

WHITEPAPER



Measuring the Impact of Better Cash Flow Management



Measuring the Impact for Better Cashflow

Introduction

Learn about the choices for improving cash flow management, reporting, analysis and planning, and how better cash flow capabilities will help you outperform your competition. Automated access to dynamic, timely and accurate cash flow information brings benefits including:

- **ACCURATE** and timely insight on actual plan cash levels and cash flow position.
- **BETTER** information leads to impactful decisions.
- **STRONGER** relationship with your organization's plan and forecast strategy.
- **IMPROVED** reporting, and analysis of comparative cash flow (against plan, forecast and prior period data).
- **QUICKER** decisions on operating results and performance.
- **TIMELY** what-if and impact analysis for evaluating business options and scenarios.

Why Cash Flow Matters...Cash is King!

Cash is the lifeblood of your organization, and the statement of cash flows is the barometer by which management, lenders and investors measure the strength of your cash flow. Your ability to produce accurate and timely cash flow statements, and to perform analysis based on those accurate and up-to-date reports, is highly critical for assessing both the current health of your organization and making key business decisions. Knowing the timing, amount and predictability of future cash flows should be an essential component of the budgeting and planning process at all companies – not just high-growth and highly leveraged companies – in a weak economy.

Most companies must invest working capital before realizing a profit or return on investment. When you have

inaccurate and untimely cash flow analysis, it leads to a misunderstanding of the timing of cash flows, which negatively impacts how your financial performance is viewed, both inside and outside the company. This could impact market capitalization, the ability to raise capital or pursue acquisitions, all critical components of a growth path. On the other hand, better management of cash flow can positively influence how customers view the viability of your company and therefore influences whether they buy from you or view you as a strategic partner.

Investors place great importance on cash flow statements

- A positive cash flow driven by core operations is a healthy sign for most investors – the ability to increase purchasing for both inventory and capital assets signals an organization's commitment to future growth.
- An unfavorable cash flow position, however, is not always a negative reflection on a company. At times a negative cash position can signal new product development or other business expansion which is needed for long-term market growth. This is a likely scenario for many companies within high growth markets or industries (e.g. software development).

As a result, the ability for a company to develop an insightful, strategic and accurate cash flow budget or forecast allows you to manage scarce resources effectively, as well as provide investors with greater insight.

An accurate cash flow statement can be utilized to assess the timing, amount and predictability of future cash flows, which is critical for budgeting and planning for high growth companies.

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Why Accurate Cash Flow Reports Don't Come Easy

Generating accurate, timely, and dynamic cash flow reports is typically difficult due to the cumbersome nature of most companies' planning, forecasting and reporting processes as well as the limitation in most software tools and applications that are available and in use today. We examine the reasons below.

The cash flow analysis issues which may be facing you:

- No link between cash flow analysis and critical business decision. Balance sheet reporting is too high level. Detailed insight on the critical elements of your cash flow analysis is usually not readily available to the cash flow analyst so this limits a thorough, accurate understanding of the planned or forecasted cash position of a company.

Why this matters:

- For many small to medium growth companies, a major challenge is analyzing the cash impact for a typical product life cycle. For example, determining the cash flow dynamics of a software product – what is the impact on cash flow during initial Research & Development? While the product is being created and launched? What is the cash flow when product is sold? How will your company fund growth with equity or debt?
- For most small to medium sized companies the management of cash inflows and outflows is critical. Your company may have limited resources for borrowing capital quickly. An accurate cash flow statement developed during the plan or forecast process can serve as an alert mechanism for any future problems caused by an unfavorable cash position.
- Planning for cash flow at the 11th hour. Although the importance, virtues and critical nature of accurate cash flow reporting and analysis are highlighted

by CFOs and executives in most companies, the development of cash flow plans and forecasts may not receive the same attention as other areas of the business.

Why this matters:

- For planning and forecasting, the development and analysis of cash flow is typically performed at the tail-end of these processes. Most effort - 90-95% - of planning and forecasting focuses on the income statement.
- Planning for balance sheet items, and resulting cash flow analysis, is left for the "last day" or eleventh hour. Typically, cash flow synchronization with the income statement and balance sheet is quickly performed by one person just prior to the sign-off on the plan.
- Often the balance sheet is built at "50,000 feet" - the less precise the balance sheet, the less precise the cash flow.
- Ironically, cash flow development and analysis is almost an afterthought of this process, even though its use is highly critical to making key strategic decisions.
- Dynamic cash flow is unsupported in most budgeting & planning software.

