

CPM Expert Series⁹
Cash flow and CPM: Capital
punishment?

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CASH-FLOW AND CORPORATE PERFORMANCE MANAGEMENT: CAPITAL PUNISHMENT?

In today's economic environment finance functions are under more pressure than ever to unlock the cash in their collection processes. However, business structures and supplier relationships are more complex than they have ever been. Globalised corporate infrastructure and acquisition programmes mean that finance functions are often formed of poorly integrated fiefdoms or lack good cross-functional connections to the revenue generating parts of the business.

Similarly, as organisations push into new territories these markets bring with them unfamiliar cash collection practices: payment terms may differ significantly from those in more established territories or there may be foreign exchange controls in place that disrupt and delay the inflow of cash from operations.

It's no wonder then, that as organisations feel the effect of the "credit crunch" in addition to these internal pressures, investors are placing renewed focus upon corporate cash generation. Indeed, the tight management of working capital is an indicator of efficient and effective internal processes and is highly sought after by investors when forms of credit are restricted. Moreover, research indicates that organisations who emphasise improving the efficiency of their cash collection processes consistently outperform

their competitors and deliver greater value to their stakeholders.

Short term fixes vs. long term solutions

As a result of the "credit crunch" customers are taking longer to pay their invoices and are demanding longer payment terms. Conversely of course, businesses are attempting to shorten their terms or even demand payment up-front. While such measures may have a positive impact on cash-flow in the short-term there is the distinct possibility that ultimately they will result in corporate "blowback" driving smaller suppliers out of business. Best practice organisations are eschewing such tactics in favour of a more medium-term view that incorporates a rigorous review of their working capital management practices:

- **Process control.** Such organisations ensure that their cash-flow reporting has a high priority and visibility and ally this to a detailed understanding of their different collection processes. They undertake streamlining initiatives to reduce overall collection cycle times. Moreover, they define working capital and cash targets and drive them down the organisational hierarchy as well as horizontally between functions into every relevant part of the business.
- **Forecasting accuracy.** Research has shown that cash-flow forecasting in the majority of organisations is low, with around 25% reporting that their cash-flow forecasts are regularly off target by 30% or more. Best-practice organisations, on the other hand, have much higher

rates of accuracy. They achieve this by strengthening the links between finance and the departments that provide inputs into the forecasting process and ensure that lines of responsibility are unequivocal. Furthermore, they build forecast submission processes that include a comprehensive and controlled review and approval phase.

- **Incentive plans.** Unlike the majority of businesses, best practice organisations establish bonus and payment cultures that link employee incentives directly to good cash and working capital management practices.
- **Consistency of focus.** The best performing organisations make cash and working capital management a cornerstone of their operational strategy. They do this by ensuring that cash collection and management strategies are communicated throughout the organisation. They also secure executive sponsorship for these programmes and put reporting processes in place that ensure that working capital management is closely monitored and managed during daily business operations.

Corporate performance management and working capital.

Corporate Performance Management (CPM) solutions are an important part of many organisations' IT strategies. Industry analyst Gartner defines CPM as "an umbrella term that describes the methodologies, metrics, processes and systems used to monitor and manage the business performance of an enterprise." Indeed, CPM

solutions provide a platform that integrates and streamlines all corporate operational and strategic planning and reporting processes. Implementation of such a solution, therefore, enables an organisation to address working capital management in the following ways:

- **Strategic planning and target setting.** Using a CPM system high-level goals for cash collection and working capital can be cascaded to all parts of the business. Working capital metrics can be defined and targets agreed upon that will act as key drivers for the budget cycle and management incentive plans.
- **Budgeting and forecasting.** CPM solutions provide a centralised platform that supports the budgeting and forecasting processes. Such systems are integrated both vertically and horizontally so that the strategic plan drives budget targets as well as ensuring full cross-functional communication and buy-in of the resulting budget. Detailed submission and approval controls and integrated predictive analytics help to monitor and improve the accuracy of the cash forecasting process. Additionally, CPM systems provide scenario modelling facilities that enable managers to understand how different courses of action will impact working capital.
- **Reporting and analysis.** All CPM systems provide features which manage the financial close as well as providing detailed analytics and easy-to-use score-carding facilities. These features enable the business to “close the loop” and feedback actual

results into the budgeting, forecasting and strategic planning processes. These results provide a single version of the truth that allow executives to have complete visibility of the current and future state of cash and working capital.

CPM: Making cash a key component of all business decisions.

The current economic climate is problematic for many organisations, however, it also presents an opportunity to those finance functions that put working capital best-practices in place. Such measures will not only enable businesses to outperform their competitors, but will provide an excellent platform for additional growth once the economic climate normalises and lines of credit become more plentiful and less costly.

CPM solutions can play a major role in initiatives that aim to improve the efficiency of working capital management. They provide “closed-loop” financial reporting and planning, foster cross-functional dialogue and enable detailed what-if scenario modelling. As a consequence they ensure that decision-makers throughout the organisation are able to evaluate the detailed cash-flow impact of every major business decision.





Quality through Partnership

Rinedata specialise in the selection, development and support of corporate performance management solutions. For over ten years Rinedata has delivered successful CPM solutions to numerous blue chip organisations across a wide range of industries. Our portfolio of experience encompasses SAP BPC, Infor PM, Oracle Hyperion, IBM Cognos and a selection of independent vendor solutions including Tagetik CPM and KCI Control.

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