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SOLVING MISSION IMPOSSIBLE

First Class AR Forecasting & Cash Management in Any Economy

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SSON

Introduction:
The Current State of Global Forecasting

Working capital has become increasingly important in times of economic uncertainty and market disruption. Starting in 2020, the Covid-19 pandemic forced businesses to confront an increase in day sales outstanding (DSO) as customers faced their own financial hardships. And, although 2021 brought a sense of recovery and stabilisation, economic uncertainty triggered by rising inflation saw business-to-business (B2B) payments slow down throughout 2023. Data from Atradius showed that in 2023, late payments were a continued challenge for organisations. Companies that were polled saw a 7% average increase in overdue B2B invoices in 2023.

This rollercoaster ride over the past three years demonstrates the VUCA (volatile, uncertain, complex, ambiguous) circumstances many finance departments, and specifically accounts receivable teams, are forced to navigate today. This summer, Tom Cruise performed in the latest installment of the "Mission Impossible" series. And it's safe to say that AR teams are currently tasked with solving an impossible mission of their own. How can they keep cash flowing against all odds?

As payments slow down, accounts receivable (AR) teams need to get ahead of limited working capital by improving their cash management and forecasting abilities. Forecasting has become a business imperative for any effective AR team. It sits at the heart of an organisation's ability to estimate future cash flow, identify potential problems, and make sound financial decisions. Put frankly, it can prove the difference between a business surviving or sinking in a volatile economy.

Forecasting future cash flow helps businesses to make informed financial decisions, such as how much money to borrow or how much inventory to order. By identifying potential problems, such as customers who are not paying their bills on time, businesses can take corrective action, whether this means sending out reminder notices or even taking legal action, when invoices become significantly past due. Forecasting also helps businesses to improve their cash flow management by identifying when they are likely to have cash shortages or surpluses. This information can be used to make decisions about when to pay bills or when to invest in new projects. Additionally, forecasting assists businesses in making more savvy, strategic decisions, such as determining how much money they need to set aside for bad debts or how much money they can afford to invest in new products or services.

Accurate forecasting is invaluable for AR teams, yet many finance departments lack the necessary resources to predict and control their company's future. AR teams consistently deal with organisational siloes that make it difficult to access information. This, paired with a lack of the right tools and data, makes accurately predicting cash flow an impossible mission.

This report will explain why AR teams must embrace AI and automation solutions to improve their forecasting and cash flow management capabilities. Our evaluation will not only explore how AI can make your AR team stronger. It will also include a guide to creating an accurate cash forecast, and a case study which demonstrates the benefits a recruitment company realised by introducing automation into their AR process.

The Challenges in Cash Forecasting

A successful forecasting process should provide a business with visibility into cash flows separated by region, entity, or category. Forecasting should also be seen as accurate and reliable by those in the business to develop trust between AR teams and other departments. Finally, forecasting needs to be managed frequently to ensure the business is adjusting to any new factors that could impact decision-making abilities.

Data suggests many AR teams are struggling to deliver meaningful forecasts. One survey by Deloitte and Kyriba found that 53% of professionals polled admitted their cash forecasts were only "somewhat accurate." In order to deliver accurate, visible, and frequent forecasts, businesses must first address the most pressing challenges in cash forecasting.

This section will explain why a lack of resources, inaccurate data, and siloed communications are key obstacles to an AR team's cash forecasting abilities.

