KNOWING YOUR COMPANY INSIDE OUT IS PARAMOUNT FOR TODAY'S CFOS, PARTICULARLY IN VIEW OF TODAY'S ECONOMIC CLIMATE, SAYS **KEN LILLIE** OF SUNGARD TREASURY SYSTEMS.

SETTING A GOOD EXAMPLE

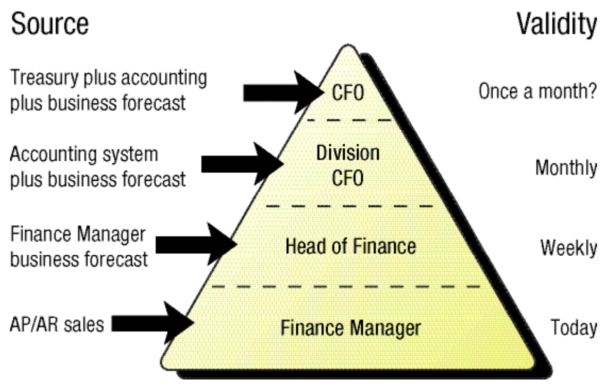
The chief financial officer (CFO) who has the ability to explain and discuss with confidence cashflow forecasts from core business units is providing accurate information describing the health of the organisation. This is information that can be measured and compared, and would also demonstrate a thorough understanding of the business issues beneath the numbers.

The ability to provide such data is also all the more apparent following the highly publicised accounting scandals in North America and Europe that resulted in such a fall in confidence in traditional GAAP accounting. Cash, rather than accounting, is therefore becoming the more reliable indicator of the health of an organisation and, accordingly, analysts are paying more attention to this aspect of company reporting.

The growing emphasis on liquidity knowledge was emphasised in a recent survey by *GTNews*, in which its readers were asked three simple questions about cashflow reporting. Asked whether analysts were more interested in their cashflows than GAAP reporting, 73% of corporate financial executives believed that standard GAAP reporting did not provide analysts with sufficient information about their company's liquidity. However, 75% also confessed that the data available to them about the liquidity of such executives' companies is sub-optimal. The third question revealed that nearly 50% of respondents believed their reporting priorities were not aligned to market needs, focusing on end-of-quarter figures at the expense of cashflow management.

WHAT CONCLUSIONS SHOULD WE DRAW? Financial executives need real-time visibility into free cashflow, as that one metric is, demonstrably, the best indicator of the health of the company. Rather than emulate the Fortune 1000 CFO who saw his company's share price drop 25% over a few days after admitting ignorance of his cashflows to an analyst, financial executives need to have confidence in, and a full understanding of, available up-to-date liquidity information. However, although this fact is acknowledged by the results of the survey, many companies do not have the processes or systems in place to deliver that visibility in an efficient or timely manner, or with the accuracy required for such high-profile data.

FIGURE 1
A HIERARCHY OF MISINFORMATION



SO WHAT WOULD THE CFO SEEK TO ACHIEVE? As already discussed, uppermost on the list would be the ability to brief the group board and investment and business analysts with certainty on group liquidity and funding issues. The CFO would want to avoid surprises that may affect investor confidence – the unscheduled appearance of black holes can have disturbing results, as we have witnessed in recent times. Even the sudden and unpredicted arrival of good news can be embarrassing to a company that is trying to predict its cashflows with any degree of accuracy. The CFO would want to avoid any activity that does not follow company policy and could destabilise the business; any 'cowboy' activity would need to be identified and acted upon and eliminated immediately. The CFO would also want to set an example to the business units in operational efficiency. In essence, he or she requires greater control over the business and wants to have the latest information about core financials. With these goals in mind, it would be necessary to look at existing processes through the group in order to:

- improve the accuracy and availability of financial data;
- obtain intra-month/quarter forecasts;

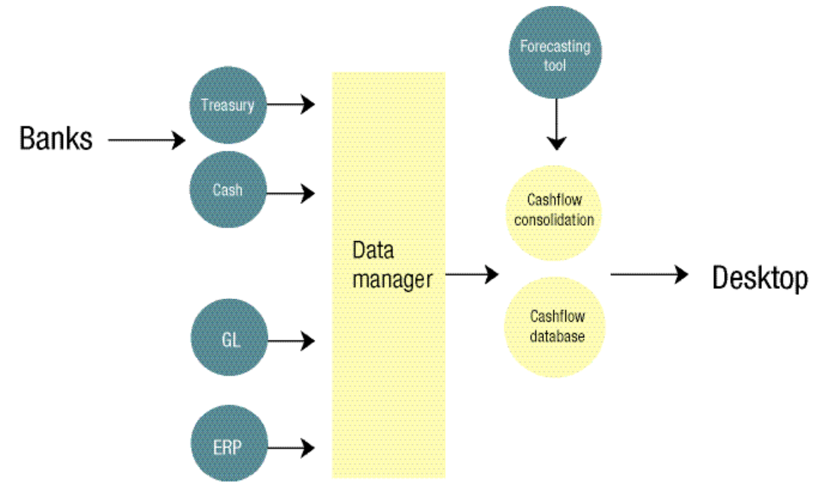
- manage key financial risks – for example, availability of credit, reduce currency and interest rate risk, liquidity/cash position;
- monitor adherence to financial policies; and
- improve operational efficiency of key functions.

