BUSINESS GUIDE

Cash Flow Management for Every Part of Your Business

Five problems and five solutions for CFOs now

ORACLE NETSUITE

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It's no secret that costs have risen dramatically during the past year due to a combination of elevated demand, constrained supply and loose monetary policy. While the U.S. Federal Reserve is taking aggressive action in hopes of controlling inflation, prices won't feel the impact immediately. It's too soon to know what long-term impact the Fed's moves will have on the economy, but one thing is clear: Inflation remains a problem for now. Supply chain issues, the threat of recession and war in Europe will further confound the economy, adding to this period of instability.

Businesses can experience unexpected cash shortfalls even in the best of times, which is why cash management is always a top concern among financial leaders. Inflation, supply chain snags and labor issues increase the risk of a cash shortfall, especially if a business can't pass higher costs on to its customers. Throw in ineffective processes, inadequate controls and inaccurate information, and managing cash gets even more difficult – causing otherwise successful companies to struggle.

However, these issues are manageable with strong leadership from CFOs and technology to back them up.

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CHAPTER 1

A Real-Time View of Cash Position

The problem: Put simply, it's hard to manage cash well when you don't know how much you have. Checking a single account balance is easy, but it doesn't provide a complete picture. The finance team needs to know which transactions have cleared the bank and which haven't. Does the current balance include the previous day's deposits? Does it include recent vendor payments? These answers can mean the difference between making or delaying an investment.

Getting these answers, however, involves comparing bank transactions to actual accounting entries. Doing this manually is time-consuming, especially with multiple accounts, so some companies only perform bank reconciliation once or twice a month. Basing financial decisions on out-of-date information like this leads to generally poorer results.

The solution: Smart cash management decisions require access to real-time financial data, including the current balance across all accounts and a complete record of all bank transactions. A robust accounting system tracks this information and makes it centrally available so that managers work from a common source of data. In NetSuite, the Cash 360 cash management dashboard adds even more insight, monitoring cash flow trends and tracking total cash, accounts receivable and accounts payable balances in real time.

A central accounting system also facilities account reconciliation and the application of customer payments to open invoices. When these processes are automated, they can happen more often. In turn, business leaders get a better understanding of their current cash position.

Finally, daily and/or real-time bank feeds eliminate the need to enter data manually, saving time and ensuring accuracy. For example, NetSuite's automated bank feeds import account details nightly and allow for intraday updates, so finance teams know which transactions have cleared and how much cash is available at any time.

CHAPTER 2

Reliable Cash Flow Forecasts

The problem: Finance leaders must know how much cash the company needs to continue funding the business short-term, as well as the outstanding receivables it is likely to collect. Yet at most organizations, inaccurate cash flow forecasts are the norm. In a survey from APQC, a benchmarking research firm, nearly 60% of respondents indicated that their company's cash flow forecasts aren't within 75% of the actual balance. Forecast accuracy will only suffer more as economic headwinds affect suppliers and customers alike.

Poor forecast quality begets poor decision-making. Business leaders may become overly conservative if they lack confidence in the numbers, delaying investments in marketing, inventory or other initiatives that could fuel growth. This hesitancy can spark a vicious cycle in which demand falls, stockouts lead to lost sales, and revenue drops – further harming cash flow. Poor forecasting can also lead organizations to request more credit than they need, which typically increases interest rates.

The solution: Three factors affect forecast accuracy: the quality of the data used, the validity of the assumptions built into the forecast and the amount of time that has passed since the forecast was updated. To improve accuracy, begin by providing centralized access to real-time financial, sales and other relevant data – ideally in an enterprise resource planning (ERP) system.

Next, eliminate unsupported assumptions from the forecasting process. For instance, rather than estimating collections based on instinct or applying a standard percentage to open receivables, companies should use their own historical transaction details. Leaders should also factor in non-operating cash flows including planned capital expenditures, incremental venture investment or other activities. Finally, by automating cash flow forecasts, companies can update them more often, which both improves accuracy and saves time.

NetSuite's Cash 360 dashboard covers all of this, displaying a rolling six-month cash flow forecast based on current transactions and historical collections and disbursement averages.

It also considers data points including funding sources, planned expenditures, sales forecasts and billing schedules.

CHAPTER 3

Data-Driven Budgeting

The problem: In many organizations, the budgeting process begins with desired outcomes, such as a top-line revenue, annual growth rate and/or earnings target, and then works backward to establish spending limits. Departmental budgets for the coming year tend to mirror the current budget, with slight adjustments to reflect future performance targets. This approach tends to rely more on historical than current facts. And decisions may not consider which expense categories generate the most value or which investments are most likely to improve performance.

This process may have worked just fine prior to 2020, but it isn't sufficient for managing through the inevitable changes in demand and cash flow that come with a changing economy. Inflation, a recession threat and other timely issues can significantly change the assumptions behind budget numbers. If a business doesn't change its assumptions accordingly, it risks leaving some activities overfunded and others underfunded – and financial performance ultimately suffers.

The solution: Instead of establishing a performance target and then building their plans, use a bottom-up budgeting approach that bases plans on data. This will deliver more consistent, predictable results. Begin the process with an assessment of the current business environment and a review of past initiatives to determine which activities are likely to generate the most value. This gives leaders a better understanding of which results are actually achievable, so they can allocate budgets accordingly.

