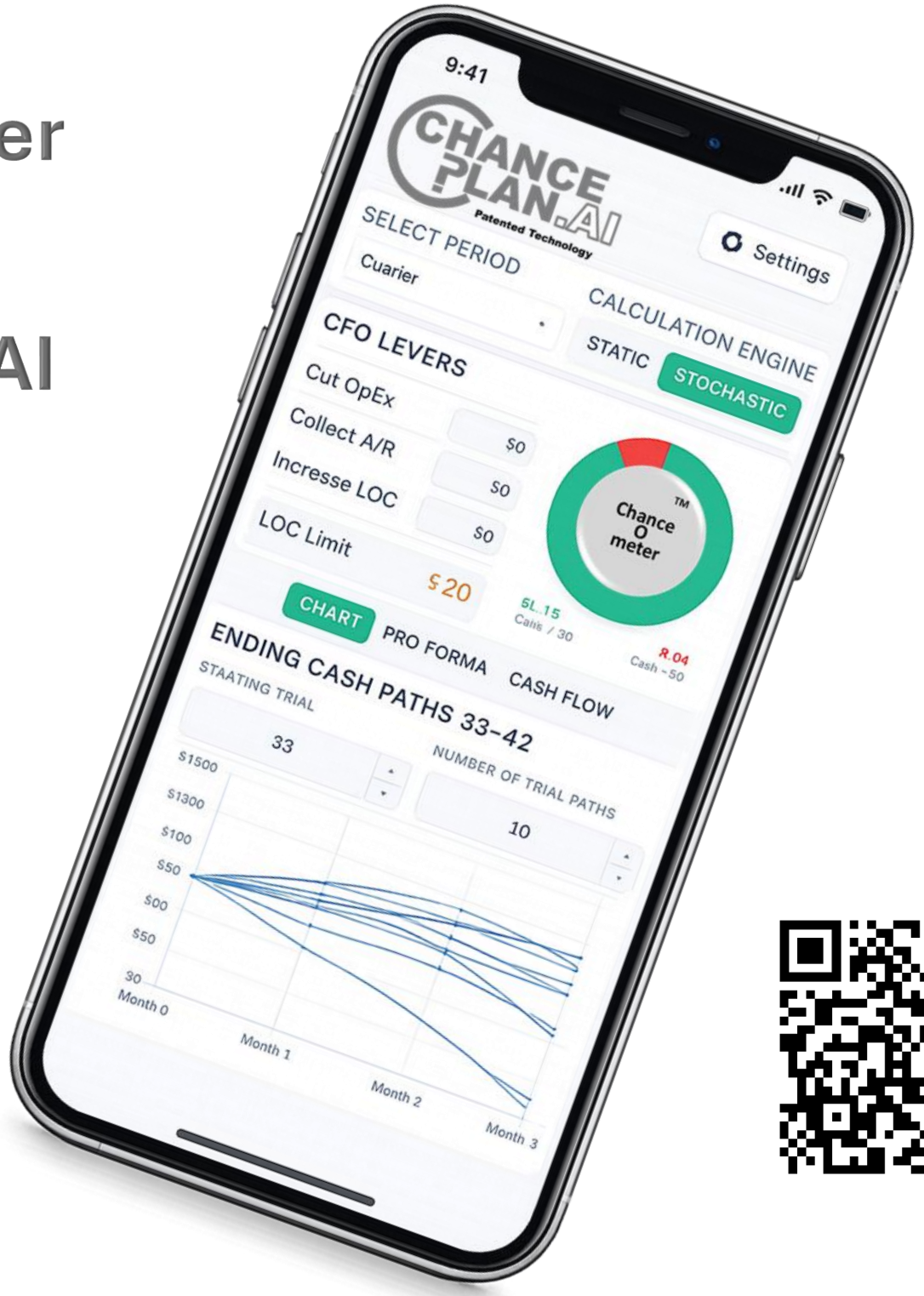
The CFO ChanceOmeter from ChancePlan.AI



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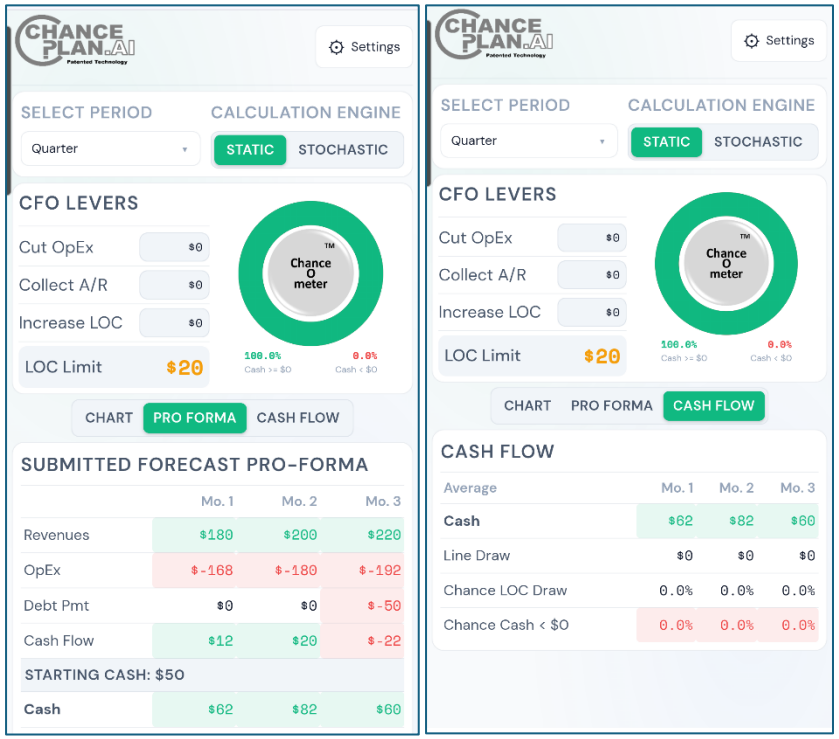
I. Static View

A. Select Pro Forma in bottom panel: Based on the forecast as submitted, the proforma shows plenty of cash at the end of the quarter, and the ChanceOmeter says 0% of running out of cash.

B. Select Cash: The statement of cashflow confirms plenty of cash and 0% chance of drawing on line of credit. The ChanceOmeter still says 0% of running out of cash.



The Maslow Hierarchy of the CFO

