



## Making Sense: Cash Flow Analysis, Forecasting, and Management

Internal cash flow, also called cash flow from operations, is the single most important financial factor in a business. It is critical to understand cash flow, and how it differs from net income, so that steps can be taken to impact it. This is perhaps the most important role of the CFO. Having strong cash flow enables a business owner to run their company efficiently and invest in growth initiatives. Mike Dodson of Focus CFO describes this well. The CFO will “control the cash flow position of the company, understanding the sources and usages of cash and projecting the cash outlook for the company in a clear and concise manner.”

Many business owners report a profit on their income statement, but have difficulty making sure they have enough cash on hand to pay all obligations when due. Knowing how much cash the business generates, from what sources, and specifically when it will be generated is very important. Knowing how much cash the business will *need* and when it will need it is equally important. It is critical to be certain that the business will have enough cash for essential items such as payroll, vendor payments, and quarterly tax payments.

### The 13-Week Rolling Forecast

The best way to manage a 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 the business owner to anticipate future cash flows and positions, significantly reduces surprises, and enables the business owner the opportunity to take action to improve the company's future cash position.

## Managing Cash Flow

So, what impacts cash flow and how can it be improved?

- ✓ Accounts receivable – How fast is cash coming in the door? If customers have too long to pay or payments are not collected fast enough, the business has an accounts receivable asset but no cash.
- ✓ Accounts payable – Cash flow can be impacted by negotiating terms with vendors so that the business has adequate time to pay without additional fees. The goal is to keep the cash coming in faster than it goes out.
- ✓ Inventory management – Cash invested in inventory is cash that is not in hand. The CFO will help to determine the optimal inventory level so that demand can be met, without keeping too much cash invested in held inventory.
- ✓ Costs – Costs may be reduced, or can be restructured to impact when and how expenses are paid.
- ✓ Bank line of credit – It can be advantageous to have a line of credit available to utilize during slow sales times, or when unexpected costs occur. It can also be used for growth initiatives.

A business owner will be able to sleep better at night knowing that the business has a plan in place to have the right amount of cash at the right time to handle its expenses. 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 the company's cash flow position.

*About FocusCFO:*

*Founded in 2001, FocusCFO is the leading fractional CFO services provider, with more than 100 CFOs and Area Presidents serving clients throughout Ohio, Michigan, Pennsylvania, Kentucky, Indiana, North Carolina, Tennessee and West Virginia. FocusCFO works closely with small to medium sized businesses, helping business owners gain control over three 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 provides services on a fractional basis, meaning clients get all the advantages of a full-time, seasoned CFO under terms that are flexible, affordable and within each client's budget. What really sets Focus CFO apart is their CFOs work exclusively onsite at the client's office under a recurring schedule. Typically, engagements range from two days a month to several days per week, and many clients are in the \$2 to 10 million revenue range when they initially engage with FocusCFO.*

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