Your digital crystal ball

Cash flow can be the difference between success and failure. Here's what you need to consider when adding forecasting software to your arsenal

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While most businesses will have a strong idea what their finances will look like over the near-to-mid term, cash flow projection tools will allow finance teams to identify additional issues or opportunities and prepare the business accordingly. Not only that, but cash flow projection software is a growing area in accounting technology, and as such, it's changing rapidly.

1. Visibility

The primary benefit of cash flow forecasting programmes is the visibility of upcoming revenue and when it's expected to arrive in your business's account. Seeing this information, and adjusting it for different circumstances allows you to plan for the future and recognise and address potential issues before they take place. "Businesses should be looking for something comprehensive that can give them an understanding of their future as accurately as possible, considering a range of different scenarios," says Furqan Baig, founder of Instruo Group. "There's plenty of software you can input your profit and loss and it'll give you a cash flow statement or forecast, but you want to cast the net as widely as possible to get the fullest picture you can." Paul Donno, managing director at 1Accounts, notes that, in periods of uncertainty such as the current pandemic, utilising cash flow prediction tools can help prepare for costs and allay fears. "If we're looking six months ahead (from September 2020), in March and April next year, when bounce-back loans and VAT deferments will need repaying, we can forecast that and help with that. That starts to take a lot of the worry away from the situation."

2. Assumptions

The assumptions you make about your business's future performance are crucial to the forecasting exercise and its reliability. As with so many digital solutions, the input data you use has to be of a good quality, otherwise the output will be useless or worse, misleading. "The assumptions are where the essence of it lies," explains Baig. "They are what's driving the forecast. If you assume you'll receive your money in 30 days and instead you receive it in 60 days, that has a huge impact on the business because you might need that cash within 40 days to cover your operating costs. If you don't realise that and act on it, you've gone

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bankrupt without noticing." Baig warns, though, that the forecasts should not be taken as gospel and relied upon too heavily. "It can only give you a level of foresight dependent on what you put into it," explains Baig. "Along with the technology, you need the expertise to back it up. Some people perceive it as a safety net and it will give them all the answers and that's not the case. It's an enabling force, not an ultimate solution."

3. Regular checks

Users of cash flow and prediction software must keep on top of their modelling and revise it regularly to get the most out of the projections, warns Accounts and Legal regional director for the North West, Stuart Hurst. "Cash flow is wrong the day after you do it," he explains. "How often do people actually pay when they say they will? You still have to put the time in to check your assumptions. They still need updating and still need rolling. More time goes into creating that first forecast and then you should be nailing on keeping it up-to-date. The software does a lot itself, but there are things you will have to change. If you know an assumption is going to change or someone is going to pay you late, you should absolutely change it."

Jonathan Fox of independent accounting technology consultancy Foxability concurs.

"These apps are amazing, but if you're only doing quarterly bookkeeping or monthly bookkeeping, you're never going to have up-to-date data," he explains.

4. Follow-up

For the more in-depth products that drill down into specific accounts, rather than across portfolios, the level of support on offer can make all the difference, Hurst explains. "Do they (the vendor) give me a webinar and say 'right, there you go'?," he asks. "That's not good enough and I'd spend too much time learning that. I'd want someone to talk me through the key points and I'd want a level of follow-up after that. It doesn't matter how good the software is if the people behind it are no good. Some are more proactive and helpful than others."

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For your app stack

Making sure you have the right analysis tools for your organisation is paramount. Here are some of the most widely used options on the market

Float

Float integrates with all the major accounting software programmes to give business owners, accountants, and bookkeepers an always up-to-date, accurate operational cash flow forecast. In particular, Float is geared towards short-term cash flow forecasting and scenario planning, which it can do in a visual, in-depth way, allowing them to be read and understood by your team and colleagues in other departments. In terms of limitations, Float does not yet offer three-way reporting (a combination of cash flow, profit and loss), which other forecasting tools do.

