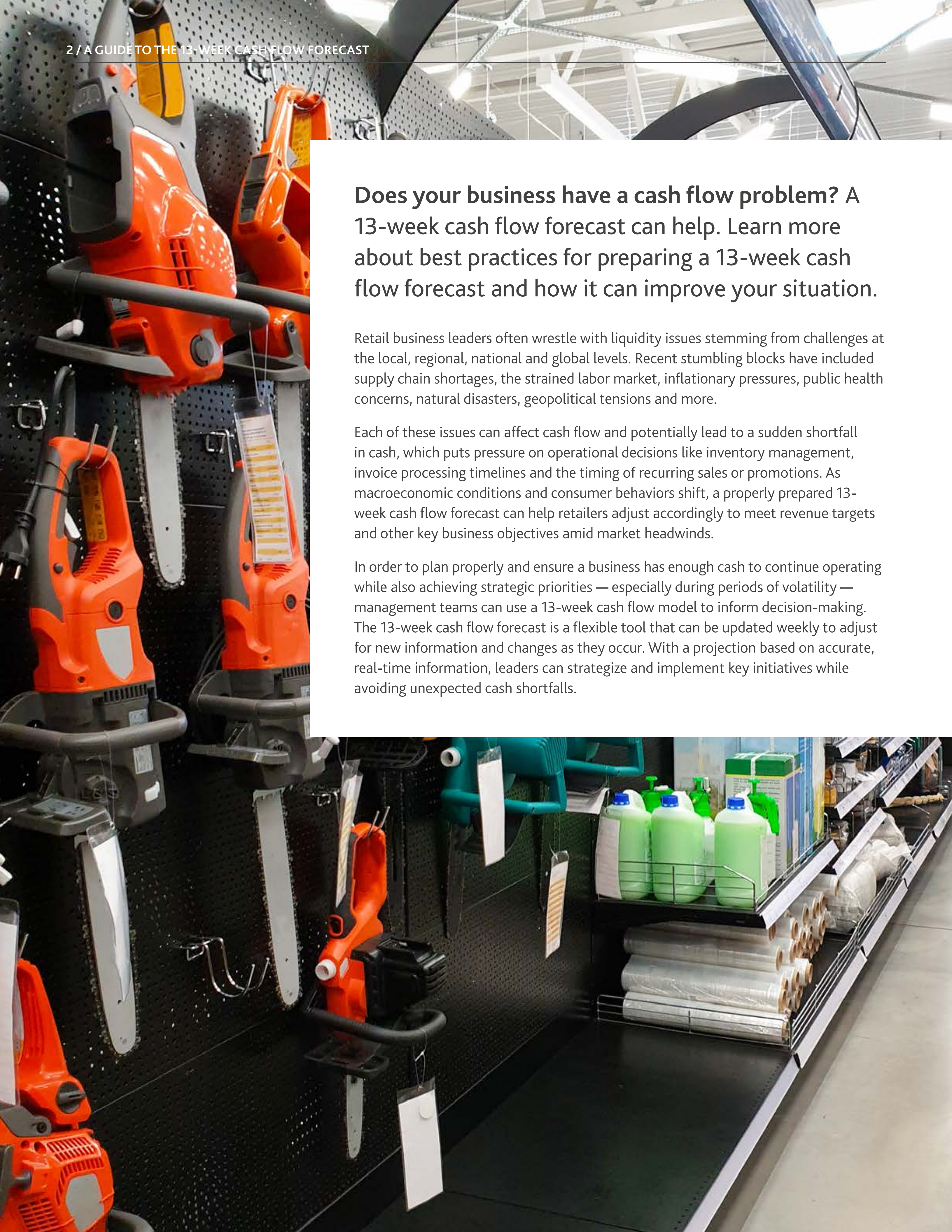
A GUIDE TO THE 13-WEEK CASH FLOW FORECAST

BDO



Does your business have a cash flow problem? A 13-week cash flow forecast can help. Learn more about best practices for preparing a 13-week cash flow forecast and how it can improve your situation.

