Trekk
ADVISORY

The cash flow playbook

Step by step strategies for business growth

FACT SHEET

The cash flow playbook

In the realm of business finance, cash flow forecasts hold critical importance. These documents serve as a financial lifeline, providing insights into your businesses ability to generate the cash needed to cover debts, manage operating expenses, and sustain growth. While profit is often celebrated as the ultimate measure of success, cash flow is the lifeblood that keeps your business running day-to-day.

A well-managed cash flow ensures that you can meet essential obligations like paying bills, wages, and suppliers, while still having enough liquidity to seize growth opportunities. Beyond daily operations, cash flow forecasts reveal the financial health of your business, showcasing your capacity to weather downturns and plan for expansion.

This workbook will guide you step-by-step through understanding and forecasting your cash flow. By the end, you'll have a practical understanding of your cash flow and a solid foundation to develop a detailed forecast that fits your business, empowering you to make confident, informed decisions.

Cash flow fuels your business. Gain control, ensure stability, and unlock growth with the right strategies.

Cash flow and profit- know the difference. Profit shows long-term success, but cash flow determines your business's ability to survive day-to-day. Even a profitable business can fail without enough cash on hand to cover essential expenses. Managing both is key to thriving in business.

Cash flow vs. profit

One of the most common misunderstandings in business finance is the difference between cash flow and profit. While both are critical to your business's success, they serve very different functions—and knowing how to manage each is key to staying afloat.

- Profit is the money your business has left after you've paid all your expenses. This is often what business owners look at to measure success—if you're making a profit, it feels like the business is healthy.
- Cash Flow, on the other hand, is the money moving in and out of your business at any given time. It's not about how much money you've made overall, but about having enough cash on hand to cover your day-to-day expenses—bills, wages, and unexpected costs.

Here's why understanding the difference is so important:

You could be running a profitable business on paper, but still face serious cash flow problems. For example, if your profit is tied up in unpaid invoices (accounts receivable), inventory, or future investments, you might find yourself short on cash when it comes time to pay your bills. If you run out of cash, you won't be able to cover operational expenses like wages, rent, or suppliers—meaning that, despite being "profitable," your business can come to a grinding halt.

That's why cash flow forecasting is so crucial—it provides a forward-looking view of how much cash your business will actually have on hand in the future. A cash flow forecast helps you:

- Ensure you have enough money to pay your bills.
- Plan for potential shortfalls in cash and take action before it's too late.
- Make confident decisions about investing in growth opportunities, knowing that your cash flow can support them.

Remember: Profit is important for the long-term success of your business, but cash flow is what keeps you running day-to-day. It's like the difference between having a high salary and having enough money in your bank account to pay rent next week.

Activity: check your cash flow health

Let's get hands-on with an activity to help you understand your own cash flow vs. profit:

Find your profit and loss statement

Start by pulling up your latest profit and loss (P&L) statement, which you can generate from your accounting software or ask your accountant for.

Compare with your bank balance

Look at the profit listed on your P&L statement and compare it with the actual cash you have available in your bank account. Does the profit match the cash you have? If not, that's a sign that money is tied up in accounts receivable (clients who owe you), inventory, or other assets.

Track timing issues

If your profit doesn't match your cash, consider timing issues. For example, are you waiting on clients to pay their invoices? Did you recently spend money on inventory that you haven't sold yet? Cash flow is all about timing—when cash enters and leaves your business.

Map the gaps

If you see gaps where profit isn't aligning with cash flow, map out when you expect cash to come in and go out. This will give you a clearer picture of when you might face a cash crunch, even if your business is profitable.

Understanding how profit and cash flow differ helps you prepare for tight periods, especially when planning for growth. Familiarising yourself with this difference is key to building a strong financial foundation for your business.

Once you understand the differences, you can identify the drivers of your cash flow. These drivers will help you manage the flow of money more effectively.

The cash flow drivers

To keep your business running smoothly, it's essential to understand what drives cash flow. These drivers are the factors that influence how money moves in and out of your business. By focusing on these drivers, you can make smart changes that improve your cash flow and help you plan for the future.

