



TreasuryPulse

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Improve Cash Forecasting to Enhance Liquidity Management



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Accurate cash flow forecasting relies on precise and relevant data — making it vital that corporates optimise data collation and management practices to improve their forecasting capabilities and overall liquidity management.

The challenges associated with collating data and ensuring its integrity often render cash flow forecasting little more than guesswork, with treasurers uncertain as to the true state of company cash flows and liquidity positions. This is a serious issue when tightening liquidity constraints make every penny count. Indeed, cash flow forecasting is an essential component of company cash and liquidity management. It enables the treasurer to anticipate hazards, optimise the positives and employ fiscal resources responsive to the organisation's long-term goals.

While keeping track of outflows is fairly simple, predicting cash inflows can be difficult. Unlike payables, receivables are outside the treasurer's control. As treasurers juggle increasing workloads and responsibilities, many duck the challenge of implementing processes for improved cash flow forecasting and liquidity management. Yet doing so only delays the inevitable — and a good starting point is to re-evaluate fundamental and longstanding data-management practices.

A chief problem for many corporates, particularly multinationals, is their geographical spread. Companies operating across borders must collate data across varied time zones, different working weeks and national holidays. These conditions make it very

difficult to coordinate when and how data is received and hamper both forecasting efforts and overall liquidity management. Likewise, data is inconsistent — both in timing and formatting — as well as difficult to view, control and interpret.

Although the problems can be partly addressed by establishing rigid company rules and frameworks for data collation and presentation, optimisation of cash flow forecasting and liquidity management ultimately depends on technical capability.

A Question of Technology

The efficiency and capability of technological data tools (or lack thereof) is usually the most significant factor influencing cash flow forecasting and optimal liquidity management. Many companies find their treasury management system is not sophisticated enough, or that when combined with an enterprise resource planning system it adds another layer of complexity to an already time-consuming process.

Understandably, many treasurers, despite advances in banking technology, rely on traditional and familiar systems such as Excel to record data. They lack complication and can easily accommodate last-minute changes to data reports. However, these systems are prone to human error and lead to inefficiencies. Hence, while in turbulent times the familiar seems attractive, being a step ahead is crucial to business survival. And this is not possible without enhanced data visibility and control, which in turn depends on access to sophisticated treasury management platforms with enhanced data management functionality.

Indeed, the ability to gain a comprehensive view of a company's transaction data on a single platform is invaluable. It offers treasurers improved cash flow forecasting by making past movements easier to access and current trends easier to observe. Viewing data in this way also assists liquidity management — particularly when available in real time and the treasurer's format of choice.

Current market challenges may force treasurers to make quick but well-informed decisions. This is not possible if they have too little data or are inundated with too much. What corporates need are advanced technology systems that can be customised to individual needs. Outmoded technology platforms and systems that are little more than a pen, paper and calculator will become redundant. Today's successful treasury management depends on sophisticated — and user-friendly — technology that integrates the "three pillars" of cash, liquidity and risk management solutions to improve visibility, aid cash forecasting and ensure contingency plans are there to safeguard business continuity against further economic shocks.

The Future of Cash and Liquidity Management

Many corporates — especially in light of their newly expanded role — recognise the need to improve cash and liquidity management practices. However, a simple upgrade is not enough. What treasurers require is capability without complexity. Ease-of-use is as vital as the ability to view a consolidated liquidity position across regions, currencies and banking relationships, as well as improve the accuracy of cash forecasting and risk management.

Some global banks have responded by adopting a consultative methodology to solutions development aimed at providing a user-friendly approach to technology sophistication. Such systems offer liquidity management platforms that integrate with existing systems and give the treasurer complete control over how information is received and presented. Not only is the data sufficient, it is tailored to the corporate's specific requirements.

In addition, these so-called "next-generation" treasury solutions provide access to a broad range of treasury and liquidity services — including enhanced visibility of global balance positions, foreign exchange exposures, cash flow planning and an interactive suite of investment services — all through a single sign-on. This should increase transparency and operational efficiency.

Certainly, long-term commercial success depends on optimising all aspects of liquidity management, including cash flow forecasting. This is challenging enough without inadequate systems causing more problems than they solve. Tools that provide visibility of end-to-end process flows and accumulate and present relevant data are invaluable to treasurers in today's market. They enhance their ability to predict cash flows, halt business hazards in their tracks and make corporate cash work hard, so companies remain strong and prosper despite ongoing market turbulence.