Successful companies know that cash forecasting has always been crucial for funding day-to-day operations and meeting long-term investment objectives. But in today’s economic and regulatory environment, it’s even more critical — for cash rich companies as well as cash poor. While technology can help to streamline the cash flow forecasting process, what’s more important is having the right disciplines and processes in place.

No forecast will ever be 100% accurate, so it’s important to know that the information included in your model is accurate, consistent and relevant. Here are ten steps that can lead to better cash flow forecasting:

1. **Keep an eye on the big picture.**
   Knowing your company’s strategic direction is essential. Understanding your operating companies — what they produce and what they sell — as well as details such as upcoming capital expenditures, tax payments and pension payments are all key components to include in your forecasting model. However, your forecast may accurately predict the company’s receivables and purchasing figures — but the forecast will fall short if the treasurer doesn’t know that a $75 million acquisition is planned in two weeks’ time. Continuous communication with your entire forecasting team is critical for achieving the right level of detail to include in an accurate forecast that can be easily understood and communicated to senior management.

2. **Know your company’s infrastructure.**
   Your company’s infrastructure, whether centralized or dispersed widely, may vary your approach to forecasting. Additionally, your company’s internal and external systems and overall account structure can impact the cash flow forecasting exercise. For a company with an enterprise resource planning (ERP) system, IT will play a key role in extracting the necessary data and feeding it into the forecast. For a company with a decentralized account structure the focus will be on collecting data from the right people around the world and entering it into a central repository, whether that is done using a treasury management system or through shared spreadsheets. Both types of tools can be used to gain a better understanding of your cash flows. Treasury management systems can centralize and house a great deal of information, some may be limited, thus spreadsheets can be a vital tool in customizing to your specific reporting needs.

3. **Integrate systems and technology platforms.**
   Growth is often driven by acquisition — particularly international growth. And while ERP capabilities are helping centralize information, acquisitions cause disparities as they involve a variety of local banks and a host of different platforms. Therefore, it’s important to quickly integrate new acquisitions into enterprise systems and platforms in order to streamline processes and improve information flows and visibility. Additionally, you should look to integrate your banking structure as fast as possible to increase visibility of cash. A standardized global model allows a corporate to automatically upstream its cash where appropriate into a centralized hub and then use it across any territory.

4. **Have the right banking structure.**
   Multinational companies will need to take into account their geographic footprint as well as the currencies in which they operate. Even when you have many bank relationships across different countries, a global overlay bank can provide a single view and optimized control over your company’s liquidity around the world. Rationalizing your company’s banking and account structures, and improving straight-through processing rates, can streamline the cash flow forecasting process and yield more
accurate results. In addition liquidity management structures, such as zero-balance accounts and notional pooling, allow companies to offset credit and debit balances, which means inaccuracies may arise. Cash pooling structures also reduce the overall credit lines needed, whereas a decentralized structure may need credit lines in place for each of the locally operated accounts.

5. Classify your cash and label bank accounts.
It is important to understand where you have cash and whether there are any restrictions on it. By labeling every bank account with parameters around what country it’s in, whether there are any FX restrictions, and the tax status, you can not only see your cash, but also know how liquid it is. Foreign currency restrictions in a particular country may prevent you from mobilizing cash, and the local tax regime may impact the amount of cash actually available. In addition, segmenting investment cash into tiers — such as operating, reserve and strategic — can effectively give you a view of how much cash is available and in what timeframe.

6. Establish clear accountability across your organization.
A cash flow forecast is only as good as the sum of its parts. Building the right team of people can help treasury better manage working capital, and gain visibility into all processes that touch on cash. Assign ownership to each area of the forecast, such as accounts payable, accounts receivable, purchasing and sales, and consider linking the accuracy of forecasting figures to those individuals’ overall performance review and/or bonus. For multinational companies it’s important that your regional teams really know the business, so they can connect you to what’s going on outside of headquarters, and feed whatever they’re hearing into the forecast.

7. Establish regular routines and communications.
The importance of cash flow forecasting as a strategic exercise should be communicated to stakeholders — and reinforced on a regular basis. The regularity of forecasting must be the same across the organization. Although challenging, you should require all subsidiaries to buy-in to a ‘bottom-up approach’ to internal reporting throughout the company. This type of standardized approach is essential to providing the necessary snapshot. Regular forecast meetings, including all areas of accountability, can be used to conduct internal benchmarking and variance analyses, and highlight any areas in which the forecast has gone awry. Constant routines and coordination with the operating teams will also help you identify, as you go through the year, any changes that should be reflected in a revised forecast.

8. Measure success.
Forecasting is a process — which means there’s always room for improvement. By establishing and measuring metrics against your forecast you can track the extent that actual cash generation or outflows deviate from the forecast. Variance from actual should be measured and broken down by business unit in order to identify and address areas for improvement — or, more importantly, acknowledge the success of those who are forecasting accurately.

Does your company’s short-term cash flow forecast tally with the longer-term financial plan? The two are usually created by different groups within the company — and may diverge over time if they are not regularly monitored and adjusted. If the company is substantially ahead of the cash flow forecast halfway through the year, the longer-term plan will need to be updated accordingly.

10. Expect the unexpected.
Any number of small and large misfortunes can happen, and not all can be predicted, so it’s important to draw up contingency plans that will allow you access to immediate cash if the need arises. This effort should be led by a strategic player within the company who can lead a team in developing, reviewing, testing and prioritizing the actions that should be taken in the case of unforeseen events impacting your company’s cash flow. These contingencies could include the establishment of adequate credit lines and identifying where cash is available within the company in the event you need to move cash around quickly.

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