Advantages Of Cash Flow Forecasting

As a business, you want to know what the future holds, but no one can tell the future, right? Well, this isn't always necessarily true. There are some ways you can try and predict your financial future, any possible growth outcomes, and whether what you're doing right now will work out.

You don't want to come into any cash flow problems, so a slight view of your business's finances in the next few years can be an advantage. Cash flow forecasting is one of the best ways to keep your company afloat and see whether you're doing the right things for your future.

What is cash flow forecasting?

In simple terms, cash flow forecasting is the practice of estimating what your business's finances will look like in the future. It puts together a plan that identifies all your ingoings and outgoings for a specific time. Usually, it will focus on the next financial year, but you should continue to monitor it each month.

By putting together a cash flow forecast, you're looking at what the future could hold for your company. It works alongside the budgeting and planning of your entire financial structure and ensures you don't encounter any issues. It is something every business should use and can set you up for success if used correctly.

What should you include in your forecasting?

Every cash flow forecast is different, but there is a basic structure that you can follow if you're first starting out. You may have to add some extra sections based on your business's requirements, but you should definitely include these three things:

- Opening cash balance

The amount of money you have in your bank at the beginning of your forecasting. This will also be the closing cash balance of your last forecast.

- Receipts

An estimate of the number of sales you'll be making during this forecast based on your previous sales and trends.

- Payments

An estimate of any outgoing payments your business will make during this forecast. It should include both fixed and variable costs.

Main advantages of cash flow forecasting

Cash flow forecasting isn't just good for looking into the future of your business's finances; there is actually a wide range of different benefits you can make the most out of:

Sets you up for cash shortages

The last thing you want as a business is to come up short financially. It can leave you feeling like a deer in headlights, and you may struggle to get back on track. However, you can identify and plan for any cash shortages if you have a cash flow forecast. It helps you stay on top of things and not get yourself into a deeper hole if a problem arises.

Your cash flow forecast may not guarantee that you'll be able to fix any cash shortages, but it can provide you with a good amount of foresight into what could happen. You then have the opportunity to plan what solutions you can put in place, such as liquidating assets or collecting payments.

You can track overdue payments

Do you feel like you're constantly chasing clients for payments? It can be extremely frustrating as a business owner and affects your cash flow every month. However, a cash flow forecast can help you identify which people are consistently paying you late and how they impact your company.

Once you have a clearer view of how these late payers contribute to any cash flow problems, you can create better credit control. This will ensure you get what you need from them during each payment. It also helps you look out for future clients that follow the same patterns and ensure they don't add to the problem.

Helps you allocate your cash

Sometimes as a business, you'll see that there is a cash surplus in your bank. This can seem exciting, but it isn't always a good thing. In fact, most companies don't experience many benefits from extra cash. That's when a cash flow forecast can come in handy, as it will help you identify whether you have a surplus and figure out where to allocate it.

Of course, this extra money won't be going somewhere useless. Sometimes the best thing to do is put it in a smart investment, use it for more effective marketing, or improve your business plan to bring in more clients. Either way, this can help you make more in the long run and set your company up for more success.

Keep an eye on your spending

Trying to track your spending manually can be stressful and take up a large portion of your time. However, a cash flow forecast can help with this by looking at your outgoings.

You know how much you have to spend each month, such as bills and office rent, so you can put this under guaranteed total outgoings. However, if your overall outgoings on your forecast come out higher than this figure, you can have a look at what areas of your business you're spending too much in.

From there, you can make the adjustments for the next month. This can be harder when you do it manually, as a cash flow forecast gives you a much clearer view of the different things you spend your money on.

Predicts future outcomes

A cash flow forecast is a perfect tool for helping you figure out what will happen when you make a certain financial decision. You can use them for scenario planning. For example, if you don't pay a bill in time, how will this affect your business's future? One scenario is that you will be reported to credit agencies, which will affect your chances of getting a loan in the future.

Once you know whether the most likely scenario is positive or negative, you can make a choice about whether you want to go forward with it. There are some forms of software you can use to help with this, but a cash flow forecast is probably your best option.

Final thoughts

Cash flow forecasting is a fantastic planning tool you can use to help enhance how your business manages its finances. It sets you up for success and can show you how to avoid any detrimental decisions in the future. All businesses should put together one of these forecasts at least once a year because they'll no doubt see great growth.