Creating Single View of Cash Across Global Finance Operations

By: Chris Caparon

Abstract

As the economy resets itself, two of the highest-ranked changes anticipated for this year is "redeploying capacity" and "developing and implementing finance KPIs and information/ reporting strategies." This article addresses 7 key working capital strategies in this new economic climate.

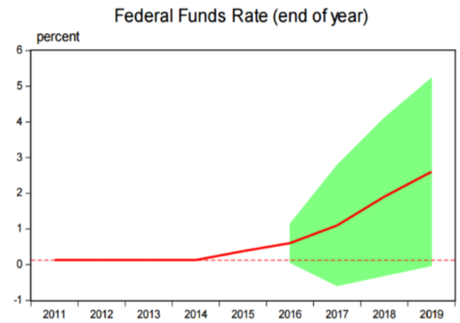
Happy Birthday Dow Jones

On May 26, 2017, the Dow Jones Industrial Average (DJIA) turned 120 years old. The DJIA, however, is not the oldest index in the world. That distinction belongs to Dow Jones Transportation Average, established in 1884. The DJIA began with just twelve (12) public equity stocks. This was increased to twenty (20) public equity stocks by 1916, and in 1928 was increased to and remains today at thirty (30).

An interesting fact: on DJIA's birthday, investor confidence is high, and according to the March 2017 Chicago Board Options Exchange (CBOE) Press Release, DJIA Volatility Index (VXD) is the lowest it has been in well over ten years.

This investor confidence is not isolated to the DJIA. The growth rate of real gross domestic product (GDP) as measured by the United States Bureau of Economic Analysis (BEA), a key metric of the pace of economic activity, is one of the factors contributing to the Federal Reserve Board increasing the prime lending rate for just the third time since the 2008 financial crisis.

The Fed raised its benchmark lending rate in December and again in March of 2017. Clearly the Fed is gradually reducing economic incentives by increasing Fed lending rates to Banks. According to reports, the Fed believes the economy is expanding at what many consider to be a "sustainable pace". Robert S. Kaplan, President of the Federal Reserve Bank of Dallas said, he "expects the Fed to raise rates twice more this year."



In addition, the US Central Bank is going to start to reduce some of the bloated $4 trillion in Treasury and Mortgage-Backed Securities (MSB) which they (*we taxpayers actually*) hold. As you remember, the Federal Reserve Bank of New York directed the Federal Open Market Committee (FOMC), as late as March of 2010, to purchase another $1.25 trillion of MSBs for "economic stimulation" and to help bail-out financial markets. Beginning to reduce MSBs is another visible step in Fed policy retreating from a long "economic stimulus campaign". This bodes well for the US economy.

The good news - *we are not alone*.

In April of 2017 a "World Economic Outlook" was provided by the International Monetary Fund (IMF). Their assessment:

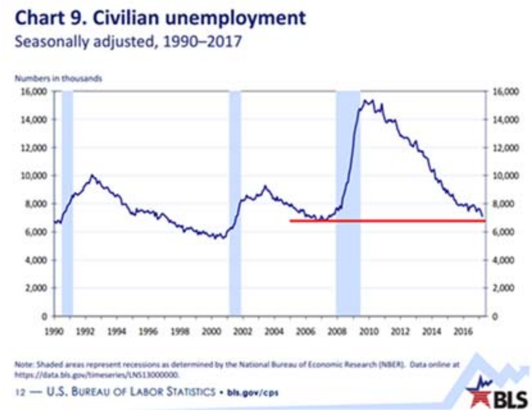
> "Global economic activity is picking up with a long-awaited cyclical recovery in investment, manufacturing, and trade. World growth is expected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. Stronger activity, expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets are all upside developments."

The IMF Economic Outlook pointed out that, "With buoyant financial markets and a long-awaited cyclical recovery in manufacturing and trade under way, world growth is projected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018, slightly above the October 2016 World Economic Outlook (WEO) forecast."

The World Bank recently reported in their Global Economic Prospects that "Global growth in 2016 is estimated at a post-crisis low of 2.3% and is projected to be 2.7% in 2017. Growth in emerging markets and developing economies (EMDEs) is expected to pick up in 2017, reflecting receding obstacles to activity in commodity exporters and continued solid domestic demand in commodity importers."

