White Paper

SERRALA

The Quest for full Cash Visibility

Achieving an accurate overview of current and future cash positions and flows – Why it is so important to know what your cash will be

The Quest for Full Cash Visibility

Achieving an accurate overview of current and future cash positions and flows is important to manage cash and risk exposures efficiently. Yet, many organizations around the globe still limit themselves to pulling the balances from bank statements and call their subsidiaries for their figures, often manually. This is not only highly time-consuming, it also doesn't provide the deep, accurate and timely insight that is needed to ensure the solvency of a company at all times. Moreover, the more complex an organizational structure, the more complex it is to achieve 100% global cash visibility. This whitepaper addresses how companies can benefit from going beyond the traditional approach to cash visibility and pursue a holistic and bottom-up approach to cash flow forecasting making the best use of the information that is already available across the organization.

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Why it Is so Important to Know what Your Cash Will Be

"Cash is king" is a phrase that has been frequently used over the years to describe the importance of cash for organizations worldwide. This tenet still holds true. You can have full order books, but if you don't have the cash in your accounts to pay your bills to fulfill the orders then your company will go bust. If you can maintain short- to long-term cash visibility in real time, you can, for example:

- Mitigate liquidity risk
- Unlock trapped working capital
- Be more independent from external funding
- Invest surpluses with maximum returns
- Improve FX exposure and risk management

So, we know what the benefits of full cash visibility are. But the question remains how best to achieve full cash visibility.

Everybody agrees that a bottom-up approach to cash forecasting will yield better results than a top-down or statistical approach. However, most companies use a top-down approach, using only the data from their bank statements. The reason is simple – the cost for achieving a bottom-up forecasting is thought to be prohibitively high, because it would require the treasurer to access data sources that go beyond bank statements. A bottom-up approach to forecasting would include accounts receivable and payable information along with data from different ledgers in enterprise systems, planning systems, controlling, treasury management systems, subsidiaries, in-house banks, and payment service providers.

In the following sections, we will work through a bottom-up approach, and see how we can make it practical to achieve full cash visibility.

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Cash Visibility: time horizons and sources of information

For short- and mid-term forecasts, the best information is found within the enterprise resource planning (ERP) system, where the operational receivables and payables are stored. This is where you can see how much your company sold and invoiced and how much the company bought and received invoices for. Depending on the time horizon, you can look at different sources in your ERP to get the best possible information for managing and forecasting your cash. All of this will translate into cash at a later stage.

These data are the basis for cash visibility, and cash visibility itself is again the basis for financial market risk management, and particularly foreign exchange (FX) risk management. Hence, by solving one problem – achieving full cash visibility – you can also improve your control over financial market risk.

In many cases, treasurers are not that keen on having to deal with such operational data sitting in the ERP. There are certainly good reasons for that – the most frequently mentioned include 'too much, too difficult, too expensive, too slow'. There are, however, several reasons in favor of making use of this rich source of information. Let's have a look at the different sources of information and how valuable they are for global cash visibility.

Depending on the horizon of what you would like to forecast, different sources of information supply the best input to the forecast.

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Focusing on the more difficult part of the forecast, the operational receivables and payables, we've listed the best sources of information below in the order of their forecasting time horizon:

- Bank statements: deliver the actuals, not forecasts.
- Intraday statements: are more of an actual than a forecast, and often not well used in cash management
- Operational payment and direct debit remittances that are being approved and created in the ERP or in the payment factory: pretty close to actual.
- Other payment-like structures such as letters of credit, checks received or issued, credit card receipts, new payment methods such as PayPal, Apple pay, etc.: typically very short-term forecasting data.
- Receivables and payables: provide rich information for one to forty-five days into the future and come directly from the ERP.
- Sales orders received and purchase orders issued: typically used to do cash forecasting over a longer period. This information would also typically come from the ERP.
- Operational budgets, translated into cash: usually done on a monthly basis, these budgets can cover a period of one to three years and are a good starting point for a longer-term liquidity forecasting.

Ideally, all these different sources would be translated into cash impact which takes into account that a receivable is not necessarily received on the due date, but often after the due date. The cash impact from the different sources would then be merged together into one complete short- to long-term forecast for the whole company.

Sounds easy? Not at all.

There are quite a few challenges to centrally accessing and using these sources. One of the main challenges remains that treasurers are typically rather remote from the financial operations. It is simply not feasible for the treasurer to personally keep track of whether a customer in a certain subsidiary has paid or not paid the amount due, and why they may pay only part of the amount.

This operational data still needs to go into the forecast if treasurers are to properly take any risks such as late payments or write offs into consideration. Just taking the receivables for granted simply won't do. In fact, ensuring that receivables actually translate into cash in the company's account is one of the most important issues for any company.

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Achieving Holistic Cash Visibility by Integrating All Cash Impact Data

Determining the cash impact of accounts receivable or payable is the point where most treasuries give up and start asking controllers or CFOs in the subsidiaries for a cash forecast. Indeed, these individuals will usually have a better idea of the receivables and payables of their respective subsidiary. But they have so many other things to do, and the cash forecast is usually one of the last things on their lists.

