

## Cash Flow Forecasting: Why it's Critical and How to do it

WP-ZAF-101

### operational

a method or manner of functioning

### blind spot

an aspect of one's life or a certain situation where one does not understand fully

### revenue

all the income produced by a particular source

### leak

to permit the escape, entry, or passage of something through a breach or flaw

### profit

financial gain from a transaction or from a period of investment or business activity, usually calculated as income in excess of costs or as the final value of an asset in excess of its initial value

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### Cash Flow Forecasting and Analysis

No matter the size of the company - large or small, cash flow forecasting is an issue and at times, a blind spot. Worse than tight cash flow is a cash flow crisis.

Quickbooks and other simple accounting software are not effective to perform this analysis though accounting software is certainly a data source.

Companies in business for 12 to 24 months possess the required data to map out and forecast for 8 to 12 weeks. If the organization is earlier in life cycle, use the business plan numbers as a foundation and adjust. Estimate customer invoice pay performance beyond the invoice terms based upon conversations, past performance, current market conditions.

Speak with project managers and assess where they are in terms of achieving billing points. Add these estimates into the cash flow forecast. If service contracts are part of the revenue stream, ensure these figures are part of the forecast.

If the business is real-time transaction based such as online or retail, in a few weeks, the business generally knows what happens on Friday versus Tuesday in terms of revenue so use this as a guide.

Also, assess the bidding funnel. If the firm is 20% successful closing bids; conversion turnaround averages 4-6 weeks and 50% of the bid comes in at contract signing, add 20% x weekly bids x 50% for expected deposits then add this to the projections 6 weeks out.

On the cost side, the central office team usually knows average operations burn rate, taxes, payroll, insurance, rent, and other fixed costs. Do not overlook annual payments such as real estate taxes or other annual fees.

Break this into weekly columns on simple spreadsheet as a forecasting tool. Why weekly? Your business needs to act quickly at the earliest sign of a cash flow shortfall.

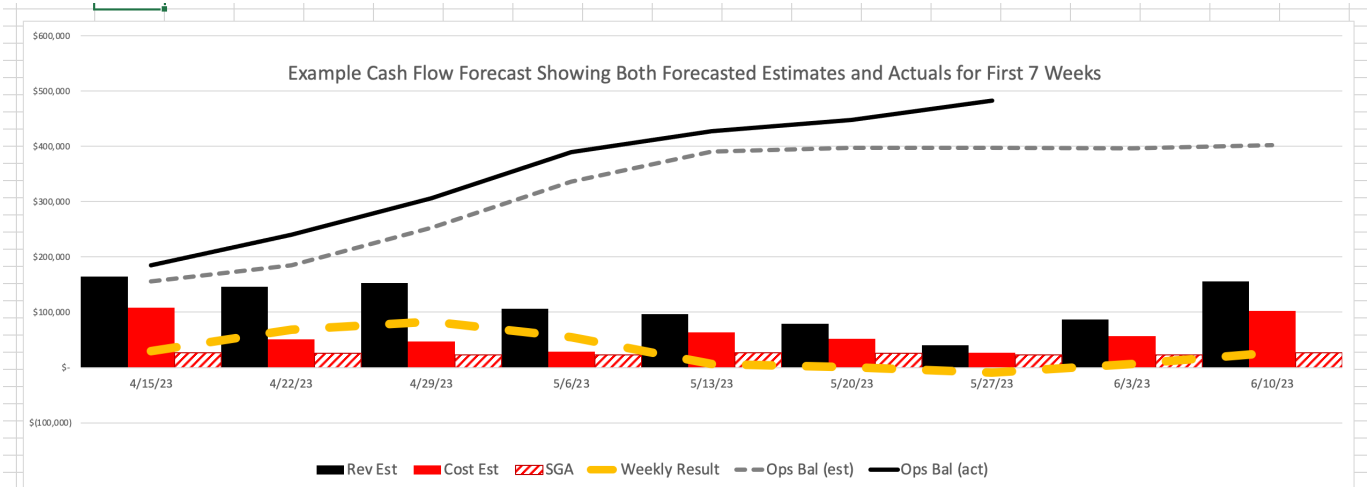
Bottom line: If leadership tracks the cash flow, there are many more options four or five weeks from going **red** than going into crisis the week **red reality** strikes.

