Five Pitfalls of the Weekly Cashflow Forecast

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Weekly cashflow forecasts are a critical financial tool for any company, especially small enterprises with frequently volatile timing issues in working capital. Here are FIVE pitfalls of the cashflow forecast and suggestions to overcome them.

Pitfall 1: Sales (and therefore collections) timing

I've spent much of my 30 years in finance dealing with unrealistic sales targets. The more early-stage (or start-up) the company, the worse the problem. And speaking of mature companies, although they may have a good handle on forecasting their legacy products, forecasting new product sales can be daunting. And a changing competitive landscape may thwart their sales forecast accuracy. Once a realistic annual forecast is determined, the next challenge is its timing throughout the year.

Suggestion: Build bottoms up sales plan with defensible metrics (i.e. number of salespeople, sales calls per day, success rates based on experience), and risk-adjust the new stuff. If you have a large collectible item scheduled for a certain date, plan ahead to call early and grease the skids for that payment to arrive on time. And as with any sales forecast, don't forget to consider contingency planning should the numbers not pan out as expected.

Pitfall 2: Under-estimating what it takes to deliver those sales

It may be labor, materials, internet bandwidth, or any vendor-supplied resources that would need to be carefully assessed not just for their front-loaded costs (i.e. before the cash is collected on those those forecast sales), but for their ability to deliver when they are needed (based on the timing of those sales).

Suggestion: To start, integrating delivery (operations) with sales planning is key. When sales and operations are on the same page, when they communicate effectively, many delivery hiccups can be avoided. Also, know your vendor limitations. Keep key suppliers appraised of your business so that they can plan ahead too, in anticipation of any upside (or downside) sales surprises.

Pitfall 3: Relying on unreliable sources.

Often the person compiling the cashflow forecast will take input from leadership for granted (they should know what they're talking about, right)? But there may be various reasons why they don't know what they say they know, or motivations to avoid the cold hard truth.

Suggestion: The best you can do is know what questions to ask, push back where necessary, and risk-adjust any assumptions that might be questionable. Learning as much as you can about the business and its past performance is key, as researching past results can help support your adjusted estimates. Remember what W. Edwards Deming said: "Without data, you're just another person with an opinion."

Pitfall 4: Missing contractual timings of outflows

Run rate or one-time costs may change in a material fashion at a certain point in time. For example, commercial loans may include ramp-ups in principal (or higher rates driven by Fed policy). A line of credit may convert to P&I at a certain date (or there may be a 30-day "rest period" during which the line needs to be drawn down to $0). Payroll raises may go into effect at a certain date. How about employer taxes and how they start at their highest level when the New Year begins? Many nuances of timing occur throughout the calendar year and many are driven by anniversary dates (like the annual rent increase).

Suggestion: Review historic financials to see the step-ups and review contracts and bank agreements to pinpoint rate increases and changes in debt servicing.

Pitfall 5: Failing to share the 13-week cashflow forecast with your senior management and/or partners.

Many times, I have come across a senior member of the staff contributing a unique solution to an emerging cashflow problem. It may be a strong business relationship with a key customer or vendor that may shake loose early cash or defer a payment to a vendor to buy some time when cashflow is tight. That revelation would likely not emerge without sharing the cashflow forecast with that person.

Suggestion: Reserve the time to review the forecast with key stakeholders, and solicit their valuable input and perspectives on the business and the market.

A well-oiled cashflow forecast process will enable management to focus on items to fix ahead of time so that they can stay on top of their day-to-day business.

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