

# OWNING CASH CENTRALIZING FORECASTING AND ANALYSIS



## CRAIG JEFFERY

Managing Partner, Strategic Treasurer

## JACK TRAINOR

Director – Digital Transformation, HighRadius



### WHAT.

How do you establish global cash visibility using artificial intelligence?



### WHEN.

Thursday, June 24, 2021  
2:00 PM – 3:00 PM EDT



### WHERE.

Live online presentation  
Replays at [StrategicTreasurer.com](https://StrategicTreasurer.com)



This presentation is provided by Strategic Treasurer and HighRadius

# SPEAKERS

GET TO KNOW TODAY'S SUBJECT MATTER EXPERTS.



## CRAIG JEFFERY

Craig Jeffery formed Strategic Treasurer LLC in 2004 to provide corporate, educational and government entities direct access to comprehensive and current assistance with their treasury and financial process needs. His 30+ years of financial and treasury experience as a practitioner and as a consultant have uniquely qualified him to help organizations craft realistic goals and achieve significant benefits quickly.



## JACK TRAINOR

For over 20 years, Jack has provided assistance to companies for treasury and risk management activities, specializing in private equity deals, technology implementations, and corporate spinoffs.

Jack's specialty is treasury technology and operational function of large multinational corporations, assisting treasurers on project-based work. These projects include helping organizations develop their global treasury technology strategy based on functional requirements, selecting appropriate system(s) and/or infrastructure, and designing and implementing the technology solution.

# TOPICS OF DISCUSSION

## TODAY'S KEY AREAS OF FOCUS

Cash forecasting is a process filled with many challenges, such as lack of accuracy, visibility and accountability, but artificial intelligence (AI) is empowering treasury professionals to deliver more value.



### IMPORTANCE OF FORECASTING

Why cash forecasting is so important



### TRADITIONAL FORECASTING

Identifying the inefficiencies of traditional forecasting



### FORECASTING DRIVERS

The drivers of an ideal global forecast



### CASH VISIBILITY

Visibility into local forecasts across categories, currencies, countries



### ROLE OF AI

Achieving greater accuracy in forecasts using sophisticated modeling techniques



### LOOKING AHEAD

Final thoughts on what the future of global cash forecasting has in store

# CASH FLOW FORECASTING

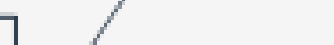
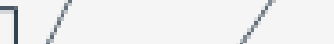
IN FOCUS ACROSS THE BOARD

## 2017 Survey Results

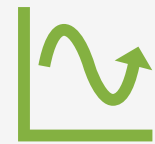
- 1 Cash flow forecasting
- 2 Cash management optimization
- 3 Currency risk
- 4 Cash repatriation
- 5 Funding
- 6 Capital structure
- 7 Governance / policies & procedures

## 2019 Survey Results

- 1 Cash flow forecasting
- 2 Funding
- 3 Currency risk
- 4 Capital structure
- 5 Bank relationships
- 6 Working capital
- 7 Technology & digital innovation



# WHY CASH FORECASTING IS IMPORTANT



## ECONOMY IS VOLATILE

*The economy is prone to market fluctuations such as:*

- Inflation, recession, pandemic
- Currency fluctuations
- Seasonality in business cycles

▶ *Fintech allows greater accuracy in forecasts using sophisticated modeling techniques as well as artificial intelligence*



## SOURCES AND USES OF CREDIT CHANGING RAPIDLY

*Frequent changes in*

- Trade credit
- Bank credit
- Consumer credit

▶ *Key cash flow indicators are changing so rapidly that assumptions made while forecasting are rendered irrelevant by the turn of the week*



## NEED TO MAKE TIMELY DECISIONS

*Timely forecasts are needed to make decisions on*

- M&A, dividends
- Investments and borrowing
- Liquidity planning

▶ *Companies need to make timely business decisions in a volatile environment using technology as an enabler*

# TRADITIONAL WAY OF FORECASTING



## Manual data gathering

Treasury analysts manually gather data from AR, AP and accounting teams and download bank data.



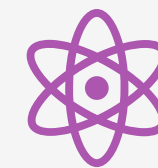
## Spreadsheet-based process

Data gets entered in spreadsheets, making it prone to human errors.



## Apply human intelligence

Due to limited data visibility and accuracy, the treasurer has to make manual adjustments to the forecast based on gut instincts.



## Art vs. Science

The forecasting process is subjective in nature, dependent on the treasurer.

# IMPACT OF TRADITIONAL FORECASTING



## Poor decisions

Related to liquidity, M&A, repatriation, etc.



## Misallocation of labor

Maximum resource bandwidth eaten away instead of focusing on strategic tasks such as risk management.



## Untimely decisions

Delayed borrowing and postponed investments lead to high interest rates and delay returns and value accretion.