The well-known Maslow hierarchy prioritizes human behavior ranging from basic survival to self-actualization. As a subset of the human species, the Chief Financial Officer has its own hierarchy of motivations as described by Matthew Raphaelson.

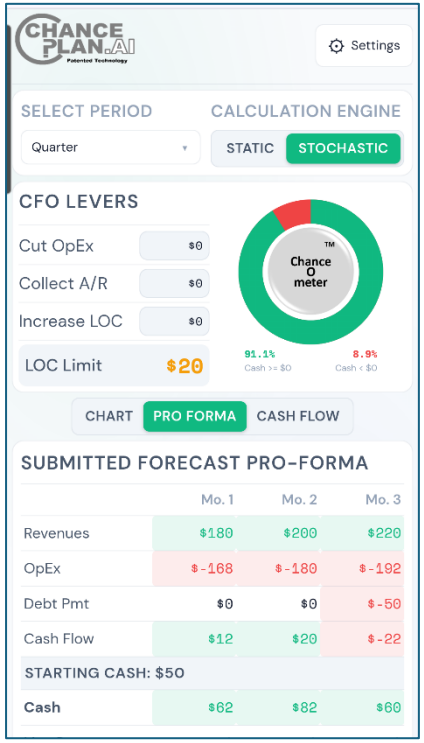
The CFO's top priority is to have enough cash to meet expenses. So, they will typically forecast future earnings, leading to an expected or average cash position for each month. But just because you **don't run out of cash on average** doesn't mean there isn't a **chance you will run out of cash**. This is an example of the Flaw of Averages.

