Cash positioning and forecasting essentials

How to bring more science, less art to cash forecasting

Accurate cash forecasting remains an elusive treasury goal, largely because the development process is as much art as science.

Guesswork often serves as fact due to challenges in getting reliable, current data from operating units, banks, and other sources. Challenges with underlying data lead to a reliance on predictive tools such as statistical modeling rather than on mathematics.

What can you do to make your cash forecasting process less art and more science?

1. Simplify data collection from your operating units.
   Gathering forecasting data from operating units is a common challenge. Data capture is often an abstract collage of messages sent by email, text, sticky notes, and phone calls.

   The use of a template helps to streamline and standardize data collection by imposing process discipline. However, treasurers must rekey or paste data provided into a forecasting tool — commonly a spreadsheet. This creates redundancy and increases the risk of error.

   To further simplify data collection, enable operating groups to input forecasting data directly into automated tools. Today's treasury workstations and online cash flow analysis tools allow treasury to give secure access to internal groups for reporting purposes.

2. Build categories and rules into your forecasting process.
   Your banks have much of the information you need for cash forecasting, but they may not report it in the way that is most useful to you. Banks have a transactional view of information, so they present it categorized by transaction type.
Treasurers are focused on the payment’s purpose rather than the payment method. Instead of wires, ACH, and checks, categories meaningful to a forecast might include customer payments, supplier payments, payroll, and taxes, among others.

To support your forecasting process, a more scientific approach—one that aligns with treasury’s thought process—is for your bank to allow you to create custom categories for cash inflows and outflows. With your categories established, your bank can apply a rules set that allows it to parse transactions into those categories based on factors such as payment timing, amount, and method. This both simplifies your forecasting process and shifts more of the forecasting work to your bank.

3. Employ a mathematical forecasting approach.
Cash forecasting is made more difficult by human nature. Operating groups tend to inflate or deflate the numbers they report. They overestimate outflows to ensure getting adequate budget to cover actual expenditures. They underestimate inflows believing it’s better to exceed than miss projections.

When you use straight math based on what is actually happening and what has happened in the past, you remove the human factor from your forecast and increase the accuracy. This is the method some new cash forecasting solutions employ. Most also include a report card for checking forecasting accuracy and pinpointing variances that require research.

Try this approach, then compare forecast to actual to see if it improves the accuracy of your forecasts.

When science trumps art
Cash forecasting will never be as artistic as a Picasso nor as scientific as Pi. Nonetheless, you can move the needle from art toward science with the help of reporting techniques, analysis tools, and technology solutions that are available to you today. By automating and streamlining your forecasting process, you’ll free more of your time for strategy and decision making.

For more information, contact your treasury management representative.