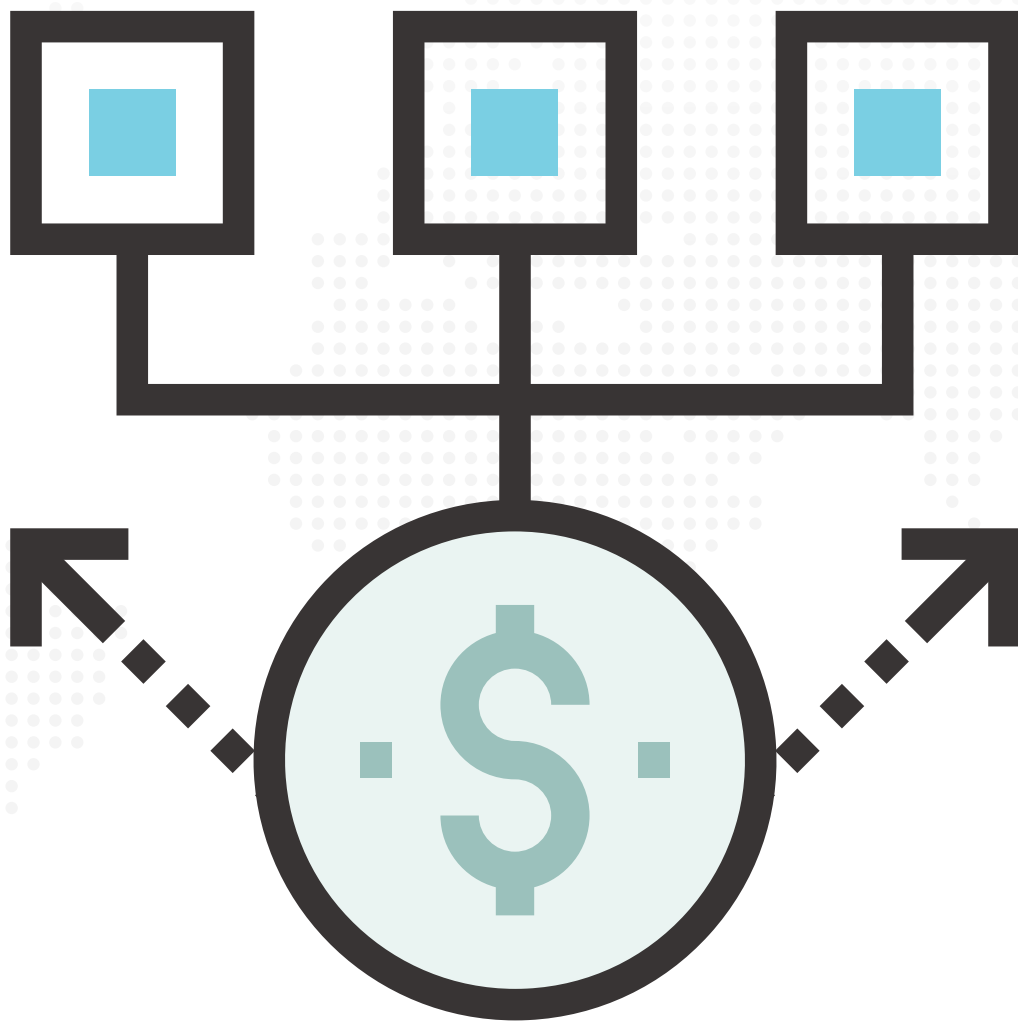


# THE OPERATING CASH FLOW GUIDE

How to Manage, Project, and Monitor Operating Cash Flow



# Introduction

Cash is the lifeblood of your business, flowing in and out each day. But, cash flow planning can hold a different meaning for every company. For most companies, the cash flow plan is created to show how cash comes into the company, and where it is going. And it helps you gauge your ability to make payments or investments with the cash you have on hand.

## **THE BENEFITS OF CASH FLOW PLANNING INCLUDE:**

- Easy management of cash to cover your daily operations
- Reduction of borrowing costs
- Increased investment income
- Ability to meet strategic objectives that require capital
- Ability to forecast and manage foreign currency exposure

Before you can begin to effectively manage your cash flow, you need to have a better understanding of the role it plays in your business and the strategies that impact it. Explore this ultimate guide on cash flow planning, and get all the information you need to accurately and easily plan your cash flow.