There are three key cash flow drivers to focus on:

01 Accounts receivable – How quickly are you getting paid?

Accounts receivable is the money your customers owe you after you've delivered goods or services but haven't been paid yet. If customers are slow to pay, your business may experience cash flow problems even if you're making a profit. This is especially common in businesses that offer payment terms, like "net 30" or "net 60" (meaning the customer has 30 or 60 days to pay their invoice).

Here’s why it matters: Even if your sales look great on paper, if you’re waiting too long for customers to pay, you won’t have cash available to cover your own bills, wages, or investments.

Actionable tips for improving accounts receivable:

- Shorten payment terms: If you currently allow 60 days for payment, consider reducing it to 30 days or less. The quicker you get paid, the healthier your cash flow will be.
- Offer early payment incentives: Encourage your customers to pay early by offering a small discount, like 2% off if they pay within 10 days.
- Implement stricter follow-ups: Have a system in place to follow up on overdue payments. Automated reminders or a dedicated staff member handling collections can make a big difference.

02 Expenses: Can you reduce or stretch out your costs?

Expenses are the costs you incur to keep your business running—things like rent, utilities, wages, and supplies. Managing expenses is key to keeping your cash flow positive.

Actionable tips for managing expenses:

- Negotiate with suppliers: If possible, ask your suppliers for extended payment terms (for example, 60 days instead of 30). This allows you to hold onto your cash for longer before you need to pay out.
- Cut unnecessary costs: Review your expenses and identify areas where you can cut back. Are you paying for services or subscriptions you no longer need? Small cuts in unnecessary costs can add up over time.
- Defer non-essential expenses: If cash is tight, consider delaying non-essential expenses like new equipment purchases or upgrades until your cash flow improves.

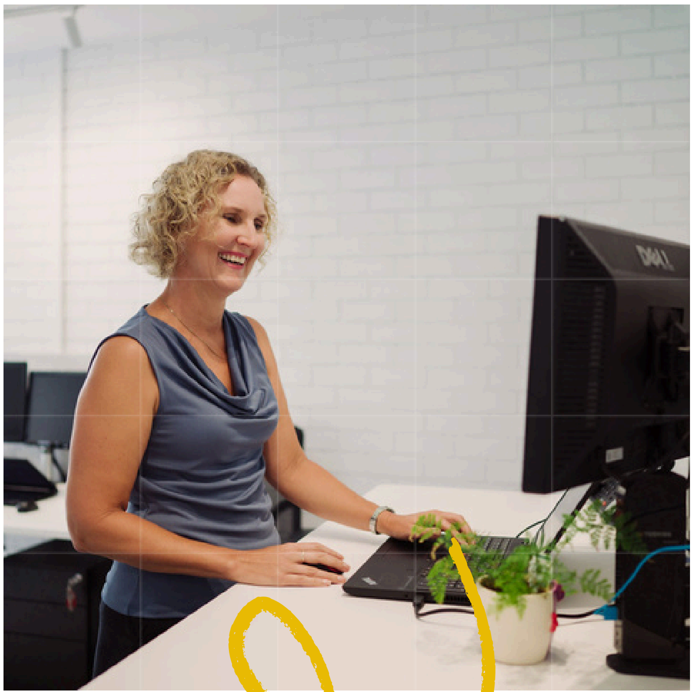
Here's why it matters: If you spend too much too quickly or don't have enough cash to cover your expenses, you can find yourself in a cash crunch. Managing your expenses carefully will help you avoid this.

03 Inventory - Are you managing your stock efficiently?

For businesses that sell products, inventory management is a critical part of cash flow management. Inventory is essentially cash that's tied up in products sitting on your shelves. Too much inventory means you're sitting on cash that could be better used elsewhere, while too little inventory means you may miss out on sales.

