

A cash flow forecast is an essential financial tool that helps you anticipate how money will move in and out of your business over a set period, typically a year. It provides a snapshot of your business's potential profitability and helps you identify periods when cash may be tight.

With accurate forecasting, you can prepare in advance for any shortfalls and take steps to maintain liquidity. A cash flow forecast outlines both expected income and expenditures, allowing you to plan for upcoming costs, so that you have enough capital to cover them.

For established businesses, creating a forecast is relatively straightforward as you can rely on past sales and expense data to make predictions. However, for new businesses or those just starting out, it can be more challenging to predict cash flow with accuracy. In these cases, you'll need to rely more on market research, industry benchmarks, and your best estimates to create a solid forecast. Regardless of your business's stage, forecasting cash flow is critical for making informed decisions about spending, investment, and growth.

Start with a realistic forecast of incoming cash

Unless you have guaranteed regular payments from customers, it's almost impossible to forecast with accuracy the money which will come into your business week by week. There will always be an element of guesswork with new customers coming in, old customers going out, opportunities and upsets.

To help predict sales more accurately:

To create a robust income forecast:

- › Use existing sales contracts, purchase orders, or recurring billing schedules to inform revenue projections.
- › Align cash inflows with your accounts receivable aging report, factoring in customer-specific payment behavior.
- › Include federal or state grant payments, if applicable, especially for infrastructure, sustainability, or innovation programs.
- › Segment projections by business unit, geography, or customer tier for clearer insights.
- › Model income scenarios that account for market downturns, geopolitical risks, or supply chain disruptions.
- › Finally, apply your best guess, based on your years of experience and industry knowledge.

For new divisions or lines of business, benchmark against industry norms (e.g. from IBISWorld or U.S. Census Business Builder), and use your break-even point to set a floor for your revenue expectations.

If you're still stuck, then one way to solve the issue is to work out what you *must* sell. Complete a break-even for your business to see what you absolutely must sell to cover costs. This can be your sales forecast base line.

Sales also very rarely stay constant month to month and the main culprits are:

- › Seasonality, since holidays, weather, weekly fluctuations, budget cycles or an unpredictable crisis or boom can all have an impact.
- › Limited capacity, if you can only process a certain number of customers each month
- › Economic conditions and fluctuating demand.
- › Customers paying on time. Factor payment delays if you offer credit.

Placing an arbitrary number in the sales forecast column doesn't automatically mean it will happen, so carefully estimate what's likely, not what you hope.

Estimate cash out

Once you've predicted sales, it's time to complete the money going out section of your cash flow. These are made up of fixed costs which you'll have to pay regardless of your level of sales. They include rent, salaries, power, internet, and subscriptions. Then there are variable costs which go up and down depending on how busy you are, such as raw materials, consumables and inventory.

As a new start-up, you may also have one-off costs like opening inventory, equipment, vehicles and any marketing launch expenses. Tips to help estimate accurately cash out:

- › Research actual costs by contacting suppliers and getting quotes.
- › Search online for recent costs.
- › Add in a contingency, since it often costs more than you think.
- › Include a realistic salary for your own efforts.
- › Budget when tax payments are due.
- › Adjust expenses up or down depending on your sales forecast.

Thoroughly estimating both fixed and variable costs, and adjusting for any unexpected expenses, will help you create a more reliable cash flow forecast that will help you manage your business finances effectively as you grow.

Using your forecast

Once you've completed your forecast, check to see if there is a negative balance during any month. This is when you may need to add a cash injection from savings, arrange an overdraft or loan to prevent you from running out of cash.

Next steps

- › Implement cash flow forecasting as a rolling process, not a static spreadsheet. Use software to sync live financial data from ERP and CRM platforms.
- › Structure your cash flow by segment or department, to quickly isolate problems or opportunities.
- › Run quarterly scenario planning to keep your strategy aligned with cash realities.
- › Engage department leads in forecast reviews to create accountability and alignment.
- › Monitor industry trends and adjust assumptions regularly. For example, rising wage pressures or freight costs might change your expense model.

Even in complex enterprises, the golden rule still applies: cash in must exceed cash out. But with better tools and sharper forecasting, you can time that margin to your advantage.

After you've launched, update your cash flow each month by adding in actual sales and expenses next to your estimates. It will allow you to amend your predictions based on what is happening which will allow you to better:

- › Predict future seasonality fluctuations.
- › Identify when you need extra funds or overdraft cover.
- › Assess the impact on profit if you want to add extra capacity.
- › See when you can afford new assets.
- › Calculate the timing of loan repayments.
- › Determine when you'll either run out of money or have excess cash to save.

Including best, worst, and most-likely case revenue scenarios allows you to see what could happen if you suddenly hit tough times or better than expected trading conditions.

The usefulness of your forecasts will depend on how accurate and up to date they are. It's important to update them against your actual business performance on a weekly or monthly basis. This will make sure your information is accurate and allow you to adjust future forecast figures as soon as it becomes clear they're likely to differ from your initial expectations.

By staying proactive with your cash flow forecasting, you will have a clearer picture of your financial health, allowing you to make informed decisions so that your business remains financially stable and prepared for future growth.

Note

This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.