13-WEEK
Cash Forecasting Guide

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As our digital world has continued to evolve, the fundamental requirements of modern treasury operations have remained consistent: knowing today's cash position and forecasting tomorrow's as accurately as possible. While this is still a core requirement, many treasuries are still hindered due to the manual workflows required to build out essential cash management reports and forecasts that are necessary to keep a pulse on the business's cash flow.

The fact of the matter is, treasuries that can analyze, report on, and forecast cash faster and more accurately than their competitors can better find growth opportunities hidden in their bank data and enjoy a lower cost of capital. Treasuries, like your organization's, can accomplish this by digitizing operations with best practices for reporting and forecasting natively built into workflows and operations.

This guide will explain the reporting and forecasting best practices your treasury should have at the core of its cash management processes in order to have a better pulse on your cash flow and health, as well as explain how you can increase the efficiency of cash report and forecast creation through an automated cash management platform.

Why Forecast?

The 13-week cash forecast is one of the most critical operational reports when it comes to running your business because you never want to run out of cash. And while that sounds simple, it's continually one of the reasons why most businesses fail within the first five years. Your company's 13-week cash forecast ensures that you have enough cash on hand to cover your operational expenses and to help you prepare for any unexpected scenarios that may come your way.
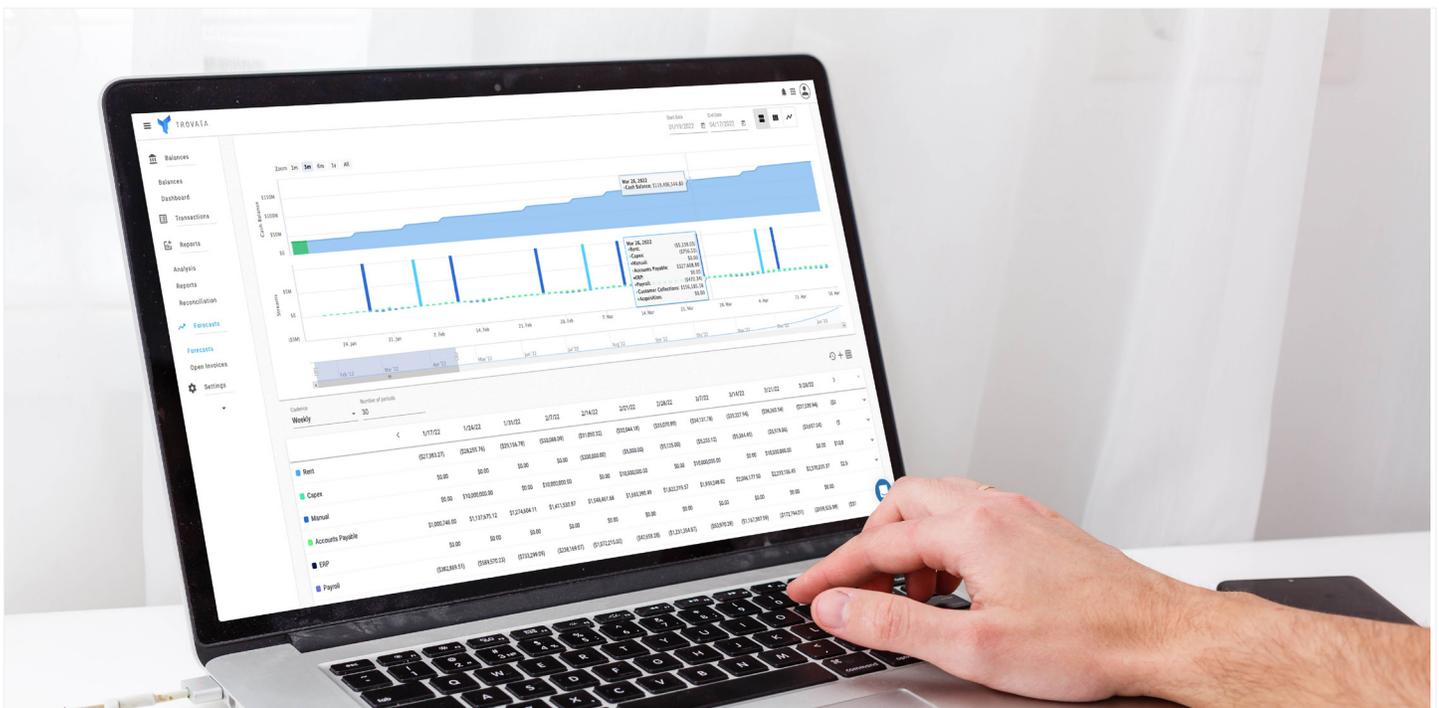
Managing a 13-Week Cash Forecast Helps:

1. **Ensure Your Business Is Adequately Capitalized**
   Knowing how much cash you have in the bank helps you be proactive with securing the right type of financing options to meet your business's cash flow needs.

