**ExEcu ti vE Su m m a r y**

Top performers in The Hackett Group’s 2009 Cash Flow Forecasting Study share several key characteristics that allow them to excel in mid-term cash flow forecasting. Companies in this group don’t just present numbers; they are far more likely to create scenarios and provide ranges that permit management to make more informed decisions about cash-flow and manage working capital better. They can do this because they know their customers’ and suppliers’ credit situations; leverage technology effectively for better information-sharing among those who contribute to forecasts; set accuracy targets and measure performance; and have a highly collaborative culture.

**Sit u a t i o n up d a t E**

The Hackett Group’s 2009 Cash Flow Forecasting Study revealed that four out of five companies today are unable to forecast cash flow within 5% accuracy. Those few companies that can do so, called “top performers,” are not only more accurate, but complete the mid-term cash flow forecast in far fewer days – and require fewer people to complete the process. Top performers share several characteristics that allow them to excel in mid-term cash flow forecasting.

**pr a c t i c E #1: t o p pEr f o r mErS arE mo rE Li kE Ly t o tu r n i n f o r m a t i o n i n t o BuSi nE S in S i g h t**

Top performers in cash flow forecasting exhibit leading-edge enterprise performance management (EPM) capabilities. Cash forecasting top performers don’t just “report the number” – they’re more likely to create scenarios and provide ranges and footnotes so management can make better decisions about working capital. They use value-adding analysis techniques, such as incorporating operational indicators and/or macroeconomic assumptions into the forecast, providing views...
of best and worst-case scenarios and an assessment of the impact on the forecast should assumptions not hold true. These techniques allow for more informed discussions and what actions the businesses can take to achieve better cash flow performance, rather than just debating the numbers themselves (Fig. 2).

**FIG. 2 Level of detail and analysis behind the mid-term cash flow forecast, 2009**

![Bar chart showing the level of detail and analysis behind the mid-term cash flow forecast, 2009.](image)

Source: 2009 Hackett Cash Flow Forecasting Performance Study

**Practice #2: Top Performers Know Their Customers and Suppliers Better, Yielding More Effective Working Capital Management**

Top performers understand their customers and suppliers better through more structured and interactive dispute resolution processes (Fig. 3). These practices support more effective working capital management, which, given today’s tight credit markets and unpredictable sales environment, represents the most cost-effective source of cash. Companies can combat significant elements of the current economic crisis simply by improving accounts receivable, inventory and accounts payable levels.

Creating an environment where everyone understands not only the importance of cash, but also their role in improving cash flow, is crucial. It is the task of the finance organization to guide the rest of the business in creating a balanced focus on cash flow as well as revenue, margins, service and all other important aspects of business in operational processes where cash resides (Fig. 4).
Escalation procedures/processes in place
All disputes registered and coded
Dispute issues documented and evaluated
Disputed invoices only adjusted when the customer sends corrected paperwork
Root cause analysis performed and corrective actions taken as part of continuous improvement efforts
Dispute resolution timeframes clearly defined

Source: 2009 Hackett Cash Flow Forecasting Performance Study

Customer dispute resolution practices, 2009

FIG. 3

Working capital levels are dependent on several operational processes

Customer-to-Cash (AR)

Sales and quote management  Credit and risk management  Order processing  Invoicing  Collections management  Dispute management  Cash application

Forecast-to-Fulfill (Inventory)

Product range management  Inventory management  Forecasting and supply chain planning  Sales order processing  Materials scheduling  Manufacturing execution  Warehousing and distribution

Source-to-Settle (AP)

Planning and strategy  Sourcing and supplier management  Requisitioning and ordering  Receipting and evaluating  Invoice processing  Discrepancy management  Settlement

Source: The Hackett Group
**Practice #3: Top Performers Leverage Technology, Starting with Greater Integration**

Few companies are truly happy with the ability of their technology platform, systems and applications to support cash forecasting (Fig. 5). Most companies in the 2009 Cash Forecasting Performance Study have a fragmented technology environment; for this group, systems integration is essential to getting more value out of the information technology they have.

![FIG. 5 Satisfaction with the ability of technology to support cash forecasting, 2009](image)

**Practice #4: Top Performers Set Targets and Measure Forecasting Accuracy**

The notion first expressed by business visionary Peter Drucker that “what gets measured gets managed” remains highly relevant in the world of cash forecasting. While most companies measure forecasting accuracy, few set accuracy targets or link accuracy to compensation (Fig. 6). Driving change in forecasting should start with setting targets for accuracy levels and measuring target accuracy levels vs. actuals over time. This information will pave the way for linking accuracy levels to incentive compensation, which will inevitably yield changes in practices, processes and behavior.

![FIG. 6 Percent of companies that measure the accuracy of the financial forecast, 2009](image)

**Practice #5: Top Performers Have a High Degree of Organizational Alignment and Collaboration**

While corporate treasury is most likely to “own” the cash flow forecast, multiple groups inside and outside of finance have a role in the process (Fig. 7). Hence, a high degree of organizational alignment and collaboration is critical. Fortunately, companies largely understand the need for improvement in cash flow forecasting. They report the greatest number of initiatives planned in the next six months in collaboration, process/technology and alignment of the organization around the forecasting process itself. Working capital management will also be a top priority.
The key is to think of these improvements not as a one-time event, but as a continuous process that will enable the company to weather the current and future storms, and help it outperform the competition through better, faster and more useful cash flow insight.

**STRATEGIC IMPLICATIONS**

Companies today largely understand the need to improve forecasting accuracy. In this *Executive Insight*, we’ve discussed five practices that companies can and should adopt to improve forecasting accuracy. In the future, the ability to translate forecasting accuracy into broader improvements in working capital will be a key measure of success.

**RELATED HACKETT RESEARCH**

“Cash May Be King, But Most Companies Can’t Forecast It Accurately,” June 2009

“Without the Appropriate G&A Service Delivery Strategy, Companies’ Ability To Be Truly Optimized Is Lost, May 2009

“Prescription for Forecast Accuracy,” March 2008
About The Advisors

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Mr. Sheikh is responsible for leading The Hackett Group’s finance executive and research agenda across a range of issues in finance, including transformation, business insight, globalization, partnering and talent management. Previously, Mr. Sheikh spent a number of years in strategy consulting at A.T. Kearney and Bain & Company as well as in industry with GE Healthcare and United Airlines. While at Bain & Company, he developed corporate and growth strategies for Fortune 100 clients in the US and Asia, advised private equity firms on M&A strategy and performed strategic due diligence.

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In addition to his role leading the EPM Executive Advisory Program, Dr. Roemer is a director in The Hackett Group’s Transformation Advisory Services. Before joining The Hackett Group, he was a senior finance executive and controller for 10 years at several companies in the pharmaceutical and service industries. Additionally, he has over a decade of experience working as a consultant in planning and performance management, helping senior executives improve their enterprise performance management in industries such as pharmaceuticals, chemicals, consumer goods and engineering.

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Mr. Tennant is responsible for all aspects of business for The Hackett Group’s REL Americas, which offers working capital solutions focused on delivering significant cash flow improvements. Prior to joining REL, he worked as a general manager at various companies within the consumer goods production and distribution sector. With over 20 years of experience, he has led a large number of major client engagements that have delivered billions of dollars in working capital benefits, as well as cost and customer-service improvements.