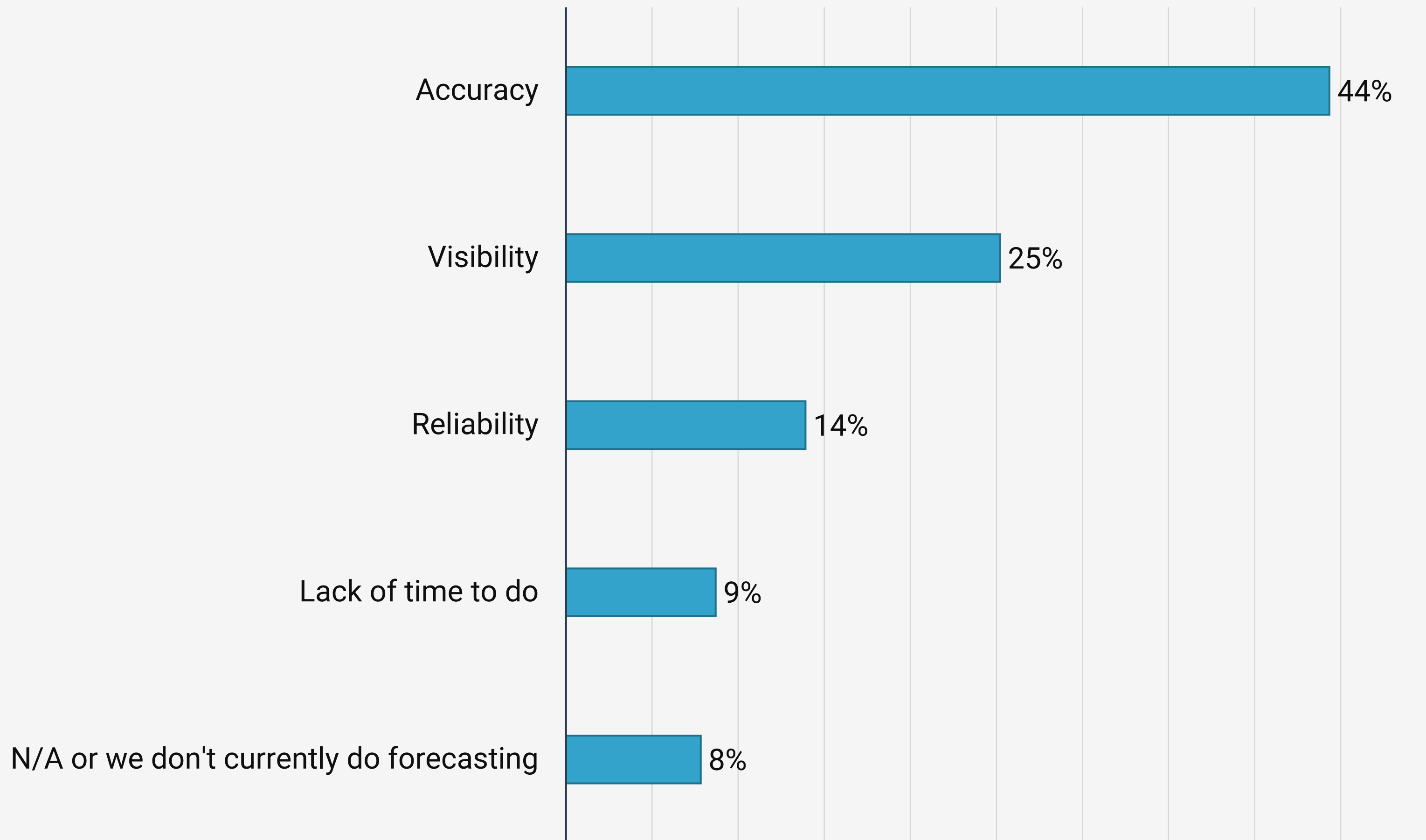


## Mismanagement of capital

Increased cash buffers to offset any unforeseen costs instead of maximizing returns on idle cash.