Retail business leaders often wrestle with liquidity issues stemming from challenges at the local, regional, national and global levels. Recent stumbling blocks have included supply chain shortages, the strained labor market, inflationary pressures, public health concerns, natural disasters, geopolitical tensions and more.

Each of these issues can affect cash flow and potentially lead to a sudden shortfall in cash, which puts pressure on operational decisions like inventory management, invoice processing timelines and the timing of recurring sales or promotions. As macroeconomic conditions and consumer behaviors shift, a properly prepared 13-week cash flow forecast can help retailers adjust accordingly to meet revenue targets and other key business objectives amid market headwinds.

In order to plan properly and ensure a business has enough cash to continue operating while also achieving strategic priorities — especially during periods of volatility — management teams can use a 13-week cash flow model to inform decision-making. The 13-week cash flow forecast is a flexible tool that can be updated weekly to adjust for new information and changes as they occur. With a projection based on accurate, real-time information, leaders can strategize and implement key initiatives while avoiding unexpected cash shortfalls.

WHAT IS A 13-WEEK CASH FLOW FORECAST AND WHY DO YOU NEED IT?

A 13-week cash flow forecast summarizes key aspects of a retailer's liquidity to show the weekly projected cash flow for the next 13 weeks. Ideally, the projection should roll up the latest information available from all relevant departments and segments, including marketing, human resources, procurement, logistics, legal, tax and all other functions.

By projecting receipts and disbursements in a detailed schedule, retailers can identify potential cash shortfalls in future weeks and then devise a plan to alleviate the shortfall. That helps determine how best to manage disbursements and balance cash flow from week to week and month to month. For example, if marketing plans to pay for a major advertising initiative at the same time as a large capital expenditure project, it's necessary to make sure the retailer has enough liquidity to pay these disbursements.

The model can also highlight potential risks and help identify when and where those risks may arise. A detailed projection makes it easier to consider options for ensuring adequate cash or borrowing availability to cover those weeks with negative cash flow.

Some common considerations include:

Moving a planned promotion earlier to increase sales and cash generation.

Paying vendor invoices beyond the due date.

Deferring large capital expenditures, such as store refurbishment, to a later period.

Borrowing additional funds or seeking a temporary increase on a revolving line of credit to address cash needs.

If a new loan or additional advances on credit become necessary to balance cash flow, the 13-week forecast would help decision-makers know how much money they would need to borrow and for how long. In addition, it helps estimate the interest burden on the projected borrowings. The cash flow forecast also allows the finance team to better monitor loan covenants or other restrictions in the loan agreement to avoid any violations and ensure credit remains available.

The 13-week period for the forecast is the standard length of time used and is equivalent to one quarter of a fiscal year. It is difficult to predict accurately what cash flow will look like beyond that period. However, this tool can be used to inform longer-term planning as well. A retailer could prepare a 13-week forecast and then map expected receipts and disbursements further out based on historical data and available information. In any case, it's important to define the underlying assumptions and calculations that inform the forecast so it can be tested and updated effectively. Bad data and false assumptions will likely not produce a useful forecast.

WHAT TYPES OF COMPANIES NEED IT?

While often associated with distressed businesses, even profitable organizations deal with cash flow challenges. A 13-week forecast can be used in conversations with lenders if additional funding is needed for specific purposes. That's why all businesses can benefit from 13-week cash flow planning. It helps decision-makers at all levels, from management to controller to C-suite and at any stage in between.

Also, retailers that have many stores concentrated in a specific region may be more vulnerable to unexpected risks, such as extreme weather events impacting sales during a given week. Therefore, a 13-week cash flow forecast is useful to track the latest information, so decision-makers can update and adjust plans accordingly to ensure they have adequate cash flow and avoid financial distress.

HOW DO YOU CREATE A 13-WEEK CASH FLOW FORECAST?

Start With Accurate Assumptions

When the 13-week cash flow forecast uses clear and accurate assumptions, it can predict cash inflow and outflow more effectively. As much as possible, you should leverage data on activity from prior periods for a fulsome projection. The best predictor of weekly results are the results of the same week in prior years, barring any known outlying factors or shifts experienced in the preceding months. Assess any notable changes or anticipated events that may not have occurred previously and adjust the forecast accordingly where historical data is unavailable or not applicable. For example, a sudden spike in gas prices may require shipping cost projections to be increased to reflect actual expenses more accurately, and to account for a potential reduction in customers' trips to the store.