2. **Identify and Plan for Cash Shortages**
   Seasonality is something every business faces to varying degrees. Understanding your business's seasonality alongside your typical level of cash reserves ensures that you can meet your working capital needs throughout the year.

3. **Properly Allocate Cash Surplus**
   Understanding when your organization may have a cash surplus through forecasting helps you make the best investment decisions possible and provides an opportunity to let your capital grow on its own, thus doing the work for you.

4. **Plan for Different Scenarios**
   Geopolitical threats, navigating a changing economy, emerging growth opportunities, and the consideration of entering new market segments all bring unexpected changes in cash flow. Utilizing scenario planning within your cash forecasts can help your organization identify potential unforeseen circumstances into cash management plans that can be implemented quickly as these situations may arise.

How to Establish a 13-Week Cash Forecast

Determine Your Forecast's Objectives

The purpose of your 13-week cash forecast is to help your organization better understand what cash you are going to have during a certain period. Though, every organizations' requirements are going to depend on the organization's size, strategic objectives, and whether the company is cash rich or cash poor.

Having a deeper understanding of your organization's strategic objectives is going to help you paint a picture of what your forecast requirements should be. When determining your forecast objectives, you should consider the following aspects:

Frequency — **Level of Accuracy** — **Purpose**
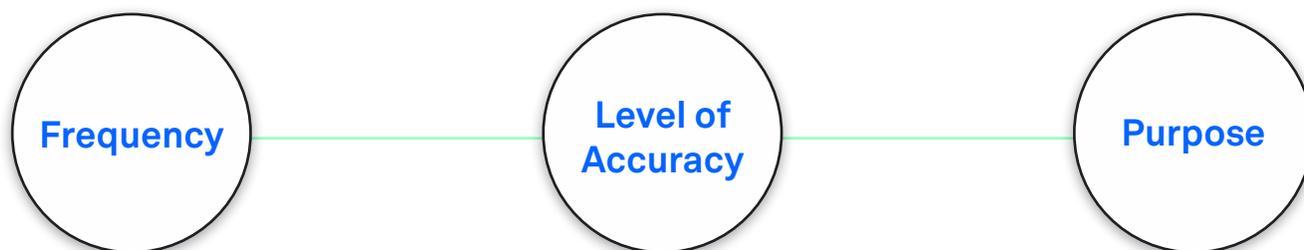
Frequency

Your forecast's frequency can depend on a number of factors. Those being:

Is your organization cash rich or cash poor?
If you are a small business starting out, or perhaps just don't have a large cash reserve, you may consider forecasting weekly, if not even daily. But if you are at a cash rich company, like a company in the Fortune 500, you may just have to forecast monthly to ensure that you are reaching your quarterly cash objectives.

Does your organization have a big planning date coming up?
Perhaps your organization is considering acquiring a company, taking on long-term debt, or just having a larger, untypical cash outflow going out on a particular day. Even if you are at a cash rich company, you may want to consider increasing your forecast's frequency to ensure you have enough cash in the right accounts to cover outflows.

Level of Accuracy

Most of us can agree that we would desire our cash forecast to be as accurate as possible, but gaining up to 99% accuracy could increase the time spent compiling and analyzing data that you just can't afford to take away from other strategic objectives. Perhaps your organization has enough cash in your reserves that you can afford your forecast being 95% accurate instead? But maybe some of you reading this are working for a smaller company who doesn't have a large cash reserve, meaning your forecast has to be as accurate as possible to cover your base expenses.

To determine your organization's necessary forecast accuracy range, it's critical to collaborate with key stakeholders and leadership. Coming to leadership and explaining the time and cost it would take to achieve greater forecasting accuracy is important, so everyone has access to the same data and knowledge, and can be confident with the transparency of your direct cash forecast.