# Understanding Your Cash Flow Position

Visibility into your cash flow position impacts every department and every decision made in your company. But, with so many other things going on, it can be difficult to really grasp how big of an impact operating cash flow has on every aspect of your company.

Companies tend to only focus on cash flow when money is tight, but cash flow should also be a paramount consideration when revenue is up, too.

## WHAT ARE SOME SIGNS YOU'RE IMPROPERLY MANAGING YOUR CASH FLOW?

- Short-term borrowing (no cash on hand to fund projects or expenses)
- Large amounts of cash in company bank accounts
- Erroneous invoices
- Failure to collect payments
- Missed investment opportunities

Are you recognizing some of these signs in your own business? If so, you may be following old cash flow planning approaches, which can be problematic. What's the traditional way of [managing cash flow](#)?

## COMPANIES START WITH THE INCOME STATEMENT, DETAILING FEATURES LIKE:

- Revenue
- Cost of sales
- Operating and other costs
- Net income

The income statement helps stakeholders outside of the finance department understand the financial state of the business. Once the income statement has been assessed, the balance sheet is next.

## THIS OUTLINES ALL OF THE COMPANY'S EXPENSES, INCLUDING:

- Receivables
- Fixed assets
- Payables
- Accruals
- Debt
- Equity

Typically, and ineffectively, many companies use the income statement and accounts from the general ledger to configure the balance sheet. When the balance sheet doesn't balance, cash fills in the gap. This is highly problematic and rarely gives an accurate depiction of your cash flow. For the best way to get an accurate cash flow plan, you need an approach that integrates your cash flow, income statements, and balance sheets. Each of these pieces work together to create an true and holistic view of your company finances.

With a direct approach to cash flow planning, you start with the income statement, covering all the features listed above, and instead of using the balance sheet to inform your cash flow plan, you [use your cash flow plan](#) to inform your balance sheet. Assess your cash from receipts, disbursements, investments, and financing, using that information to create your balance sheet.

This process, although effective, doesn't have to be complex. With a corporate performance management software like Prophix, all the work is done for you through automation and direct data integration. Instead of filling in gaps and pasting together budgets and plans that you hope are accurate, you can be sure that they are with Prophix.



# Your Guide To Better Cash Flow Planning

Insufficient cash flow planning, or failure to plan at all, can lead to huge consequences for your business. Although the budget is the backbone of your finances, many companies do the bare minimum when it comes to planning. Why is this key action so low on the list of priorities? Generally, planning is a highly time-consuming process. Gathering data and collaborating between different departments seems nearly impossible. That's why you need a more efficient, less demanding cash flow planning process.

## Look Beyond Traditional Planning Processes

Are you still using planning processes of the past? Relying on an old tools like Excel limits what you can do when it comes to

planning. If you're still using Excel, don't worry. You're not alone – [74% of companies](#) still use it as part of their planning process. But, the limitations of Excel are holding you back. Here are a few problems you might be experiencing:

- Excel is error-prone. A slight modification to a single cell can disturb an entire formula.
- Data input is time-consuming. Because everything has to be input into Excel manually, the planning process takes up a lot of time.
- It's difficult to run forecasting scenarios with Excel.

Instead of wading through these challenges, you need a more efficient planning process that provides better insight and reduces errors. Explore different tools that can elevate your cash flow to a higher level of sophistication. With a tool like [Prophix](#), the cash flow planning process becomes substantially easier. Here's how:

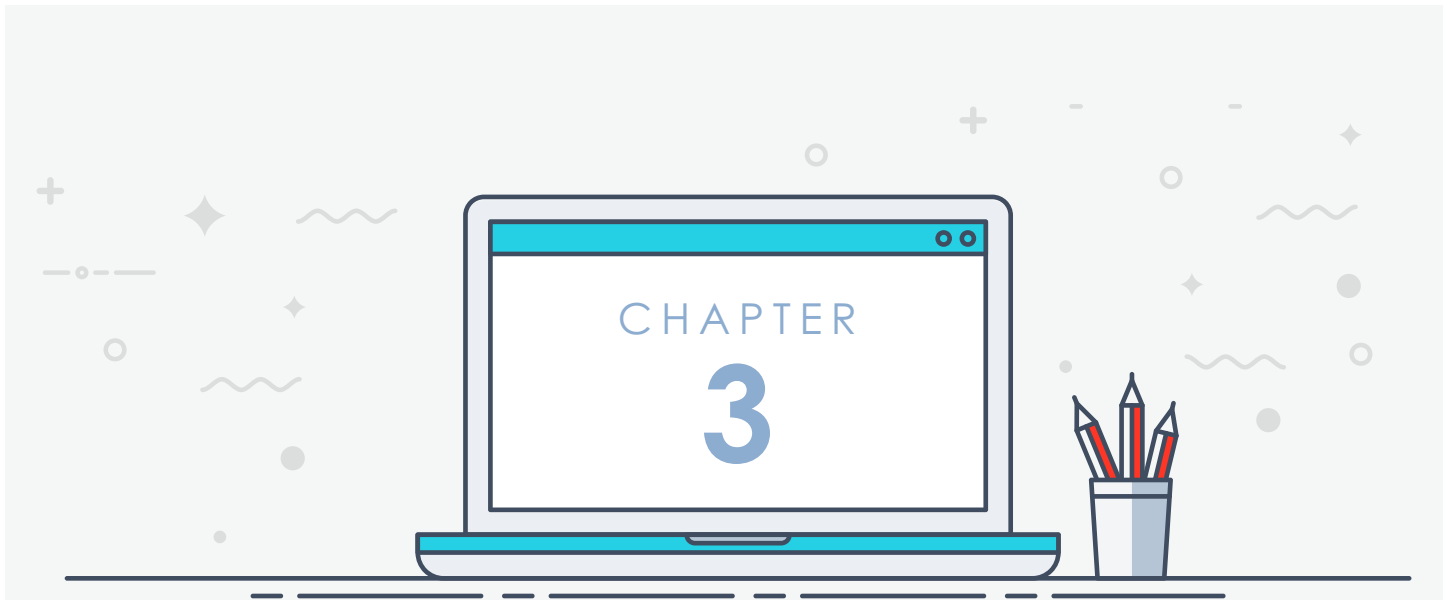
- **Direct Data Integration** - Instead of manually collecting data for planning purposes, you can bring it in directly from the source solutions, like an ERP or payroll software, saving time and cutting out the most laborious part of the process.
- **Planning Scenario Capabilities** – To create the best cash flow plan for the future, you need the ability to run different what-if scenarios, making it easy to choose the best course



of action. With these scenarios, you can explore every option, making sure you select the best course.

- **Collaborative Platform** – Because there are so many different departments involved in cash flow planning, you need a way to collaborate without running the risk of someone unintentionally changing your spreadsheet. An industry-leading tool like Prophix makes collaboration easy and low risk, as comments and changes are tracked. Prophix also makes gaining approvals easier with automated email communications and updates.

For improved cash flow planning, you need a better tool than Excel. Upgrade your planning processes with Prophix.



## Best Practices For Planning and Budgeting

If you want to maximize the effectiveness of your [cash flow budgeting and planning processes](#), there are a few best practices you need to adopt:

**Establish a budgeting infrastructure.** The first place to start your budgeting process is by identifying who will be involved and what role they will play in creating the budget. Get everyone on the same page prior to beginning to process, so you avoid miscommunication in the future.

**Create a budgeting process.** An established process is the foundation for successful budgeting. It's your roadmap for current and future budgets. Outline a step-by-step process, complete with task assignments, timelines, and expectations.

**Select your planning and budgeting software.** This might be the most important best practice to integrate into your budgeting process. You'll never be able to achieve the results you want or gain adequate transparency into your cash flow without the right software.

**Determine how granular your budget should be.** While you don't want to create a budget that's lacking in detail, you don't want a budget that's so granular that it takes an unreasonable amount of time to create. Determine the level of granularity that should be represented in your budget, striking a balance between tediousness and transparency.