Other considerations that may impact assumptions include the following:

Seasonality and promotions: These factors are most likely already included in sales data, but it's important to validate them with marketing and other relevant departments in case there are changes to their promotion plans or sales forecasts. For example, if a key holiday such as Halloween fell on a weekend the previous year but will be on a weekday this year, sales of Halloween-related merchandise can be expected to be lower this year. Considerations such as these will need to be factored into the cash flow forecast.

Supply chain issues: Many retailers had previously used a just-in-time inventory model, which keeps less inventory on hand and orders it very close to the time when it's needed. Increased supply chain disruption may require longer lead times for orders, forcing retailers to order earlier and hold the inventory for a longer period of time, which has a negative cash flow impact. In that case, the forecast should use the most up-to-date information about inventory and supply instead of relying on assumptions based on data from the prior year or a comparable period.

Natural disasters and extreme weather: Unexpected wildfires, floods or storms may impact the forecast due to store closures, damages or changes to customer purchasing patterns. Such events, if they occur, will require adjustments to the forecast using real-time data as available. Resolution of insurance claims for damages to inventory or facilities can also take significant time, which puts pressure on cash flow.

Competition: If a key competitor is opening a store near one of your existing locations, it's necessary to include predictions for lost sales to that competitor.

These assumptions should be vetted and validated with input from relevant departments and functions, such as marketing, shipping, inventory, and other teams that have clear insight into weekly receipts and disbursements. It's also helpful to compare the forecast to your actual receipts and disbursements and then update as necessary, which is known as a rolling forecast.

By taking time to gather information and clarify assumptions before preparing the 13-week forecast, you can better validate the reasonableness of your model and make adjustments as needed on a continuing basis. **See page 10 for an example of a 13-week cashflow forecast.**

Detail Forecasts for Inflow of Receipts and Outflow of Disbursements

For cash receipts, list the total cash you expect to receive each week from all sources.

Be sure to include receipts from:

- Buy now, pay later (BNPL) plans, if funded by the retailer
- Credit cards
- Gift cards
- Checks, if applicable, including the expected percentage returned for non-sufficient funds
- Non-ordinary receipts (for example, periodic inflows for sublet space or revenue shares for leased departments)

Regarding disbursements, track all potential bills or cash outflows. Clearly distinguish between the following elements in the plan:

- Operating disbursements (e.g., inventory, rent, payroll) vs. non-operating disbursements (e.g., loan interest)
- Recurring disbursements (e.g., taxes) vs. one time, non-recurring disbursements (e.g., legal fees).

The Advantages of a Rolling Forecast

There are two types of 13-week models:

One-time forecast

Rolling forecast

A one-time forecast is a static view of receipts and disbursements over a 13-week period, which can be used as a short-term planning tool. **A rolling forecast** means updating the actual results each week and adding a new forecasted 13th week for inflows and outflows to provide an ongoing planning tool. A rolling forecast provides better information than a one-time forecast.

To illustrate why a rolling forecast is more valuable, let's say rent is due on the first of the month. The retailer may pay rent for a given store on the last week of the prior month because the due date isn't on a weekday. If the forecast projects it was to be paid in the first week but it was paid the week before, there is a variance. If that variance is not rolled forward, it is captured in the previous month. However, with a rolling forecast, that variance is balanced in the next week.

By using a rolling forecast, decision-makers can better predict the cash needed to cover disbursements and more accurately track variances. A one-time forecast that is not updated to reflect actual cash flow or variances has more limited use.

Cash Flow Variances in the 13-week Forecast

There are two main types of variances that may be experienced in any given 13-week period: timing variances and permanent variances.

Timing variances include disbursements where the amount forecasted doesn't vary significantly, but the timing might. Rent, payroll, insurance premiums and other such expenses are in this category. These disbursements may be paid before the forecasted payment date, which would create an unfavorable variance at first glance. However, that variance will balance out in the forecast after the planned payment date.