# POLL QUESTION

**Of these, which is your biggest issue for cash forecasting?**





# DRIVERS FOR YOUR GLOBAL CASH FORECAST TO 'WORK'



## TIMELINESS



Forecasting as close to real time as possible to drive timely business decisions



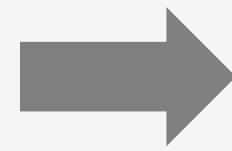
## SCALABILITY



Standardized process that can be easily replicated to other entities



## GRANULARITY



Ability to deep-dive into invoice-level details to drive course correction



## ACCURACY



Achieving the baseline accuracy for your business to make confident decisions

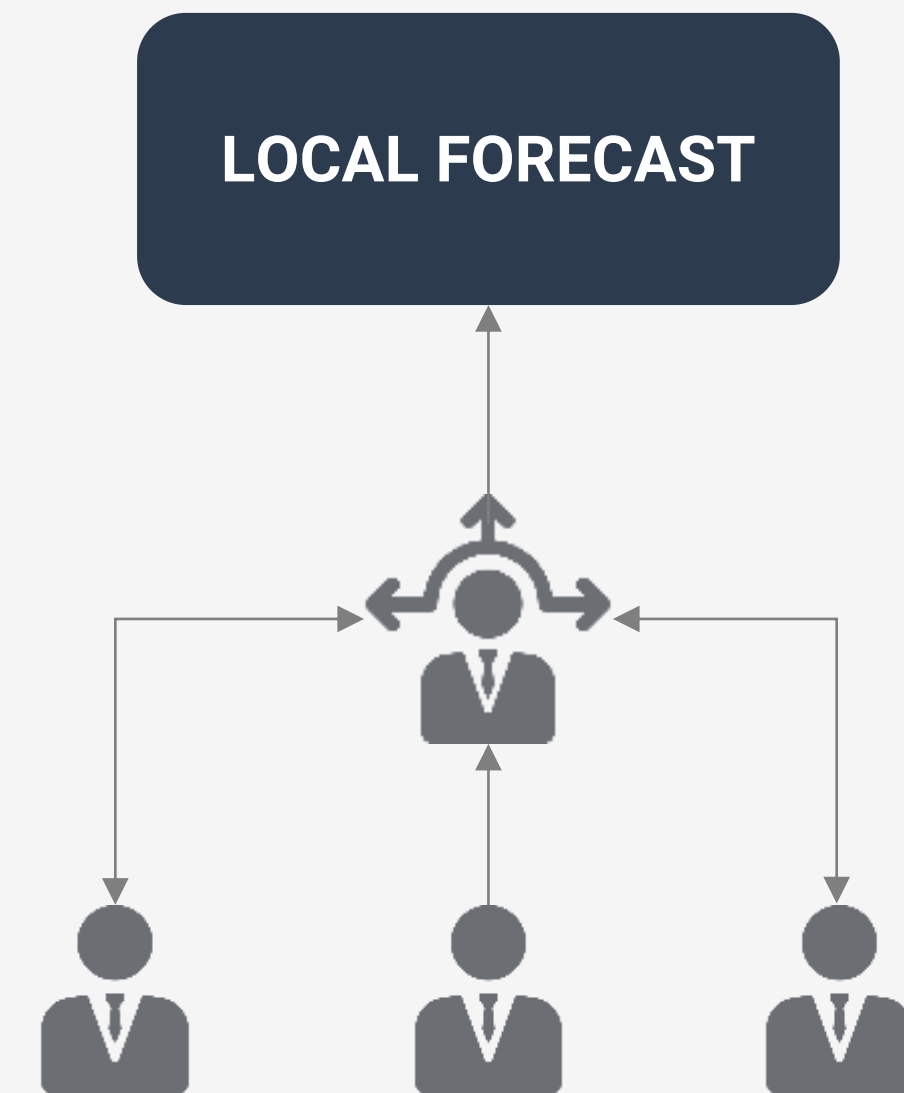
# HOW TO ACHIEVE TIMELINESS

## 1. CONTINUOUSLY GATHERING BEST AVAILABLE DATA



### AUTOMATED DATA GATHERING

*for real-time data capture*

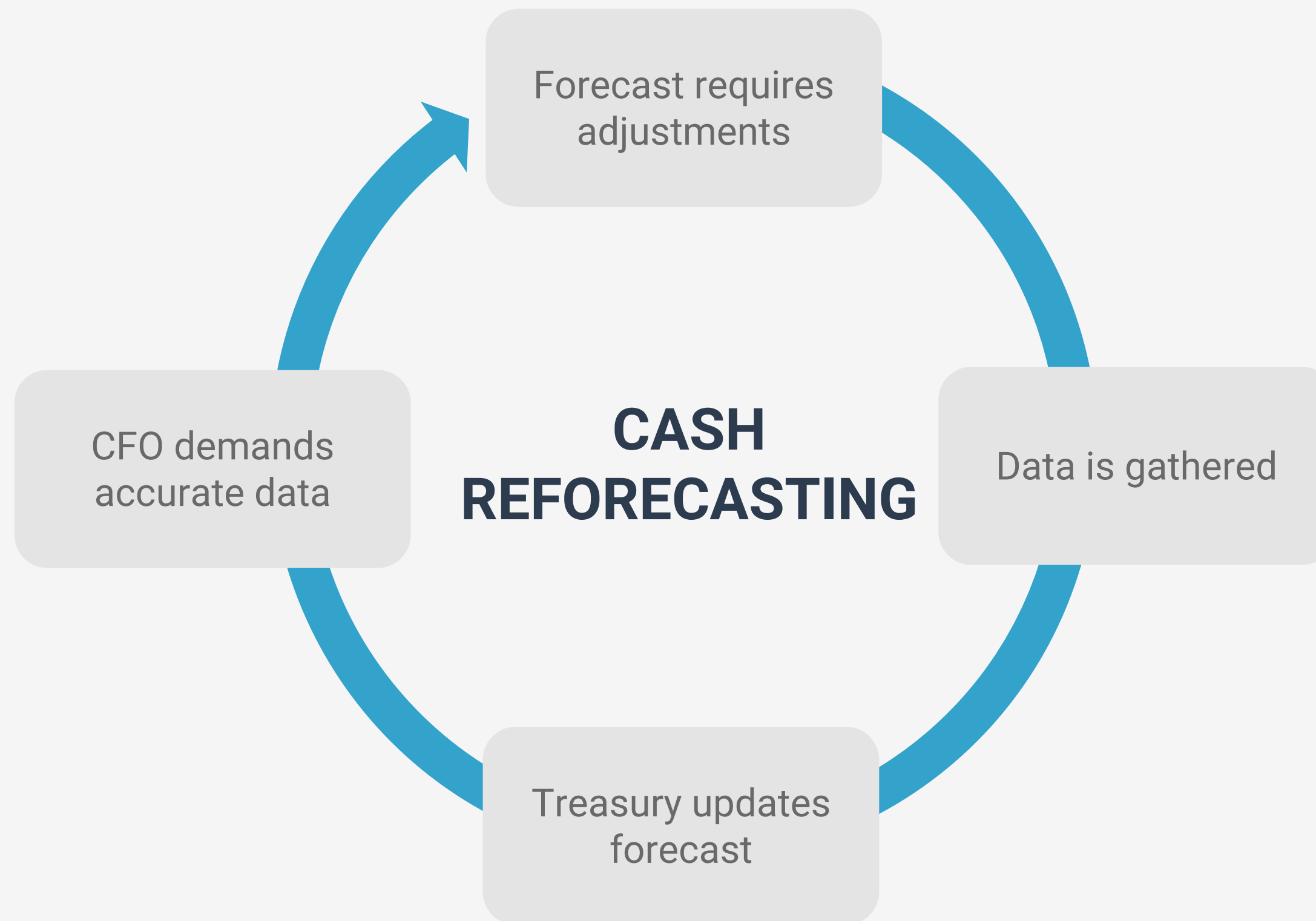


### HUMAN PUSH

*for generating local forecasts with plenty of back and forth*

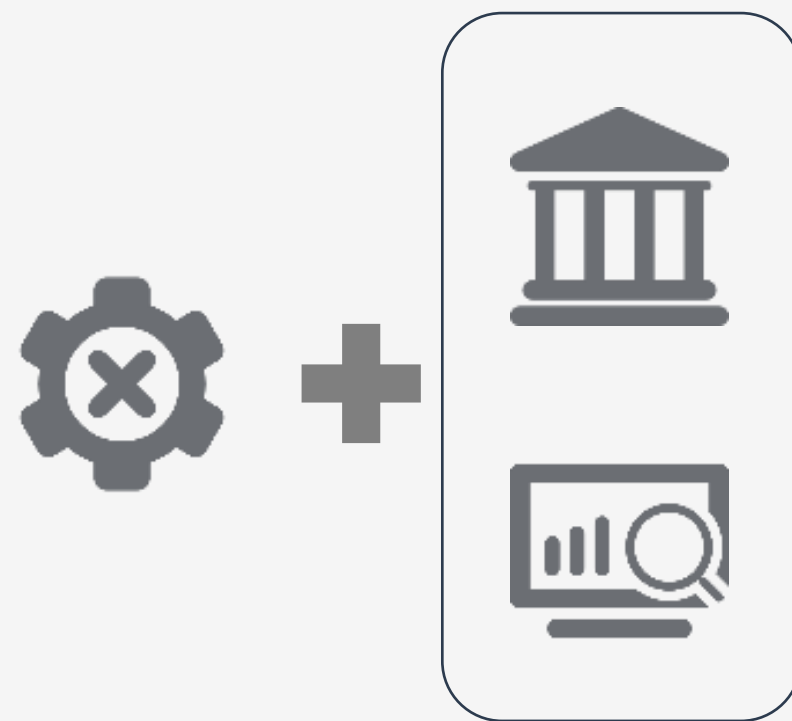
# HOW TO ACHIEVE TIMELINESS

## 2. UPDATED ENOUGH TO PROVIDE INPUTS TO BUSINESS DECISIONS



**Timely forecasts enable timely decisions, e.g., deleveraging, forex transfers, investments**

# HOW TO ACHIEVE SCALABILITY



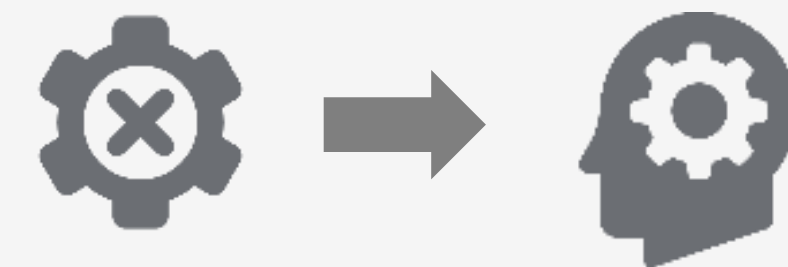