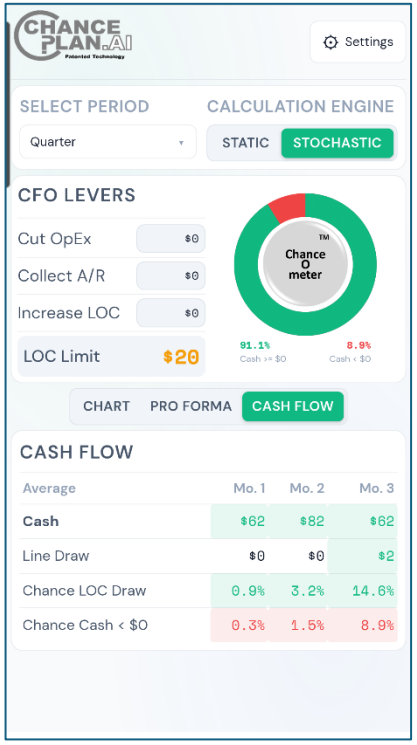
The **CFO ChancOmeter** from **ChancePlan.AI** solves this with **Stochatic Data.**

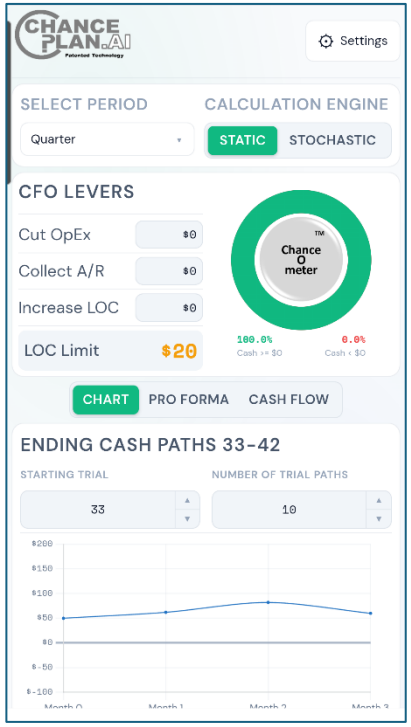
II. Stochastic View

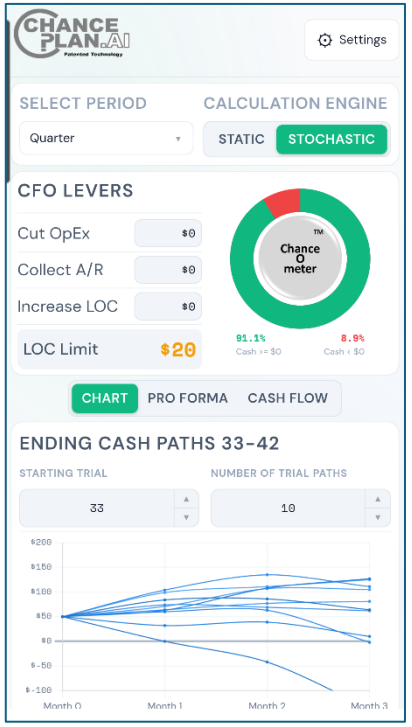
A. Pro Forma is a static report and displays no change

B. Cash flow: Transforming the forecast into stochastic data reveals that in month 3 there is an 8.9% chance of running out of cash and a 14.6% chance of drawing on the LOC.