Requirements: FreeAgent, QuickBooks Online, Xero

Price: £44.00 per month with a 14-day free trial

Castaway

Castaway is one of the forecasting tools capable of providing three-way reporting, a combination of cash flow, profit and loss. It also allows users to set specific calculation methods, cash flow timing, tax rates and other metrics to ensure forecasts are as accurate as possible. Customers can also make use of a full suite of financial reports, statistics and custom reports. It allows users to style reports quickly with their own brand and scheme.

Requirements: MYOB, QuickBooks Online, Sage 50cloud, Xero

Price: £75.00 per month with a 30-day free trial

BeanBox

BeanBox integrates with Xero and identifies repeating invoices, which it uses to create instant forecasts of future repeating income. It can break income down by month and drill down into any figures to see the invoices that make up the total. Data can be exported into CSV format for use in other forecasting products, which makes it a complementary product rather than something you'd use as your sole forecasting tool.

Requirements: Xero

Price: £3.00 per month with a 30-day free trial

Case study

How one company improved its cash flow

A case that Stuart Hurst, Accounts and Legal regional director for the North West, highlights is the experience of a care delivery business that he worked with in early 2020. The business, Hurst explains, was invoicing at the end of each month, meaning it was always behind. “There were quite a few stragglers in terms of paying on time,” he said. “Things looked fantastic until payment time, and we were running a month behind. We managed to demonstrate, through modelling, that if we could get those customers on a direct debit, they would pay within seven days and the cash flow picture would improve and they wouldn’t have to go down a lending route or extending the overdraft, which is what would have happened.” After setting the company up on recurring payments platform GoCardless, more than 70% of the customers signed up in the first month and the cash position of the business improved.

“It’s just as well they did that before the pandemic,” Hurst says. “Had we not done the cash flow modelling and showed them, the chances are they would have extended their overdraft.”

CBILs

Another major benefit of cash flow and prediction software was delivered for many businesses during the initial weeks of the Covid-19 outbreak and the lockdown that followed, 1Accounts founder Paul Donno notes. “What Futrli did well right at the start of the pandemic was produce a cover template, which allowed us to forecast the business we would expect on a normal basis and forecast taking into account the effect of Covid-19. “Those reports were then given to the banks to apply for Coronavirus Business Interruption Loans (CBILs). It meant we could give the banks, which were completely overstretched, information that was easy to understand and enable quick decisions.”

Quick solutions

Kinder Pocock founder Sharon Pocock used Float to construct rapid business plans with her clients.

“Sometimes, we would look six months ahead, but generally we looked 12 months ahead,” she explains. “They were quick forecasts, showing no income at all if that’s what we thought, and look at the costs they have. We’d then have a conversation about which costs could be reduced and we’d use that to build out the costs going forward.”

The challenge came after clients received their grants or loans, Pocock notes, though it became a launchpad for other, deeper conversations.

“All of a sudden, they looked quite flush. For me, that was scarier because they weren’t considering whether that was enough or not. You can’t know that unless you do the forecasts, so that would tell us if there was a hole or if they’d be fine. Some people would be able to use the loan to start to diversify or grow back up. The thing about quick cash flows is it did start many more conversations, so we’d then work through an action plan with clients around what they can take control of. It’s a tool for starting those conversations and we’d hand over Float to the clients and return to it regularly.”

Tips to get started

1. Identify the level of insight you need

Some cash flow and prediction tools offer greater depth around a single set of accounts, while others can provide snapshots across a wider field or portfolio. It's vital you understand your firm's or business's requirements from the outset.

2. Spot threats and opportunities

Most business models work beautifully if they're always paid on time, but some break down fairly quickly if some late payments creep in. You can mitigate against that, or plan to take advantage of opportunities with the right forecasting tools in place.

3. Know your numbers

Key to all of this is intimately knowing your underlying business performance and the numbers behind it. If you don't, your projections will be meaningless.

4. Get support

Make sure you're equipped to make the most of your prediction tools and that you understand how best to use them. If your vendor can take the time to walk you through all the features and solve issues, you'll get the best results.

Any questions?

We hope you've enjoyed our overview of cash flow prediction tools. Please get in touch if you have any questions or feedback.

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