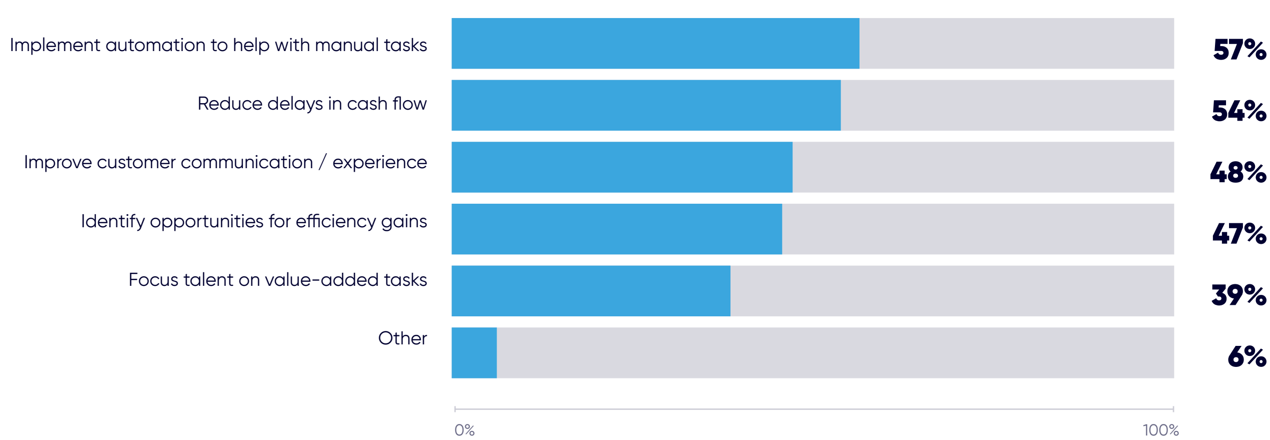
Insufficient Resources

There are three elements that AR teams need aligned to deliver a satisfactory forecast. AR teams must be fully staffed, equipped with the right technology, and provided access to training. However, many organisations fail to fulfil these requirements.

Most significant is a lack of technology that makes it difficult to automate tasks related to cash flow forecasting. This leads to errors and delays in the forecasting process. Additionally, manual forecasting is time-consuming and labour-intensive, which makes it difficult to keep up with the demands of a growing business. Not to mention when economic circumstances change suddenly, and teams do not have the agility to factor these into their forecasts, effectively rendering them useless.

What are your top 3 goals for AR this year?

SSON Research & Analytics (R&A)



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Data from SSON Research & Analytics (R&A) shows us that overcoming manual forecasting is a top objective for AR teams. 57% of respondents to an SSON & R&A survey last year said implementing automation to help with manual tasks in AR is the top objective for the year. This suggests that many finance departments are aware of the impact automation can have in AR, but they are still trying to make up ground with their implementation.

Read on to discover the forecasting tools and techniques that are essential to creating an accurate forecast that informs your business decisions.

Inaccurate data

Without accurate data, how can an AR team be expected to deliver accurate forecasts? Furthermore, without an accurate forecast, businesses could face loss of customers, misallocation of resources, and a plethora of financial problems. Often, inaccurate data is the result of either a lack of information at the AR team's disposal, or human input errors. Bad data is more than an inconvenience and an admin error. In fact, research reveals that bad data costs businesses an average of $15 million a year.

Fortunately, there is a solution that automatically extracts information from data, thus ensuring its accuracy and usefulness. Many forecasting tools contain data analytics features, which leverage AI to turn raw data into actionable insights. According to SSON R&A, only 23% of organisations said they have had a "win" implementing data analytics into order-to-cash. Meaning over three-quarters of businesses have an opportunity to explore data analytics in their order-to-cash process. This will allow them to efficiently collect and refer to the correct data when they generate cash flow forecasts.

Communication silos

Predicting your company's future financial state requires aligning multiple stakeholders with competing priorities. AR must work across functions and teams to gather data, however it is difficult to collect the necessary information as quickly as it's needed.

A communication silo is a situation where different departments or teams within an organisation do not communicate effectively with each other. This can happen for a variety of reasons, such as different departments using individual software systems, or simply because teams are not sharing information with each other as best practice. Data can also frequently be siloed between teams, adding another challenge to AR teams looking to create cash flow forecasts.

According to PwC, 55% of companies work in silos with each function making its own decisions on which capabilities matter the most.

To overcome these silos, organisations must encourage consistent communication between departments, implement standardised data formats, and create a culture of transparency. Global Process Owners and end-to-end processes are also a great way to bridge functional siloes as they unify data sources and streamline communications.

Global process owners (GPO) are individuals who own an end-to-end process across functional silos, geographic and business unit boundaries.

8 Steps to Creating an Accurate Cash Flow Forecast

It is clear that a forecast is only as good as the data and the work that goes into it. Meaning, the first step to a successful cash flow forecast involves delivering the right resources to the AR team, making sure the data is accurate, and breaking down any organisational silos that exist. This should all happen before the work to create a forecast begins.

Once these preliminary actions are completed, AR can begin establishing a cash flow forecast that reliably obtains an estimate of the business's financial future. The following is a checklist of key practices AR teams should employ when creating a cash flow forecast.

1 Determine the timeframe of your forecast

How far ahead do leaders want to see into the company's financial future? There are three main timeframes for cash flow forecasts:

Short-term forecasts: These typically look no more than a month or so ahead. They are useful for liquidity planning and managing day-to-day cash flow.

Medium-term forecasts: These look two to six months into the future. They can be used to create strategies to reduce debt and manage risk.