**Establish and communicate your KPIs.** Budgeting and planning key performance indicators (KPIs) are the best measures of your success. Common budget-related KPIs track metrics like revenue growth, debt reduction, and more. Once your KPIs have been defined, communicate them to your team.

**Promote collaboration.** As a best practice, your budget should not belong solely to the finance department, since it impacts the entirety of your organization. Thus, you should discuss and seek input about budget needs, goals, and other specifics from different leaders in your organization. This increases transparency and accountability when it comes to budgeting.

**Work with high-level goals in mind.** While it can be easy to grow distracted with your day-to-day budgeting and planning

tasks, keep the high-level goals of your organization in mind. Before small decisions are made, ask yourself (and have your team members ask themselves) how these actions align with high-level goals. This is especially crucial when it comes to resource allocation. So, if a high-level organization goal is to grow the sales team by 50% in the next five years, you may want to allocate more resources to the sales team in your budget, reflecting this growth goal.

**Establish a timeline (and stick to it).** To maintain efficiency and ensure your budget and planning outcomes are relevant, you need to complete your budget in a timely manner. You don't want to take so long on the budget that it's obsolete by the time you've finished it. Create a reasonable, yet efficient timeline, detailing what happens during each stage of the budgeting process, and how long each stage should take.

**Keep changing market conditions in mind.** Keeping up with the fast-paced business world is a challenge. Your budget could be accurate one day and obsolete the next. One way to keep up with rapid changes in your industry is by creating an adaptable budget. Creating monthly and rolling forecasts, and running what-if scenarios help you view your budget as a flexible guideline, instead of a stagnant set of rules.

**Promote a supportive environment.** A key best practice for successful budgeting and cash flow planning is maintaining a supportive and open environment in which anyone invested

in the process can offer up ideas, questions, or solutions. This enhances collaboration and continually improves your process.

**Empower managers to offer incentives.** To motivate employees to meet cash flow planning targets by offering incentives like bonuses, extra vacation days, etc. And, instead of creating these incentives and communicating them from the top down, delegate this task to your managers. Allow them to set goals and come up with incentive so they're better engaged in the process. And, they're likely to be more attuned to what motivates your employees.

With the right CPM software, you can easily align with these best practices. Prophix, for example, makes collaboration easy, through comment tracking and automatic email updates. It also helps you track your budget timeline and obtain granular views of different data sets. Using Prophix, you can easily integrate these best practices into your [cash flow budgeting and planning processes](#).



## Make Your Budgeting Process More Efficient

Now that you know more about cash flow planning and best practices to incorporate into your budgeting process, you need a strategy for making the entire budgeting and planning process more efficient.

Do you feel like your budgeting process takes up the majority of your time? [For more than 40% of finance professions, the budgeting process takes 90+ days to complete.](#) That's about a quarter of your entire year! Imagine how much you could get done if your budgeting process was more efficient.

## TO MAXIMIZE EFFICIENCY, INCORPORATE THESE THREE FEATURES INTO YOUR BUDGETING PROCESS:

- **Automation** – First and foremost, automation is the best way to cut down on the amount of time you spend on budgeting and cash flow planning. With the right tool, you can automate tedious tasks that take up valuable time. These tasks can range from data integration to reporting to submission and review. Automation also plays a role in reducing errors in your process. Manually integrating data or completing menial tasks can lead to errors. Automating these tasks increases the reliability of your outcomes.
- **Transparency** – Overly complex budgets can be difficult for different members of your organization to understand. Not everyone is a trained finance professional! To make your budgeting approval process more efficient, you need to increase transparency for others in your organization. This could mean providing easy-to-comprehend visuals or simplified budget presentations. It could also include providing access to your CPM software dashboard, including the information that's most relevant to each member of your team. With budgets that are easier to understand, you can greatly improve the collaboration and review your process.
- **Data Integration** – As we touched on when discussing automation, manual data collection was probably one of

the biggest time consumers of your past budgeting process. However, data plays a crucial role in identifying patterns in cash flow. By integrating data from other solutions into your budgeting process, you gain greater insight into how you should allocate resources. This increases accuracy and minimizes the amount of time you spent on updating the budget in the future.