Example

The mock-up below shows a cash forecast history with estimates and actuals and the mechanics of forecasting the last 2 weeks. Significant automation and detail may work behind the scenes for this process including linked sheets totalizing payables and accounts receivable by vendor and customer.

Week Ending	Week History 4/15/23		Week History 4/22/23		Week History 4/29/23		Week History 5/6/23		Week History 5/13/23		Week History 5/20/23		Week 0 5/27/23		Week 1 6/3/23		Week 2 6/10/23	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
	Enter amount Monday mornings based on bank      Create weekly revenue and cost estimates which get an update each week going forward.																	
Bank Balance	\$ 155,432	\$ 184,758	\$ 184,758	\$ 239,678	\$ 253,212	\$ 305,812	\$ 336,028	\$ 390,073	\$ 390,630	\$ 427,644	\$ 397,072	\$ 447,953	\$ 397,800	\$ 483,120	\$ 396,183		\$ 402,662	
Revenue																		
Product Line 1	\$ 65,987	\$ 72,123	\$ 76,123	\$ 72,345	\$ 89,999	\$ 85,432	\$ 40,678	\$ 37,654	\$ 32,123	\$ 30,008	\$ 26,788	\$ 23,123	\$ 15,000	\$ 15,222	\$ 12,345		\$ 14,650	
Product Line 2	\$ 21,654	\$ 14,814	\$ 18,518	\$ 22,221	\$ 37,035	\$ 44,442	\$ 39,876	\$ 41,234	\$ 39,000	\$ 42,123	\$ 26,777	\$ 25,443	\$ 10,000	\$ 9,056	\$ 5,000		\$ 4,000	
Product Line 3	\$ 76,553	\$ 28,197	\$ 51,268	\$ 56,395	\$ 25,634	\$ 28,197	\$ 25,634	\$ 28,197	\$ 25,765	\$ 22,113	\$ 25,634	\$ 28,197	\$ 15,000	\$ 11,234	\$ 68,357		\$ 136,715	
Total	\$ 164,194	\$ 115,134	\$ 145,909	\$ 150,961	\$ 152,668	\$ 158,071	\$ 106,188	\$ 107,085	\$ 96,888	\$ 94,244	\$ 79,199	\$ 76,763	\$ 40,000	\$ 35,512	\$ 86,702		\$ 155,365	
Ops Expenses																		
Product Line 1	\$ 43,551	\$ 13,260	\$ 22,101	\$ 26,521	\$ 11,050	\$ 13,260	\$ 5,525	\$ 6,630	\$ 21,201	\$ 20,999	\$ 17,680	\$ 1,658	\$ 9,900	\$ 16,543	\$ 8,148		\$ 9,669	
Product Line 2	\$ 14,292	\$ 8,148	\$ 10,185	\$ 12,222	\$ 20,369	\$ 24,443	\$ 10,185	\$ 12,222	\$ 25,740	\$ 11,234	\$ 17,673	\$ 3,055	\$ 6,600	\$ 10,987	\$ 3,960		\$ 2,640	
Product Line 3	\$ 50,525	\$ 10,433	\$ 18,969	\$ 20,866	\$ 15,432	\$ 10,433	\$ 12,876	\$ 16,578	\$ 17,005	\$ 15,666	\$ 16,918	Vertical (Value) Axis Major Gridlines	\$ 15,140	\$ 20,400	\$ 49,517		\$ 90,232	
Total	\$ 108,368	\$ 31,841	\$ 51,255	\$ 59,609	\$ 46,852	\$ 48,137	\$ 28,586	\$ 35,430	\$ 63,946	\$ 45,667	\$ 52,271	\$ 15,140	\$ 20,400	\$ 49,517	\$ 57,224		\$ 102,541	
SG&A																		
Rent	\$ 3,500	\$ 3,500							\$ 3,500	\$ 3,500								\$ 3,500
Utilities			\$ 3,200	\$ 3,765					\$ 3,200	\$ 2,907			\$ 3,200	\$ 2,907				\$ 2,907
Pay Roll Etc	\$ 23,000	\$ 22,998	\$ 23,000	\$ 21,453	\$ 23,000	\$ 25,674	\$ 23,000	\$ 21,098	\$ 23,000	\$ 24,768			\$ 23,000	\$ 23,543	\$ 23,000		\$ 23,000	
Unexpected								\$ 12,987	\$ 34,085					\$ 50,167				
Total	\$ 26,500	\$ 26,498	\$ 26,200	\$ 25,218	\$ 23,000	\$ 25,674	\$ 23,000	\$ 34,085	\$ 26,500	\$ 28,268	\$ 26,200	\$ 26,450	\$ 23,000	\$ 72,932	\$ 23,000		\$ 26,500	
Result	\$ 29,326	\$ 56,795	\$ 68,454	\$ 66,134	\$ 82,816	\$ 84,261	\$ 54,602	\$ 37,571	\$ 6,442	\$ 20,309	\$ 728	\$ 35,167	\$ (9,400)	\$ (86,937)	\$ 6,479		\$ 26,324	
	Weekly reconciliation (red arrows lines)												Original Estimate Week 6/3		\$ 388,400			
													New Estimate Based on Unexpected Used Instead					

