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In Search of a Cash Forecasting Cure **The pains of cash flow forecasting are evident. Is help on the way?**

by Richard Ketchen

For many treasurers, cash forecasting can be a real headache. And relief is still spelled E-x-c-e-l. Unfortunately, Microsoft's Excel spreadsheet software is anything but a cure-all, so the pain usually continues.

Recently, some treasurers have been finding relief in treasury workstation and enterprise resource planning (ERP) software cash forecasting modules. But in spite of their sophistication and cost, they're not panaceas either, as precision is only as good as the weakest item.

We spoke with four treasurers using a variety of software and discovered that, while some would rather fight Excel than switch, others are determined to find better ways to generate reliable cash forecasts.

A changing landscape

In the past decade, treasury department staff reductions, decentralization and unreliable legacy systems have meant that cash forecasting isn't as common as it once was. Yet, the needs for capital management and decision-making tools have never been greater.

"What's been lost in the process is the intermediate term -- next week, by the end of the month. How much do I really need to plan for my short-term borrowing? How do I build my investment ladder?" asks Dubos J. Masson, president of The Resource Alliance, a treasury management training/consulting firm.

Masson says many companies are starting to bring back central treasury functions and are getting better at forecasting because they're now able to pull together information using ERP systems and treasury workstations.

"But we've only had these sophisticated systems around for a few years," he comments. "Companies are still trying to figure how to put them together, how to make things work and the real capabilities."

Until these systems get figured out, the software of choice is the ubiquitous Excel spreadsheet. One of its attractions is that the software can be customized. However, the customization, together with a lack of integration with other systems, has its downsides.

"You generally have to input from a lot of different sources," says Clare Jones, manager, Deloitte Touche Tohmatsu. Those sources can include consolidated information from subsidiaries' systems to data from the accounts payable, accounts receivable, payroll and tax departments. "That [function] usually falls to one person who knows it really well and nobody else in the company knows how it's done or what's in it."

On the other hand, Jones says that off-the-shelf ERP and treasury workstation forecasting modules can generate good one-to-two-day forecasts, but not really longer than that.

"While they can integrate some [sources], they can never integrate everything, and companies have a very difficult time building the forecast in the software," observes Jones. As a result, she sees a lot of companies continuing to run Excel for verification.

Spreadsheets, both good and bad

Hollie Begley, treasury analyst at Darden Restaurants, Inc., in Orlando, is a long-time Excel user who has developed a forecasting spreadsheet that "gets down to the penny" for short-term forecasts.

Begley relies on several different spreadsheets for trending and a Microsoft Access database. "Everything that we have is homegrown," says Begley.

She credits forecasting accuracy to the level of detail and suggests that other corporate treasury professionals could benefit from similar attention to detail to save on borrowing costs and manage their bank accounts.

She runs a daily position that's linked to a larger, rolling three-month forecast for verification. "We get real information from the [accounts payable] department and then trend it out on check clearing patterns."

She says that Darden hasn't considered a treasury workstation because of the cost. "I'm able to do [the cash forecast] in a short period, so justifying the cost has been a challenge."

Begley, who has been doing the spreadsheet forecasts for several years, says that training others has proven to be a challenge too, as has capturing and integrating information. "You're doing a lot of keying, that is one of the downfalls," says Begley.

While she would prefer software that offered more integration, the one thing she's not prepared to trade-off is forecasting accuracy.

Tommy Leong is another long-time Excel user who hasn't found software, including his company's ERP system, that provides the flexibility and reliability of spreadsheets. "Maybe I haven't looked hard enough," Leong concedes.

Until recently, Leong was assistant treasurer of Puget Sound Energy in Bellevue, WA, before moving to wholly-owned subsidiary InfrastruX Group as director of integration and finance. Puget Sound's treasury department relies on Excel for short-term forecasts and proprietary utility software for long-term financial models and internal analysis.

Timely and accurate information is critical, requiring that forecasts sometimes be changed two or three times a day. "We're a net debtor, so we're rolling money every day," says Leong.

He relies on Excel because other software isn't able to provide the analysis he needs. "Let's say I want to speed up my collections by a day, there's no sort of flexibility that I need to do analysis."

Leong says he'd like to see a system that was easy to understand by various departments and allow direct data input instead of submitting information by telephone and e-mail.

Making the leap to an ERP system

Brad Larson, assistant treasurer of Phoenix-based PETsMART, Inc., says he spends a lot of time asking if there "is a better way to do this." Currently, he's working to find a way for the

company's ERP system to do cash forecasting.