This is consistent with what we are hearing from the US Federal Reserve Board. The last Fed meeting position was "…we wanted to see evidence of stronger economic growth before continuing to increase the Fed's benchmark interest rate." Under these FOMC's procedures, each quarter the Committee releases projections of real GDP growth, the civilian unemployment rate, total personal consumption expenditures (PCE) chain-weighted price inflation and core PCE chain-weighted price inflation.

Currently there appear to be all three.



In April of 2017, according to the Bureau of labor Statistics, the US Unemployment rate was 4.4%. US Employment had not been this high since May of 2007, which is a 10-year unemployment low. With a strengthening economy and labor markets looking brighter, we can count on the Federal Open Market Committee (FOMC) of the Federal Reserve Board to continue to raise the targets for the Fed Funds Lending Rate, potentially in June and again in December. The current target range is 0.50–0.75%.

What effect does rising Fed Interest rates have on the cost of doing business globally?

Since the US dollar essentially serves as the world's reserve currency, changes in US monetary policy affects global markets. Central Banks around the world tend to react to Fed changes in fairly predictable patterns.

Many countries link their currency to the US dollar, so they typically increase their interest rates in response to Fed hikes. Among other things, this also helps to keep local inflation in check. A few might actually drop their rates in order to "stimulate growth", but that tends to be short lived.

And like most Central Banks, most global finance executives are already moving to minimize the impact of the corresponding increases in their weighted cost of capital.

If you have any doubt, just look at the latest "Hackett CFO Agenda – Finance's Top Four Strategic Priorities in 2017". The Hackett Group publishes a "Key Issues Study" every year and this year is no exception. Nilly Essaides, Hackett Senior Research Director, Tom Willman, Hackett Asst. Principal and Global Practice Leader, Finance Executive Advisory Program and Jim O'Connor, Global Practice Leader, Global Business Services and Finance Advisory Programs, are the authors of this year's study.

The Hackett conclusion this year:

> "In 2017, companies intend to shift gradually away from the defensive growth strategies of the past few years in favor of more aggressive growth through innovation. Consequently, finance organizations will face two main challenges in the coming year: first, supporting company strategy while *working with more constraints on funding and headcount*, and second, providing the enterprise with more – and more sophisticated – information and analytics that are essential to achieving its goals."

> "As organizations retool to meet new risks and capitalize on new opportunities, finance must recreate itself as well so it can help management formulate strategy and provide it with the information and insight it needs to make better decisions."

It is very clear: 75% of the Hackett survey companies are planning "major changes in technology in 2017" to "Improve finance data governance and master data management".

The number one "Critical Importance" focus area for this year: "*Achieve and maintain competitive enterprise Cost structure*".

The number one "Critical Capability" focus area for this year: "*Expand finance work executed in global business services/shared services.*"

In fact, 97% of the Hackett Survey respondents agree that "digital transformation will strongly impact finance performance" and 91% said it will "alter the way finance delivers its services".

The highest-ranked changes anticipated for this year are "redeploying capacity" and "developing and implementing finance KPIs and information/reporting strategies".

Credit Professionals are indicating the same things. As the average weighted cost of capital (WCC) increases, corresponding to the increases in the cost of available funds (*lending rates*), they are more keenly focused on these seven working capital strategies:

1. Create a Single View of Global Accounts Receivable Working Capital - Across all Operating Units
2. Demand Cash & Risk Visibility Across Currencies - Countries - Languages & Trading Regions
3. Consolidate Customer Master Data from Disparate Billing and ERP Systems of Record
4. Build Parent-Child Hierarchical Roll-Ups for Consolidated A/R Portfolio & Credit Risk Analytics
5. Utilize Capacity-Driven Worklists for Improving Performance in Credit, Collections, and Dispute Adjudication
6. Separate Clean Receivables from Dirty Receivables to Produce More Accurate Aging Reports
7. Optimize Financial Shared Services Center Performance

Let's take a look at each of these seven areas. The aggregated impact of these improves command and control of available Working Capital:

1. Create a Single View of Global Accounts Receivable Working Capital - Across all Operating Units

Just look at the Balance Sheet of any public corporation, depending on the valuation and quantity of inventory they carry, and you will consistently find that Accounts Receivable will be the #1 or Ad#2 asset on the books.