For the CFO to be confident in using the cashflow projections, he or she must understand the process that creates them. However, a real problem faced by the CFO is delayed and untrustworthy information flows, as explained in *Figure 1*, portraying the 'hierarchy of misinformation'.

Figure 1 shows the struggle cash forecast information typically has in order to move from the finance manager at business unit level through to the group CFO. As the forecast data gets consolidated at each level, so is the process delayed, and so is the opportunity for error and omission greater. The data is probably gathered from a variety of sources and different forms of reporting, and the chasing of this data and its consolidation involving the pulling together of all these disparate spreadsheet and memo formats is incredibly time-consuming. Data would be drawn from within group and regional treasuries, as well as from business units, and would involve banks and banking workstations, forward payable and receivables systems and forecast cashflows. Although the problem may not be so acute for a small organisation with no remote business units, we can see that a multi-national group trading many product lines across the globe really needs to work at the problem to obtain any sort of truly reliable and useful cash/liquidity management information.

We also see that the need for timely and reliable data is emphasised as the CFO/treasurer wrestles with the liquidity gaps that would result from frequent changes in cashflow forecasts and business assumptions. This would disruptively affect funding plans and create difficulties in maintaining good credit relations.

FIGURE 2
FLOW OF INFORMATION

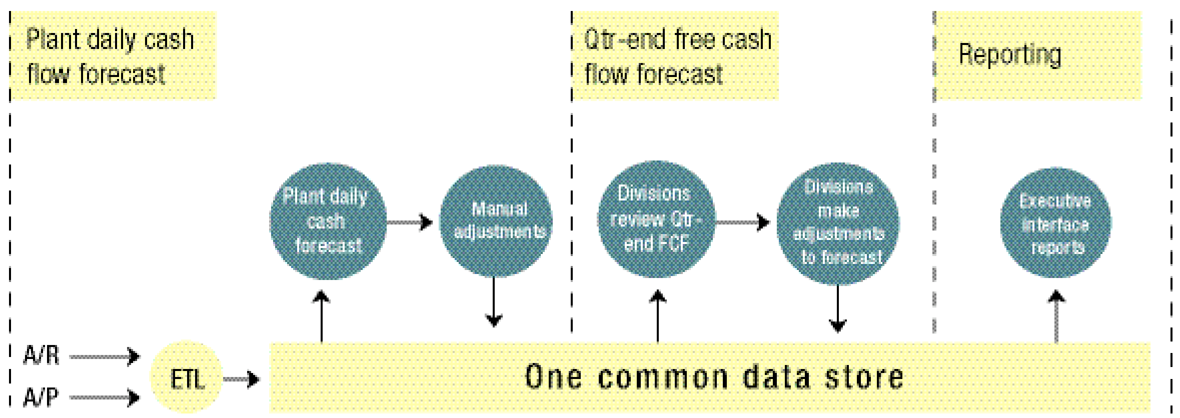


SO WHAT TO DO ABOUT IT? The following case study is based on a well-established multi-national manufacturer based in the US with a turnover of $14bn. The company operates more than 300 manufacturing facilities in 33 countries and employs over 100,000 people. The CFO had a simply stated project agenda. He wanted financial visibility and control, he wanted it globally, in real-time – and he wanted it "now". Beneath this agenda resided certain driving needs. These were:

- Why can't we forecast cash better?
- How can we make cash a daily focus?
- What is my financial risk?
- Are we using debt most effectively?

The main barrier to achieving their stated goal was the array of multiple global financial systems spread across the group. Indeed, most companies face this same difficulty of normalising data across a variety of systems. Few companies employ a single global

FIGURE 3
PRIMARY FUNCTIONALITY



enterprise resource planning (ERP) system, and if they do it is unlikely each local installation has been made in a truly compatible and integrated fashion; a problem often compounded through business acquisitions.

The selected route was to provide an executive desktop solution. This was to be designed to allow the CFO and other executives to manage key cash-based financial data, spot potential trends in business performance, nail down specific concerns or issues, and communicate with other executives as to how a situation is being resolved.

The local managers of more than 250 locations needed to extract data from their operational systems, make adjustments and feed it to a global financial data warehouse. The warehouse was populated with accounts payable, accounts receivable and treasury data integrated into executive-level reporting metrics.

One of the key elements of this process was the use of a data management tool that stood between the local systems and the warehouse. This tool transforms raw data from the subsidiary systems into the information required to support analysis. The data, having been extracted, is cleaned and summarised, so it can be aggregated and analysed consistently. Also key was the application of a secure real-time connection between the company and its banks, automating the retrieval of multi-bank statement information into the treasury management system.

Figure 2 illustrates the primary function of the end solution. In the far left box, on a daily basis, data is extracted, stored and then adjusted by the business units, giving a six-week view of cash requirements. In the middle box, at quarter ends, the company relies upon daily forecasts to bring it from its last monthly closing to the end of the quarter. Finally, in the far right box, the company draws off the data store to build a deck of reports, which becomes the CFO's desktop view into the process.

All of the CFO's objectives were met because of the early formation of a precise definition of the company's needs, a well-run project throughout and the availability of the advanced technology required. As a result, he is now able to report with confidence on the basis of reliable and timely data. The case study underlines that real-time visibility of cash across an entire organisation is a possibility that is currently available to organisations. This should give heart to the great majority of companies polled in the GAAP Versus Cash survey that were worried that, despite its acknowledged importance, the data available to them about company liquidity was simply not up to scratch.

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