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MICHIGAN CFO ASSOCIATES

The CFOs for Small-Business

"A little bit of summer is what the whole year is all about."

— John Mayer

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NEWSLETTER

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MICHIGAN CFO ASSOCIATES

The CFOs for Small-Business

NEWSLETTER

VOLUME 17 | ISSUE 03 | Summer 2023

U.S. NATIONAL DEBT AS OF:

August 2023

$32,962,788,361,791

August 2022

$24,201,387,112,023

INSIDE THIS ISSUE:

Our CFO'S:

Todd Rammler
Brian Bach
Lauren Pecoraro
Daniel Beardslee
Eric Goerke
Sanford Wexler
Dennis Weist
Paul Carnarvon
Tom Carbone
Scott Reed
Jim Dostine

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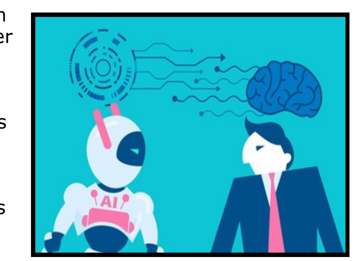
Unveiling the Risks: Why CFOs Remain Essential to Small-Business in the Era of ChatGPT

The advent of artificial intelligence (AI) and ChatGPT (Generative Pre-trained Transformer) has brought significant advancements in many industries, including finance. With the ability to process vast amounts of financial data, AI is increasingly being used by businesses for financial analysis tasks previously handled by humans. However, despite their impressive capabilities, the risks associated with relying solely on ChatGPT and AI in financial analysis of small businesses are significant. Despite rapidly developing technology, human experience & judgement still remains essential in today's financial world, providing a critical perspective on the limitations and potential risks presented by machine-based analysis.

CFOs possess a deep understanding of a company's financial context, such as its industry dynamics, competitive landscape, and strategic goals. This contextual knowledge cannot be simply replicated by AI algorithms that can only rely on previous input data. CFOs interpret financial statements beyond the numbers; they consider qualitative factors, market conditions, and business strategies to provide a comprehensive assessment. Relinquishing this contextual understanding to AI analysis may lead to oversights, misinterpretations, and flawed decision-making.



Complex decision making is another human element that cannot be easily replicated. Financial analysis is a complex process that involves making sound judgments and decisions based on a multitude of factors. While AI and ChatGPT can automate certain tasks, they lack the ability to assess complex scenarios, consider non-financial factors, and make judgments based on experience and intuition. CFOs, with their domain expertise and real-world experience, are well-equipped to navigate intricate financial decisions that involve trade-offs, risk assessment, and strategic planning. Relying solely on AI algorithms may introduce a one-dimensional approach, overlooking crucial aspects that impact the financial health of a company.

ChatGPT and other AI analysis rely heavily on the accuracy and quality of the data inputs. However, financial data is often nuanced, requiring careful judgment and interpretation. CFOs play a pivotal role in ensuring the reliability and accuracy of financial data by scrutinizing its sources, verifying the integrity of financial statements, and identifying potential errors or inconsistencies. AI algorithms may not possess the critical thinking required to recognize data anomalies or inconsistencies, potentially leading to flawed conclusions and inaccurate financial analysis.

Another "blind spot" of ChatGPT is its lack of understanding of ethical and regulatory considerations. Financial analysis entails adherence to ethical and regulatory standards, ensuring compliance with accounting principles, tax regulations, and legal requirements. CFOs are responsible for maintaining the highest standards of integrity and transparency in financial reporting. They also play a crucial role in identifying and mitigating financial risks, ensuring compliance with industry regulations, and protecting the company from fraudulent activities. Solely relying on AI analysis may overlook these ethical and regulatory considerations, exposing the company to potential legal and reputational risks.

One of the essential qualities of a CFO is their ability to effectively communicate financial information to stakeholders, including investors, board members, and management. CFOs provide insights, explain complex financial concepts, and offer recommendations based on financial analysis. They possess the interpersonal skills necessary to engage in meaningful discussions and negotiations. Machine-based analysis lacks the ability to communicate and articulate financial information in a way that resonates with a specific audience, potentially hindering effective decision-making and engagement.

While AI and ChatGPT are revolutionizing the financial analysis landscape, the intrinsic risks associated with solely relying on machine-based analysis cannot be ignored. CFOs play a pivotal role in complementing AI capabilities with their deep contextual understanding, complex decision-making abilities, data reliability assessment, ethical and regulatory considerations, human judgment and communication skills. As AI continues to evolve, users must embrace innovation responsibly, striking a balance between automation and human expertise for optimal results. Recognizing the limitations and potential risks of AI like ChatGPT in financial analysis, it becomes evident that CFOs remain essential in providing the expertise, judgment, and strategic guidance required to navigate complex financial landscapes and make informed decisions that drive the success of a company.