Timing variances are important to consider if there are loan covenants in play. There may be strict borrowing limitations in a given week, and/or specific cash balances may need to be on hand in accordance with agreements. The 13-week forecast can highlight whether any cash flow issues will conflict with restrictions related to loan covenants, which would help plan for payments and allowable variances.

Permanent variances refer to factors that impact disbursements and are not expected to be adjusted in the near future, such as price changes or quantity changes for purchases. As an example, if you forecast purchasing $1 million in inventory but end up spending $1.2 million — for instance, due to inflation — you have an unfavorable permanent variance of $200,000. The permanent variance remains throughout the life of the forecast. Sometimes, there may be favorable permanent variances as well, like a projected estimate of a $100,000 bill for legal expenses that ultimately only amounts to $50,000.

These examples of variances show why it's critical to vet and validate all assumptions in the 13-week forecast. Often, non-recurring costs can be overlooked or underestimated — due in part to a lack of historical data — which creates an unfavorable variance and limits the efficacy of the model.

Although receipts are important to track and anticipate, poor assumptions about projected receipts typically cause the most problematic variances. BDO has found that the largest variances in 13-week models come from incorrectly forecasting sales or not accurately projecting the level of discounting needed to generate sales.

When preparing a 13-week forecast, be sure to track operating disbursements distinctly. Compare those disbursements with the forecasts, tracking non-recurring professional fees and expenses separately. This designation will clearly illustrate to financial and management teams how the business is operating on an ongoing basis. By separating out non-recurring charges, it can help management focus on how to address any operating shortfalls.

USES FOR THE 13-WEEK CASH FLOW FORECAST

If a retailer has negative cash flow, it will likely need capital to address that, such as through a loan or other sources of funding. The first step in accessing funds is to determine how much money is needed to cover the cash shortfalls and maintain an adequate amount of cash. The retailer also needs to determine when cash flow will become — and remain — positive, as well as the time required to comfortably repay some or all of the funding, such as following a significant sales period like Black Friday. The 13-week forecast can help make those determinations.

With a rolling 13-week forecast, the finance team can map how much cash receipts the business is receiving and expecting each week. Then it can address disbursements and identify the cash flow gaps. From there, the team can determine whether the retailer has the borrowing availability under the line of credit to fund the cash shortfalls.

It's difficult for a retailer to survive with ongoing cash flow shortfalls, but the more a retailer borrows, the higher the related lender fees and interest burden — especially in a rising interest rate environment. Also, it may be challenging to secure additional funding in a period of negative cash flow. However, with a granular view of specific challenges and the areas causing the liquidity issue, a loan officer can better understand the retailer's issues and grasp the business' plan to solve it through additional availability or funding.

Regardless of whether the retailer is thriving or facing distress, a 13-week cash flow forecast can help determine the best course of action. The forecast can consider all factors that could impact cash flow and map weekly cash receipts versus disbursements. Considering all factors at this level of detail will help determine the best action to take while preserving sufficient liquidity and minimizing disruption.

Lenders want to manage the availability under a loan to make sure the company is not moving into an over-advance position, which would increase the lender's risk, while the retailer could use some extension OR an over advance to cover its disbursement needs. As a result, a lender will require the company to send the actual versus forecasted results on a weekly basis with explanations for the material variances.

With a rolling 13-week forecast, the retailer has the detail and data needed to plan accordingly. It can leverage relationships with lenders and ease their minds by demonstrating how temporary cash flow challenges related to supply chain issues will be resolved following receipt and sale of the inventory.

In this section we outline three examples that illustrate how to use the 13-week cash flow forecast in different scenarios:

CASE ONE
A Retailer Has Profits but Lacks Liquidity

If profits aren't converted to cash to support operations and critical investments, retailers may find themselves heading toward a liquidity problem.

Potential causes may include:

Buy now, pay later plans (BNPL): When BNPL plans are funded by the retailer, it typically takes several weeks or months to realize the full receipts from those purchases as cash through installment collections or deferred collections.

Gift card redemptions: There is no cash associated with purchases made via gift card since the retailer already received the money at the time of sale.