## PROCESS DOESN'T BREAK

*when a new system or bank  
is added*



## PROCESS CAN BE EASILY REPLICATED/HALTED

*when a new company is acquired or divested*



## NOT LABOR INTENSIVE

*Once the system is running,  
resources can focus on value  
added activities and strategic  
decision making*

# HOW TO ACHIEVE GRANULARITY

## UNDERSTANDING DECENTRALIZED VS. CENTRALIZED FORECASTING

### Decentralized Forecasting

### Centralized Forecasting

#### Approach

Local forecasts are created at an entity level by gathering data from internal teams.

Bottom-up approach where local forecasts are rolled up to central treasury. They are also called direct forecasts.

#### Granularity

No granular visibility of cash flows.

Allows for granular analysis with better visibility of cash flow.

#### Impact

High turnaround time for creating a consolidated central treasury forecast.

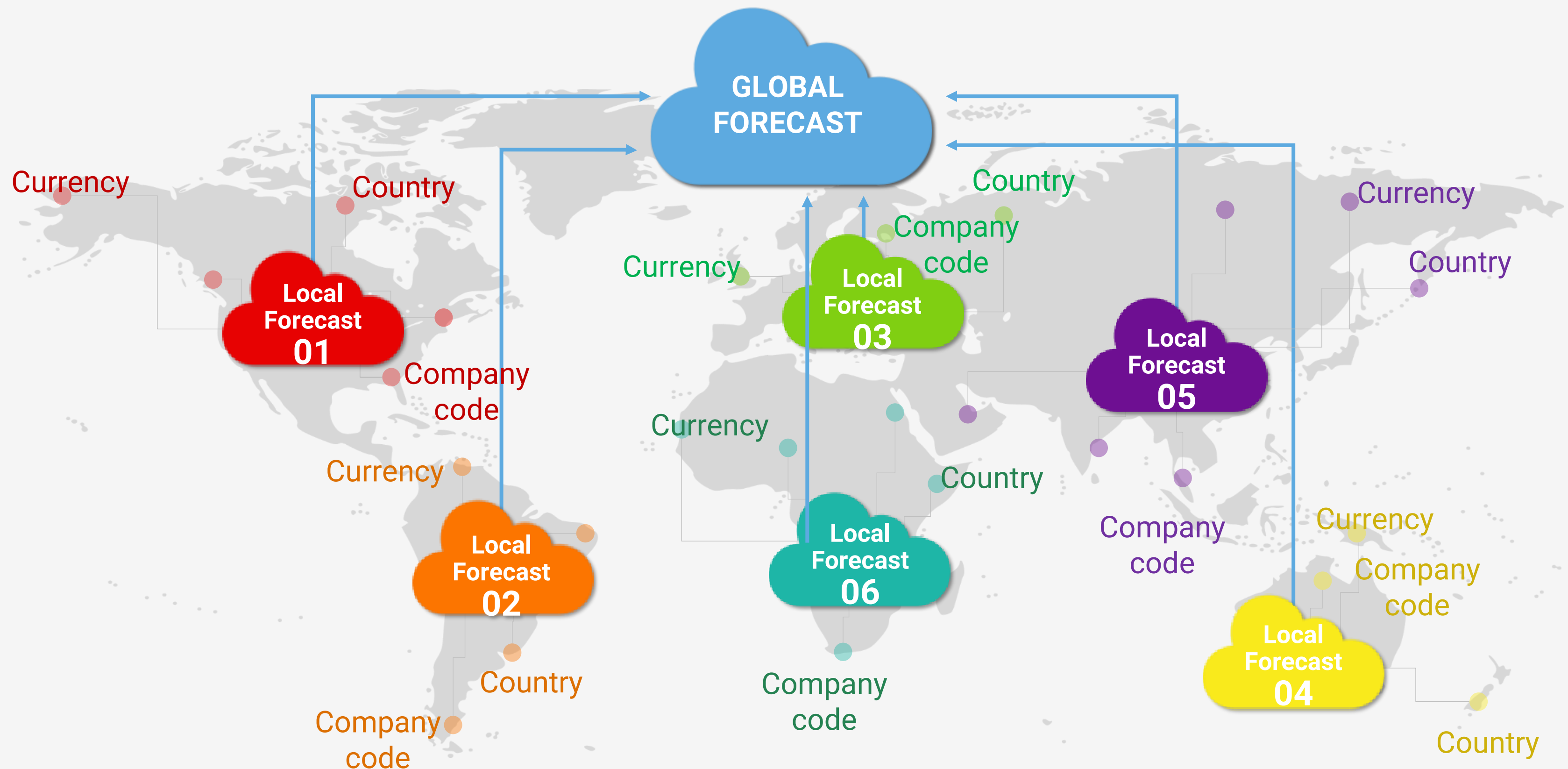
- Continuous data visibility across all systems.
- Understand how transaction-level activities influence global forecasts.