In the meantime, Larson is overhauling an Excel spreadsheet to get more accurate monthly and daily cash forecasts. "The daily forecast will be quite a challenge, but I think that's the one where you get real value," says Larson.

He uses four ways to "triangulate in" on expenses: a three-week historical average, a year-over-year comparison, his new Excel spreadsheet and a balance sheet method. Once the spreadsheet overhaul is completed, he's planning to move to SAP's cash forecasting module. However, he will still be looking for the flexibility to make adjustments.

"We have less ability to control what SAP does because we didn't build it," comments Larson. "Excel will be used to really validate SAP and then we'll get rid of everything else."

While Larson can see the benefits of an ERP-based forecast, he's not totally sold that it will do the job. One of his concerns is understanding how the system will switch to forecast numbers from, say, actual purchase orders.

"The biggest challenge is going to be understanding what's in there and understanding what comes out," says Larson. "My goal with SAP is that if it can be done, I'm going to figure out a way to do it."

A transition to treasury workstations

Another company in a state of transition is National Service Industries, Inc. (NSI), based in Atlanta. By the end of this year, Assistant Treasurer Dan Smith hopes to move from an Excel spreadsheet to a treasury workstation cash forecasting module.

Today, NSI uses Selkirk Financial's Treasury Manager™ to obtain a daily cash position, but not for longer-term forecasting. Smith is using a P&L-based model for short- and intermediate-term forecasts.

"I look at today based on a daily position and I'll look at my P&L for future quarter-end positions," says Smith. "But other than that, I have a real gap."

Smith expects the Selkirk system to close the gap by dovetailing Selkirk's forecasting module with the P&L forecast, something he's done successfully once before with other treasury software. To get there, he's building a historical database to populate the Selkirk module.

"I'm building my model to project weekly cash forecasts," he says. "We do have certain information in the longer-term forecast model in Selkirk, but because we have so many missing pieces, we don't really rely on that."

Smith says that the treasury software has enabled him to streamline domestic cash management structure, resulting in a simplified banking structure and greater visibility.

"What we're looking at is seeing the cash flow by the business unit and then also bringing it up to a top level so I can see consolidated numbers," says Smith.

Smith says that one of the challenges he faces is working in a corporate structure comprised of six businesses -- each with distinct needs.

"The structure of our banking and cash management accounts was just so complex even for us to capture it in Excel would be so complicated nobody would be able to maintain it," comments Smith.

Looking for a cure

PETsMART's Larson is the chair of the Association of Financial Professionals' (AFP) working capital management task force. The newly formed group intends to identify issues and develop programs to increase AFP members' understanding and awareness of treasury issues.

One of those issues is software, says Larson. He plans to have the task force look at currently available cash forecasting software to answer functionality questions for potential users.

In the process, he just may discover the long-sought cure for the pains of cash forecasting.

SIDEBAR: Does it cost to make the switch?

If you are considering using an ERP or treasury workstation cash forecasting module, it will pay to do some homework first.

Better treasury systems do not automatically result in increased forecast accuracy. There still needs to be a review process in place to monitor actual cash flows against forecasted cash flows and make ongoing adjustments.

While there has been considerable progress in ERP systems, there remains much work to be done according to several treasury experts.

"You probably have better tools in some of the more specific treasury-oriented systems," says Dubos J. Masson, president of The Resource Alliance, a treasury management training/consulting firm.

Masson says that treasury systems are specifically designed for treasurers and have more sophisticated forecasting modules than the ERPs.

"They're designed to operate a little better in a multi-bank environment," Masson says. The treasury systems also have better software for tracking deals, such as foreign exchange positions and security positions, because they're dealing externally.

No matter what you choose, Masson cautions that the installation may not be a walk in the park. He advises that as a rule of thumb, treasurers should budget at least as much as the system cost and maybe half again that much in just getting it implemented.

"Some companies will spend two to three times the cost," says Masson. "The third-party treasury systems will tell you that they can access information from an ERP, but it's not a seamless module."

The need for additional programming, together with the amount of mapping required to pick up relevant accounting information, often becomes so complex that the cost justification for the forecasting software is lost, according to one treasury expert.

Masson says that especially in the middle range there are many alternatives. "A lot of the small-end accounting systems have really been beefed up," he observes. "Even with something like Quick Books from Intuit, you can get a five-station version. For most small companies, that's more than enough."

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