Seasonality: Seasonal products can create inventory imbalances and sales fluctuations. Weather-related issues can also impact cash flow, such as a mild winter negatively affecting sales of winter coats and similar items.

CASE TWO
A New Capital Improvement Project Is Planned

A retailer may set goals that target growth through capital investments, like constructing a new distribution center. In this case, senior leadership will want to know the best way to fund the project without significantly disrupting business operations or cash flow. They may inquire about the additional ongoing costs for the distribution center that need to be pre-funded or could impact other departments. The project could be funded with cash, but, depending on cash flow, borrowing could be a safer option.

CASE THREE
A Retailer Has Cash Flow Issues Due to Supply Chain Disruption

Pandemic-related supply chain challenges have made a just-in-time inventory model difficult to maintain. Stores need to order inventory much earlier to meet customer demand, which requires forecasting and upfront expenses that were not previously necessary.

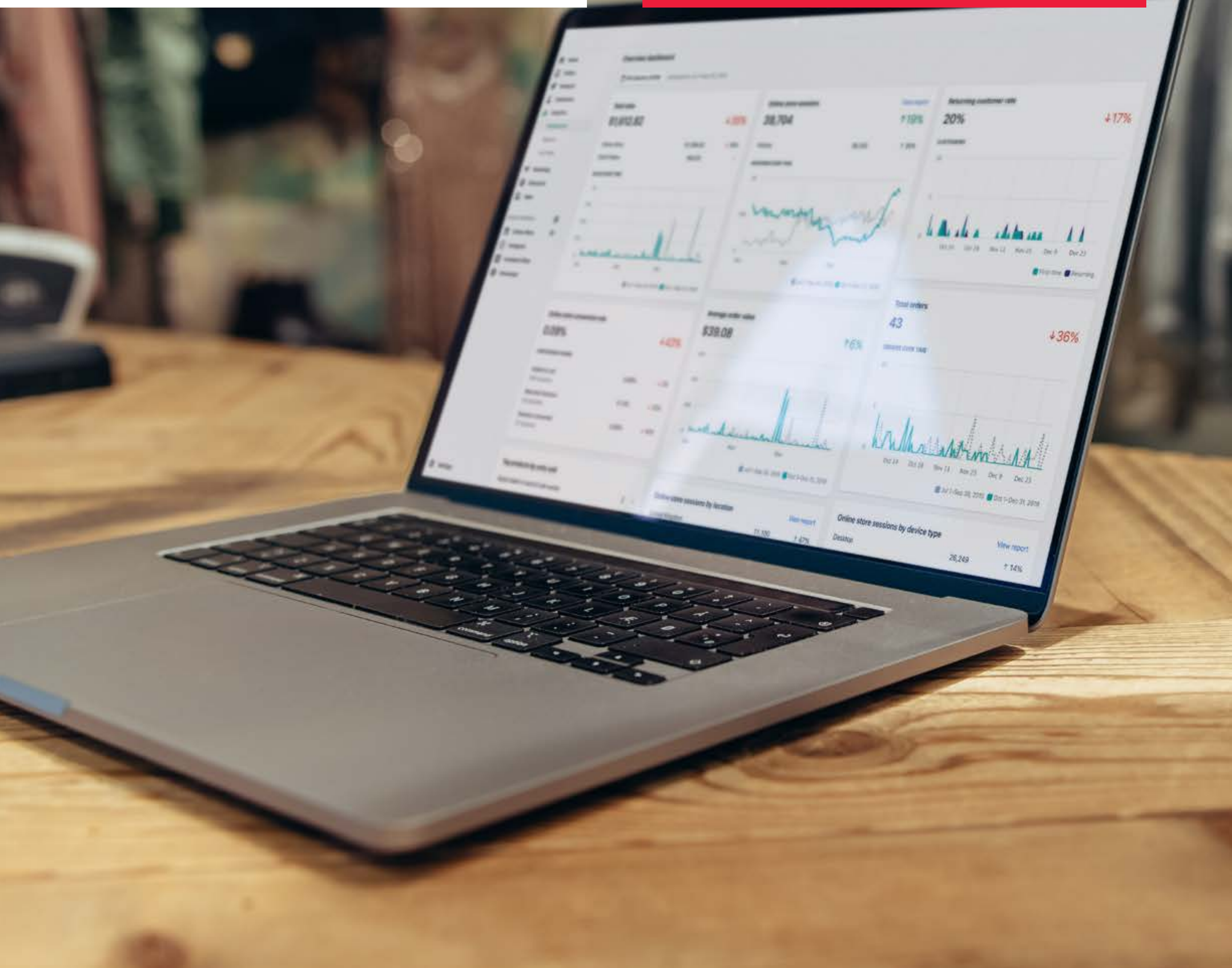
If a retailer has an asset-based loan, supported by its inventory on hand, supply chain disruptions may require a deposit for inventory that is not yet in the store's possession. The retailer can't borrow from the bank against that inventory until it's been received. The period between having to pay for the inventory and receiving cash from inventory sold will also be much longer than usual, which has a significant impact on cash flow.

