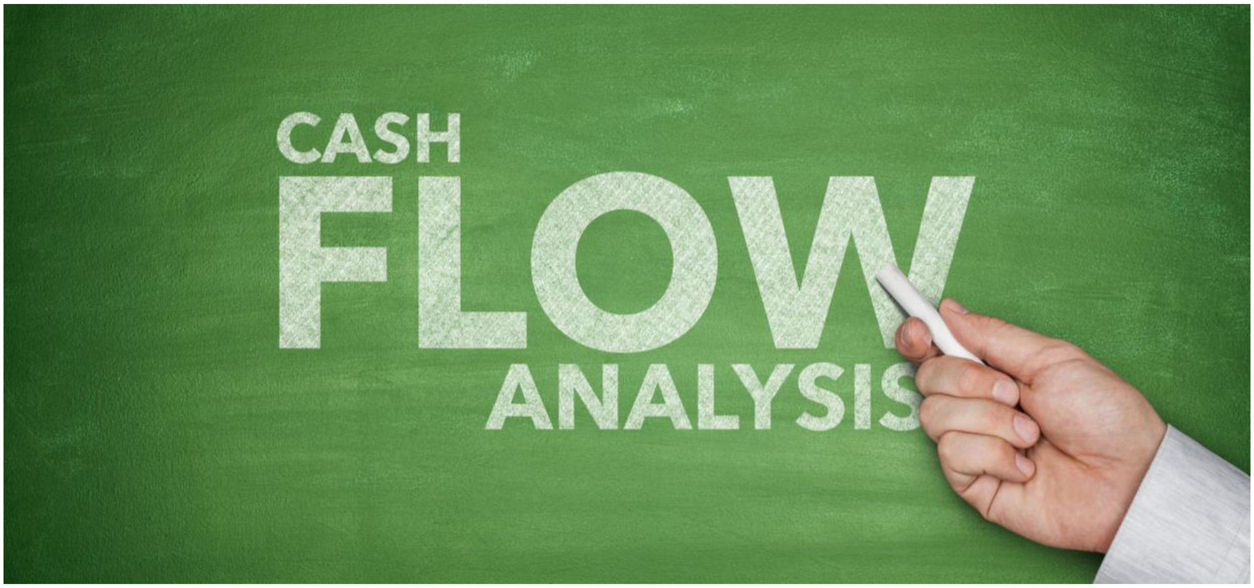

Keys to an Effective Rolling 13-Week Cash Flow Forecast

By FocusCFO

During the current Covid-19 pandemic and the unsettled economy, more than ever, understanding your business cash flow forecast is critical. Knowing how much cash your business generates, from what sources, and specifically when it is generated is important. Knowing how much cash your business will need and when it will need it is equally important. Knowing these data points will assure that your business will have enough cash for essential items such as payroll, vendor payments, and quarterly tax payments. The best way to manage your business in order to have the right amount of cash at the right time is to create, maintain and utilize an effective rolling 13-week cash flow forecast.

A rolling cash flow forecast helps anticipate future cash flows and positions, while significantly reducing surprises. It also enables you to take action to improve your company's future cash position, by managing customer accounts receivable to get the money in the door, negotiating vendor terms, restructuring costs, and utilizing a bank line of credit.

The four keys for building and maintaining an effective rolling 13-week cash flow forecast are as follows:

Key 1 – Get Started and Keep it Simple

As with any project, the best place to start is at the beginning. You need to lay a customized foundation for your forecasts so that you have a process in place that is properly structured and easy to maintain going forward. The forecasting process will become a critical tool for managing and growing your business, so it is wise to seek assistance from a financial professional to get started. Focus CFO partners are experts in developing, implementing, and managing cash flow forecasts and cash management systems.

Whether you do it on your own or with a professional, the first step will be to review your company's bank statements, accounts receivable aging, accounts payable aging, and the monthly profit and loss statement for the last three months.

Using this information, you can prepare a forecast by creating a spreadsheet that has a column for each of the 13 weeks, and then begin the first week's column with your cash on hand. To keep the report template as simple as possible for timely communication and aggregation, focus on large ticket items. You do not need to prepare the entire 13-week forecast on the first try. You may want to start by preparing a 4 to 6-week forecast, track and compare your actual results to the forecast for a few weeks, and fine tune the process. Then you will feel more comfortable adding weeks because you will have a better understanding of how much cash must be kept in the business to meet your cash needs.

