

PLAYBOOK ON 13 WEEK CASHFLOW FORECAST



CASHFLOW FORECAST

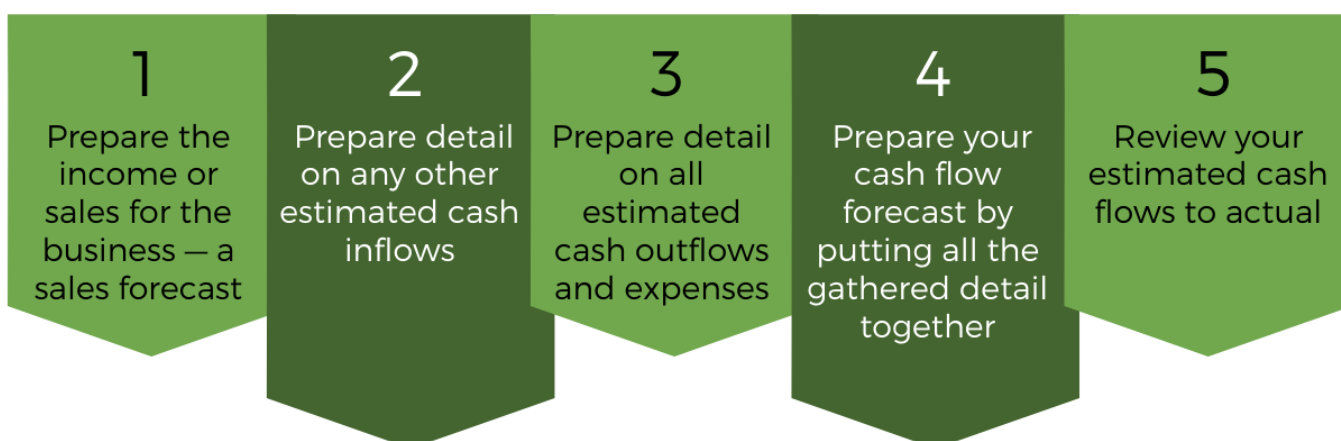
A cash flow forecast is the most important business tool for every business. The forecast will tell you if your business will have enough cash to run the business or pay to expand it. It will also show you when more cash is going out of the business than in.

Running out of cash is not only a sign of poor planning, but it's also one of the biggest reasons that businesses fail. Forecasting your company's cash flow can be tricky because of the many variables that determine how much cash you will need for operations versus the amount available.

Preparing Cashflow Forecast

The easiest way to prepare a cash flow forecast is to break the task into several steps. Then bring all the information together at the end. The five steps to preparing a cash flow forecast are:

- 1. Prepare the income or sales for the business — a sales forecast*
- 2. Prepare detail on any other estimated cash inflows*
- 3. Prepare detail on all estimated cash outflows and expenses*
- 4. Prepare your cash flow forecast by putting all the gathered detail together*
- 5. Review your estimated cash flows to actual*



KEYS TO ACCURATE CASH FLOW FORECASTING

1. Establish Lines of Communication

The consequences of an inaccurate forecast can be severe. A company might borrow more than it needs to meet conditions that don't materialize. On the other hand, it could leave funds unnecessarily idle. The best way to avoid any type of liquidity crisis within your organization is to train top management on the importance of forecasting, as well as the mechanics of the process.



2. Don't Confuse Cash Flow with Revenue

Both revenue and cash flow are used as indicators to help investors or analysts evaluate the financial health of a company, but revenue provides a measure of effectiveness in sales and marketing, whereas cash flow is more of a liquidity or money management indicator.

Cash flow includes operational sales revenues and monetary sources beyond merely sales revenues. Companies often generate or obtain cash in a variety of ways that lie outside the conduct of their main business.

3. Identify Your Inflows and Outflows

For any CFO, much of this is elementary, but your cash flow forecast should be a detailed look at your company's cash position relative to its inflows and outflows. To start, how much money will you be bringing in over the period in question and from what sources? This isn't a measure of your company's capacity to produce products or services, but rather what will be collected in payment for goods and services.

4. Create Several Scenarios

When you produce a cash flow forecast, it may be helpful to create several different scenarios.