You have many options in financial planning software for developing and calculating cash flow reports and analysis such as:

- Spreadsheets (Microsoft Excel is the most common)
- Business Performance Management (BPM) solutions
- Cash flow point solutions/applications
- Best-in-class planning applications

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Most, however do not provide the required capabilities for driving timely, accurate and dynamic cash flow analysis. Common limitations include:

- **No Financial Statement Integration**

A dynamic link between all key financial statements (profit & loss, balance sheet and cash flow) usually does not exist or requires extensive development time for most budgeting and planning tools.

- **Limited What-If Analysis**

The ability to explore the financial consequences of alternative business growth and funding strategies is critical, especially in fluid or volatile markets. This type of what-if analysis is difficult due to the above lack of inherent cash flow functionality within most software solutions, and typically they are very inflexible. There is simply no synchronization between the income statement, balance sheet and cash flow statement. Changing data at a detail data level and have it dynamically “ripple through” to the cash flow analysis, or quickly make a percentage adjustment on a group of data to drive a different cash flow scenario becomes a large and often imprecise task.

For example, instead of adjusting fixed asset purchases at the division level to drive a new what-if scenario, the CFO or analyst is forced to make a top-level balance sheet adjustment, which then creates the disconnect. Financial visibility and accuracy is jeopardized at all levels of the organization.

- **Limited Versioning Support**

Developing and maintaining multiple cash flow versions for comparative analysis and business diagnostics is complex and time consuming within most applications. Many software systems fail to effectively provide versioning capabilities for storing and reporting more than a single version of a cash flow analysis.

The Challenge You Face

The challenge for most companies in developing accurate and timely cash flow plans, reports, and analysis is the limited availability of “intelligent” software for supporting this effort.

This lack of viable software has ensured that spreadsheet technology remains the go-to method for developing cash flow models and statements. To summarize the pluses and minuses for you, below is an overview of software tools and applications for cash flow planning. The “CF (Cash Flow) Grade” is an overall performance grade.

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Tool/Application	CF Grade	Advantages or Limitations
Spreadsheets (Excel)	C	<ul style="list-style-type: none"> Inherent spreadsheet limitations do not effectively support planning or forecasting of cash flow Difficult to develop and maintain versions, dynamic financial statement links and what-if analysis
ERP Systems	D+/C-	<ul style="list-style-type: none"> Most ERP systems do not support best-in-class planning and forecast modules Inflexible cash flow functionality Implementation and modeling efforts can be costly
BPM Solutions	B	<ul style="list-style-type: none"> Business Performance Management (BPM) solutions can be very expensive, often more than \$100,000, requires significant IT support and may take up to years to implement Difficult to find a solution that offers inherent
Cash Flow Point Systems	B+	<ul style="list-style-type: none"> Cash flow point solutions will usually offer robust functionality for creating effective cash flow models but are not integrated planning & forecasting applications As a result, there is a disconnect between the operational and high level planning activities that companies need to prepare a realistic cash flow projection Insight and visibility into the underlying components of cash flow reporting is difficult to maintain
Best-in-Class Planning Application	A	<ul style="list-style-type: none"> Support for purpose-built cash flow reporting and analysis planning capabilities Minimal implementation costs (best-in-class planning applications should offer out-the-box cash flow statements) Support for automatic, dynamic links between key financial statements (income statement, balance sheet and cash flow) Support for cash flow versioning and what-if analysis Drill-down capabilities to provide visibility to underlying cash flow components Dynamic synchronization between cash flow and planning/forecasting activities

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The Challenge You Face

Budget Maestro – developed by Centage Corporation offers a budgeting, forecasting and reporting software solution so complete, it is singular in the Best of Class category.

Created to provide dynamic cash flow capabilities, Budget Maestro provides a flexible tool with which to easily implement a meaningful, timely and resolutely accurate cash flow statement. Built in financial logic provides insight, allowing the user to manage and predict cash flow activities over a given time period.

Budget Maestro offers the most viable method for meeting the stringent requirements of cash flow reporting and analysis without the requirement of extensive implementation time or training.

Key Advantages to Growing Organizations:

• Financial Statement Integration

Out-of-the-box, Budget Maestro automatically generates an integrated set of key financial statements, including the income statement, balance sheet, and statement of cash flows. Given that a company's full financial performance from core operations, investments, and financing activities will impact a cash flow position at any given time period, this integration among your financial statements is vital.