Actionable tips for managing inventory:

- Focus on fast-moving products: Prioritise stocking the products that sell the quickest. This keeps your cash moving in and out of the business more efficiently.
- Negotiate better terms with suppliers: If possible, negotiate payment terms with suppliers that allow you to pay for stock only after it's sold, or ask for bulk discounts on high-demand products.
- Use inventory management software: Tools like inventory management software can help you track stock levels and identify trends, so you know when to reorder and when to hold off. This prevents overstocking and helps you avoid cash being tied up in unnecessary inventory.



Here's why it matters: If you overstock on inventory, you could run into cash flow issues because your money is tied up in products that haven't been sold yet. On the other hand, if you don't keep enough stock, you may lose sales and revenue opportunities. Balancing your inventory levels is key to maintaining healthy cash flow.

Activity: assess your cash flow drivers

Let's do an exercise to help you assess and improve your cash flow drivers:

Review your accounts receivable

- Look at how long it takes, on average, for customers to pay you.
- Identify any customers who are consistently late. Can you reach out to them to discuss faster payment options or offer early payment incentives?
- Do you have a system in place to follow up on overdue invoices? If not, set one up—either manually or through accounting software.

Assess your expenses

- Review your most recent expense report. Are there any costs that stand out as unnecessary or that you could reduce?
- Identify any suppliers with whom you can negotiate better terms (e.g., longer payment periods or bulk discounts).

Evaluate your inventory

- If you sell products, take a close look at your current stock levels. Are you holding too much inventory? Could this cash be better used elsewhere?
- Identify the products that are selling the fastest and focus on keeping those stocked. At the same time, look at products that are slow-moving and consider reducing or eliminating them from your inventory.

By focusing on these three key drivers—accounts receivable, expenses, and inventory—you can take control of your cash flow and avoid cash shortages. When you understand how these factors influence your business's cash flow, you can make informed decisions that keep your business running smoothly and set the stage for future growth.

Now that you've assessed your key cash flow drivers, we'll move into creating your very own cash flow forecast using the Cash Flow Growth Equation

The cash flow forecasting equation

Now that you've got a better understanding of the key drivers behind your cash flow, it's time to put that knowledge into action. A cash flow forecast is essentially a financial roadmap—it helps you predict your future cash position based on the money you expect to come in and go out of your business. This allows you to plan ahead and avoid running out of cash when you need it most.

Forecasting your cash flow involves using a simple equation.

Cash flow forecasting equation

Cashflow = **(Total Income – Total Expenses) – Increase in Receivables + Increase in Payables – Increase in Inventory – Decrease in Long-Term Debt**

This formula takes into account all the money that will flow into and out of your business. By forecasting these numbers, you'll be able to predict your cash position in the coming months and make informed decisions based on that forecast.

Let's break down each element of the equation over the following pages.

01 Total Income

This is all the money your business expects to receive over a certain period, typically from sales or services. It's important to be realistic about your income projections—consider factors like seasonality, customer payment habits, and market trends when estimating your total income.

Actionable Tip: Look at your historical income data from the past few months or years and use that as a starting point for your forecast. Be conservative in your estimates to avoid overestimating income.

02 Total Expenses

This includes everything you spend to keep your business running—rent, wages, utilities, supplies, marketing costs, etc. Like with income, it's important to be realistic and thorough when listing your expenses.

Actionable Tip: Use your profit and loss statement or accounting software to identify your recurring expenses. Don't forget to account for any upcoming large expenses like equipment purchases or seasonal costs (e.g., increased marketing during a product launch).

03 Change in Receivables

Accounts receivable refers to the money owed to your business by customers who have yet to pay their invoices. **An increase in receivables means more outstanding invoices, which reduces available cash. Conversely, a decrease in receivables means more invoices have been paid, improving cash flow.**

Actionable Tip: When forecasting, consider how long it usually takes for your customers to pay you. If receivables are increasing, it could mean cash flow is tightening. Adjust your forecast to account for potential delays and ensure you're not counting on money that hasn't arrived yet.

04 Change in Payables

Accounts payable refers to the money your business owes to suppliers and other creditors. **An increase in payables means you're delaying payments, which preserves cash in the short term. However, a decrease in payables means you're paying off debts, which reduces available cash.**

Actionable Tip: Review your supplier payment terms—are you paying within 30, 60, or 90 days? If cash is tight, negotiating extended payment terms can provide breathing room. Just be mindful not to delay payments too long and strain supplier relationships.