When you create multiple scenarios with your company's future cash flows, you will be able to visualize the impact of certain future conditions, as well as quickly adapt your company's processes when necessary. Provided you have automated your forecasting process, these scenarios should be simple enough to produce so that you won't have to scramble in a reactionary mode at a later date.

5. Publish, Monitor, and Adjust Results

No cash flow forecast should be set in stone, since there may be customers who fail to pay, sales that don't materialize, or unexpected expenses that show up on your doorstep. Once you publish a forecast, continue to monitor results in real time as much as possible. Doing this will allow you to identify opportunities to improve your process and may permit you to take advantage of a better cash position on occasion.

13 WEEK CASH FLOW FORECAST

Cash is the lifeblood of any organization. For businesses deep in, or on the brink of, financial distress, one of the primary ways leadership can keep operations afloat is to get a firm grip on liquidity.

Across industries and turnaround scenarios, the humble 13-week cash flow model is a fundamental tool for executives to check the pulse of their organizations.

The 13-week cash flow, compared to other types of financial statements, offers the most granular view into the money moving in and out of a business. Relying on this model instills a sense of financial discipline when organizations need it most. Most importantly, the 13-week cash flow is an objective, repeatable model that helps dispel false optimism among leadership teams.

ADVANTAGES OF A 13 WEEK CASH FLOW FORECAST

Striking a balance

Planning for the medium-term without interrupting plans or the longer term

Avoiding the short-term planning gap

Liquidity risk forecasting

Matching business requirements



Striking a balance

The time horizon of the 13-week cashflow model is short enough to support agile, tactical decision making, but also takes a long enough view to drive longer term decisions. The 13-week cash flow forecast also helps strike a balance between accuracy and range. It is a universal truth in forecasting that the accuracy of a forecast degrades the further it extends into the future. 13 weeks provides enough sight to have an impact on strategic decision making, while remaining short-term enough to be able to provide a high degree of accuracy.

Planning for the medium-term without interrupting plans for the longer term

Taking a longer-term view, while 13 weeks is sufficient for medium term and month-to-month cash planning, it won't overlap with longer-term plans which can extend years into the future. Because of this, there is little reconciliation required between plans. Medium and short-term planning decisions can be assisted by the 13-week forecast, whereas longer term planning remains in the purview of the overall business planning process.

Avoiding the short-term planning gap

Most planning processes in companies produce monthly forecasts and budgets, offering limited short-term visibility. A 13-week cash flow forecasting process is usually broken down into weekly reporting periods, therefore offering four times greater granularity. This means that any short-term planning shortfalls can be addressed with a detailed look-through.

Liquidity risk forecasting

Risk management is a key part of any cash forecasting process. Forecasting with a 13-week horizon should be accurate enough to identify any potential liquidity issues, while still offering enough time to take action to resolve those issues. For example, if a potential liquidity shortfall is identified with 10 weeks' notice, the treasury team have ample time to prepare by arranging bank funding or reviewing inter-company lending options.

Matching business requirements

By covering a full quarter in scope, a weekly rolling 13-week cash flow forecast will always provide cash balance visibility on the next key reporting date or next quarter end. This is extremely valuable for the business, as senior management will always want reporting on cash balances that coordinate with their own key reporting dates.





About Spice Route Finance

Spice Route Finance is a pioneering management consulting company delivering premium quality services in the spheres of strategic financial planning, Performance management, Virtual CFO, and deal advisory services.

In a highly competitive business landscape, employing predefined sets of framework and models can limit your growth. Every business has unique challenges and opportunities to acquire a solid place in their specific market place. Being the most trusted partner, we understand that extra attention over finances can expand your capabilities and create a significant impact on successfully executing a business model.

Our services aim to help startups, SME's, MSME, and growing organizations to optimize their cash flows, accelerate growth, and maximize profitability. We are a team of subject matter experts to evaluate your business from multiple aspects and help you make informed decisions. Our seasoned professionals can unlock the hidden value creation and let your experience exponential growth with effective strategies and planning.

*For more details contact
info@spiceroutefinance.com,
sriramchidambaram@spiceroutefinance.com*