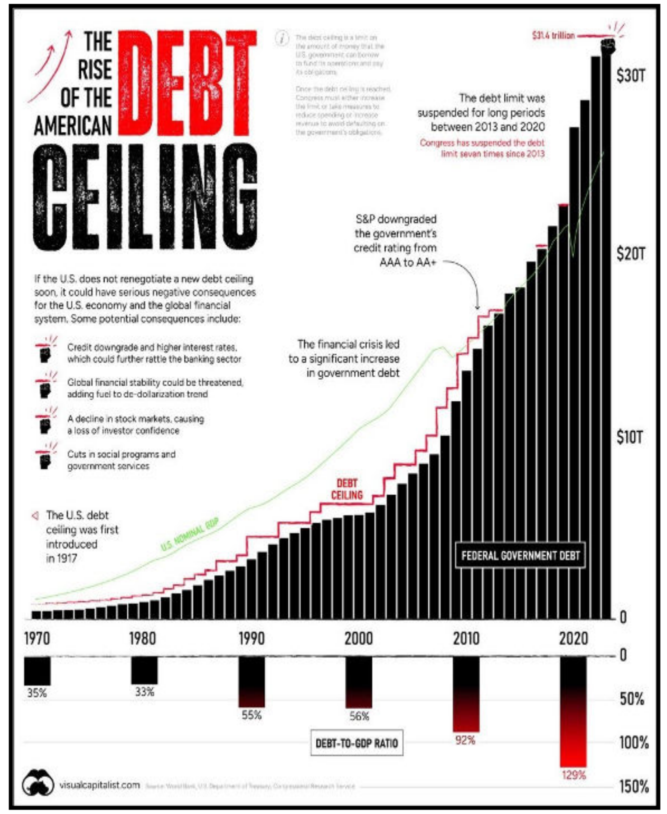
Todd Rammler

Written by Todd Rammler and ChatGPT. . . Not necessarily in that order.

Summer Photos!

Rachel, Todd & Josh on Otsego Lake!

Brian and family take the Lady Michigan to explore fabulous Thunder Bay!



America's debt ceiling has been raised 78 times since 1960 and continues to climb today...https://www.visualcapitalist.com/rise-of-americas-debt-ceiling/

Welcome, New Clients!

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hesco-mi.com

City Contracting Services

Full Service General Contracting & Construction Management

Royal Oak, MI

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Blueflite

Drone Based Logistics Platform

Brighton, MI

blueflite.com

Awecomm

Managed IT Services

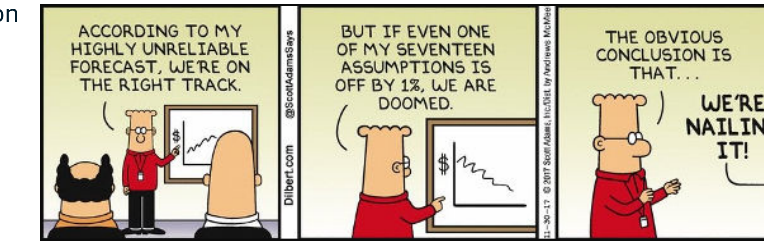
Troy, MI

awecomm.com

Getting the Cash you Deserve … by Paying Attention

The pandemic is "officially over" and businesses are back to normal (whatever that is) and in most cases, sales are growing again. There are still struggles with supply chain, employee acquisition and price inflation but business seems to be trending upward.

With growing sales comes the challenge of collecting on what you sell. When there are problems it's often due to lack of systems and management "paying attention". Like other departments, the accounting staff is stretched trying to cover day-to-day transactions along with collections. And most people don't enjoy calling or chasing past-due accounts which is the reason it becomes a problem.



There are straightforward systems and procedures to help improve collection results and get the cash you deserve. The key is management making it a priority and managing the process. Here are some strategies to help improve collections:

1. **Invoice promptly and accurately**: We know this sounds elementary, but the quicker invoices are sent the quicker they are paid. It helps to ensure invoices are accurate, clearly itemized, and include all necessary payment information. Make it easy for customers to understand and process payments.

2. **Communicate Payment Terms with New and Existing Customer**: Train salespeople to review payment terms as part of the closing process. It helps when payment terms are clearly stated and communicated to your customers at the beginning of the relationship. Cover payment due dates, accepted payment methods, and any late payment penalties or discounts for early payment. Make sure the customers understand their obligations by setting the EXPECTATIONS.

3. **Streamline the Payment Process:** Offer various payment options to make it simple and convenient for customers to pay. Have a system to accept credit cards, online payments, and electronic fund transfers. Set up an automated billing system that sends reminders and allows customers to pay online.

4. **Promptly Follow up on Past Due Payments**: We all know the squeaky wheel gets the grease so follow up on past due payments promptly. If possible, send reminders as the payment due date approaches, and follow up promptly if a payment is late. Again, this is critical early on in the relationship because it reinforces the expectations that were set in the beginning. Have a system of consistent follow-up.

5. **Offer Early Payment Incentives**: Consider providing discounts or incentives for customers who pay early or before the due date. This can encourage prompt payment and improve your cash flow.

6. **Establish a Collections Policy**: Setup a clear collections policy that outlines the steps to be taken for late payments, escalation procedures and potential legal actions. Make sure a person is trained to handle collection activities professionally and within legal boundaries.

7. **Monitor Collections and Analyze Accounts Receivable:** Monitor your collections and accounts receivable on a regular basis to identify potential issues or trends. Analyze aging reports to spot customers with consistently late payments or outstanding balances. Calculate and track Days Sales Outstanding (DSO = Average AR / Average Daily Sales). This measures the number of days sales are sitting in AR.

8. **Build Strong Customer Relationships:** Develop strong relationships with customers based on trust and open communication. Maintain regular contact, provide excellent customer service, and address any concerns or issues promptly. This helps foster a sense of loyalty and encourages timely payments.

Getting the cash you deserve is a combination of clear processes, prompt follow-up, strong customer relationships and managers "paying attention". Implementing these strategies ensures healthy collections and ongoing financial liquidity.

Welcome, Jim Dostine!

Jim is a Chief Financial Officer with domestic and global experience in the manufacturing industry. He is a demonstrated leader in business transformation, with foundations in Finance, Operations, and Engineering. On a personal level, Jim enjoys golf, fishing, and physical fitness.

https://www.michigancfo.com/jim-dostine/