Areas Where CFOs Say Treasurers Need to be More Strategic.”



# What is Cash Forecasting?

**Cash forecasting is a key component of corporate cash management. When performed accurately, forecasting enables:**

- ✓ Greater certainty of projected cash balances
- ✓ Longer term investing
- ✓ Reduced borrowing costs
- ✓ More effective hedging programs
- ✓ Better mobility of global cash

## KEY VOCABULARY

**Cash positioning** is concerned with today and often the next five business days. The purpose is to manage daily liquidity to ensure shortfalls are covered and surpluses are concentrated to earn some yield on excess cash.

**(Cash) budgeting** is performed by finance teams such as FP&A and is more focused beyond one year – although with increased emphasis on free cash flow guidance, the reconciliation of indirect budget-based forecasts with direct cash flow forecasts is increasingly managed quarterly.

**Cash forecasting** typically extends cash positioning with horizons anywhere from one week to one year. Forecasting leverages multiple data sources to increase confidence in the projected cash balances so that better cash decisions can be made. The value of forecasting is based upon the value of those better decisions.



# Why Forecast?

## Cash forecasting drives financial performance

It is critical for CFOs and treasurers to understand the link between effective cash forecasting and bottom line financial performance. Excuses such as “we’re cash rich” or “interest rates are too low” no longer satisfy hungry investors who demand that cash be deployed or returned to them. Without adequate visibility of forecast cash and where cash needs to be deployed to meet growth targets, CEOs and CFOs risk looking foolish in front of shareholders and analysts.



## Ineffective cash forecasting costs the company money and impacts shareholder value

A poorly executed cash forecasting program drives a number of negative consequences, including:

- ✓ Earnings per share losses from unexpected and unhedged currency impacts
- ✓ Difficulty in maintaining (let alone increasing) return on cash in a post-Basel III environment
- ✓ Challenges in securing adequate and / or cost-effective borrowing to fund operations – increasing operating costs
- ✓ The frequent need for expensive emergency borrowing (e.g. via bank overdraft) to cover an unexpected cash shortfall – also increasing operating costs
- ✓ Inability to efficiently fund strategic projects and programs
- ✓ Difficulty in providing accurate earnings and free cash flow guidance, affecting credibility with the investment community



# Forecasting Foreign Cash to Avoid Unnecessary Losses

**The volatility in global currencies shows no signs of abating, meaning that the pressure on CFOs to maintain the value of foreign cash inflows and outflows persists.**

## USD-based companies

The relative strength of the USD vs. all other foreign currencies challenges CFOs because a strong USD means that foreign revenues will be lower, and unless foreign markets are cash flow negative, earnings will suffer. If projected cash inflows can be accurately predicted, treasury teams can hedge, protecting the value of incoming cash flows.

## UK-based companies

British enterprises have faced significant currency volatility arising from Brexit and other macroeconomic conditions. While currency rates are not easy to predict, CFOs simplify their job and minimize exposure if their teams can more accurately project foreign cash flows. This allows treasurers to hedge exposures and maintain value of incoming and outgoing cash.

## EMEA and markets with depreciating currencies

For those CFOs that count USD, GBP or other appreciating currencies as foreign cash flows, then they will have seen a roller coaster of exchange rates, making the task of forecasting certainty near impossible. Stakeholders demand earnings predictability, which can only be achieved by first perfecting the forecast and then hedging the foreign components.