Purpose

The purpose of a direct cash forecast is to understand how much cash you have and where it is located at various points in time. Going further, your organization may have some short-term strategic objectives they are looking to accomplish that is going to require knowing exactly where your cash is.
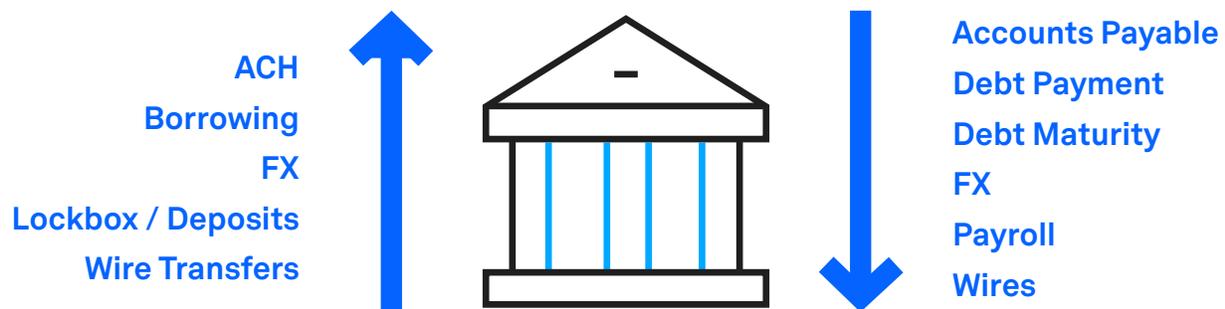
Questions you may ask yourself include, are you:

- Focused on accelerating your collections?
- Trying to forecast your necessary short-term cash to have more borrowing options with the bank?
- Expecting a large cash expenditure that isn't typical, like making an acquisition or purchasing upfront equipment?
- Trying to gain a better understanding of where your cash reserves need to be at quarter-end?

The answers to these questions will not only inform the frequency or accuracy your forecast requires, but may also influence your cash management strategy. No one understands your business more than you do. Ensuring key stakeholders are in agreement on the purpose of your direct cash forecast empowers you and your organization to make more informed, data-driven decisions.

Break Your Cash Flow Down Into Inflows and Outflows

Developing a 13-week cash flow forecast can look simple on paper, but it can grow to become more complicated as your business grows. For start-ups, it may be easier as it is simpler to wrap your arms around all the functions of the business. Global businesses have many more key stakeholders and divisions to consider, ensuring that a degree of automation is needed to maintain an accurate forecast.

First, it is important to understand potential sources of cash and outflows. In direct cash forecasting, cash is recognized when cash enters and leaves your bank accounts. This means that your cash inflow and outflow categories are going to be based on the methods your cash travels in and out of the bank.

ACH
Borrowing
FX
Lockbox / Deposits
Wire Transfers

Accounts Payable
Debt Payment
Debt Maturity
FX
Payroll
Wires

Sources of Cash

- **Lockbox/Deposits:** Deposits from checks or cash gained from sales

- **Wire transfers:** Wire transfers from sources outside the organization

- **ACH:** Deposits as a result of batch payments from clients

- **Borrowing:** Any cash gained from short-term loans

- **FX:** Cash obtained from differences in exchange rates

Cash Outflows

- **Payroll:** Outflows as a result of paying employees

- **Account Payables:** Outflows from paying vendors

- **Wires:** Outflows via wire transfers to other bank partners or vendors

- **Debt Payment & Debt Maturity:** Outflows as a result of paying off debt

- **FX:** Outflows as a result of losing cash due to a lower exchange rate

These lists are not exhaustive of the types of inflows and outflows you may have within your business, but it is a great starting point to start thinking about your unique sources of cash and expenditures.

Different Methods for Forecasting Cash Flow

When forecasting your cash flow for any given period, there are a variety of statistical methods that can be utilized. The most common are Naïve, simple moving average, and exponential moving average.

Naïve Forecasting

The Naïve approach is the most cost-effective forecasting model as it is produced based on historical bank data. From this bank data, you can make assumptions that cash flow will be similar to previous periods, especially if your business has recurring revenue.

Machine learning technology can be utilized to increase the accuracy of this model as it can analyze and find trends within your bank data. The weakness of this modeling method is that it assumes that business will remain steady overtime, and doesn't consider seasonality of your business.