Shifting the problem away from headquarters to the subsidiaries, hence, does not solve the problem, because not even the subsidiary's CFO or controller knows exactly what is going on in each customer account. Should the credit controller then start making forecasts, and eventually roll it up to headquarters? The credit controller would certainly know more about the individual customers, but how many people should be involved in making a forecast? What makes a really good forecast? How much effort does it require?

In some companies hundreds of people are involved in generating the cash forecast, which takes a lot of time and effort. Would it not be more sensible to enable a few select individuals access the data that is already there more intelligently, rather than asking hundreds of people to help create a cash forecast?

Sounds like science fiction? Hardly. It is about having a system that records many things, and then combines the information automatically. It is about breaking the silos between the different financial departments and taking treasury beyond its boundaries. It is about bringing full global cash visibility into practice.

The financial value chain is all about managing a company's financial activities in a way that the company can gain a competitive advantage. The concept was much discussed about 5-10 years ago and then disappeared from corporate finance discussions. It is time for this term to resurface as it heralds many benefits for companies. Together with today's new technological developments – ranging from robotic process automation, machine learning, artificial intelligence, big data, cloud to name but a few – it is now within reach for companies to transform data from key areas of the financial value chain into the solid foundation for treasury needs worldwide.

A company's accounts receivable (AR) and payable (AP) departments, processes and systems hold the key to full cash visibility in real time. With today's technology, treasurers can be much better equipped to access AR and AP data of all subsidiaries almost instantly, benefiting from faster data and relieving subsidiaries from the menial data consolidation involved in cash forecasting. Let's go into the depth of financial operations and see how treasurers can make use of those data.

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Forecasting Receivables

For most companies, forecasting receivables is the most difficult thing. In B2B environments, you do not have much influence over when customers actually pay. They might pay:

- Late, because they are not happy with the goods or services received
- Only partially, for the same reason
- Not at all, for the same reason, or because they are in financial trouble
- Late, because they have the habit or culture to pay late

This means that if you purely look at your receivable due date for your cash flow forecast, you may not end up with a good cash forecast at all, because you don't have the cash on your accounts yet!

You could revert to statistics (the top-down approach). For example, on average, certain types of customers pay a certain number of days late. This works actually quite well with a large enough number of customers, but it will not do the trick with low volume or high value customers.

So, let's break the silos. The AR department has great information that is usually not shared with treasury. Not because they don't want to, but because it's an awful amount of work to start bringing it all together and rolling it up for use for treasury.

What information does the AR department have?

- The collection department usually knows when certain customers will pay (or not pay). They will receive promises to pay and they agree payment plans. This information is directly relevant for the cash flow, but is usually not recorded in the accounting system. The typical accounting system will simply say the invoice is overdue.
- The collection department usually also has an overview of the disputes which account for any late and partial payments, which directly impacts cash flow.
- The credit controller will know whether there is a reasonable chance that a receivable will not be paid. Why not use this information in cash forecasts?

In fact, all the reasons for late payments can be explained by the collections and receivables department, if only they could store and share the information in a centralized way.

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Today, it is possible to store such information and make it directly available to treasury, which helps enhance cash visibility. The greatest benefits come from accounting solutions that accelerate AR processing with embedded robotic process automation; that collect and provide the in-depth information on payment behaviors; and that can be easily integrated with the central ERP system to provide also treasury with instant access to such cash flow-relevant data. Thankfully, technology has evolved significantly so that treasurers no longer have to find their way around through myriads of forms and settings. Instead, with modern solutions, treasurers can intuitively access the data in real time using central dashboards that shows key metrics in graphical displays. Coupled with configurable reporting and drill-down features to deep dive into more details, these solutions can provide treasurers will all the data they need, when it is needed– all within the central ERP and without the need for extra treasury management solutions.

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Forecasting Payables

Payables are usually easier to handle, since you have them in your own hands. Nevertheless, there is a advantage to be had by exerting greater control over accounts payable processing.

Before an invoice is posted, it is received and goes through the necessary exception handling and approval workflows. The sooner an invoice is posted, the earlier the information is available for cash forecasting. A professional AP system that automates and thus accelerates invoice processing – from capturing, to validating, processing, posting, approving and paying – is definitely worth the investment to enhance cash flow forecasting. Such as system will enable the treasurer to have more invoices available for dynamic discounting, driving further cost efficiency gains and workflow optimization.

For forecasting payables as accurately as possible it is important to look at when payables translate into cash – when they are actually paid. Payments are not always made every day. It is quite common that payment runs are only done once or twice a week. This has an impact on your cash overview, because when you take into account when the due date of a payable translates into the expected value date, your cash flow forecast will change.

If the exchange between the ERP system and the AP system is fully integrated and fine-tuned, AP departments and treasurers can better track the status of each payable and ensure faster approvals and greater accuracy of the data relevant for cash forecasts.

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Actuals Are also Difficult

Above we have looked at forecasting operational cash flows, focusing largely on the mid-term data stemming from receivables and payables.

