GUIDE TO
Automating Cash Forecasting

What is cash forecasting?

We are living in the digital age. As consumers, we have become accustomed to having high quality data delivered on demand. So why is it that in business, we don't have the same expectation? Many standard business processes are still manual, lengthy and inaccurate. The forecasting process specifically, hasn't changed in over a decade.

Though often dismissed, the forecasting process is crucial. According to The Corporate Treasurer, "Most organizations don't have the financial strength to survive even a short-term cash flow crisis, so having accurate forecasts on hand is essential. When you have these working reports available, you and your management team can monitor your company's results and make adjustments to your plan as needed." Forecasts are an extremely useful tool, especially for young businesses that need to have a tight grip on their finances and might need investors to raise capital.

What is the SOP?

For a while, the most efficient and accurate way to forecast has been through spreadsheets and manual calculations. This process, in addition to being extremely time consuming, is rife with opportunities for human error. Needless to say this method is not ideal and leaves finance professionals sifting through endless data, filling in cells and keying in formulas. It used to be that the only way to make these forecasts more accurate was to add more transactions, and manually find and integrate historical data trends into the model.

> **Nearly all organizations still use spreadsheets for some parts of the process; more worryingly, however, 40 percent of them rely solely on spreadsheets to produce the forecast. It is possible to produce a reliable forecast using these basic tools, but the survey shows that organizations with the most accurate forecast are more likely to use more advanced software to do the job."**
>
> **– A study performed by KPMG**

However, we now have different options. The age of technology has ushered automation into the world of cash management. These solutions are new, and that can make them seem intimidating or out of reach. In order to help you understand what you need and what you should be looking for in a solution, we have broken down the different aspects of the latest forecasting technology.

What does your business need?

⚡ Efficiency

Excel is an extremely inefficient forecasting tool. Manual forecasting takes an obscene amount of manpower and time. To build these forecasts data must be collected, standardized, entered and analyzed. Much of the time that is dedicated to forecast construction is taken up unnecessarily, and could be better diverted to analyzing the results of the reports. By automating this process you can take back your time and focus on the things that really matter like, planning and strategizing for future cash positions.

◎ Accuracy

The highly manual aspect of spreadsheet forecasting leaves it vulnerable to human error. Not only is it easy to make mistakes while creating and maintaining spreadsheets, but by the time an error is caught it is usually buried under layers of data, hard to find and difficult to correct. Even minor errors in spreadsheets can be catastrophic. In their article, PWC explains the potential repercussions of producing inaccurate forecasts. "Activist investors may see it as a signal that management doesn't have a firm hand on the business. The cost of being off the mark can also be huge, not just in perception but also in dollars. A company's cost of capital (debt or equity) can be impacted by their assumptions and forecasts related to GDP growth, currency exchange rates and interest rates." With digitalization the margin of human error can be significantly reduced.

✧↗ Higher level forecasts

The technology behind automation is going beyond basic efficiency. New technology like mobile apps and automated reports are increasing communication and accessibility. When opportunities or questions arise the increased accessibility to forecasts and cash management data allows leaders to make immediate and informed decisions.

What should you be looking for?

When new technology emerges it can be difficult to pinpoint exactly what it does, and what functions to look for. Here are five features that you should look for in cash forecasting software.

1. Machine learning

The integration of artificial intelligence and machine learning in forecasts is a game changer. Not only can these algorithms be taught to look for trends, but they do so free of bias.

Machine learning is being leveraged to establish a forecast baseline and analyze historical data trends in forecasts. These algorithms vastly increase the accuracy of forecasts by removing the aspect of human error and setting realistic, data driven targets.

JP Morgan is adopting machine learning and artificial intelligence into their business practices.

> **Thanks to advances in artificial intelligence, intuitive cash forecasting methods involving neural network technologies that closely replicate the way people think are changing the game. Unlike statistical methods, these neural networks identify complex patterns in cash usage and automatically adapt and adjust the forecasting model. At J.P. Morgan, we recently piloted machine learning to help clients predict operating cash inflows and outflows, as well as determine the optimal level of operating liquidity required to support fluctuations in working capital. These sophisticated tools and techniques will help improve the overall quality of forecast.**
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> **– Interview with The Corporate Treasurer**

2. Data collection and storage

This feature is highly underrated. Most businesses don't have the resources or time to build and maintain a data lake. Finding a system that aggregates data from across all banks and bank accounts saves you hours of fishing for specific numbers. This is why you want to look for a feature that allows you to tag transactions by region, entity or division. This way you can search for and easily find specific data when you need it.

When all of your data streams are flowing in from different places you'll want a software that normalizes data. Programs that do this automatically can make your scattered data cohesive, and make it easier for you to see the big picture. With all of your data on one platform you can easily see what strategies work well, and spot potential financial pitfalls.

3. Manipulate forecast inputs

You know your business better than anyone, which means you will want software that gives you the power of flexibility over your inputs. The option to manually add data, or include data from your organization's .CSV files or ERP's, enables you to tailor your forecast to meet the specific needs of your business.