05 Change in Inventory

For businesses that hold inventory, changes in stock levels significantly impact cash flow. **An increase in inventory means more money is tied up in stock, reducing available cash. On the other hand, a decrease in inventory (without immediate replenishment) frees up cash but may lead to stock shortages.**

Actionable Tip: If you're forecasting for a product-based business, track how much cash is tied up in inventory. Overstocking reduces liquidity, while understocking risks lost sales. Maintain a balance by using sales trends and forecasting tools to optimise stock levels.

Putting it All Together:
Once you've gathered your income, expenses, and the changes in receivables, payables, and inventory, you can use the Cash Flow Forecasting Equation to project your cash flow over a specific period —whether it's the next month, quarter, or year. This will give you a snapshot of your financial health and help you plan for any cash shortages or surpluses.

Consult the Experts (That's us!)

Sometimes, addressing cash flow issues requires a fresh perspective. At Trekk Advisory, we specialise in crafting personalised solutions tailored to your unique needs. Whether you're struggling with small business cash flow problems, seeking advice on cash flow lending, or exploring cash flow assistance for small business, we've got you covered. Let's chat.

A cash flow forecast helps you anticipate potential challenges before they become problems. By forecasting your cash flow, you can plan ahead for lean periods and take advantage of growth opportunities when you have a surplus.

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Activity: build your own cash flow forecast

Let's walk through an exercise to create a basic cash flow forecast for your business:

Gather your data

Start by pulling up your latest profit and loss (P&L) statement, which you can generate from your accounting software or ask your accountant for.

Compare with your bank balance

Look at the profit listed on your P&L statement and compare it with the actual cash you have available in your bank account. Does the profit match the cash you have? If not, that's a sign that money is tied up in accounts receivable (clients who owe you), inventory, or other assets.

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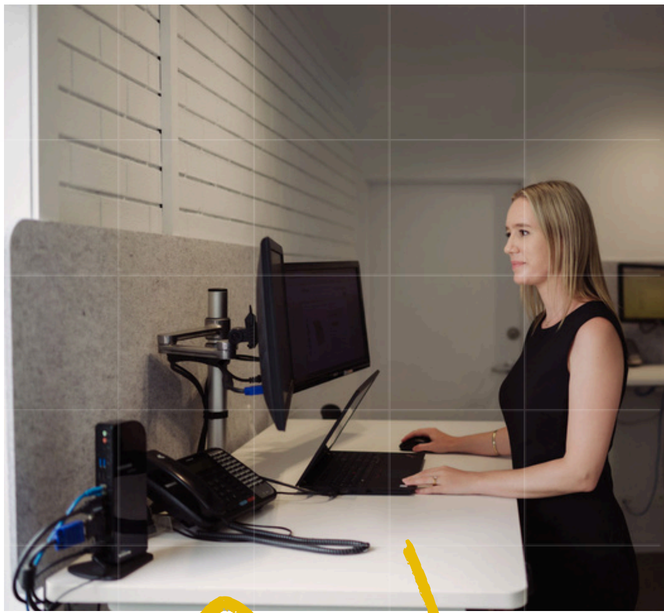
Understanding how profit and cash flow differ helps you prepare for tight periods, especially when planning for growth. Familiarising yourself with this difference is key to building a strong financial foundation for your business.

Now that you've created your cash flow forecast, let's look at how you can refine and improve it over time by tracking performance against actual results in the next section.

Refining your cash flow forecast

Now that you've created your cash flow forecast, the next step is to use it as a living document—something you update regularly and refine as your business evolves. A cash flow forecast isn't a one-time task; it's an ongoing tool that helps you plan, track, and manage your business's financial health.

If you're someone who's great at running your business but finds the numbers a bit overwhelming, you're not alone. Managing cash flow, bookkeeping, and financial planning can feel daunting—especially if it's not your passion. That's where a trusted advisor can make all the difference.



