

What to Expect in Your 13-Week Cash Flow Forecast

A Guide for Operating Executives

The 13-week cash flow forecast is a critical tool for executives who want to precisely understand the cash needs of their company and, just as importantly, the drivers and levers at hand. The value of this tool is never as critical as in times of crisis, when revenue and profitability performance are under tremendous strain.

We've put together a list of attributes shared by best-in-class forecasts to help operating executives gauge the quality of their own forecasts. A 13-week cash flow forecast should be:

1. Timely

Cash flow forecasts should provide a real-time view of cash positions based on current balances from your ERP. Receiving a cash flow forecast based on dated information is unacceptable.

2. Comprehensive

If the model is not comprehensive, the data in a cash flow forecast won't be useful. All cash inflows and outflows must be considered, with best estimates offered in areas where hard data is not available.

3. Risk-Weighted

Certain cash inflows and outflows are not certain (e.g., AR collections). As such, it is critical that the forecast incorporates risk factors, and those risk factors must be communicated and transparent for any executive reviewing the forecast.

4. A Decision-Making Tool

Simply knowing forecasted cash balances isn't enough. A best-in-class forecast will deliver not only forecasted cash balances but also the available levers (i.e., actionable items) available to an executive. For example, the forecast should identify which expenses are essentially fixed, which are truly variable and the whole range of "in-between" items that can be addressed.

5. Built with Scenarios, Scenarios, Scenarios

Your cash flow forecast should be extremely flexible and capable of contemplating a range of different scenarios based on a variety of assumptions. For example, what does the cash flow look like if we enact a hiring freeze? Take our 401k match down to \$0? Renegotiate a lease term?

6. Measurable

The only way to know if your forecast is accurate is to be able to measure how the forecast performs against reality. Best-in-class forecasts include reporting against actuals so management can see where the model is working and where it isn't as accurate. Insight can then be gathered into how the forecast should be adjusted going forward.

7. Repeatable

Having a one-time view of your cash flow forecast is nice, but an effective forecast will be repeatable. The accounting team should be able to provide updated revisions as necessary in the upcoming days, weeks and months.

8. Consumable

The forecast should include a variety of interlinked summaries that allow the information to be circulated and communicated as needed. It should have summary views for certain audiences, more detailed versions for management meetings and highly detailed versions for use in meetings with the CFO.

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