For each week, you will list known sources of expected cash from your sales forecasts, collections on outstanding invoices, work in progress, and new business. You can forecast cash sources with reasonable accuracy by analyzing past billing and payment patterns, your current billings, and expected billings during the forecast period. The sources of cash should be divided and grouped according to the

way the company receives cash. This could be by major customer, product line, payer, or payment method. Be sure to include an "other" category for miscellaneous sources. This should be very detailed, because tracking specific sources of cash will provide data that you will be able to use to manage and maximize your cash flow.

Next, list your known cash needs by week grouped into major categories. Fixed and recurring uses of cash may include capital expenditures, rent, payroll, debt payments, liability insurance, health insurance, and taxes. Then, add estimates for variable costs such as fuel, materials, and labor based on your expected sales and new business projections. Be sure to include an "other" category for miscellaneous uses.

Finally, for each week, you will add your sources of cash and subtract your uses of cash from the beginning balance to get the projected balance for the end of each week. Roll forward the balance from the end of each week to the beginning of the next week through all 13 weeks (or whatever period you chose to begin with). Review for any shortfalls, and look for patterns and causes of the shortfalls.

Key 2 – Update the Forecast Frequently and Improve its Accuracy by Fine Tuning

After monitoring the results for a few weeks, you will find that you actually started somewhere in the middle, not at the beginning, because now you will need to go back to the beginning to refine your process. You started with certain assumptions, but now you have actual data to guide you.

Starting with week one of your forecast, analyze and compare your actual and forecasted cash inflows and outflows. Make changes to your estimates based on that information to improve the accuracy of your forecasts for the rest of the period. Each week, you should set aside time to review and update your cash flow forecast based on your comparisons, analysis, and any new information. This must become a mandatory item on your weekly agenda. Your cash flow forecasts will never be static, because business is dynamic by nature, but the accuracy of your forecasts will improve as you practice and learn.

At this point, you should also add another week (or more if you started with only a 4-6 week period) to the end of your forecast using the information that you extracted from your analysis and making modifications based on any new information that you may have (for example, one of your customers has told you that payment will be delayed for another month, or you know that a large receivable is due to be paid). Once all modifications and refinements are made, look at the difference in your cash flow over the coming weeks to once again identify any shortfalls and patterns.

While you are refining your process during these early stages, you may also find that it makes sense to add or delete categories based upon your analysis, or you may want to broaden or narrow your inflow and outflow categories in order to track the data that you determine to be most valuable.

Key 3 – Use the Forecast to Manage Your Cash Position and Your Business

The previous second key was to update your forecasts frequently and improve their accuracy; however, the purpose of creating and maintaining an effective cash flow forecast is not to see how accurately you can predict the future.

Rather, the goals of forecasting are to understand the sources, uses, and timing of cash flows on a prospective basis, and to take action to manage and improve your cash position and your business. You will discover what customers or activities are driving positive cash flow, and what customers or activities are being financed by the company more than they should be.

Actions that you can take to improve your future cash position may involve bringing in cash faster by managing customer accounts receivables or by better utilizing your bank line of credit. On the other hand, outflows of cash may be slowed or reduced by controlling payroll and negotiating more favorable vendor terms. By reviewing the cash position of your business and re-forecasting frequently, you can uncover potential shortfalls and patterns, and monitor and control collections and controllable expenses such as payroll. You can also plan for major expenditures, such as equipment or other capital improvements, or quarterly payments for taxes and workers compensation insurance. Managing and maximizing your cash flow will also help you to put a strategic plan in place to grow your company to the next level.

Key 4 – Share Your Forecast with Your Bank

Once you have developed the ability to actively manage your company's cash position by taking action based on the results of your forecast, you should share your forecast with your bank. Your banker will be more willing to grant your company credit when you can demonstrate that you can accurately forecast how much cash your company will generate and when, and that you have the ability to control the timing and amount of cash expenditures to match your company's cash receipts. An effective rolling 13-week cash flow forecast can be used to show your banker how and when loans will be repaid.

Summary

As a business owner, you will be able to sleep better at night knowing that your business has a plan in place to have the right amount of cash at the right time to handle its cash needs. The best way to gain this peace of mind is to develop and maintain an effective rolling 13-week cash flow forecast and to take action based on the results to manage and control your company's cash flow position.

Founded in 2001, FocusCFO works closely with business owners to gain control over three the key financial and operational areas: increasing cash flow, reducing business risk, and creating a platform for scalable growth. This allows business owners to then realize full financial control and increased value in their businesses.

FocusCFO is honored to serve small to medium sized businesses in Ohio, Pennsylvania, Michigan, Kentucky and West Virginia.

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