Simple Moving Average Forecasting

Simple moving average forecasting (SMA) is useful to discover trends in your cash flow as it adds your closing cash balances over time and divides that sum by the number of periods. This can be useful to discover whether your cash flow is following either an uptrend or downtrend over a 30 or 90 day period.

While a simple moving average smooths out the volatility of cash movement over time, it assigns equal weight to all cash positions. If your most recent data have much more of an impact on cash flow, it would not be reflected in this forecasting model.

Exponential Moving Average Forecasting

Many businesses prefer crafting an exponential moving average forecast (EMA) because EMA gives a higher weight to recent cash positions compared to SMA, which assigns an equal weight to all cash positions over a given time period. If your recent cash movement activity have more of an effect on your cash flow, you may want to consider crafting an exponential moving average forecast.

Keep Track of Your Actuals vs. Your Forecast

One of the most critical aspects of cash forecasting is gauging the accuracy of your forecasts over time. Without comparing your ongoing forecasts to your baseline, produced at the beginning of the quarter, it's difficult to understand if you are utilizing your organization's cash efficiently. By keeping track of your actuals versus your forecast, you can benchmark your performance over the quarter.

Establish — **Perform** — **Craft** — **Communicate**
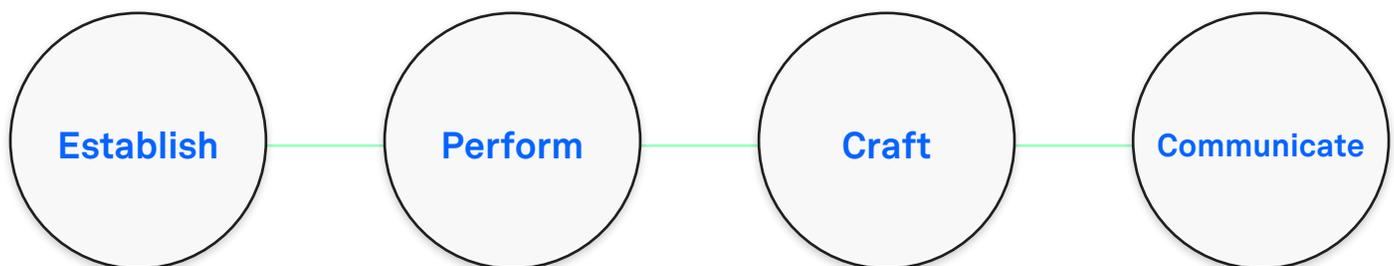
Establish a Baseline Forecast

Many companies update their baseline forecast every day with actuals, but the problem with this is that you have no data to compare your actuals to. Make sure to save your first initial 13-week forecast at the beginning of the quarter and keep it in a safe place, so you can continue to perform variance analysis to gauge your forecast's accuracy overtime.

Perform Variance Analysis

For every week of your forecast, it is critical to understand the difference between your actuals vs. your forecast for each inflow and outflow. By performing this analysis, you can start to piece together what factors affected your actuals and adjust your forecast accordingly.

Craft the Story Behind Your Forecast

The numbers are only one part of your cash forecast. Link your financial results to your business outcomes to paint a picture regarding the health of your business.

Communicate the 'Why'

Every department within your business has an effect on your cash inflows and outflows. By establishing visual, succinct methods of communication to key stakeholders, you can ensure your organization is making the most informed, strategic decisions.

Tips to Managing Your Direct Cash Forecast

1. Automate Your Data Management Processes to Obtain Complete Cash And Transaction Visibility Across All Your Bank Accounts

With banking APIs, your organization can completely automate the collection, normalization, and analysis of your bank data across all your bank accounts. Pairing this technology with an automated cash management platform, like Trovata, your organization can quickly generate and automate cash forecasts and reports based on accurate, historic bank data.

2. Actively Communicate With Key Stakeholders to Understand Operational Changes That Could Impact Your Cash Flow Model

The market is always changing, so businesses often have to change their strategy and processes to take these changes into account. Historical data only provides you so much detail. There's always one-off events that could occur throughout quarters such as acquisitions, share repurchasing, or other events that can cause large fluctuations to cash outflows. Communicate with key stakeholders to understand when these unforeseen events could occur, so you can build your forecast to be agile.