### FORECASTING IS THE KEY

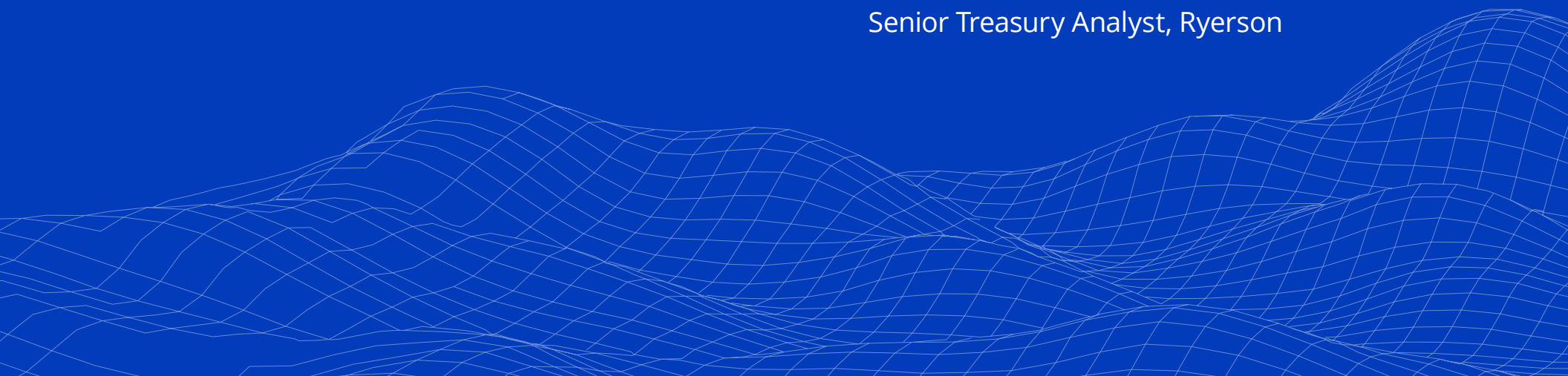
Cash forecasting is required in order to make effective hedging decisions to protect the value of projected foreign cash balances. Understanding the gross inflows and outflows will help determine net cash flows by currency.

To be effective, it is critical to know the amount and timing of cash flows so that treasury teams can maximize protection of net cash flows.



**Kyriba is great for creating a position of cash flow. We are able to use that information to create an accurate daily cash position that is used by management in decision-making processes.”**

Lina Isabel Rauh  
Senior Treasury Analyst, Ryerson





# Basel III – Direct Impact on Corporate Investing

**Although Basel III has been implemented by banks for several years, some of the key effects on corporate cash management and forecasting are only starting to be felt. These include:**

## Investing cash

Historically, banks have offered valuable incentives such as offsetting bank fees through earnings credit and notional pooling programs to attract corporate cash.

With Basel III, banks must hold collateral to offset the potential runoff of a corporate's deposits, meaning that it costs them more to hold corporate cash post-Basel III. The higher the possibility of withdrawal (such as with non-operational cash) then the more collateral banks must maintain to offset these deposits, meaning that banks will either pay less interest for non-operational cash or not want those deposits altogether. As a result, it is important for corporates to classify cash properly and project with certainty to optimize their return on cash.

## How better cash forecasting can help

### Confidence to invest for longer

Forecasting cash will allow segregation of operational and non-operational cash into time buckets as well as deliver the needed accuracy to allocate cash to longer duration investment strategies. This will help preserve previously realized investment returns or help to find an alternative for cash balances that are no longer wanted by your bank

### Identify future surpluses and shortfalls early

Effective cash forecasting will provide greater certainty of the amounts and timing of projected shortfalls to better match inflows and outflows across regions, maximizing the use of intercompany funding instead of borrowing externally.

Many organizations are already turning towards working capital programs to unlock liquidity. A good cash forecast will offer the longer term certainty to be able to borrow more proactively - creating the opportunity to explore less expensive external financing options.



**Good cash forecasting enables corporates to manage the negative impacts of Basel III more effectively – meaning lessened impacts on cash returns and borrowing costs.**





# How Effective Forecasting Makes Treasury a More Strategic Partner

**Certainty in projected cash balances drives the CFO's ability to anticipate and prepare for corporate actions and strategic investments.**

**Without confidence in cash forecasts, one of two things happen:**

1. CFO and treasurer are not relied upon to contribute to key organizational decisions
2. The CFO ends up being volunteered for commitments that treasury has to react to – often times inefficiently and without maximizing business value

With an effective forecasting program, the CFO, supported by the treasurer, can be an effective strategic partner.