**Centralized forecasting leverages direct forecasts to provide better visibility to improve strategic financing decisions**

# CENTRALIZED FORECASTING

USING BOTTOM-UP APPROACH



**LOCAL FORECASTS COULD BE ON A COUNTRY, CURRENCY, OR COMPANY CODE LEVEL**

# IMPACT OF CENTRALIZED FORECASTING



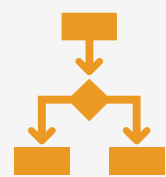
## DECISION MAKING

Granular forecast at the country / company level allows for better decision making in terms of which financing / investing instruments to utilize (local in-country borrowing / investing vs. head office and intercompany borrowing and investing).



## VISIBILITY

Visibility into process and timing for local forecasts at the global HQ level.



## DRILL-DOWN CAPABILITIES

Consolidated view can drill into lower-level forecasts to see which ones may be driving changes in cash.

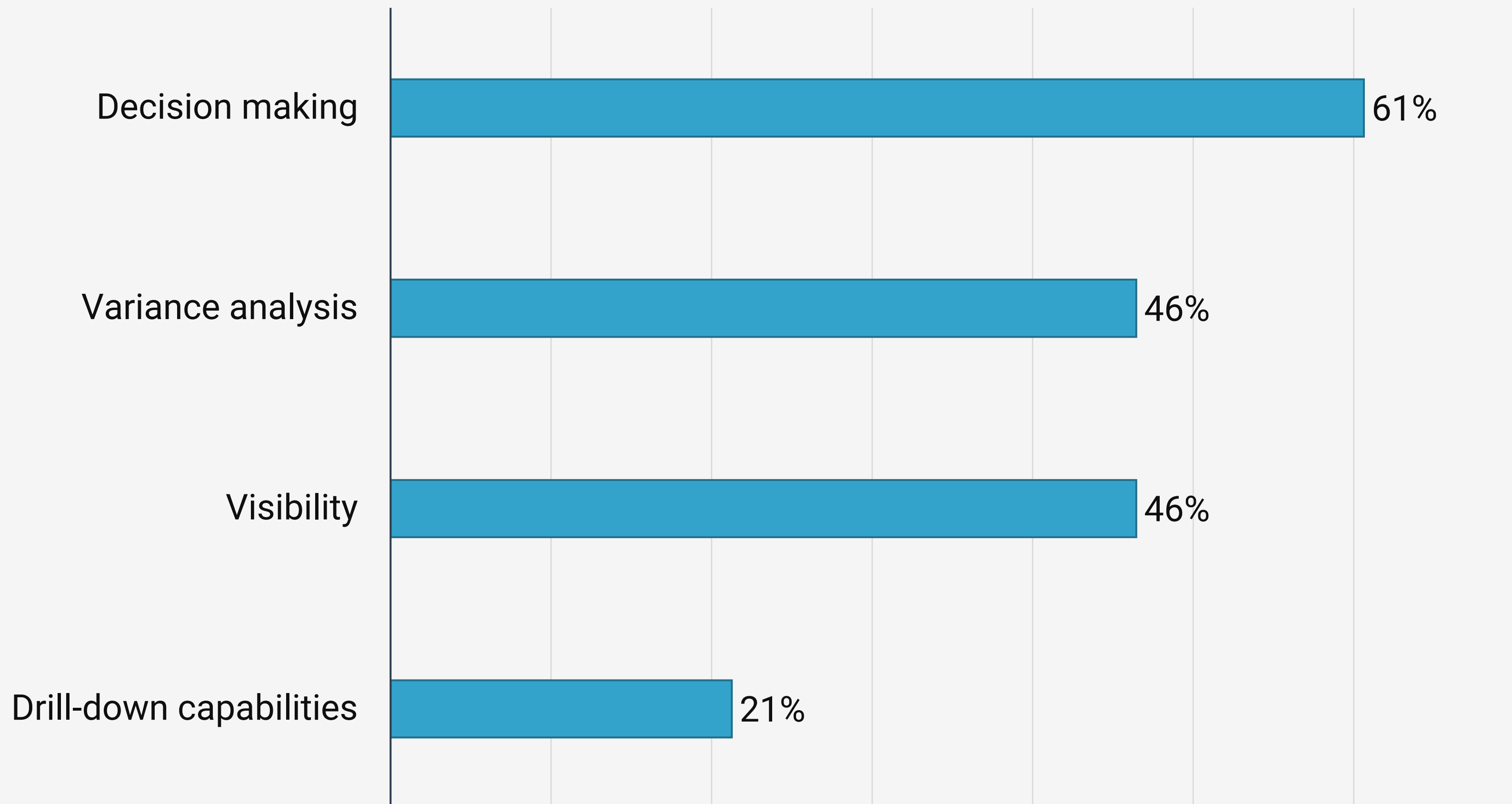


## IDENTIFY VARIANCE

For high-variance cash categories, like AR, it allows drilling down to specific customer accounts or even transactions to determine sources of potential variance.