Ultimately, having an efficient budgeting process all comes down to having the right tools. With a holistic [corporate performance management software like Prophix](#), you can greatly reduce the amount of time it takes to create your budget and engage in ongoing budget management. This puts time back into your schedule, allowing you to focus on other important aspects of your job.





## Accurately Forecast Your Balance Sheet and Cash Flow Statement

Forecasts are a crucial aspect of [cash flow planning](#). Whether you're investing in new equipment for your business or putting a down payment on a new office space, you need to know how much cash you have on hand to fund these crucial business moves. Unless you understand and can accurately predict your cash flow status, you'll have a hard time making the best business decisions.

As explored above, the relationship between cash flow plans and balance sheets is one that many companies fail to get right. Instead of using cash to fill gaps in your balance sheet,

you can track cash transactions to inform your balance sheet. Then, your cash flow projections and your balance sheet become accurate, reliable tools for your business, instead of forecasts that you hope land close to the mark.

Cash flow transparency also impacts any covenants you currently have or are planning to enter into with a lender. You're often required to meet certain standards like proving that you meet a debt service coverage ratio or proving that you meet a current ratio. Without valid insight into your cash flow, it's impossible to tell if you're aligning with these standards.

Also, without an [accurate depiction of your cash flow](#), you'll never know if you're facing problems that need a remedy. If you're not keeping close eye on your cash flow, your company could be in hot water without your management team even knowing it.

So, why do traditional approaches to forecasting fall short? There are a number of reasons why companies may not take the time to forecast. Projections in the past might have been inaccurate, leading finance professionals to believe that forecasting is a waste of time. Maybe they didn't even have time to do the forecast in the first place. Regardless of the reason you've left them out in the past, accurate cash flow projections should be an essential part of your budgeting process.

The best way to increase accuracy is by adopting corporate performance management software that enables you to complete advanced calculations beyond the limitations of traditional Excel capabilities. With Prophix, for example, you can use data to your advantage, translating complex data points into accurate cash flow projections. And, you have the ability to alter your cash flow projection automatically, based on changes internal changes in your business or external changes in your market.



## Managing Your Cash Flow

Once have created [accurate forecasts of your cash flow](#), you've met a key goal, but your work is not complete. Cash flow requires ongoing management. For ongoing and effective cash flow management, you need the right corporate performance management software. CMP software makes continual cash flow management and insight simple through automation, granular views of your budget, simplified and accurate forecasting, and more.

Why is [ongoing cash flow management](#) essential? Whether you're comparing forecasts for accuracy, or adjusting your budget to reflect business changes, you need a constant view of your cash flow. It goes beyond making a cash flow assessment once a quarter or year. You need to know your cash status every single day of the year.

CPM software makes this process simple due to data integration. Changes are instantly reflected in your budget as real-time data is pulled into your CPM solution. So, as you notice budget updates which impact cash flow, you can make decisions according to the most recent information, instead of relying on outdated numbers.

In fact, Prophix offers a Detailed Planning tool that empowers you to track and understand every change to your cash flow position. With each expenditure or sale, your cash flow position can change. And with Prophix, you're constantly up-to-date on how those changes impact your business.



# Optimize Your Cash Flow Planning

Are you ready to maximize the benefits of your cash flow planning processes? Ultimately, the best way to [optimize your cash flow](#) is to leave outdated processes and spreadsheets behind.

With a solution like [Prophix](#), you can access visual representations of your cash flow, making it easier for everyone in your organization to understand. You have ready-made dashboards with instant updates on changes to cash flow. You can leverage cash flow-related data for powerful insights and accurate forecasts.

Prophix makes every aspect of cash flow planning easier, from

reflecting changes in payment terms to tracking where every dime in your company goes. Managing your cash flow should be taken off the back burner and made a high priority in your business. With Prophix, you reduce errors and the duplication of effort. You increase accuracy and speed-up budgeting timelines. [Your cash flow planning process](#) can deliver a great benefit to your company without months of effort on your part. And, the solution is so simple to use that everyone in your organization – not just your accounting department – will benefit.

Prophix is the key to valuable, accurate, and simple cash flow planning.



# Discover the benefits of Prophix, and how it can transform your cash flow planning.

[Request a free demo now](#) to see the solution's  
features in action.

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