SUMMARY

A 13-week cash flow forecast can help retailers uncover upcoming financial challenges and overcome disruptions from market volatility, supply chain issues or other factors beyond their control. It's also a valuable tool to help plan larger investments and achieve long-term strategic goals while avoiding cash shortfalls. All businesses can benefit from a detailed and accurate 13-week cash flow forecast, and an experienced third-party advisor can help create, assess and update the forecast to support ongoing success across the organization.

Benefits of the 13-week Cash Flow Forecast:

- Offers the most granular view into the timing of money moving in and out of a business.
- Uses a cash-only basis, so no accrual accounting is needed.
- Identifies liquidity constraints and funding availability, as well as surpluses available for investment or distribution.
- Focuses management to identify problems with current operations or business plans while allowing time for planning and decision-making.



SAMPLE OF A 13-WEEK CASHFLOW

Below is an example of a 13-week cashflow forecast, produced by an actual company. This may serve as a useful guide to creating your own forecast but remember, the disbursement categories may be different for each individual company.

Number of Weeks:	1	1	1	1	1
As of week ending (XXXday):					
	Fcst	*Fcst*	*Fcst*	*Fcst*	*Fcst*
Week #	1	2	3	4	5
	3/29/20XX	4/5/20XX	4/12/20XX	4/19/20XX	4/26/20XX
Week Ended	4/4/20XX	4/11/20XX	4/18/20XX	4/25/20XX	5/2/20XX
Cash Receipts					
A/R Collections	4,827	4,365	4,333	5,864	4,407
Other Cash Receipts	4,800	75	-	-	-
Total Cash Receipts	**9,627**	**4,440**	**4,333**	**5,864**	**4,407**
Personnel Disbursements					
Payroll and Payroll Taxes	470	895	470	895	470
401(k) & Insurance Claims	100	82	100	82	235
Total Personnel Disbursements	570	977	570	977	705
Operating Disbursements					
Inventory	1,895	2,250	2,497	2,922	2,553
Utilities	110	106	41	276	75
Freight	232	237	24	143	141
Repair & Maintenance	0	2	-	165	165
Business Insurance	-	100	170	-	-
Other Operating	182	168	140	190	149
Rent/Warehousing	482	317	331	386	385
Legal & Professional	24	6	3	58	48
Other Administrative	84	-	-	33	33
Net Change in O/S Checks	-	-	-	-	-
Operating Disbursements Total	3,011	3,186	3,205	4,174	3,550
Total Operating Disbursements - Current	**3,581**	**4,163**	**3,775**	**5,151**	**4,255**
Total Operating Disbursements - Past Due	**287**	**440**	**275**	**129**	**115**
Total Operating Disbursements	**3,867**	**4,603**	**4,050**	**5,280**	**4,370**
Non-Operating Disbursements					
Cap-Ex	62	9	19	124	-
Management	-	-	-	-	-
Interest	4,481	-	-	-	-
Loan Paydown	844	-	-	-	-
Other Items	473	-	136	100	-
Total Non-Operating Disbursements	**5,860**	**9**	**155**	**224**	**-**
Total Disbursements	**9,727**	**4,612**	**4,206**	**5,504**	**4,370**
Net increase/(decrease) in Cash	**(100)**	**(171)**	**127**	**360**	**36**
Bank Cash Balance	1,250	1,250	1,250	1,250	1,250
Line of Credit Balance, Beginning	28,687	28,787	28,958	28,831	28,471
Revolver Draw / (Paydown), net	100	171	(127)	(360)	(36)
Recon. Items / Adjustments	-	-	-	-	-
Line of Credit Balance, Ending	28,787	28,958	28,831	28,471	28,435
Excess/(Deficit) LOC Availability	**3,890**	**3,547**	**4,230**	**4,290**	**4,394**
Net Liquidity (less O/S Checks)	**3,140**	**2,797**	**3,480**	**3,540**	**3,644**
BBC CAP	34,000	34,000	34,000	34,000	34,000
BBC	32,677	32,505	33,061	32,761	32,829