In practice, each new week re-shapes the forecast 8 weeks forward based on new live data. The above grid and chart below reflect data as if viewing the forecast from April forward through 7 weeks with the actuals to get a feel for the process. Once arriving on the current week in the forecast, the grid shows what happens to update the forecast with the unexpected cost going forward.



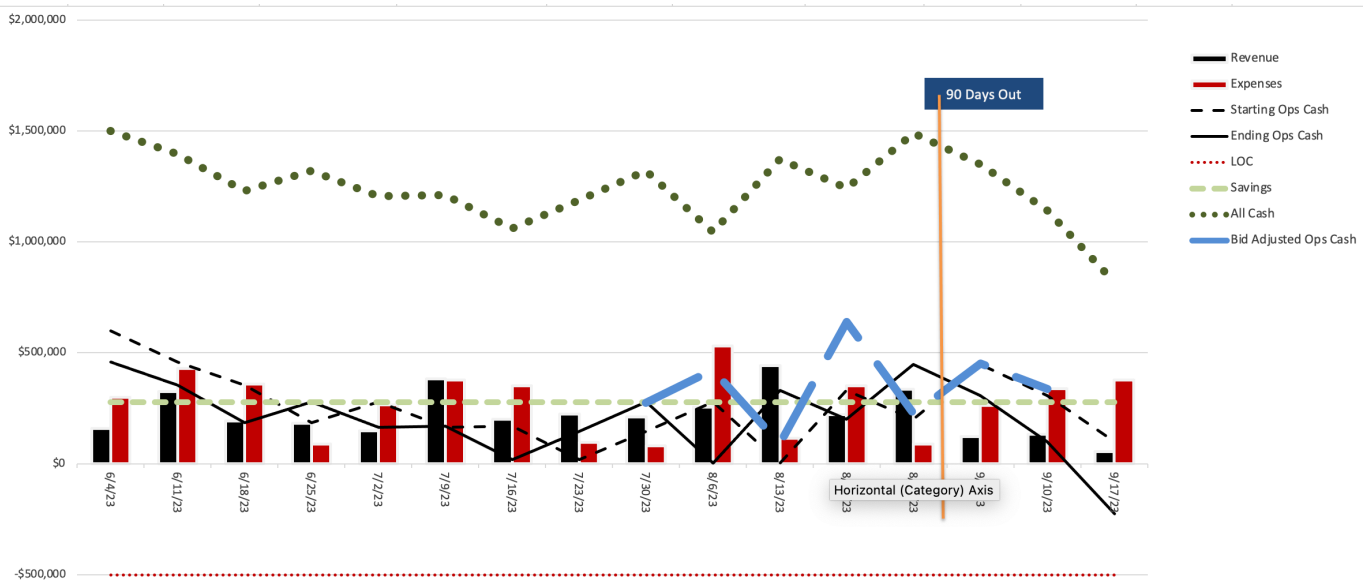
For full clarity, in April, the expected bank account balance for the last week of May was \$397,800. As the date approached, the actual amount in the bank turned out to be \$483,120. The first new forecast week has a new actual basis of (\$483,120 - \$86,937 = \$396,183). Estimates pick-up with the new actual.