Long-term forecasts: These look six months to a year into the future. They are the foundation of annual budgeting and can be used to make investment decisions.

2 Choose the right forecasting method

There are two main methods for creating cash flow forecasts:

The direct method: This method is based on the actual cash receipts and payments that you expect to occur over the forecast period. It is the most accurate method, but it can be time-consuming to gather all the necessary data.

The indirect method: This method uses your forecasted income statement and balance sheet to estimate your cash flow. It is less accurate than the direct method, but it is faster and easier to create.

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3 Gather the necessary data

The accuracy of your forecast will depend on the quality of the data that you use. Make sure to gather data on all your cash inflows and outflows, including:

- **Sales revenue**
- **Cost of goods sold**
- **Operating expenses**
- **Debt payments**
- **Capital expenditures**

4 Start with a sales forecast

The sales forecast is the foundation of an accounts receivable forecast. To create a sales forecast, consider factors such as historical sales data, the current economic climate, and any upcoming marketing or sales campaigns.

5 Calculate your days sales outstanding (DSO)

DSO is the average number of days it takes your customers to pay their invoices. You can calculate your DSO by dividing your accounts receivable by your net credit sales and then multiplying by the number of days in a year.

6 Review and update your forecast regularly

Your cash flow forecast should be a living document that you review and update regularly. This will help you to ensure that it is always accurate and up-to-date in the face of constantly fluctuating factors such as late payments.

7 Use your forecast to make better decisions

The purpose of a cash flow forecast is to help you make better decisions about your business. Use your forecast to identify potential problems, such as cash shortages or overspending. You can also use your forecast to plan for future investments or growth opportunities.

8 Leverage automation

The final step is to use automation to improve your forecast. There are several actions required to create an accurate forecast, and it can be difficult for AR teams to forecast on top of their other responsibilities, such as credit management or collections.

Therefore, AR teams must use technology to manage the process accurately and efficiently so that they can repeatedly produce reliable forecasts, while executing on their other essential activities.

The next section will observe why AI and automation need to be seen as a "must have" for any AR team. It will also provide specific examples of how AI can be an asset to your AR team's forecasting abilities.

A Global Recruitment Firm Overhauls Accounts Receivable Process with Automation

The Challenge

Cpl, a global provider of recruitment and talent solutions, has a large customer base. The company was finding it hard to contact customers efficiently for payment, which led to delays that impacted cash flow. It also prevented Cpl from delivering a consistent customer experience. Customers were contacted irregularly, and the team's high volume of work meant that they could not focus on relationship management. The company's inconsistent collections led to forecasting issues, as it was difficult to accurately determine when payments would be received.

The Solution

David Martins, Senior Manager of Invoice-to-Cash, identified the need to introduce automation to alleviate his team's workload. Using Quadient AR, the team centralised all AR data on a cloud-based platform, eliminating the task of manual data entry. Automated collections workflows to ensure payment reminders are sent consistently so that no customer is overlooked. The solution's reporting monitors customers in real-time, highlighting AR risk and helping the team to prioritise accounts and keep cash flowing. When customers want to pay, they use a self-service portal. This allows them to contact the AR team, access account details, and take advantage of flexible payment options.

The Results

Increased Cash Collection:
Despite a growing customer base and an expanding AR workload, Cpl achieved a 3.8% increase in cash collection.

Enhanced Forecasting Capabilities:
Consistent cash collection means more accurate forecasting, and real-time reporting enables the team to quickly identify AR risk before it disrupts cash flow.

Improved Customer Engagement:
The self-service portal has provided a direct channel of communication between customers and the AR team, improving relationships, and simplifying the payment process.

Smarter Sales Decisions:
The cloud-based platform provides sales with insight into customer accounts, informing their decisions. For instance, if a customer is paying on time, they can grant them discounted prices to increase sales.

Agile Response to Change:
The increased insight provided by Quadient AR, and the alleviation of manual tasks, ensures the AR team is well equipped to handle changes in today's business landscape.

In conclusion, Cpl can collect cash faster, while strengthening relationships with customers. This creates a virtuous circle when it comes to forecasting. With more reliable customer payment behaviour, the more company can accurately predict its cash flow, and as customer relationships continue to improve, payment speed does as well.

> **"If I knew the capability we have now I would've implemented it 3 or 4 years ago."**

David Martins
Senior Manager of
Invoice-to-Cash
Cpl

How to Level Up AR with AI

After looking at 8 practical steps to creating an accurate cash flow forecast, it's time to take AR's forecasting abilities to the next level by introducing the advantages of AI and automation. The following are some of the opportunities AI can create for AR.

