

# Foundations of a Cash Flow Forecast Model

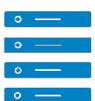
## Optimizing Working Capital Series – Part 1

By Chris Beyer



A **successful working capital strategy** requires an **effective cash flow forecast model**, typically over a 13-week period. This model is a critical tool for executives and the Board of Directors to ensure sustainability surrounding a company's short-term operations.

The forecast model, typically in excel, should be a **condensed and accurate file** that does not require an excessive amount of labor to update. Below are a few critical aspects behind developing an operational model and maintaining the update process:



**Simplify structural integrity:** Organize the excel file in a systematic format. Order tabs by balance sheet accounts and include summary schedules which condense lengthy system reports. Link these summary schedules to your main cash flow report tab. If your excel file is above 4MB, look for a way to simplify or reduce information.



**Ensure ease of visibility:** Readers of a cash flow forecast want to see cause and effect of overages or shortfalls, without being buried in excessive detail. An executive summary highlighting key weekly/monthly drivers, as well as a graph displaying a dynamic cash curve, is a great visual for Board Members.



**Set a target balance:** Identify the minimum level of cash required and be sure to adjust it regularly based on market sentiments or seasonal fluctuations. Also, check whether any of your customers' contracts require you to restrict any of their advance payment or require minimum balance thresholds and factor these into the design of your model.



**Establish a cadence:** Understand which assumptions require weekly or monthly updating within your model. Identify the owners of the information, articulate the specific data/reports that are needed, and establish a rhythm whereby data is sent to the excel model owner frequently. Be prepared to coach and facilitate team members through the onset of the update and learning process.

With an effective cash flow model developed, company leaders will **have greater accuracy and visibility** into their cash on hand, allowing them to tactically focus on optimizing other elements of their working capital strategy.