# POLL QUESTION

**Which of the following are very important/important to your company when it comes to forecasting?**

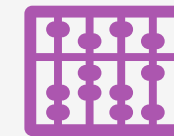




# WHAT IS BASELINE ACCURACY



Baseline accuracy is the minimum accuracy required for companies to make business decisions.



Baseline accuracy varies from business to business.

## WHY MOST CASH FORECASTS ARE NOT ACCURATE



Lack of variables related to customer behavior, historic data, etc.



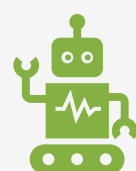
Difficult to forecast complex categories such as AR and AP using spreadsheets



No bandwidth to perform variance analysis

# IMPROVING FORECAST ACCURACY BEYOND EXCEL

TECHNOLOGY AS AN ENABLER



## ROBOTIC PROCESS AUTOMATION (RPA)

*Office Automation.*

- Explicitly programmed by humans
- May contain specific work-flows, decision trees and tolerance checking
- Unable to “think for themselves” or adapt without human intervention to manage exceptions
- Performs repetitive tasks quickly and accurately



## MACHINE LEARNING (ML)

*Broader AI Technologies/Systems.*

- Can learn in a “supervised” arena
- Typically consist of data mining software and predictive analytics
- Able to discern and embark on an appropriate course of action
- May require human intervention to “pull the strings” and define the environment



## ARTIFICIAL INTELLIGENCE (AI)

*Machines thinking in a human-like manner.*

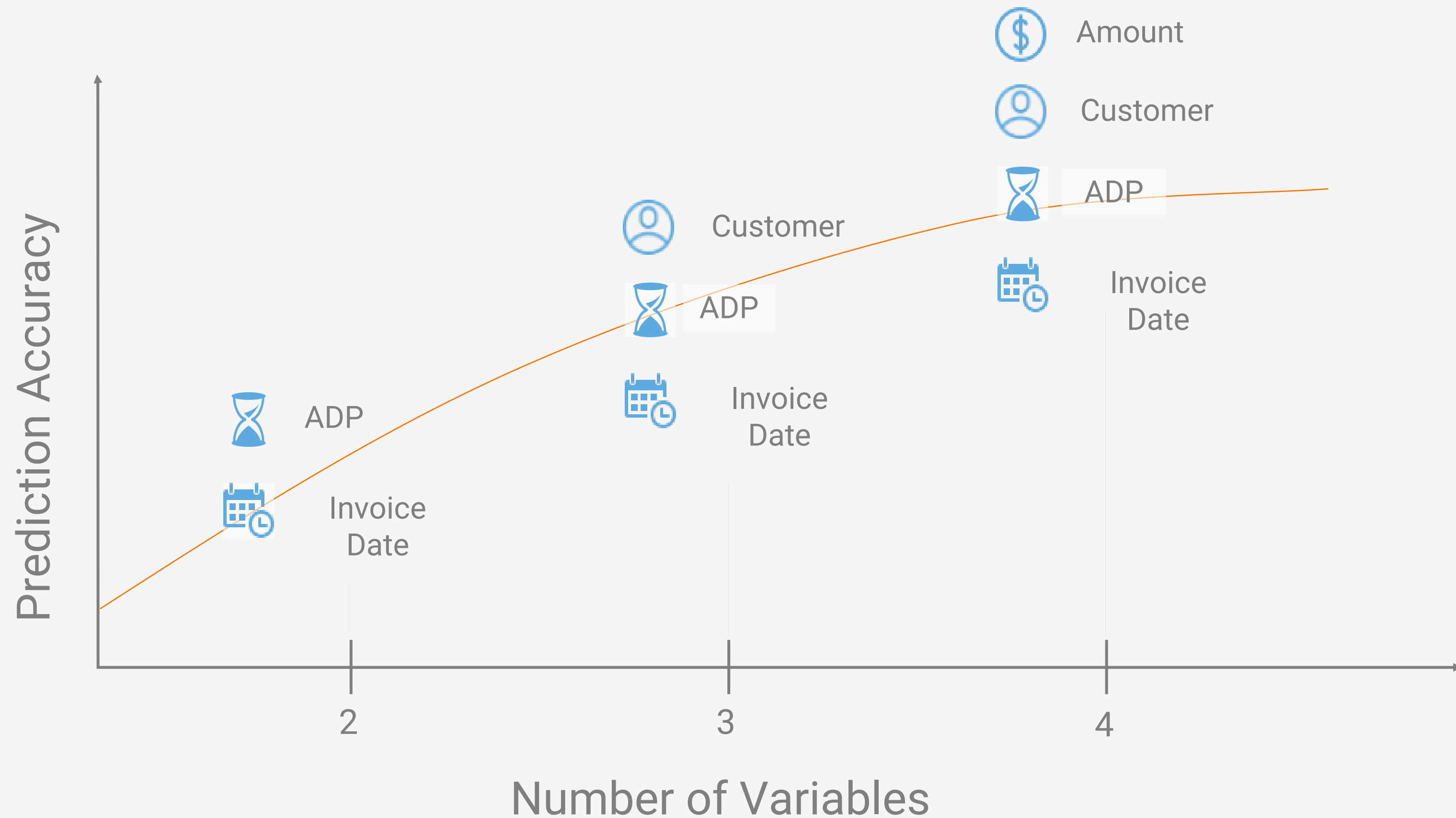
- Consumes vast amounts of data and applies it to a specific, pre-defined objective
- Identifies correlations or variables that would be extremely difficult for a human to discover
- Can be given “free reins” with regard to a specific function
- Requires guidance to help the AI to select problems and boundaries