Anticipating customer behavior, predicting late payments, and foreseeing invoice aging provides AR teams with unparalleled visibility. Armed with this foresight, they can nimbly manage accounts before issues escalate and consistently create strong forecasts.

Predictive analytics

Predictive Analytics emerges as a vital tool in alleviating the data analysis challenges faced by organisations. Defined as an advanced analytics discipline, it harnesses historical data in conjunction with statistical modeling, data mining methods, and machine learning to anticipate future outcomes.

AR departments are embracing predictive analytics to revolutionise their operations. By forecasting overdue invoices, predictive analytics provide actionable insights for proactive AR management. A sophisticated analytics tool collects data from disparate sources, presenting a comprehensive overview through a user-friendly dashboard. This grants smart efficiency, streamlining operations, and freeing time for revenue-driving activities. Furthermore, predictive analytics facilitates smart credit decisions by analysing customer behaviour at earlier credit stages, thus categorising higher-risk customers.

Data analysis

AI-based forecasting software, such as Quadient Accounts Receivable by YayPay, operate through a dual-algorithm approach to data analysis. The initial algorithm focuses on on-time predictions by assessing current invoices and forecasting whether they will be settled by or prior to their due dates. The second algorithm specialises in forecasting delayed payments and evaluates invoices that have become overdue. This algorithm categorises the overdue invoices into distinct time ranges, such as 1 to 30 days, 31 to 60 days, 61 to 90 days, and over 90 days, providing an estimation of the most likely payment date for each invoice. This comprehensive insight equips AR teams with a more precise understanding of anticipated cash inflows, potential delays that require addressing, and the actions needed to ensure punctual payments.

By facilitating accurate cash forecasts and reducing the burden of manual data gathering, analysis, and

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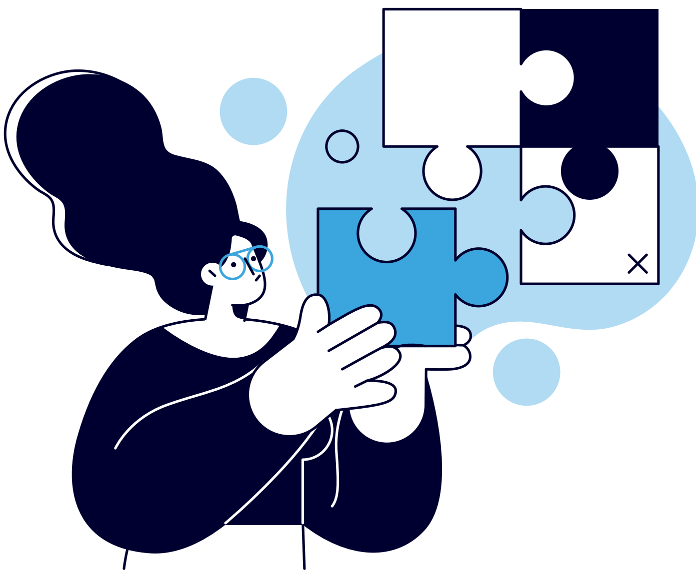
predictions, this technology enhances operational efficiency and empowers staff to focus on more value-added tasks.

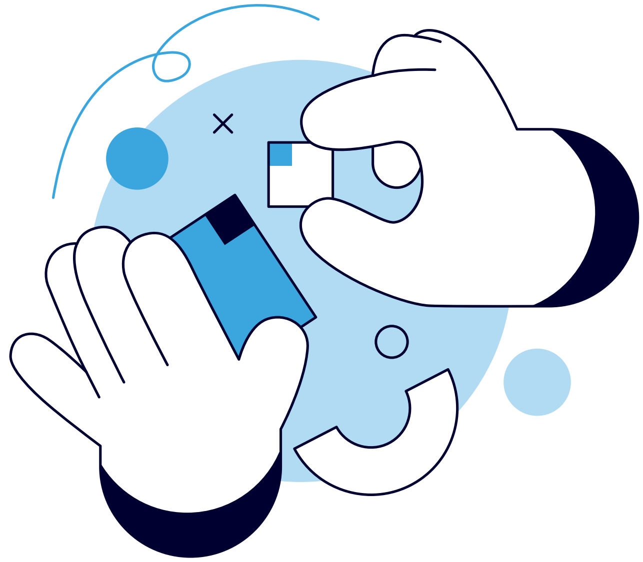
ERP integration



AI forecasting software seamlessly integrates with Enterprise Resource Planning (ERP) systems, delving into data including historical payments and credit memos. This data serves as the foundation for constructing a comprehensive customer credit profile, identifying key aspects such as average payment duration, credit limit, average overdue days, and potential seasonal influences impacting payment trends. However, its utility extends beyond strategic collections planning.

