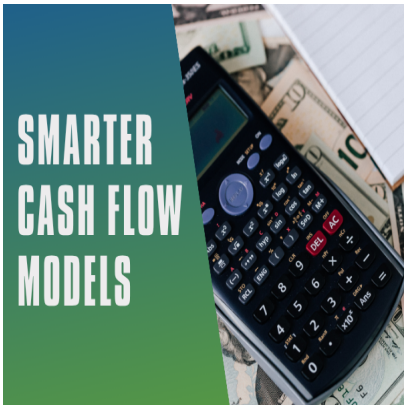


# SMARTER Cash Flow Models

## Description

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Not all cash flow models are equal. Some lead to strong communication and successful outcomes, while others crash and burn. After building hundreds of cash flow models for all kinds of companies, management teams, and situations, a few consistent truths have emerged about how to prevent cash flow planning disasters.

Cash flow models can be a valuable tool for a company's strategic planning and for lenders and key stakeholders evaluating business viability. When properly prepared, a cash flow model provides a weekly scorecard showing how a company is aligning with its goals and helps identify potential challenges and opportunities. But many financial advisors, borrowers, and lenders struggle with what criteria define a "good" cash flow model. We know a model will make the grade when it is SMARTER: Specific, Measurable, Achievable, Relevant, Time-bound, Evaluated, and Reviewed.

Specificity is essential. Every industry has unique operational drivers and challenges, and every company has its own goals and circumstances. A cash flow model should be tailored to the company and industry, using company terminology, KPIs, and projections that reflect the specific challenges and opportunities the company faces. Customization ensures the model is meaningful and actionable for leadership and stakeholders.

While cash flow models are forward-looking, their accuracy depends on Measurability. They should be built using historical data, operational drivers, and balances that can be tracked, verified, and reconciled. Sometimes models are built with good ideas but no trackable data. Simple is better to ensure plans can be measured weekly with actual results.

No forecast will perfectly predict the future, but a model must be Achievable. This means avoiding overly optimistic sales projections or understated disbursements. Using historical data, margins, payroll records, sales and purchase orders, and sales pipelines or backlogs helps build realistic, achievable forecasts. This creates confidence and supports responsible planning.

A strong cash flow model includes all relevant information and drivers. This means accounting for seasonality, cyclicality, one-time expenses or receipts, all anticipated cash disbursements, and projections based on real operational drivers such as trucks, tons, miles, or headcounts. Including these real-world elements makes the model a reliable guide to future performance.

Cash flow models also need to be Time-bound. Weeks within a month vary, so spreading sales, collections, and disbursements evenly can mask real cash needs. Cash receipt projections must be timed according to realistic collection terms, and disbursements should reflect actual operational timing—weekly, biweekly, monthly, or otherwise. Companies must also consider material ordering cycles to ensure purchases align with sales schedules. This level of detail helps avoid liquidity shortfalls.

Evaluating a cash flow model involves analyzing its strengths, validity, and areas needing adjustment. A cash flow model should be a living tool that includes variance reporting—comparing projections to actuals—and updates based on what occurred versus what was expected. Management should be able to explain variances, and future projections should adjust based on real trends. Models should also reconcile to bank accounts, collateral levels, and loan balances.

Finally, cash flow models must be reviewed for what they reveal about a company's challenges and opportunities. First, determine whether the company can meet its weekly operational cash needs. If not, various cash-generating or cost-saving measures may be needed. Next, confirm whether the company is on track to meet stakeholder obligations. Lastly, review whether the company is positioning itself for long-term success.

When a company builds and uses SMARTER cash flow models, it adds significant value through improved analysis, proactive decision-making, early identification of risks and opportunities, and stronger communication with stakeholders—avoiding the potential for a crash-and-burn scenario. A SMARTER cash flow model isn't just a financial tool; it's a cornerstone of resilient, strategic business management.

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