**AI is optimally suited for cash forecasting  
because it can improve it, not just automate it.**

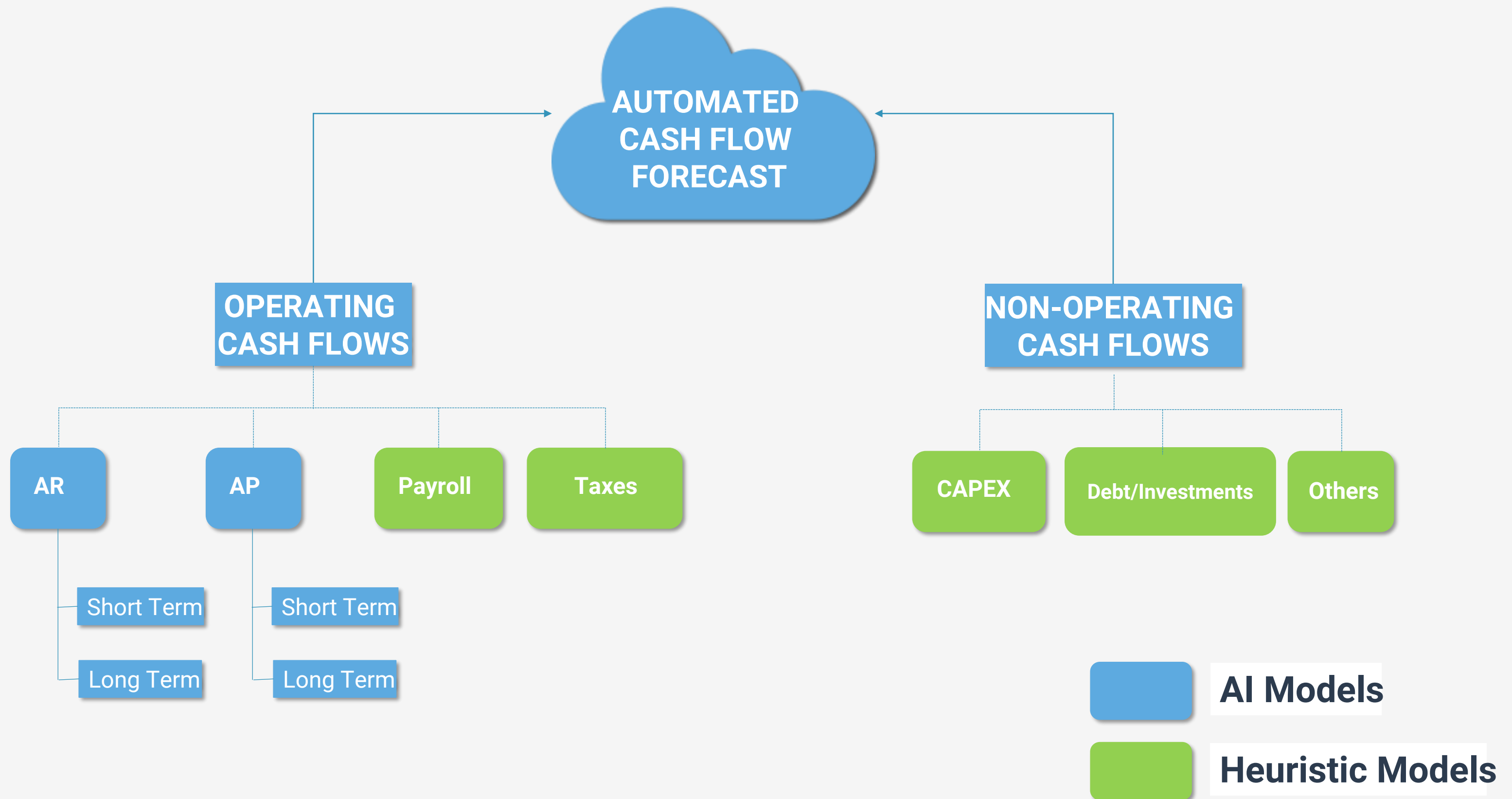
# ARTIFICIAL INTELLIGENCE 101

## IMPACT ON ACCURACY LEVELS WITH ADDITION OF VARIABLES



Continuous data access and a global format make forecasting faster and more consistent

# USING RIGHT MODELS FOR EACH CASH FLOW CATEGORY



# PERFORMING VARIANCE ANALYSIS

IDENTIFY DISCREPANCIES & EVALUATE THE ACCURACY

- Helps identify shortcomings within the forecast and aids in improving the accuracy of forecasts moving forward.
- Faster variance analysis = quicker corrections to misestimations and improved future forecasts.
- Variance analysis is only helpful if the *specific* reasons behind variances can be identified. It is not good enough to simply identify what the difference was.

**Variance Analysis: Forecast to Actual Cash Outflows**



# LOOKING AHEAD

## KEY TAKEAWAYS



### FUTURE IS GOING TO BE MORE DYNAMIC

The future of forecasting will be more agile and will account for external geo-nuances such as currency, compliance, and macroeconomic fluctuations.



### HIGHER LEVEL OF INTEGRATION

Cash forecasts will have a data feed from best-of-breed cloud solutions connected by API.



### AUTOMATION OF FUNCTIONS

Time-consuming processes such as data gathering and variance analysis will be automated, freeing up bandwidth for resources to focus on strategic tasks.