Trekk Advisory specialises in helping business owners navigate these financial complexities. Whether it's building a cash buffer, planning for seasonal changes, or refining your forecast as your business grows, having an experienced team to guide you can ensure you're making decisions based on solid financial insights.

Here's how to refine your cash flow forecast and use it for long-term planning, with a little extra guidance when you need it:

01 Track your actual cash flow vs. your forecast

After you've made your initial forecast, it's essential to compare your actual cash flow to what you projected. This helps you identify any discrepancies between what you expected and what's happening in real time.

Actionable Tips:

- Set a regular review schedule: Make it a habit to review your cash flow on a monthly basis, comparing the actual income and expenses against your forecast.
- Identify discrepancies: Are you consistently over- or underestimating? This could be an opportunity to adjust your forecast and improve accuracy.
- Adjust accordingly: If you notice ongoing discrepancies, Trekk Advisory can work with you to refine your forecast and provide insights on how to make more realistic predictions.

02 Plan for seasonal or cyclical changes

Most businesses experience seasonal or cyclical changes that affect cash flow. Whether your peak sales season is the holiday period or you face slower months in the off-season, planning for these fluctuations is key.

Actionable Tips:

- Identify seasonal patterns: Review your historical data to identify when your business tends to peak or slow down. Knowing these patterns helps you adjust your forecast and plan for quieter months.
- Adjust your forecast: Once you've identified these patterns, adjust your forecast to account for them. You can also work with Trekk Advisory to develop strategies that will keep your cash flow steady during slower times.

A strong cash flow forecast can be the difference between getting by and thriving. Let's work together to give your business the financial clarity and confidence it needs to reach its goals. Contact us to create a cash flow strategy that works for you.

03 Build a cash buffer for emergencies

Unexpected expenses or income shortfalls can create serious cash flow challenges. Building a cash buffer—essentially an emergency fund for your business—helps you stay afloat when things don't go as planned.

Actionable Tips:

- Set a target for your cash buffer: Ideally, aim to have 3-6 months of operating expenses saved. Trekk Advisory can help you determine the right target based on your specific business needs.
- Start small: If building a buffer feels overwhelming, start small and work up to your target over time.
- Use your buffer wisely: Keep your buffer for genuine emergencies. If you're unsure when to use it, consulting with a business advisor can help you navigate these decisions.

04 Update your forecast as your business grows

As your business evolves, so too should your cash flow forecast. Whether you're expanding, hiring, or investing in new equipment, these changes will impact your cash flow. Regularly updating your forecast helps you stay ahead of these shifts.

Actionable Tips:

- Revisit your forecast after major changes: Anytime you make a significant decision —like hiring more staff or launching a new product—update your forecast accordingly. Trekk Advisory is here to guide you through these changes, ensuring your forecast aligns with your growth strategy.
- Plan for growth expenses: Growth can strain cash flow in the short term, especially if you're investing heavily upfront. We can help you balance these expenses with your long-term goals, so you're always prepared.

Activity: Plan for the future

Let's do an exercise to help you assess and improve your cash flow drivers:

Review past trends

Take a look at your actual cash flow from the last 6-12 months. Are there any patterns, like seasonal spikes or dips?

Update your forecast

Adjust your forecast for the next 6-12 months based on what you've learned from past performance. Are there any upcoming changes to your business, like new hires or equipment purchases? Make sure these are reflected in your forecast.

Build a cash buffer

Set a target for your cash buffer. How much do you need to cover 3-6 months of expenses? If this feels daunting, start small and grow your buffer over time.

Monitor and adjust

Set up a regular schedule to review and update your forecast. If your business is growing quickly or facing challenges, Trekk Advisory can help you refine your strategy and make the right decisions for your financial future

Here's why it matters: Your cash flow forecast is a crucial tool for understanding your business's financial health. Regularly refining it and planning for both expected and unexpected changes allows you to stay ahead of potential cash flow challenges. Even if numbers aren't your strength, Trekk Advisory is here to help you create a financial strategy that supports your long-term success.