Being able to do good forecasts is great, however, they are only one side of the coin. The forecasts also need to be compared to the actuals to complete the picture. Without matching the forecasts with the actuals, you will never be able to find out whether it was a good forecast or not.

Actuals are quite tricky. It is easy enough to find actual (bank) balances – just add the correct value balances up and compare them with the sum of the forecast. But, naturally, such a balance will not even start to explain why the sum of the actuals does not match the sum of the forecasts…

To explain why the balances do not match, the actuals need to be at least on the same level of granularity as the forecasts. If I forecast 200k sales of product type A in February, it is required to have actuals in terms of sales of product type A in February as well.

This information, you guessed it, comes from the ERP.

If an ERP is set up correctly, it properly and automatically applies cash. In B2B, incoming bank statements, lockboxes, or payment service provider information are correctly applied to the customer and to the customer invoice. This is because, when the invoice was created a few months earlier it was assigned to a profit center, a general ledger (GL) account or some other data that allows us to know that the invoice was for the sale of product type A. By following the trail of the incoming cash on the bank account or lockbox, we are therefore able to find that this was cash received for product type A.

There are systems available today that can handle the actual data assignment automatically, thereby accelerating the processes so that data are available faster. In fact, these systems can enable up to 99% automatic assignment of planning level to actuals on the bank statement, providing for the granularity required for the cash flow forecast.

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How to Deal with a Complex System Landscape

The more entities a company has the more likely it is that different ERP and other systems are in place, adding to the already great challenges of achieving full cash visibility. With every merger or acquisition, the IT infrastructure is likely to get more complex and integrating data into one central cash forecast becomes a Herculean task.

What is needed in a heterogeneous system landscape are solutions that are capable of growing with the company's cash forecasting needs. Any solution should take away the pain of manually compiling cash forecast and actual data and, most importantly, help connect new and distant entities to the central system. With the surge of cloud solutions, the remedy is here for most companies. Cloud solutions enable companies with heterogeneous system landscapes to flexibly integrate all entities that are not part of the central ERP system and scale their cash forecasting capabilities to meet their needs. Comprehensive cash forecasting, real-time data, greater accuracy, harmonization of processes, robotic process automation and integration, despite heterogeneous systems, are the key advantages enabled by modern technology.

Since the financial value chain came up 5-10 years ago, a lot has happened. Systems have grown up, become diversified and highly secure so that companies can truly 'pick-and-chose' what they need to perform cash flow forecasting.

Whereas in the past it would have been necessary to consolidate a subsidiary's cash flow relevant balance and further details in a file that would need to be sent via e-mail or even communicated over the phone to the central treasury, today such data is online and at the fingertips of a treasurer at all times.

The level of innovation is not simply due to the emergence of Cloud solutions. ERP systems have also become more advanced, flexible and intuitive to use. So, today, a treasurer can easily actually access a subsidiary's balance directly within the ERP. Treasury and financial operations thus move closer together – to the benefit of the entire company.

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Conclusion

Full cash visibility is key for well-informed treasury decisions. It's still a challenge for many companies to achieve full cash visibility due to the complexity of the company and processes. However, it is within reach more easily today than ever before. By going beyond the traditional top-down approach to cash visibility that focuses only on the readily available bank statement data, organizations stand to gain significantly. Accessing broader data sources is not as complicated as it might seem. By leveraging technology to integrate more data automatically, you can gain deeper insights faster. Operational data from inbound and outbound payments and other sources are very important to understand the movement of cash through an organization. Take receivables information, for example. Typically, only the due date of a receivable is taken into account in the cash overview. With a holistic approach to cash visibility other factors, such as customer payment behavior, can be taken into account. Knowing that a particular customer regularly pays a few days after the due date can be crucial for managing corporate cash and can support improved treasury decisions. Modern solutions that use robotic process automation and are flexible to configure to company-specific requirements also make the bottom-up approach to cash visibility very easy. So, you can take the burden of manually consolidating data out of your cash forecasting processes and benefit from much more meaningful information.

The aim of 100% cash visibility doesn't have to be a distant one any longer!

Serrala Brings Clarity to Complexity

We are proud to announce our evolution from Hanse Orga Group and welcome you to Serrala. Our new name is inspired by the Sierra de la Serrella, a powerful mountain range in Spain symbolizing confidence and security. With a suite of future-proof end-to-end payment solutions we provide efficient and secure optimization of your financial processes partnered with experienced first-class cash visibility and treasury consulting services. Driven by our enterprising nature, we constantly challenge ourselves to bring relevant innovation to market. Serrala supports over 2,500 companies worldwide with advanced technology and personalized consulting to optimize all processes that manage incoming and outgoing payments:
from order-to-cash, procure-to-pay and treasury to data and document management. Serrala's software family of best-in-class solutions creates a complete payments ecosystem that provides security and compliance at every step of your financial value chain. Our solutions offer different deployment options to meet your specific requirements – on premise, in the cloud or as a hybrid solution with managed service components. Over 30 years of industry experience provide us with the necessary knowledge and understanding to be your trustworthy partners.

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