

Forecasting your cash requirements

Successfully securing finance for your business starts with clearly establishing your cash requirements. Times are tight, and the banks – the traditional “first port of call” for most businesses – are continuing to readjust their lending models. No matter who you speak to, the starting point is a clear assessment of just how much you need. Here are the essential steps in forecasting your cash requirements.

Should we have debt?

Before speaking with anyone, do your homework – there are some basic questions that you must be prepared for. So, a few ground rules are:

- **Make sure you know how much you need.**

Too many businesses fail to raise the finance they need simply by not being clear about the amount they require.

- **Timing is everything** – know when you need it, and for how long.

- **Be clear about what you need the money for and about how and when you are going to repay.**

- **Research your audience diligently** – bankers and investors are all human – all different, with particular likes and dislikes. Work with advisors who can help you target the right individuals and who can help you hone your presentation to perfection. Often, you have only one chance to get this right.

- **Cover all the bases** – when it comes to preparing your financial projections, include profit and loss, cash flow and balance sheet projections – all three are critical in presenting a robust and well integrated projection of your business. One or two out of three just doesn't work. Too many business owners fail to grasp the critical difference between profits and cash – your profit and loss projection will demonstrate your profitability, but only your cash flow can reflect your working capital requirements and accurately establish your cash requirement. And don't forget the balance sheet either – having established your funding requirement, all funders will want to see monthly balance sheet projections to assess your asset cover at the point of your peak funding requirement.



- **Start with a solid foundation** – robust financial projections need a good starting point and your opening position is critically important. Use your most recent management accounts and your most up to date balance sheet as your starting point. Review this balance sheet carefully – line by line – and make an honest assessment of the cash implications of each item. Assess when your debtor balances will be received and when creditors need to be paid. Don't kid yourself. Too many financial projections go way off beam in the first few months simply because unrealistic assumptions are applied to opening balances – it isn't realistic to assume that all of your debtors will pay you in 30 days – don't ignore bad and doubtful debts and those balances that you know will take time and effort to collect.

- **Tempus fugit, so don't let your financial projections go stale.** Funders will inevitably take time to review your projections and by the time you meet them your opening position and possibly your first month's figures will be out of date. Nothing will destroy your credibility more than a projected cash balance at the end of month one which is significantly at odds with the figure on your bank statement. Keep refreshing your financial projections and keep your opening balance sheet as up to date as possible.

- **Keep it simple** – prepare monthly and annual profit and loss, cash flow and balance sheet projections for maybe three or four years. Each should fit on one side of A4. Include a schedule of your key assumptions and leave it at that. Too many business owners fail to attract the funding they require through sloppy presentation – financial projections which run to 30 pages with poorly set print ranges could go straight in the bucket.

- **It may seem counter intuitive, but let the funders be creative.** Having established your peak funding requirement, don't second guess how your funders will structure your finance. Adding new loans and finance costs to your projections can distract and confuse – particularly in these uncertain times. Keep it pure – make sure your cash flow projections clearly show the peak requirement without any new finance in place and then actively engage with your funders to establish the most appropriate and cost effective funding solution.

- **Be realistic.** Too many businesses fail, simply by not raising enough cash to meet their peak requirement. Test your assumptions to destruction and err on the side of caution – assume that everything will take twice as long and will cost twice as much.

- **We've all heard it a thousand times before, but don't forget that cash is king.** The easiest business to fund is one that doesn't need funding! If you only do one thing, focus on making your business as cash generative as possible. Your financial projections may look the part, but nothing will make a bigger impression with your funders.