One consistent element with all top performing multi-national corporations is a cash-focused view of their global operation. Their greatest challenge is being able to bring it all together in one place and easily analyze it, in near real-time, across all operating units, billing systems, data-bases, languages, currencies, trading regions and resources spread across the globe.

Think about the Hackett Group 2017 conclusion, *"As organizations retool to meet new risks and capitalize on new opportunities, finance must recreate itself as well so it can help management formulate strategy and provide it with the information and insight it needs to make better decisions."* That is the key – making better decisions using accurate and complete *information*.

In every enterprise implementing working capital best practices, we have seen finance managers and executives repurposing siloed departmental resources into a shared and executable global mission of achieving excellence as stewards of their books-of-business, which means corporate cash.

The US Federal Reserve is on the move again. The weighted average cost of capital is once again on the rise, and this will be occurring in all Central Banks. The artificially low cost of readily available cash is changing. This means that once again the Accounts Receivable and Credit departments, typically responsible for 60% of a company's available working capital, are being elevated in status and visibility. If you are not already being challenged to deliver higher levels of productivity with less resources, you are unique. Are you hiring?

The good news about the constraints on 'cheap cash' - executive management is now more focused on working capital than they have been in a long time, and this gives you a stronger voice to make some of the changes that you have wanted for years.

Has this proven to make a difference? Yes. In fact, the Hackett/REL study above shows that, "As a result of this (*working capital)* discipline, companies with a cash culture need 52% less working capital".

That is a startling fact, but completely understandable. Think about all the inefficiencies in your own global working capital processes, information systems, resources in disconnected departments and redundant, repetitive manual processes…all managing 60% of your company's life-blood: Cash.

2. Demand Cash & Risk Visibility Across Currencies - Countries - Languages & Trading Regions

Critical working capital information resides in your systems of record. The trick is getting access to key data in a timely, comprehensive and consistent manner.

If, like most, you are pulling Client transactional information out of multiple, disparate, disjointed corporate data repositories and then dumping it into spreadsheets and working it with Microsoft Excel Macros and Pivot Tables…are you able to do this every day?

- Do you need IT resources to create or alter the data extractions?
- Do you need IT to even work the complex data analytics engine?
- Is there "dirty data" which you need to clean out, prior to running your analytics?
- Do you only have partial data because your system does not permit keeping proper data history?
- Do you only have partial Client transactional data because the three or four acquisitions, all selling to the same Client base, have transactional information only on their systems?

One or more of these answers are 'yes' for most global multi-nationals. Agreed, this knowledge does not make your job any easier (*or make you feel any better*), but at the very least, you realize that you are the 'rule' and not the 'exception'.

More and more finance teams are demanding better cash and risk visibility across currencies, countries, languages and trading regions. The challenge is that when "cash is cheap" management focuses on other areas, like supply chains and expanding the company. Times are changing, and this is good news for finance teams starving for command and control of their departmental destiny and autonomy from IT. Rising working capital costs will make this a reality.

3. Consolidate Customer Master Data from Disparate Billing and ERP Systems of Record

Even companies who have spent millions of dollars on SAP, Oracle, PeopleSoft, JD Edwards, Microsoft, Infor, etc., trying to consolidate customer master data from disparate billing and ERP systems of record, have not been able to deliver "Clean", accurate and timely master data to finance teams.

Why is this? The answer is simple – it is because doing this is extremely complex.

Creating a single view of customer "truth" is essential. The bottom line - a best-of-breed point-product dedicated to order-to-cash (OTC), co-existing with current billing systems-of-record, aggregating disparate master data from multiple sources, facilitating optimized process and resource productivity, no matter where they are located in the world, is what moved the needle for working capital improvement and impacts available cash.

4. Build Parent-Child Hierarchical Roll-Ups for Consolidated A/R Portfolio & Credit Risk Analytics

One of the biggest challenges is not being able to see an entire Accounts Receivable portfolio for a global client, especially those doing business with multiple divisions or wholly owned subsidiaries.

One would think that companies spending millions of dollars setting up and maintaining ERP systems like SAP, Oracle and Microsoft, would have this under control by now, but they do not.

The challenge is that monolithic software in general is complex to use and even harder to customize across operating units.

