The Dos and Don’ts of Cash Forecasting

Effective forecasting enables companies to take a strategic view on the future. But what are the pitfalls to avoid when looking to improve forecast accuracy – and what does best practice look like?

Don’t

- **Think you need absolute perfection.** A cash forecast can never be 100% accurate. Instead, aim for an accuracy level that is within the organisation’s risk tolerance.
- **Treat spreadsheets like the holy grail.** Excel might be easy to access and use but it can be manually-intensive and error-prone. Spreadsheets are also difficult to scale as the business grows.
- **Believe forecasting tech is out of reach.** With more bank and fintech providers delivering advanced technologies, typically as a cloud service, cash forecasting tech is becoming increasingly accessible for all.
- **Fall into the ‘analysis paralysis’ trap.** Although access to more forecasting data is generally a good thing, it’s important to analyse the right data and know how to interpret the output. Without this, treasurers can become overwhelmed by meaningless data, as opposed to actionable insights.

Do

- **Define forecasting goals.** When looking to introduce new forecasting tech, goals are critical, including how far out the forecast needs to go to be useful.
- **Critically assess what data is needed to support these goals.** Have a thorough understanding of the data required and the options for integrating these data sources with any new forecasting tech.
- **Secure buy-in from stakeholders.** Business units and functions can help to improve forecasts by delivering cleaner, more accurate data to treasury. A CFO-backed incentivisation programme can help departments such as procurement, collections and payroll to understand the benefits of playing ball.
- **Incorporate specific KPIs.** You cannot manage what you do not measure. KPIs such as the accuracy of each stakeholder’s own forecast data, with results being reported up to the CFO can assist in improving forecast accuracy.
- **Work with your banks.** The majority of data required to perform a cash forecast is held by treasury’s banking partners. Look for a bank that makes it as easy as possible to access this data – whether through direct connectivity such as APIs, or by offering its own integrated cash forecasting solution.

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