The technology extends its value to encompass an overarching assessment of your accounts receivable landscape, delivering an analysis of your typical customer. The resulting data is intuitively visualised through charts, offering insights into projected invoice settlement timelines, and anticipated daily revenue inflows. This dynamic tool allows for customisation, accommodating various timeframes, ranging from the immediate week to the next 60 days. This ensures adaptability and informed decision-making within financial operations.

Real-time adjustments



In the context of crafting short-term cash flow projections, the value of real-time adjustments cannot be overstated, especially when contrasted with manual processes.

The software's incorporation of machine learning offers a distinct advantage by continously fine-tuning forecasts based on current data streams. This refinement mechanism results in heightened accuracy over time, rendering the feature increasingly reliable with extended usage. Impressively, this technology achieves predictive precision rates of up to 94%, enabling you to accurately determine when customers will pay. The significance of this lies in its ability to assimilate exceptional occurrences such as natural disasters or disruptions within the supply chain, seamlessly integrating them into the historical context and subsequently projecting their potential impact. Consequently, should such events recur, the forecast already encompasses their effects, providing an informed estimation of their impact.

These examples show how AI can be a valuable tool for AR teams that are looking to improve the accuracy and efficiency of their cash forecasting processes. AI is helping reduce human error in forecasting, and empowering AR teams to extract insights from data that they wouldn't be able to do manually.

Building Business Resilience With Cash Flow Forecasting

In conversation with Sarah-Jayne Martin,Director of Global AR Practice for Quadient

Why is cash flow forecasting so important right now?

SJ: Legendary UCLA basketball coach John Wooden once said, “When you fail to prepare, you’re preparing to fail.” That is especially true when it comes to financial performance, and why cash flow forecasting is vital. It helps you to predict your future financial status, avoid critical cash shortages, and plan for growth. In particular, it tells you about your free cash flow. That is, the amount of cash your organisation has after operating and capital expenditures for a given period.

Right now, uncertainty is a constant. Whether businesses are dealing with staff turnover, supply chain challenges, or late payments, cash flow forecasting is vital to managing these pain points and ensuring they do not significantly impact operations. If they do, this could then create a snowball effect that has the potential to cripple a company’s performance and cause much larger issues, such as a liquidity crisis.

What specific value does cash flow forecasting offer business leaders?

SJ: Business leaders, regardless of whether they manage small or large organisations, should prioritise gaining a clear view of future liquidity when making significant decisions, be it expanding, allocating capital, entering new markets, or innovating with new products and services. This insight can empower them to make confident choices or signal the need for a reassessment. Effective liquidity management also holds significance for stakeholders, including equity providers and lenders, as it reflects the company’s capacity to meet debt obligations.

Who should business leaders work with when assessing their cash flow?

SJ: Of course, cash flow forecasting is predominantly an accounts receivable activity. But that doesn’t mean that the AR team should manage it in a silo. A cash flow assessment should consider all parts of an organisation, particularly sales and procurement. These teams can offer insight on what the sales pipeline looks like, and how much resource will be needed to service future orders. Both these activities directly impact cash flow.

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In larger businesses, it's much easier for silos to occur. It's not enough for the finance function to just work well together. They must be integrated with the key players that impact cash flow – those departments that are buying or selling on the company's behalf. This challenge can be overcome by involving sales and procurement in the cash flow assessment process and communicating the value of liquidity. After all, if liquidity challenges arise, they are not confined to the finance department and can ultimately affect every department and employee.

What are the principal challenges businesses face when managing forecasting?

SJ: Forecasting is only as accurate as the data that goes into it. Unfortunately, if you're in a position where you need to collect data from disparate sources and manually input it into Excel or a similar system to create a forecast, you leave yourself vulnerable to inaccurate or incomplete data.

Another complicating factor is dynamic market conditions. These affect cash availability and customer payment behaviour and fluctuations in both these things have a direct impact on forecasting accuracy.

The third challenge is credit risk assessments. Managed well, these enable teams to onboard reliable customers who exhibit more predictable payment patterns. Unfortunately, the process is laborious and requires a huge amount of analysis. AR teams often find it difficult to manage this volume of work alongside their myriad other responsibilities, which leads to poor credit decisions being made. These then create payment problems that disrupt forecasting.