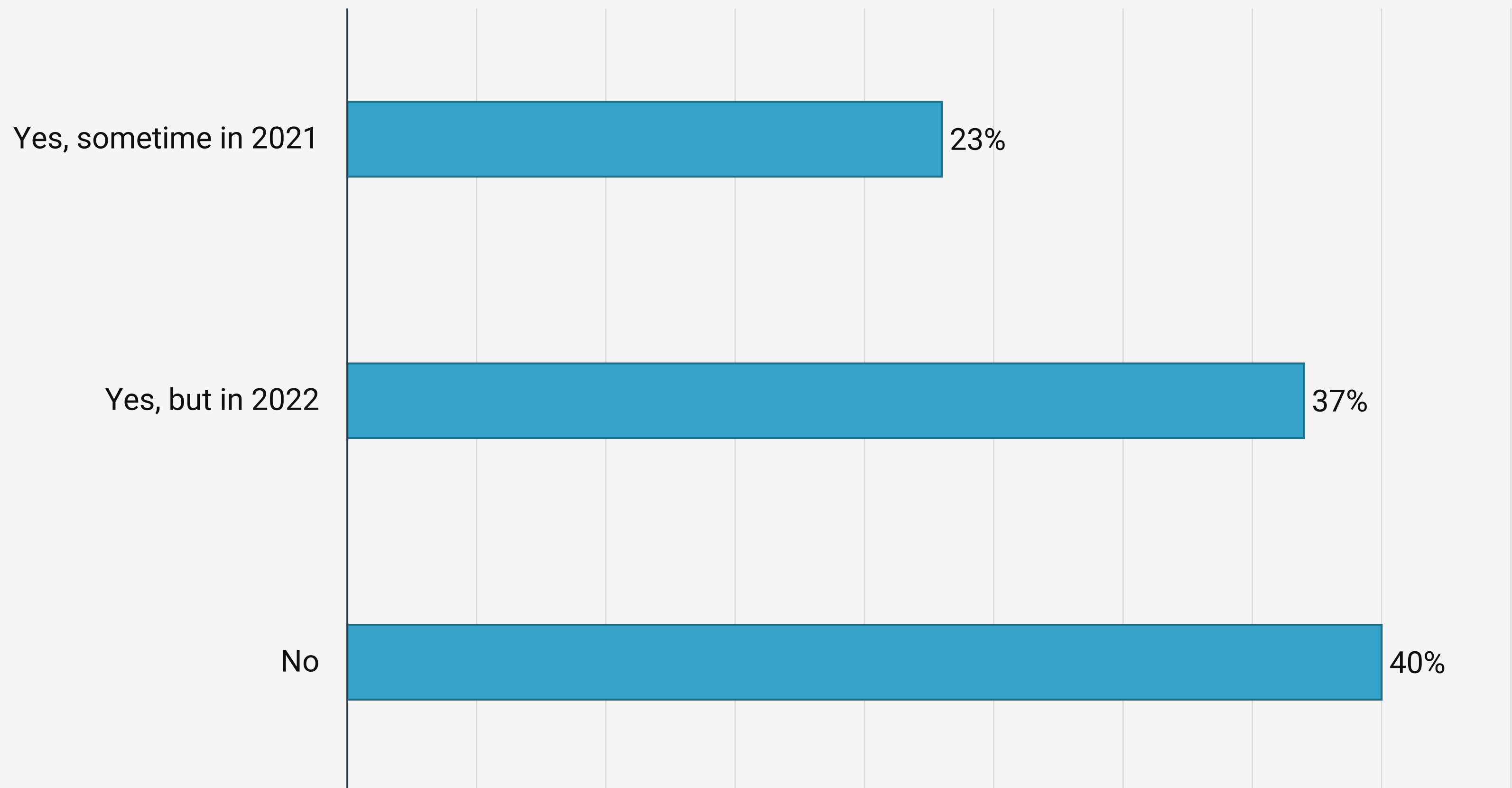


### USE OF ARTIFICIAL INTELLIGENCE

Artificial intelligence will be an enabler for humans to make better decisions.

# POLL QUESTION

**Would you be interested to take look at how Artificial Intelligence could improve your current forecasting process?**





Integrated Receivables

Credit    EIPP    Cash App    Deductions    Collections

Treasury Management

Cash Forecasting    Cash Management

Series B | \$1b+ Valuation



New Products & IP



Autonomous Systems

2020

BANK OF AMERICA    PNC    SGE SUSQUEHANNA GROWTH EQUITY, LLC    citi  
Strategic Investments

2019

Artificial Intelligence

2017

Cloud Solutions

2010

On-Premise Solutions

2006

Trusted By 200+ Fortune 1000 Companies

\$ 1 Trillion + transactions processed annually



# LET'S CONNECT.

DON'T LET THE LEARNING END HERE...  
CONTACT US WITH ANY FUTURE QUESTIONS.

Thank you for your interest in this presentation and for allowing us to support you in your professional development. Strategic Treasurer and our partners believe in the value of continued education and are committed to providing quality resources that keep you well informed.



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highradius STRATEGIC TREASURER

*Virtual Roundtable*

### Drivers of World-Class Forecast

JULY 22, 2021  
@ 1:00 - 2:15 PM EDT

Join us for a candid discussion with your peers on the drivers and strategy of world-class cash forecasting.

**REGISTRATION REQUIRED**  
Space is limited.

## UPCOMING VIRTUAL ROUNDTABLE

**Thursday, July 22 @ 1pm Eastern**

Join us for a candid discussion with your peers on the drivers and strategy of world-class cash forecasting. Automated, accurate forecasting is now possible thanks to technological innovations, but exactly what problems can it help solve and how can we best put it to use?



**REQUEST A ROUNDTABLE SEAT**