Planning and budgeting capabilities in NetSuite automate the planning process, save time and improve data quality by eliminating the need for cumbersome spreadsheets. They provide sophisticated modeling capabilities, predictive analytics and a powerful calculation engine that allow financial planners to quickly build and evaluate multiple what-if scenarios for more informed, data-driven budgeting decisions.

CHAPTER 4

Strong but Flexible Financial Controls

The problem: When first starting out, entrepreneurs have complete control of the checkbook, allowing them to personally approve every purchase. As the company grows, the purchasing process evolves, gradually giving more people access to the checkbook or corporate credit card. Controlling expenses becomes more difficult, increasing the risk of excessive or inappropriate spending.

To avoid these issues, organizations typically establish formal expense policies and procedures, including spending limits and purchase authorization requirements. These documented processes are only useful if enforced – and too often, they're not. Many organizations also don't update them regularly. But just as in budgeting, timely factors like inflation and supply chain issues are changing the fundamental assumptions that inform these controls. So, finance teams need easy ways to assess and change their spending review requirements.

The solution: Well-designed internal controls bring greater stability to an organization by holding individuals accountable for their actions. They also assure compliance with government regulations and accounting standards. Many business management solutions help establish this compliance. They build review and approval workflows into processes including accounting, sales, procurement and staffing, providing management oversight that reduces the risk of financial fraud or errors. Effective controls can also improve company performance by ensuring that senior staff sign off on actions from lower-level managers.

In NetSuite, configurable workflows in areas like procurement, accounts payable and expenses help companies avoid overspending by enforcing approval policies and holding managers accountable for staying on budget.

Embedded controls help save money by automatically logging all user activity, reducing the risk of fraud and maintaining appropriate separation of duties among finance and accounting staff.

CHAPTER 5

Proactive, Automated Collections

The problem: In an ideal world, customers always pay on time and in full. In reality, companies frequently have delinquent accounts. Collections efforts often fall to accounts receivable staff, who perform them ad hoc and focus mainly on accounts that are long past due, making it more difficult to secure payment.

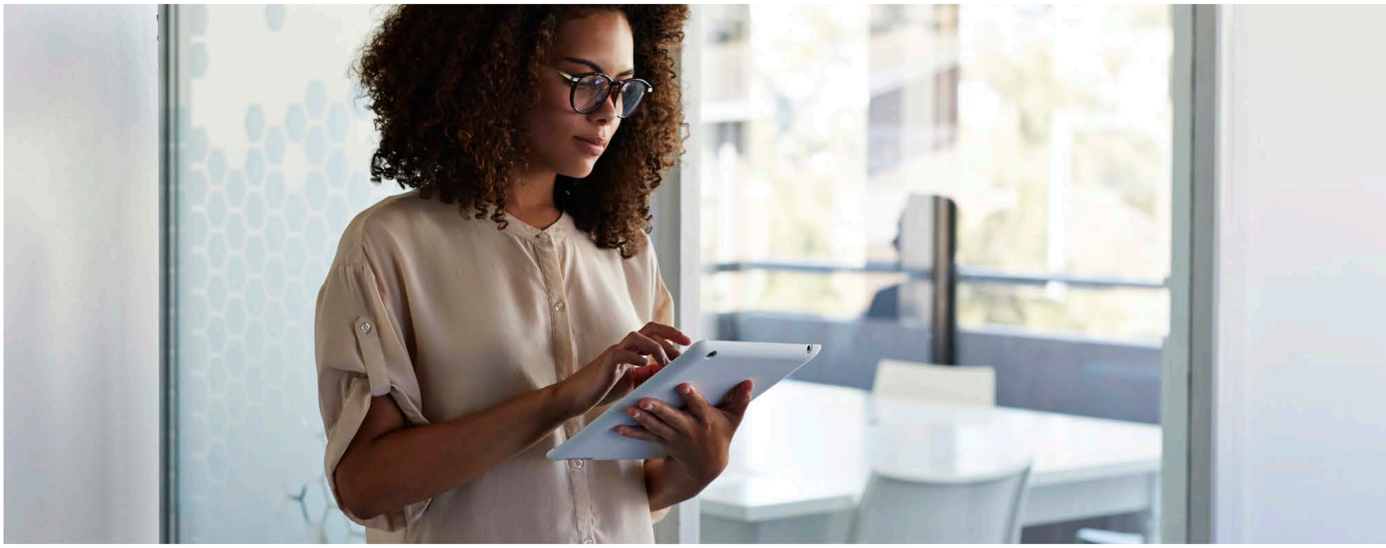
And the tougher the economic conditions, the more likely it is that some customers will pay late or need to renegotiate payment terms. In a difficult business environment, customers who once paid reliably may run into trouble. It's hard to assess how many customers – and which specific ones – will have trouble paying.

The solution: Use a business management system to establish an effective collections process that keeps days sales outstanding (DSO) under control. These systems can automate customer communications to ensure consistent follow up on past-due invoices and reduce bad debt write-offs.

Automation can even improve on-time payment by alerting customers of pending due dates. For example, NetSuite's automated dunning letters solution improves on-time payment by alerting customers before bills are due. It also helps avoid write-offs for bad debt by maintaining consistent, proactive communications with delinquent accounts.

See how your business can make smarter cash flow decisions with NetSuite.

Free Product Tour



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