How does technology, like artificial intelligence (AI), help address these challenges?

SJ: When it comes to data quality and accuracy, AI algorithms can clean, validate, and enhance data by identifying patterns and anomalies. This ensures that the input data AR teams use is accurate and reliable.

In the instance of dynamic market conditions, AI continuously monitors them. The technology tracks economic indicators and customer behaviour, adjusting forecasts in real-time to account for changing circumstances. It's always learning, so when similar events happen in the future, the AI takes into accounts its historical data and makes accurate predictions on the impact of these.

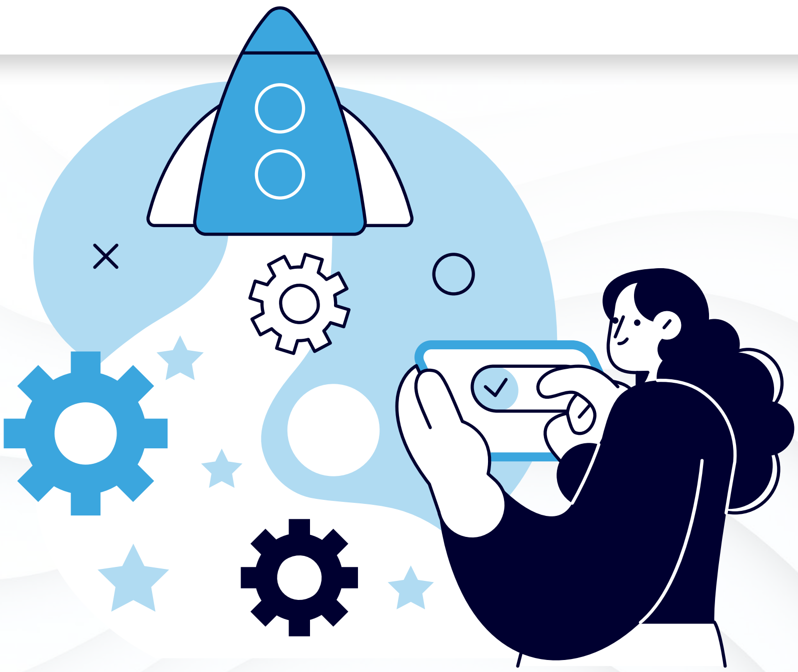
When it comes to credit management, AI can also offer a lot of value. It eliminates the high volume of manual analysis, automatically analysing historical customer data, credit scores, and external credit risk factors to provide more precise customer assessments. This allows AR teams to make faster and more informed decisions, which is also a big bonus for the sales team as they can complete transactions quicker and grow revenue for the business.

Key Takeaways

2023 has proven to be a challenging year for many finance departments. In fact, earlier this year the **International Monetary Fund** stated in its economic outlook report that "The outlook is uncertain again amid financial sector turmoil, high inflation, ongoing effects of Russia's invasion of Ukraine, and three years of COVID."

The best way for businesses to respond is through establishing rock solid financial forecasting. Now, as businesses begin to plan for 2024, the need for flawless forecasting is emphasised once again. This report has explored not only the key challenges to forecasting in 2023, but also a guide to creating an accurate forecast and the added benefits of leveraging AI to create forecasts. The following three takeaways summarise the key findings of this report.

1. To deliver accurate, visible, and frequent cash flow forecasts, businesses must address the challenges of lack of resources, inaccurate data, and siloed communications.
2. The accuracy of a cash flow forecast depends on the quality of the data that is used, the forecasting method, the frequency of updates, and correctly calculating DSO.
3. AI transforms AR processes by minimising errors, extracting insights, and enhancing customer interactions.



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Quadient is a leader in helping businesses create meaningful customer connections through digital and physical channels. Quadient's offering, Quadient Accounts Receivable (AR) by YayPay is a unified credit-to-cash platform.

Quadient AR automates the entire process, from credit to collections to cash application. The platform's intuitive user interface and accurate, real-time reporting enables you to instantly gauge the current and future financial health of your business. Set collections on autopilot with automated and customisable workflows that help your business achieve 34% faster collections on average. Predictive analytics power 94% forecasting accuracy and comprehensive credit management capabilities allow you to instantly gauge customer creditworthiness.

When it's time to be paid, your business can effortlessly receive payments via a secure, online payment portal that buyers love to use, with international payment options and instant account visibility.

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