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7 Advantages of a Cash Flow Forecast

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Small business owners have to make difficult financial decisions almost every day. The level of responsibility and risk can be a huge burden, but with the advent of cloud accounting and the availability of more sophisticated reporting, that is all beginning to change.

In particular, online cash flow solutions have been a major contributor to the diminishing stress-load of business owners.

But some business owners don't realise the advantages of cash flow forecasting, so we've got the lowdown on why business owners should be using a cash flow forecast.

What are the advantages and disadvantages of a cash flow forecast?

Cash flow forecasting is an essential tool for business planning. It can be done in various ways, with the spreadsheet method being the most traditional.

But what are the main advantages of a cash flow forecast for your clients?

Understand the impact of future plans and possible outcomes

For many small businesses, one late payment can lead to cash in the bank taking a nosedive very quickly. But modelling alternate scenarios can help business owners to understand how various situations will impact their cash flow, which is a crucial part of business planning. Using scenarios to test different possible future situations can provide the peace of mind a business owner needs to confidently put plans in place.

Keep track of overdue payments

Keeping on top of consistent late payers is often the bane of a business owner's life. Having insight into late payers and the impact they have on the bottom line can alert clients to the need for more effective credit control.

To address this, you could look into direct debit software like GoCardless, and debtor chasing software like Chaser.

Plan for upcoming cash gaps

Seeing cash gaps before they hit, allows your clients to put plans in place to avoid them. Anything from reducing payment terms, to looking for loans and alternative finance can be vital steps towards closing that cash gap.

Manage surplus cash

For most businesses, it's rare to see excess cash in the bank. But using additional cash for reinvestment in new markets, or for the repayment of loans, can be essential to keeping afloat.

Knowing when they'll have surplus cash in the bank, and being able to see where and when the surplus will occur, means that business owners are better able to plan for what to do with the surplus.

Providing additional advice on what to do with a cash surplus is essential to your position as a trusted advisor.

Track whether spending is on target

Every business has revenue goals and targets that are time-sensitive. But cash flow forecasting can help a business owner to understand exactly when and if they will reach those goals.

Forecasting allows you to see the breakdown and impact of your budgeting. Whether over or under budget, seeing the movement of cash into and out of the business can help to increase the accuracy of future budgeting.

Invest time in good governance

Investors aren't usually involved with the daily operational tasks of a business. This means that they'll think of the business at a higher level, and they'll expect their clients to do the same.

Your clients will need to provide stakeholders and investors with clarity on what the future of the business looks like, meaning they will need to maintain a cash flow forecast (including best, average, and worst-case scenarios). This will increase trust and accountability between clients and investors, making it more straightforward to raise further investment if needed.

Giving board members, potential investors, and finance providers, the ability to see the predicted future of a company can be vital to their continuing, or additional, investment.

Good governance is vital to the success and longevity of any business. And offering additional insight into the potential of a business encourages confidence and the reassurance that their investment will be safe.

Save time over a spreadsheet using online tools

Building a cash flow forecast in a spreadsheet, particularly if you've never done it before, can take a lot of time and effort. However, using cloud-based software can often take the pain out of forecasting your cash.

Saving you both time and money in the long-run, online tools are invaluable to actionable and efficient planning.

Understanding the difference between profit and cash flow

Cash flow forecasting enables a business owner to differentiate between two valuable financial metrics – profit and cash flow. Knowledge of their current and future cash position is essential for any business owner to know how much cash is available in the bank at any one time, under any given scenario.

But forecasts in a spreadsheet can be difficult for non-financial people to get to grips with. So with a collaborative cloud-based tool, and your knowledge as a financial advisor, you can go a long way toward calming fears, and soothing sleepless nights.

There are a growing number of businesses on platforms like Xero and QuickBooks Online, making it easier than ever for business owners to integrate with forecasting software that does the hard work for them.

***Float* for cash flow forecasting**

Float can make forecasting far simpler, and more visual, than a traditional numbers-heavy spreadsheet. Tracking budgets vs actuals, *Float* provides a more realistic view of cash – allowing business owners to understand what their cash situation is at a glance. With the additional benefit of easily creating various 'what if' scenarios, Float can allow for future planning, regardless of the route taken.

Encouraging insight and confidence in financial planning, cash flow forecasting can help to ensure the prosperous future that every business owner wants. There are many advantages to a cash flow forecast, and getting your client to understand them is essential to having confidence in their finances.