The forecast above is very simplistic. With minimal effort, a more enhanced tool can assist managing fairly complex cash forecast activities including AR details, AP details, loan and capital forecasting, modeling budgeted profit lines, positive or negative bogeys to measure cash flow impact, as well as complex graphics to help understand cash flow issues.

16 Week Cash Flow Forecast		4:47 PM					
Company: My Company		May. 29 '23					
Weekly Revenues	5/21/23	0	5/28/23	1	6/4/23	2	
	Actual	Estimated	Actual	Estimated	Actual	Estimated	
My Bank	\$ 660,244	\$ 541,062	\$ 591,482	\$ 599,065	\$ -	\$ 457,530	
Payment Advice							
From Line of Credit							
Capital Loan							
AR - from separate schedule	\$ 46,607	\$ 147,584	\$ 13,245	\$ 158,282	\$ -	\$ 325,100	
<b>Total Revenues</b>	<b>\$ 46,607</b>	<b>\$ 147,584</b>	<b>\$ 13,245</b>	<b>\$ 158,282</b>	<b>\$ -</b>	<b>\$ 325,100</b>	
<b>EXPENSES</b>							
Client Credit							
(BLIP) Budget Line It	0%						
OPS COST BOGEY							
Deposit to Savings	5%	\$ 2,330	\$ 662		\$ -		
Staff-General-Admin	\$ 2,755	\$ 6,812	\$ -	\$ 140,000	\$ -	\$ 8,049	
Credit Cards	\$ 29,444	\$ 75,000	\$ -	\$ 75,000	\$ -	\$ 75,000	
Critical Vendors	\$ -	\$ -	\$ -	\$ 27,616	\$ -	\$ 10,700	
Other Vendors	\$ 103,194	\$ 46,099	\$ 5,000	\$ 57,202	\$ -	\$ 6,267	
Out of State Operations	\$ 28,066	\$ 104,000	\$ -	\$ -	\$ -	\$ 328,800	
<b>Total Expenses</b>	<b>\$ 165,789</b>	<b>\$ 231,911</b>	<b>\$ 5,662</b>	<b>\$ 299,818</b>	<b>\$ -</b>	<b>\$ 428,816</b>	
<b>Ending Cash Available</b>	<b>\$ 541,062</b>	<b>\$ 456,736</b>	<b>\$ 599,065</b>	<b>\$ 457,530</b>	<b>\$ -</b>	<b>\$ 353,814</b>	
Savings Account	Returned to LOC >>>						
Available Line Of Credit	\$500,000	\$0	\$0	\$0	\$0	\$0	

The following graphic comes from an actual cash flow forecast used to run a \$10+ million firm. At a glance, the owner and the CEO immediately see where action needs to happen in order to meet objectives. The red dotted line indicates a fully consumed line of credit at the bottom while the dark dotted line at the top shows cash from all sources in a tally. The operations account and savings account levels show a forecast out 16 weeks with a 90-day marker line to help visually guide through the quarters. The firm is operating in a cash strained environment as is evident by the red and black weekly expenses and revenue bars.

Clearly sales need to occur by 90-days out to prevent a steeper down trend on cash. The dashed blue line represents the additive expectation of sales based on a particular capture rate (1 in 3); start date after capture (typically 6 weeks) and a 50% deposit.



### Zafeiri Analytics

Zafeiri has extensive experience developing cash flow forecasting tools. These tools are complex under the hood yet simple to operate; there is no special software or macro creating this data weekly. Staff hand entry is minimal; charting and week over week calculations all occur automatically using standard formulas within the Excel product ensuring the tool functions well on Microsoft and Apple platforms.

Zafeiri can generally pull most of this together in a single day for a first run with a cooperative bookkeeper or other more advanced financial staffer. Within 2-3 weeks most firms develop a vastly greater situational awareness for cash flow than in the past and wonder how life existed prior to making use of forecasting in general and this type of tool in particular.

Zafeiri customizes and tailors the tool to meet specific customer needs, conditions, and unquities.

Regarding cash flow in general, operations wise, cash flow forecasting is the most important financial activity the firm engages. P&L, balance sheets, taxes, sales, etc., mean little without cash to operate the firm each and every day.

The real bottom line is whether a firm considers working with Zafeiri or not is less important than adopting a cash flow forecasting procedure which accurately looks out 8-12 weeks minimum.