With your refined forecast in place, you now have a powerful tool to manage your business's cash flow and ensure future growth. In the final section, we'll pull everything together and show how to integrate your cash flow forecasting into your larger financial strategy.

Bringing it all together

Congratulations! You've now built and refined your cash flow forecast—a powerful tool that not only shows you the money coming in and out of your business but also helps you make smart decisions that keep your business financially healthy.

Cash flow forecasting isn't just about staying afloat day-to-day—it's about setting your business up for long-term success. When done right, a cash flow forecast becomes a core part of your business strategy, guiding everything from growth plans to everyday spending decisions.

01 Use your cash flow forecast as a decision-making tool

Your cash flow forecast is like a GPS for your business. It gives you visibility into your financial future, allowing you to navigate challenges and seize opportunities with confidence.

Actionable Tips:

- Before making big decisions, check your forecast: Whether you're thinking about expanding, hiring, or launching a new product, your cash flow forecast will tell you if you have the financial room to do it.
- Identify risks and opportunities: Use your forecast to spot potential risks, like cash shortages, before they become real problems. At the same time, look for periods where your cash flow is strong and consider how you can use that to grow your business.

02 Plan for growth and stability

A well-prepared cash flow forecast helps you plan for growth while maintaining financial stability. Whether you're expanding your team or opening a new location, your forecast will show you how much cash you'll need to support these initiatives and how long it will take to see a return on your investment.

Actionable Tips:

- Align your forecast with your business goals: Ensure your forecast reflects your long-term business plans. If growth is a priority, factor in the expenses and timing required to make it happen.
- Plan for the unexpected: While we can't predict every change in the market, a well-maintained cash flow forecast allows you to respond quickly to both opportunities and challenges. For example, having a cash buffer in place can give you peace of mind when unexpected costs arise.

03 Make cash flow forecasting a regular part of your business

Cash flow forecasting shouldn't be a one-time activity. As your business grows and evolves, your forecast should too. The more regularly you update your forecast, the more useful it becomes in helping you make smart, informed decisions.

Actionable Tips:

- Set up regular reviews: Schedule monthly or quarterly reviews of your cash flow forecast to ensure it reflects the most up-to-date information about your business.
- Track performance: Compare your actual cash flow against your forecast regularly and adjust as necessary. This allows you to fine-tune your predictions and avoid surprises down the road.

04 Make cash flow forecasting a regular part of your business

Even if you've built a solid forecast, managing your cash flow can still feel overwhelming—especially if finance isn't your strong suit. But that's okay! Many business owners are experts in their field but need extra support when it comes to the numbers.

This is where working with an experienced business advisor can make all the difference. At Trekk Advisory, we help businesses just like yours stay on top of their cash flow and develop forecasts that support long-term growth. We know that numbers might not be your jam, but they're ours. Let us guide you through the complexities of cash flow management, so you can focus on what you do best—running and growing your business.

Ready to Take Control of Your Cash Flow?

If you're ready to get serious about your business's financial future, Trekk Advisory is here to help. Whether you need assistance fine-tuning your cash flow forecast, planning for growth, or navigating unexpected challenges, our team of experienced advisors has the knowledge and tools to support you every step of the way.

A solid cash flow forecast can make all the difference between simply getting by and thriving. Let's work together to ensure your business has the financial clarity and confidence to achieve its goals.

Book a free consultation today and let's talk about how we can help you build a cash flow strategy that works for your business.

You're Ready for the Next Step

By building and refining your cash flow forecast, you've taken a major step toward securing the financial health of your business. With this tool, you're equipped to navigate challenges, plan for growth, and make decisions that will keep your business thriving for years to come.

But remember, you don't have to do it all alone. Trekk Advisory is here to help you take the next step—whether that's creating a detailed forecast, managing cash flow, or offering expert advice on growing your business. We're passionate about helping businesses succeed, and we'd love to partner with you on your journey.

Let's Talk Cash Flow

Want to take the next step? Reach out to Trekk Advisory for a free consultation and discover how a tailored cash flow forecast can transform your business. Together, we'll create a financial strategy that aligns with your business goals and sets you up for long-term success.