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13-Week Cash Flow: The Difference Between Success And Failure

By Robert D. Katz

Whether working with a Fortune 500 company with sales in the multibillion-dollar arena or a middle market company with sales significantly less than that, the 13 week cash flow, or 13 wcf, is one of the most significant and critical tools for use in turnaround situations. Used correctly it creates exceptional focus and accountability, two attributes that are usually lacking in a business at the beginning of a turnaround or Chapter 11 situation. The technique enables a company and its leaders to improve their planning and establish a credible long-term vision, direction and execution strategy.

A company is under exceptional levels of scrutiny as it operates through a turnaround or a Chapter 11 proceeding. Being able to account for receipts and all expenditures on a real-time basis becomes critical not only with regard to the obvious need to manage cash flows, but also in reassuring stakeholders that management has a firm grasp on accurately measuring performance and on the pulse of what is going on at all levels of the organization.

Focus and Accountability

The rolling 13 wcf serves as a cash collateral budget and an accountability document for the courts and stakeholders, as well as a budget-to-actual reporting tool. The budget is prepared for 13 weeks by line item category. Forecasting cash requirements over a quarter of the year establishes a meaningful time frame for a struggling business, although the time frame of the cash flow forecast can be modified as desired.

The forecast should include the appropriate level of detail. For example, line items may include salary and wages, benefits, utilities, insurance, interest professional fees. Every two weeks the client must report its performance compared to budget and explain material variances to relevant stakeholders. Requiring organizations to report by line item in short time frames creates exceptional focus, as every dollar must be accounted for.

Furthermore, developing the forecast imposes the same accountability on people throughout the organization because the preparers know that the forecast must be accurate. If it isn't, a variance will surely occur and management will feel the consequences by being summoned to court to explain and account for a default or covenant violation.

Appropriate Planning

Accounting for funding needs and cash levels every two weeks before enables a company to plan for the peaks and valleys, the sensitivities and seasonalities that occur on a regular basis throughout the annual business cycle. It is flexible enough to be used with any business. For instance, the technique can be adapted to businesses whose sales are soft during the holidays. Or, it may be used for toy or jewelry businesses in which most annual revenue is generated in the fourth quarter and the operations need to support an inventory build.

The technique enables an entity to look forward to make sure it has the appropriate cash flow to support extra overtime or plan temporary staff reductions, allowing a company to conserve cash when revenue and cash flow are projected to decline.

The 13wcf enables constituencies to identify and manage through the pressure points.

Vision and Direction

By imposing discipline and accountability, the 13wcf helps provide the foundation for better vision and direction. Because clients are attuned to where funds are going, they are better able to create a longer term vision and direction and determine what levels of revenues and cash flow are needed to fund operations in future years. It allows them to target funding needs and appropriate levels of funding, and then to focus on indentifying the sources of capital. For example, a company may decide to target the funding sources being changed in the capital structure, pursue additional credit from trade suppliers, or improve its collection efforts on outstanding A/R accounts.

Knowing the levels of funding needed in the short term and in future years gives the executive team, those ultimately responsible for the entity's longevity and success, the ability to develop the plan and identifies the steps required to execute the plan.

Managing Through Difficult Times and the Toughening Economic Client

The 13wcf provided the foundation that:

- Enabled a business to increase its cash flow by over 80% in less than a year.
- Helped a company improve its supply chain operations and reduce the inventory on hand by 20%.

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- Led to improved vendor pricing and management by business that renegotiated a contract, reducing vendor pricing by 10%.
- Enhanced a company's ordering procedures and reduced lead times by instituting better inventory accounting.
- Allowed company to negotiate extended terms that generated additional $4.6 million of cash flow and availability through its seasonal build.
- Identified pressure points that made it possible for company to restructure its term debt and reduce its payments.

Where to Go from Here?

In a nutshell, the 13 wcf is a tool that is exceptionally useful in the short and long term. It can:

- Improve the focus and accountability.
- Strengthen an organization's planning so that it can identify pressure points.
- Enhance the vision and direction of a business.

Using a technique that helps manage all these critical aspects of a company may appear to be extraordinarily complex. It is not. I am reminded of a comment I once heard in describing a football team's offense. When somebody suggested that the offense was very complex, his companion replied, "What's so complex? You throw a football; you catch a football. You hand the ball to a person and he runs with it."

The 13wcf can be prepared in as detailed a manner as one chooses. The greater the detail, however, the greater the understanding of the company and the better prepared one is to communicate the company's status to shareholders.

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