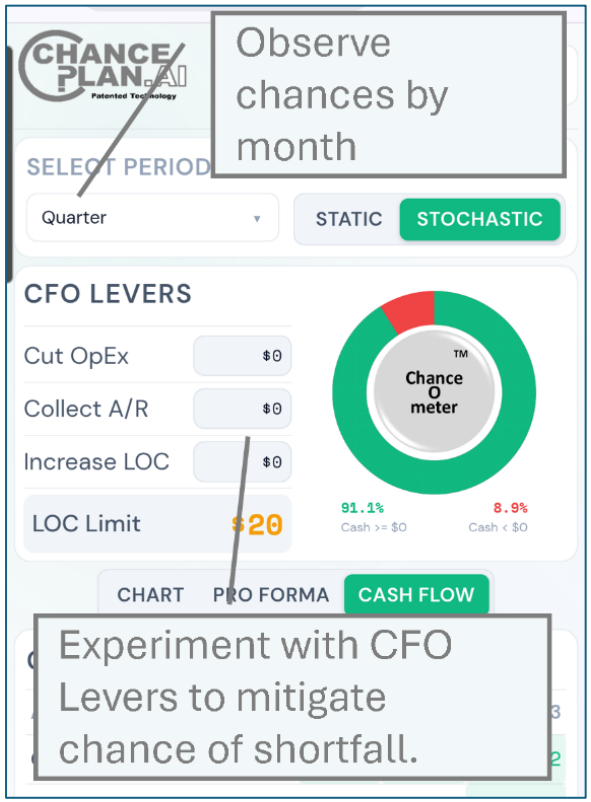
III. Chart

A. Static: There is only a single forecast path across the 3 months, submitted by the LOBs and cost centers

B. Stochastic: Simulation based on stochastic data yields multiple forecast paths…including one that goes off the rails and produces a run-out-of-cash scenario.

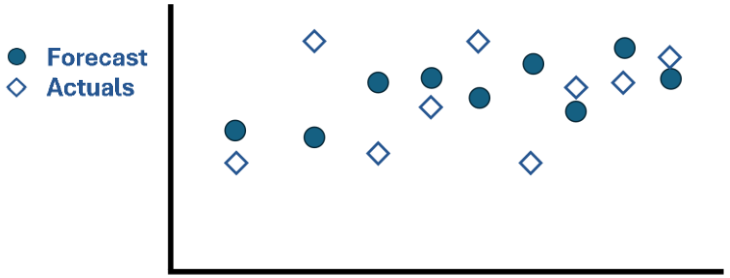
IV. Pulling the Levers

You may explore the chances of shortfall by month and experiment with mitigations. These include cutting operating expenses, accelerating the payment of receivables, or increasing the line of credit. In practice, each of these will have a cost, which you must trade off against the reduced chances of cash shortfall based on your risk attitude.

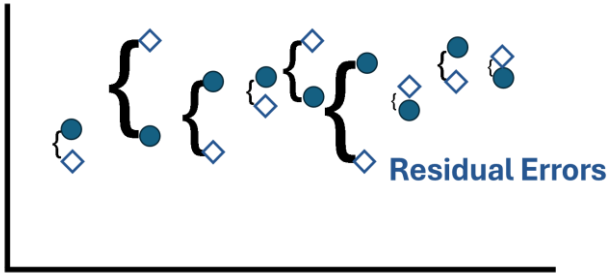
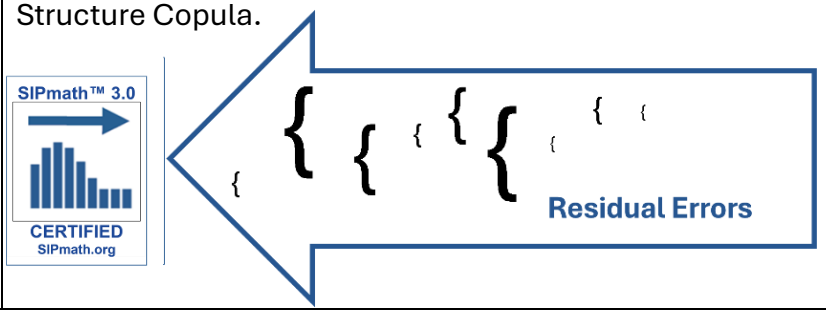


V. Extracting Stochastic Data from Forecast Residuals

A. Forecast and Actual results are recorded.



B. Residuals (forecast errors) are recorded.



C. Residuals are converted to Coherent Stochastic Data in the Open SIPmath™ Standard. This involves fitting Metalogs to data, specifying HDR Seeds and creating a Time Structure Copula.