

Thinking through the inputs required to build a weekly cash flow projection

Overview:

While you do not want to overthink, the inputs required to build a model you certainly should spend enough time thinking through the categories of your revenues and expenses to make your 13-week cash flow projection meaningful. You can refine these projections at a later date. Some thoughts to get you started are:

A. Revenues and cash receipts:

1. Would it be meaningful to track more than one revenue source? For example, product sales in store and product sales on-line, or product sales, webinars, consulting fees, etc.
2. Should you estimate the portion of sales that are received in cash or credit card at the time of sale vs. those that might be subject to thirty-day payment terms (i.e. credit sales), etc.
3. What is the average number of days to collect your credit sales? Should the model be built to show a changing expected number of days to collect each week's credit sales?

B. Purchases of materials or inventories

1. Can or should this be expressed as a percentage of sales?
If not, can it be expressed as a measure against historical purchases compared to expected inventory levels given assumed sales volume. inventory level that might track with sales.
2. What is the average expected repayment term for these purchases expressed in number of days? Should the model be built to show a changing expected number of days to pay for each week's purchases?

NOTE – for those enterprises not having a direct cost of goods sold or purchases of inventory cycle, consider whether there is a category of expenses that offer extended payment terms whose timing of the cash disbursements should be modeled similarly to purchases of materials or inventories?

Also note the we recommend using 5-day increments to model the days to collect or days to pay assumptions referred to above

C. Expenditures and related cash disbursements

Group your expenditures by category. Some common categories to think through.

1. Monthly or quarterly expenses. Are there any expenses that are only paid for once a month or quarterly? For example, if credit cards are used to purchase fuel and/or used by employees for travel, meals, etc. Property taxes might be an example of an expense that is paid quarterly or twice a year.

NOTE - If these expenses are not significant it is generally cleaner just to consider these to be paid on a pro-rata weekly basis in the categories below than to set up a separate category of disbursement for them.

2. Payroll. We recommend you analyze your payroll costs to the extent that you can reasonably estimate the percentage of your payroll costs that are fixed vs. variable.

Fixed costs remain constant whatever the level of goods produced, or services provided while variable costs are those that vary with the level of sales or outputs. Generally, variable payroll can be expressed as a percentage of sales.

Consider the timing of your fixed and variable payroll costs. For example, administrative or office personnel may be paid bi-weekly or monthly while field or production personnel are paid weekly.

3. Payroll and payroll related costs such as payroll taxes, health insurance and retirement plan contributions can generally be estimated as a percentage of total payroll costs.

4. Facilities costs. These might include rent, property taxes, building insurance, utilities and facilities repair and maintenance. While property taxes likely are not paid weekly as a practical matter expressing total facilities costs as a pro-rata weekly expenditure produces a meaningful result. However, there would be nothing wrong with moving the property tax component into the monthly or quarterly expense category.

Note while there are certainly additional categories of expenses that one might consider our experience shows that your next step should be to separate your remaining categories of expenses into fixed and variable expenses.

5. Fixed costs, as mentioned above, are constant whatever the level of goods produced, or services provided. Examples of additional fixed costs not covered above are:

- Insurance not captured in facilities costs above
- Equipment rentals
- Telephone
- Office expense
- Technology expense
- Dues and subscriptions
- Professional fees
- Bank service charges
- Janitorial services

6. Variable costs change with the level of sales and/or production and can generally be estimated using a historical percentage of this grouping of expenses expressed as a percentage of sales. Examples of variable costs are:

- Advertising and marketing
- Bad debts
- Travel
- Sales expenses
- Production supplies
- Small tools
- Contract labor or outside commissions
- Bank and credit card fees
- Freight out

If, after making these groupings, you discover that there is a significant expense that should be moved to the monthly, quarterly, semi-annual, or annual expense category you can do so at this time.

D. Other cash disbursements

Consider other cash receipts and cash disbursements that are not normally presented within your income statement. Examples are:

- Principal payments on long-term debt
- Proceeds from long-term debt
- Advances or repayments on existing lines of credit
- Capital expenditures
- Payment of estimated income taxes or distributions to shareholders for individual income tax payments or other uses

E. Closing Comments

Examples of 13-week cash flow projections based on the above concepts are provided.

You may find it beneficial to refine your modeling as you continue to work with your projections over the coming weeks.

We encourage you not to overthink this and delay completing the build-out of the weekly cash flow projection. Remembering that perfection is the enemy of done, and given the extremely challenging environment we are facing, the ability to model and evaluate your cash flow needs is a critical tool to assist you in making informed decisions.

Our consultants would be happy to help you think through your inputs and assist in the design of a meaningful weekly cash flow projection for your enterprise.

Please contact for additional information or if we can be of further assistance at this time.