Without the ability to accurately see, on a daily basis, the entire global exposure from a Client, it is very difficult to execute replicable order hold/release decisions. Without the ability to see the trending payment behavior of a parent/child entity, you cannot properly asses the portfolio risk or change in client volatility. Without the ability to see pending orders and future exposure, it is very difficult to assess in a timely manner. Without the ability to strip out “dirty receivables”, Aged Trial Balances are wrong.

5. Utilize Capacity-Driven Worklists for Improving Performance in Credit, Collections, and Dispute Adjudication

This is a very common challenge, even for companies who have invested large sums of money in the ‘advanced credit and collections’ modules from SAP and Oracle, as well as for companies who have invested in aging bolt-on credit/collections point products.

The logic is simple. If you are an OTC resource and come into work after a lively weekend with the family (*or any morning*) and your system has analyzed the data and handed you 300 “suggested activities”, what do you do?

> The Collector ignores the guidance and goes back to “oldest / largest balances” from the aged trial balance spreadsheet, which is pulled out of the system of record…which the collector/resolver quite often keeps reminder notes in.

Clearly this is not a best practice. It is not scalable, replicable and does nothing to help you create more predictable OTC outcomes. In short, you need a system that takes “what is really possible” into consideration. Beyond that, you want a system that helps you balance activity priorities dynamically, across the entire OTC lifecycle.

6. Separate Clean Receivables from Dirty Receivables to Produce More Accurate Aging Reports

Most Collections departments operate off the dollars stated in the Aged Trial Balance for a Client. The challenge is that there are disputed dollars, deductions, credit memos, unresolved Trade-Fund Co-Op dollars, pending payments, payment plan workouts in progress, promised payments, payments in clearing stages, etc. All of these conditions cause your collectors and resolvers to “manually account” for the discrepancies, dozens of times each day.

Trying to do this without a single-view of global cash creates a huge amount of inefficiency, manual rework and redundant non-value-add process steps. Now, multiply that across all the systems of record you have globally, and the ability to generate “clean A/R” for all global teams is just not possible.

7. Optimize Financial Shared Services Center Performance

Remember the Hackett Group Survey. The number one "Critical Capability" for 2017-2018 was to "expand finance work executed in global business services/shared services". Now that is a very telling statistic.

Shared Services are well suited for back-office operations like OTC - especially Collections Prioritization and Cash Acceleration, Dispute and Deductions Management, Credit Management (Provisioning, Decisioning, and Risk Analytics) and Cash Application.

One of the greatest challenges for shared services is the inability to unlock working capital trapped within multiple disparate OTC processes and systems. For global Accounts Receivable teams, they operate within many operating units, many countries, doing business in many languages supporting personnel operating on different ERP systems, which are all incompatible. This causes manual and off-system processes, supported by disconnected spreadsheets and Pivot tables as islands of critical finance data.

The good news is - some technology providers have solved these issues and have successfully implemented solutions in global companies, making financial shared services work for them.

Clearly lots to think about as you are weighing options and considering how your finance department "…*retools to meet new risks and capitalize on new opportunities*" to help your company achieve its 2017-2018 working capital performance objectives.

Chris Caparon is the COO and VP of Professional Services at Cforia Software (**www.Cforia.com*****) a global enterprise software provider, delivering disruptive technology for order-to-cash (OTC) lifecycle management, which drives industry leading working capital and accounts receivable automation. Over 250 enterprises in 70 Countries are managing $300 billion in Accounts Receivable turn-over with Cforia today.***

For over fifteen years Cforia has delivered superior technology integrated with proprietary real-time data integration tools across complex and disparate ERP systems of record. Cforia.autonomy(SM) delivers enhanced versions of Cforia Collections Snapshot(SM), Credit Risk Analytics, Order Management, Clean vs. Dirty Receivables(SM), Multi-Languages/Currency, Global Parent/Child risk roll-up and multi-business unit solutions. The comprehensive Cforia.autonomy(SM) software suite maximizes Order-to-Cash (OTC) performance through an enterprise software suite which includes Zero-Touch OTC Lifecycles(SM), Credit Lifecycle Management, Strategic Collections Management, Deductions Collaboration Portals and FTEE Resource Optimization. Cforia.autonomy(SM) empowers Finance Departments to independently manage their order to cash workflows, electronic dunning correspondence, credit and collections business logic and business analytics, without relying on an overburdened IT staff or expensive external resources.