> " **For example, a seasonal business that generates 80 percent of its sales over just two months of the year will have different cash flow needs than one whose revenue is steadier throughout the year.** "
>
> **– CFO Selections**

4. Forecast flexibility

In addition to having flexibility over forecast inputs, you'll want to be able to manipulate the scope and length of the forecast. This feature enables you to forecast for different business decisions and potential investments. This would also give you the ability to forecast for subsidiaries; you could analyze, monitor and plan for each business individually. These specific forecasts allow you to make quick and fully informed decisions. Businesses are not one size fits all, so why would you want a one size fits all forecast?
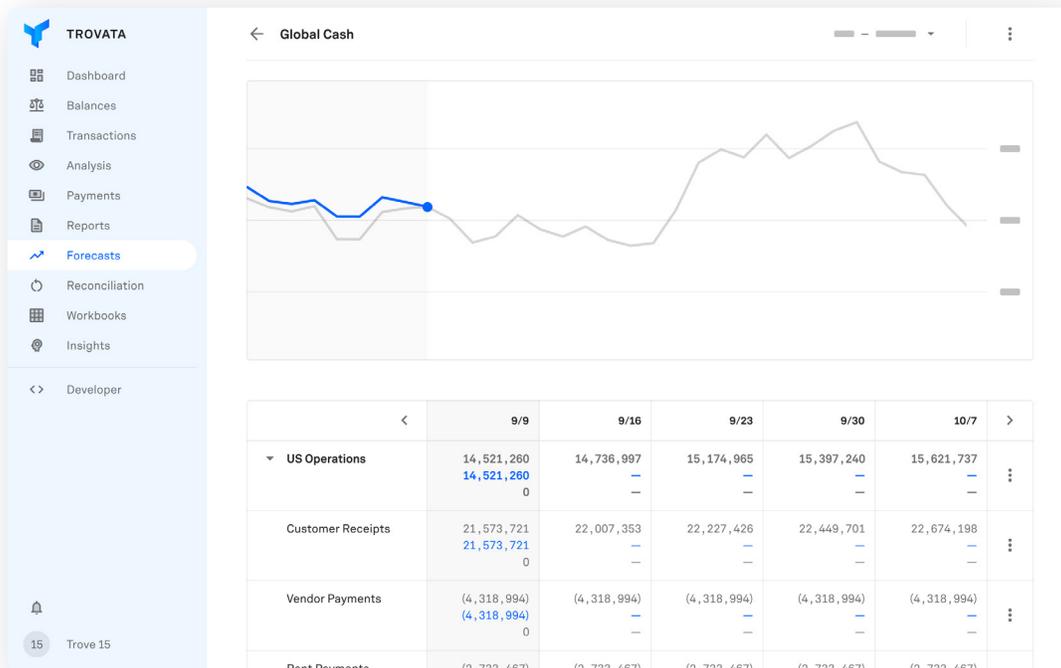
5. Mobile App

Automated forecast solutions are not just increasing efficiency in the creation of forecasts, but also in their dissemination. Mobile apps and automated forecast emails are a powerful communication tool. You can easily share cash data with senior leadership and major stakeholders on demand, and they have the option to check their data, in real time at their convenience.
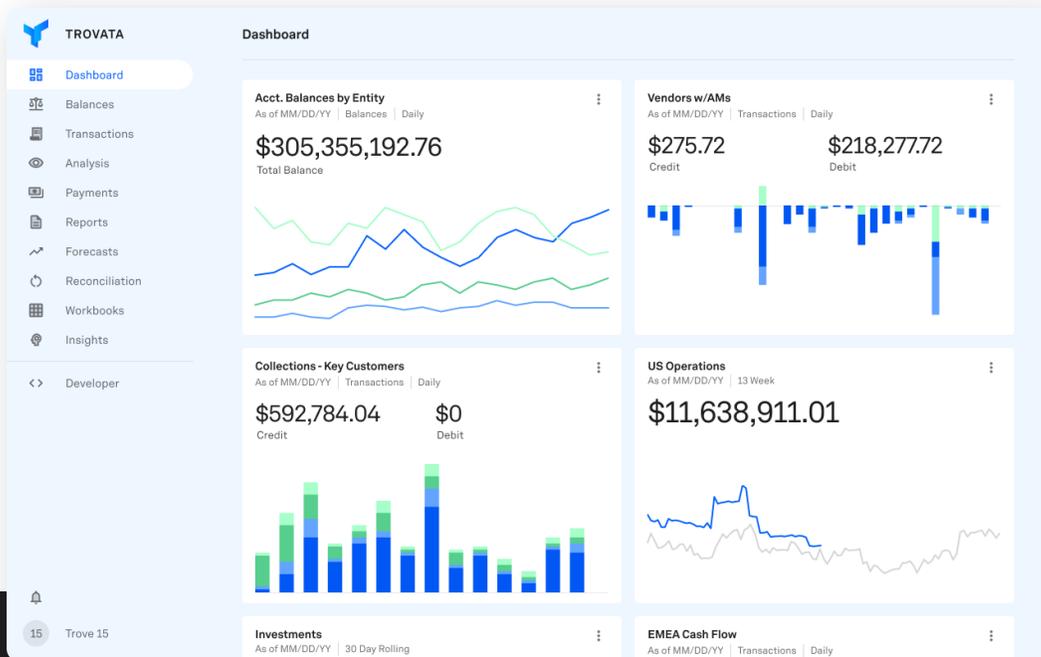
The Perfect Solution

Trying to find a solution that incorporates all these features may seem daunting, but Trovata makes it simple. Trovata is a JP Morgan backed, cash management and forecasting solution. Unlike other providers in the space, Trovata can be installed in a minimum of a few hours. Contrary to legacy TMS, Trovata offers affordable set-up and maintenance fees.

Trovata uses proprietary machine learning algorithms to increase forecast accuracy, and gives you the power of flexibility over forecast variables. Our mobile app provides you with real time cash data on demand.

Book a demo of Trovata today and learn how our low lift and low cost solution is the answer to all of your forecasting needs.

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