3. Plan for Multiple Scenarios

With how quickly our digital world evolves, new opportunities and threats can arise quickly. The goal of your cash forecast is to identify these opportunities and threats as early as possible and establish cash management strategies to take advantage of those market changes. Through forecast automation with an automated cash management platform, scenario planning becomes even easier as your organization is able to generate new cash flow forecasts for different investment decisions and sales fluctuations in seconds.
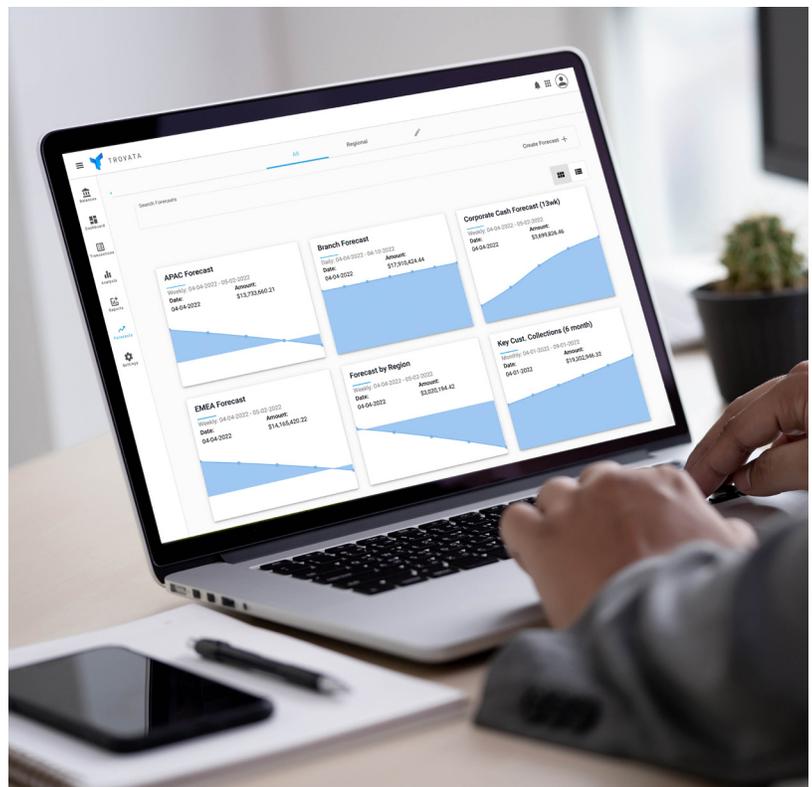
Measure the Accuracy of Your Cash Forecast with Variance Reporting

You cannot know the effectiveness of your forecast without comparing your active forecast with your baseline forecast that you saved at the beginning of the quarter. This is where variance reporting comes in handy.

Variance Reporting Is Useful In Several Ways:

1. **Highlights How Accurate Your Assumptions Are**
   By comparing your cash actuals in week two, for example, compared to what you planned for in your baseline forecast, you can calculate a percentage on the difference between them. Perhaps, by week 8 out, you find that, on average, your forecast is 80% accurate. Through understanding the accuracy, you can dig further into your cash flow to discover inflows and outflows you didn't take into account.
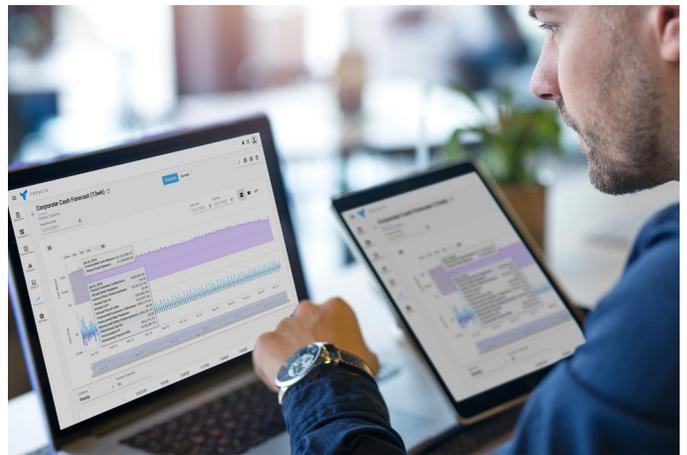
2. **Provides Insight Into What Actions Created Positive Outcomes, And How to Replicate Them in The Future**
   By helping you identify the differences between your baseline and actual forecast, you can begin to piece together how to increase the accuracy of your forecast and replicate future actions that have a net positive on cash flow.
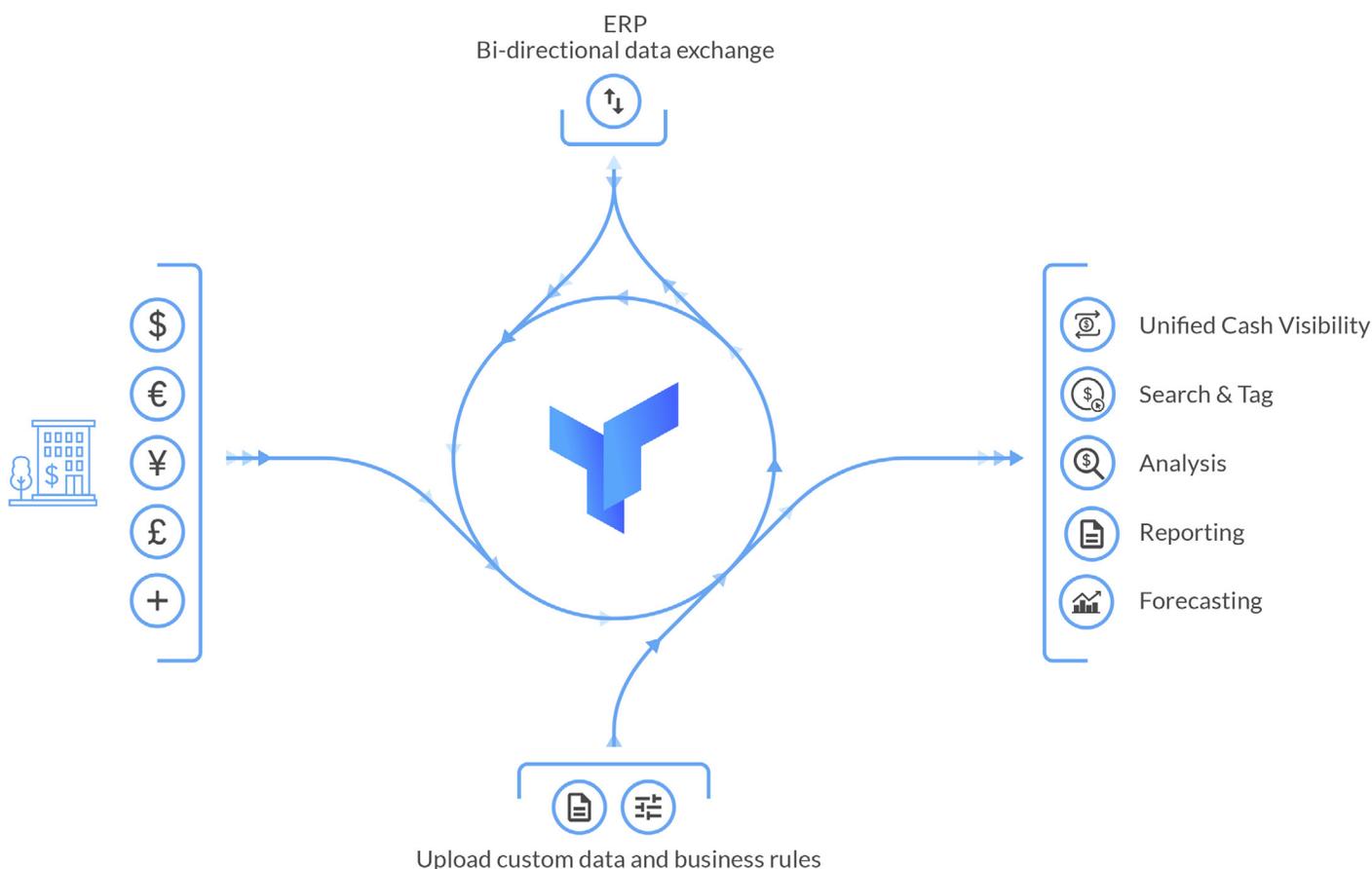
3. **Builds Proactivity Into Your Organization's Processes**
   Performing variance reporting helps build a culture around making more data-driven decisions. By making variance reporting a part of your weekly operations, you can continually build analysis into your cash management processes and begin to form a feedback channel between your treasury team and leadership.