• Dynamic Drivers

Any changes in the budget/plan are automatically updated in real time to provide for dynamic updates to the cash flow statement once an adjustment is made to an income statement or balance sheet line item. This "ripple through" behavior will allow for enhanced accuracy, as well as greater level of insight into the components that make up the inflows and outflows of cash.

• Drill Down

Budget Maestro's reporting tool allows users to "drill-down" from a high-level summary cash flow

statement to view the underlying components that make up cash from operations, investments and financing. This added insight significantly improves the full understanding of the cash flow statement, and provides powerful predictive capabilities.

• What-if Capabilities

Financial intelligence to perform what-if analysis is crucial for enabling companies to explore different business options that impact funding and result in different cash position scenarios. Budget Maestro enables users to version these different scenarios, in real-time, and generate a new set of financial statements for comparative analysis allowing companies to make insightful strategic decisions.

• Budget & Forecast Integration

A robust cash flow module is tightly incorporated within the Budget Maestro budgeting and planning application (with integrated financial statements). Users will be assured that the company's cash flow is not only highly predictive and accurate, but also synchronizes with the overall strategy of the company.

• Workforce Planning

Budget Maestro's integrated Workforce Planning module, for forecasting payroll and head count planning, allows users to immediately access to their impact on cash.

• Capital Asset Planning

Budget Maestro's integrated Capital Asset Planning module allows users to forecast capital asset purchases and depreciation/amortization on a detail or aggregate level. With immediate access to a cash flow statement, timely and critical decisions can be made as to where cuts or spending can occur down to the department level.

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Why A Best-in-Class Solution is Critical in the Market

- **Recession Protection**

Economic downturns require small and mid-sized companies to display an even sharper vision of their cash flow position at any given time. Budget Maestro enables comprehensive and accurate understanding of your revenue, expenses, personnel and assets, in real time. With better information comes a better view of the current health of the company, as well as the short and long-term health forecasts, so CFOs can better contribute to strategic and operational decisions.

- **Competitive Advantage**

Growth oriented companies look to improve the bottom line, while capitalizing on every opportunity to understand its market more thoroughly. The Budget Maestro, best-in-class solution, enables tighter control of overall financial health, drilling down to help CFOs spot problems and take corrective action. It provides built-in financial intelligence and business rules, a key asset streamlining a traditionally labor intensive task, ensuring absolute data integrity. By providing what-if scenarios and analysis tools, this solution provides added advantage, allowing users to test various scenarios. Opportunities are better and more quickly exploited, impacting pricing, costs, market share, profitability and growth.

- **Complementary to Your Core ERP/Accounting System**

By taking advantage of a purpose-built planning application, companies can avoid cash flow plans or forecasts that provide disconnected estimates, having no real link with the rest of the financial statements. The built-in financial intelligence within Budget Maestro enables organizations to easily drive best practices as they relate to cash flow planning.

- **Greater Collaboration**

As an organization grows, managers need access to a drill down understanding of their departments and corporate goals; actionable information with which to make the best decisions. Through tight integration provided by Budget Maestro with other areas of a budget or forecast, not only is a company's cash flow model synchronized with the overall plan or forecast strategy, but leads to greater collaboration among all users involved with the planning process.

Conclusion

A growth oriented organization requires the financial tools to make fast, accurate, decisions based on the best data. Budget Maestro from Centage Corporation, provides small, medium and larger sized organizations with the purpose-built, financial intelligence that will support even the most complex cash flow requirements. Working within any GL structure, Budget Maestro provides a thorough, effective, technologically advanced solution which makes budgeting, reporting, forecasting and cash flow analysis simple, accurate and available at your command.

For more information visit: www.centage.com

About Centage

Budget Maestro® by Centage is an easy-to-use, scalable, automated budgeting and forecasting application. It is designed for small to mid-market companies and automates many of the time-consuming and error-prone activities associated with using spreadsheets to generate accurate budgets and forecasts. It features built-in financial and business logic that allows users to create and update their budgets and forecasts and never worry about formulas, functions, links or any custom programming. It is the only solution in the market that offers synchronized P&L, balance sheet and cash flow reporting that generates automatically and updates seamlessly. Budget Maestro serves more than 9,000 users worldwide. Visit us at Centage.com, follow us on Twitter or visit the Centage Blog for the latest insights on budgeting and forecasting strategies.