1	1	1	1	1	1	1	1	
Fcst **6** **5/3/20XX** **5/9/20XX**	***Fcst*** **7** **5/10/20XX** **5/16/20XX**	***Fcst*** **8** **5/17/20XX** **5/23/20XX**	***Fcst*** **9** **5/24/20XX** **5/30/20XX**	***Fcst*** **10** **5/31/20XX** **6/6/2020**	***Fcst*** **11** **6/7/20XX** **6/13/2020**	***Fcst*** **12** **6/14/20XX** **6/20/2020**	***Fcst*** **13** **6/21/20XX** **6/27/2020**	***Total*** **13** Total
4,384	4,616	4,529	4,798	4,575	4,877	5,244	5,767	62,586
-	106	-	-	-	106	-	-	5,087
4,384	**4,722**	**4,529**	**4,798**	**4,575**	**4,983**	**5,244**	**5,767**	**67,673**
895	470	895	470	470	895	470	895	8,660
82	100	82	100	82	100	82	100	1,327
977	570	977	570	552	995	552	995	9,987
2,361	2,229	2,606	2,578	2,556	2,562	2,261	2,260	31,529
40	-	250	70	40	-	-	250	1,259
141	141	155	155	155	155	138	138	1,956
165	165	166	166	166	166	165	165	1,658
-	100	170	-	-	100	170	-	810
146	129	144	129	129	129	124	124	1,884
385	385	379	379	379	379	352	352	4,891
48	48	40	40	40	40	38	38	469
33	33	27	27	27	27	26	26	375
-	-	-	-	-	-	-		-
3,320	3,230	3,936	3,543	3,491	3,557	3,274	3,352	44,832
4,297	**3,800**	**4,913**	**4,113**	**4,043**	**4,552**	**3,826**	**4,347**	**54,819**
115	**115**	**115**	**76**	**14**	**9**	**7**	**1**	**1,697**
4,412	**3,915**	**5,028**	**4,189**	**4,058**	**4,561**	**3,833**	**4,349**	**56,516**
-	-	-	-	-	-	-	-	215
-	-	-	-	-	-	-	-	-
109	-	-	-	107	-	-	-	4,697
-	-	-	-	-	-	-	-	844
150	136	100	-	150	-	100	-	1,345
259	**136**	**100**	**-**	**257**	**-**	**100**	**-**	**7,101**
4,672	**4,051**	**5,128**	**4,189**	**4,315**	**4,561**	**3,933**	**4,349**	**63,617**
(287)	**671**	**(600)**	**609**	**260**	**422**	**1,311**	**1,418**	**4,056**
1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	
28,435	28,722	28,051	28,651	28,042	27,782	27,360	26,049	
287	(671)	600	(609)	(260)	(422)	(1,311)	(1,418)	
-	-	-	-	-	-	-	-	
28,722	28,051	28,651	28,042	27,782	27,360	26,049	24,631	
4,902	**5,781**	**5,349**	**5,958**	**6,218**	**6,640**	**7,445**	**8,368**	
4,152	**5,031**	**4,599**	**5,208**	**5,468**	**5,890**	**6,695**	**7,618**	
34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	
33,624	33,832	35,203	34,352	34,593	34,053	33,494	32,999	

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