How Trovata Helps Increase the Accuracy and Efficiency of Your Forecasts Through Automation

Gain Visibility Into Your Cash Flows with Trovata's Library of Open Banking APIs

As your business and bank data expands, the volume of treasury data increases exponentially, making it more difficult to manage your cash flow. While many legacy technologies promise to automate the aggregation of bank data, manual intervention is often required, leaving your treasury with a cash visibility

ERP
Bi-directional data exchange

Unified Cash Visibility

Search & Tag

Analysis

Reporting

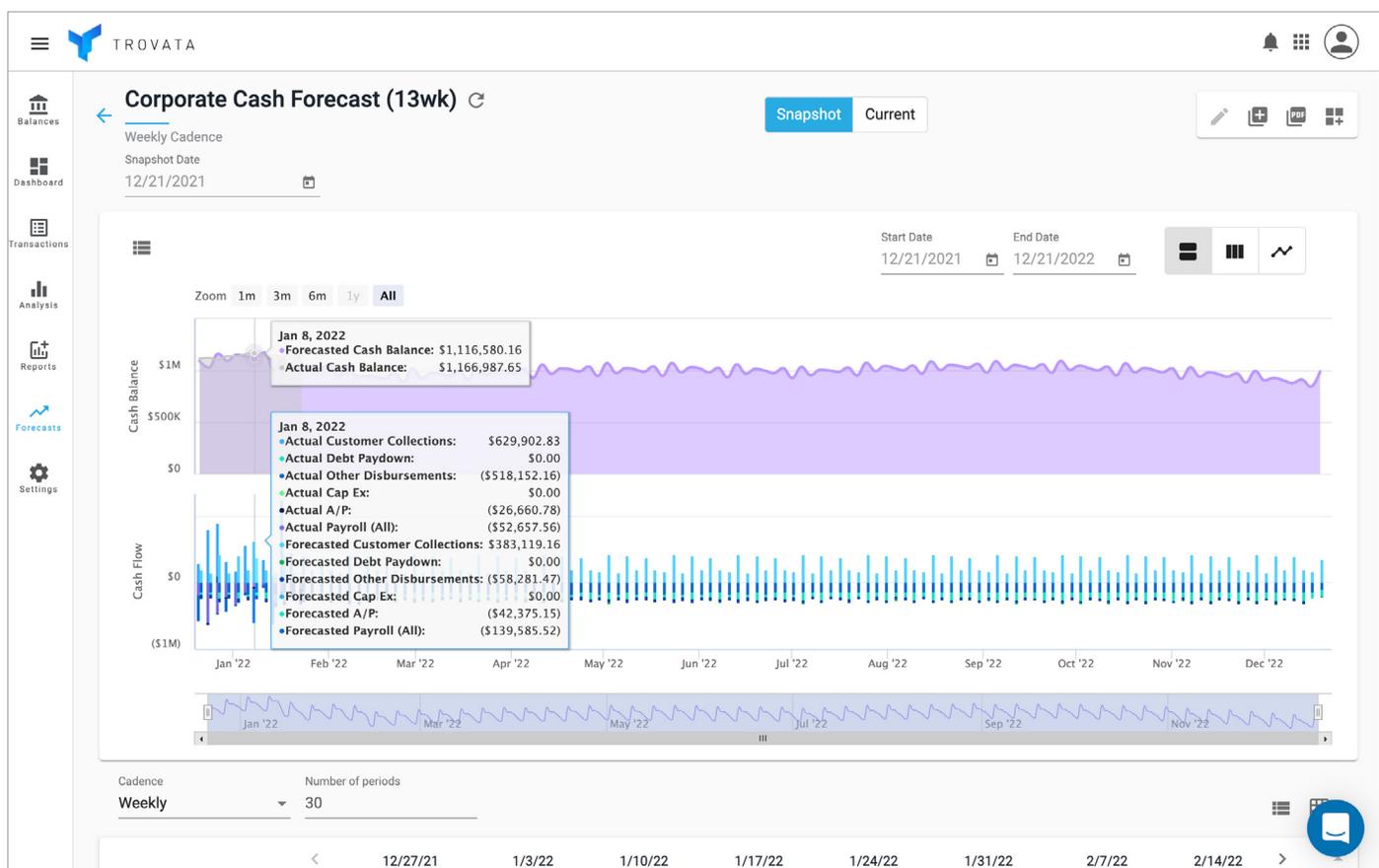Forecasting

Upload custom data and business rules

Trovata, the next-gen, automated cash management platform provides unified access to the richest banking information available from all your bank providers, empowering you to make better and quicker data-driven decisions. By aggregating your cash and transaction data with open banking APIs, and collecting that data into a Multi-Bank Data Lake™, you can eliminate manual data entry and automate your cash reporting and forecasting.