## Future acquisitions

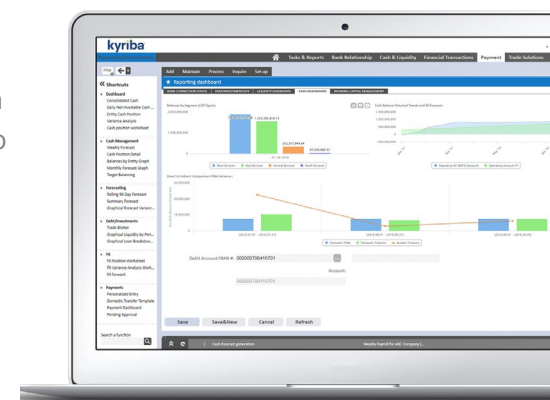
If the board is considering mergers and acquisitions, the CFO is asked to provide guidance on the components of cash/debt/equity to calculate a total acquisition cost. With an effective cash forecast, CFOs can be confident in delivering this insight – and perhaps do so proactively.

## Share repurchases or dividend increases

When cash is held globally, share buybacks or dividend hikes are a challenge. Often CFOs find it cheaper to borrow cash domestically than repatriate funds – yet this analysis requires certainty into projected cash balances. Confidence in the cash forecast is critical to optimize business value.

## Reinvestment of cash into the business

CFOs need an effective cash forecast in order to make commitments on how to reinvest cash to meet organic growth targets. Lack of confidence will lead to unnecessary borrowing or equity financing.





# Perfecting the Cash Forecast

## A THREE STEP PROCESS



### 1. Consolidation

Consolidating data is about finding the right information and determining the most efficient (i.e. automated) way to integrate it into a consolidated forecast system. While automation is important, data quality is also paramount to success.

When building the forecast, each line item may be sourced in different ways. The source of the information will determine the best way to build the forecast for each line item. For example, many treasury teams prefer to import accounts payable data directly from the ERP while for receivables information they may wish to extrapolate historical data and model using a linear regression.

For treasury teams to be effective, it is important that all methods be fully automated and secure so that initial setup, maintenance, and daily execution to build the forecast are easy and can be maintained by the user (and not require reprogramming).

### 2. Collaboration

Making decisions on the best data to build the forecast also requires determining who to collaborate with to smoothly access that key information. In many cases, treasury does not have direct authority over the people that own systems and/or business responsibilities that offer that data. Yet, treasury relies upon this



outside information to build a comprehensive forecast – so good internal communication skills are often critical to receiving quality information in a timely way.

Examples of teams to collaborate with include:

- **Accounts Payable** – for payables trends or supply chain finance updates
- **FP&A** – for budget and free cash flow projections
- **IT** – automated imports from the ERP
- **Regional Controllers** – forecast projections for decentralized organizations

Many treasury teams plan, with their CFOs, a top-down collaboration model that builds effective cash forecasting into the team's objectives and compensation. This draws attention to the forecasting objectives and motivates each team to fulfill their roles.

### 3. Measurement

The most important – and often overlooked – step is the measurement of forecast accuracy. Implementing a process to measure forecast accuracy at a detailed level to identify the source of variances is critical to improving the quality of the forecast and ultimately reducing forecast variances.

Equally important is implementing a feedback loop – to systems and to people – that ensure that forecast data is improved based on variances that were identified.

The feedback loop is especially important when non-treasury resources are contributing to the forecast to ensure that the right behaviors and cash forecast numbers are positively reinforced while opportunities for improvement are well communicated. This is especially effective when feedback is aligned to KPIs and quarterly objectives of those outside of the treasury team.