Increase Forecast Accuracy By Automating the Maintenance of Your Forecast Baseline

Through machine learning technology, Trovata generates forecasts utilizing historical bank data and data from your connected ERP based on your desired cadence, with options such as daily, weekly, monthly, or quarterly, and the number of periods. Based on patterns within your bank data, Trovata then builds out projected cash flow forecasts, enabling you to make more informed, data-driven decisions. Not only does Trovata project future cash flow, it automatically saves your baseline forecast, amplifying your ability to easily analyze the accuracy of your forecast over time.

Automate Variance Analysis with Trovata's Machine Learning Technology

With open banking APIs, Trovata receives the most up-to-date cash balance data, which is then utilized by machine learning technology to calculate your actual cash balance within your automated 13-cash forecast. This makes it easier than ever to perform variance analysis to compare your forecasted cash balance with your actual cash balance over time. You also have the ability to drill into your organization's daily cash flows, empowering you to understand the reason for the variance and strengthen your 13-week cash flow forecast gradually.

Perform Advanced Scenario Planning With Enhanced User Variables
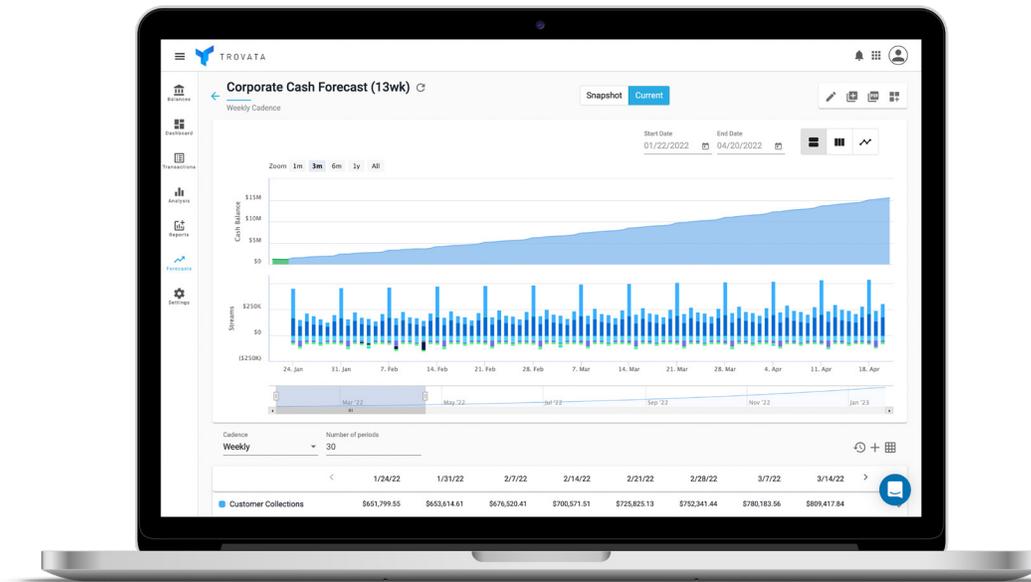
Geopolitical threats, navigating a changing economy, emerging growth opportunities, and the consideration of entering new market segments all bring unexpected changes in cash flow. Scenario planning transforms these unforeseen circumstances into cash management plans that can be implemented quickly as these situations arise. Trovata gives you the flexibility to apply growth rates and variables to your automated forecasts, empowering you to easily and accurately forecast around changing scenarios, business decisions, and potential investments. This way, you are prepared for any disaster scenarios and growth opportunities that arrive at your organization's door.

Break Free From Prescribed Reports with Trovata's Automated Cash Reporting and Forecasting Functionality

With Trovata, you can say goodbye to manually creating your cash reports and forecasts manually in spreadsheets. By automating cash reporting, forecasting, analysis, and money movement, your organization can obtain powerful insights into your cash flow that can propel your business forward.

Empower your team to make more efficient data-driven decisions that propel your cash management strategy forward by speaking to Trovata today.

Get Demo