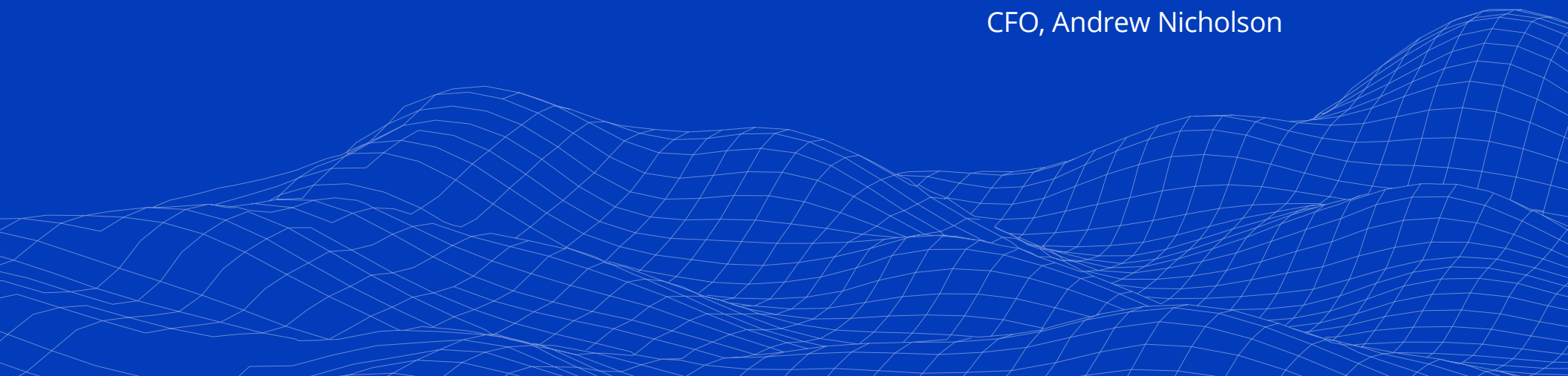
### KEY TO SUCCESS

A forecast variance analysis should be detailed with multiple 'snapshots' taken. If only a summary picture is reviewed (e.g. how effective was forecasting over a 3-month period) then a lot of the variability is hidden within that timeframe. Measuring daily, weekly, or bi-weekly will help uncover the ups and downs between forecast and actuals that might otherwise go unnoticed. Fortunately the business intelligence features of a TMS offer the data visualization and analytics required to offer this level of detail.



**From one single, low maintenance and user-friendly platform, we have greater visibility of current and future cash positions, solid controls and less reliance on error-prone spreadsheets.”**

Graff Diamonds  
CFO, Andrew Nicholson





# Cash Forecasting – Final Thoughts

## Many reasons to forecast

Cash forecasting is especially important if you are “cash rich” with a high percentage of non-operational cash deposits. Multinationals with significant foreign revenues must forecast better, so they can hedge effectively and deliver cash predictability to their stakeholders.

## Creating the cash forecast

The key to forecasting is flexibility so that you have many options to model the different streams of forecast data. The accuracy of your data will determine if importing, regressing, extrapolating, or other methods of calculations are needed to build your forecast effectively.

## Measuring the forecast

Measurement is the most important part of forecasting. Without measuring forecast accuracy, it is impossible to know if you are good at forecasting. Data visualization helps zero in on important variances - whether by category, time bucket, or geography - and isolate what data needs to be improved for future forecasting.

## ROI of cash forecasting is very high

The value of forecasting is driven by what your organization can do with additional cash. The value of cash can be measured by investing longer with higher returns on cash, repaying debt, earning yield from early supplier payments, or investing in new organizational projects. Perfecting the cash forecast means freeing up cash from working capital and directing towards these higher value uses.

## SELECT BRANDS USING KYRIBA



## ABOUT KYRIBA

Kyriba empowers CFOs and their teams to transform how they activate liquidity as a dynamic, real-time vehicle for growth and value creation, while also protecting against financial risk. Kyriba's pioneering Active Liquidity Network connects internal applications for treasury, risk, payments and working capital, with vital external sources such as banks, ERPs, trading platforms, and market data providers. Based on a secure, highly scalable SaaS platform that leverages artificial and business intelligence, Kyriba enables thousands of companies worldwide to maximize growth opportunities, protect against loss from fraud and financial risk, and reduce costs through advanced automation. Kyriba is headquartered in San Diego, with offices in New York, Paris, London, Frankfurt, Tokyo, Dubai, Singapore, Shanghai and other major locations. For more information, **visit [www.kyriba.com](http://www.kyriba.com)**.