Receipts Forecasting Accuracy | Developing a granular receipts forecasting methodology based on working capital trends, customer profiles, and KPIs

Context

Forecasting weekly receipts accurately can be a difficult task for any business, especially a business with a large non-recurring customer base. This issue is magnified when a Company is suffering from a liquidity crisis and/or macroeconomic headwinds and may result in a need to access additional capital. Our experience shows that with the proper approach, understanding the timing and amount of a liquidity shortfall can be determined in an adequate timeframe.

Today's challenges

Many businesses, even mature businesses, have experienced liquidity crunches over the past three years due to various macroeconomic headwinds (e.g. COVID, interest rate changes, volatile supply chains, etc.). Many of these businesses are experiencing liquidity concerns for the first time and have limited experience in liquidity forecasting. Our expertise in liquidity forecasting allows Companies to properly plan for success and expansion.

Receipts Forecasting Priorities

Every company must collect revenue—and despite each company's unique customer base and industry, we believe that taking a granular, bottoms-up approach leads to the most accurate forecast

Historical Working Capital Trends

- Identify historical terms and collection timelines for a customer base
- Determine if there has been a large-scale change to customer payment trends over historical periods

Cumulative Variance Analysis

- Each business has its own distinct collections trends, creating further difficulty in forecasting receipts
- Preparing cumulative variance reports can assist in uncovering trends within the business

Leverage KPI reporting

- Business performance can change drastically, even over short periods of time
- Utilizing KPI reporting tools to influence forecasting can lead to a more granular and accurate forecast when the underlying business changes

Developing receipts forecasting methodology

Context

An events business which pivoted to a virtual offering during COVID was in the process of moving its focus and operations back to in-person events

The business was facing significant liquidity challenges given the macroeconomic environment, and was having difficulty in accurately forecasting receipts

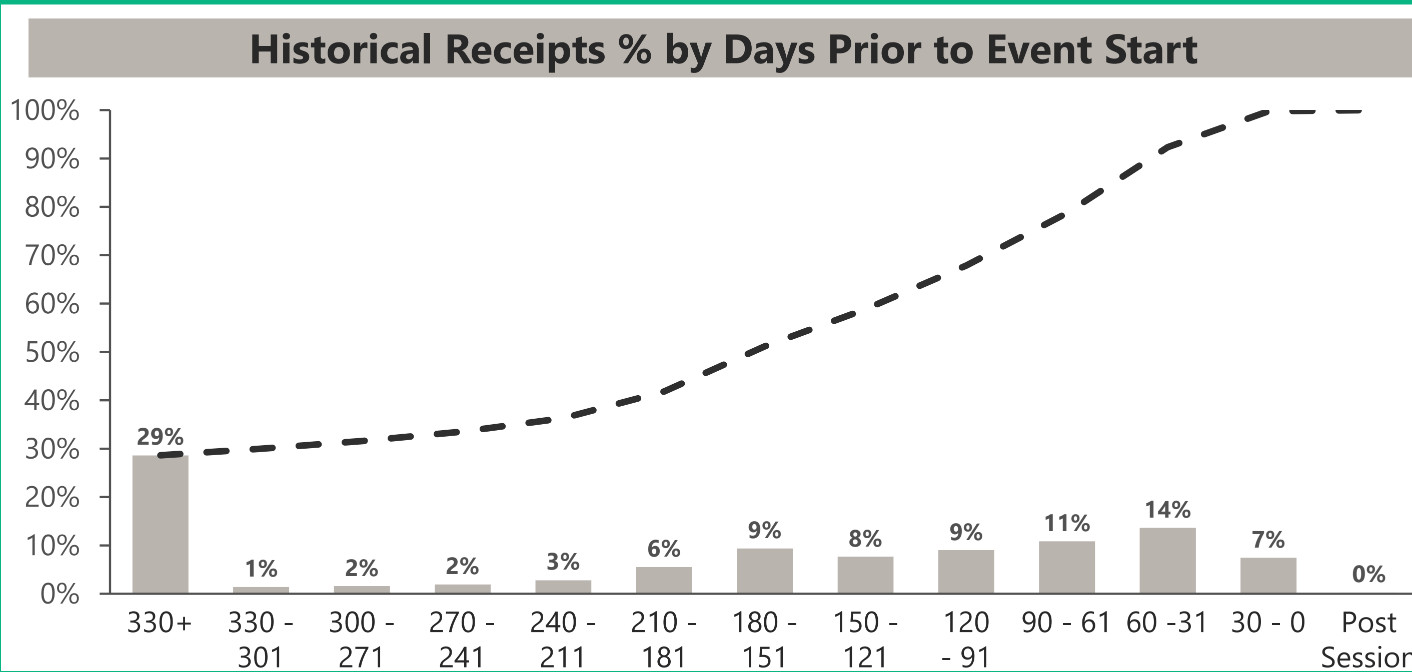
Challenges

- The business faced challenges getting both buyers and suppliers back to in-person events, leading to significant liquidity concerns
- Consistent misses in forecasted receipts caused the Lender group to lose confidence in the liquidity forecast
- Limited process in place to adjust receipts forecast for P&L re-forecasting and no methodology for working capital and receipt timing
- 35% receipts miss over 10-week period prior to MERU involvement

Our support

- Rapidly developed a Power BI dashboard tool to provide historical receipts trends for various session types
- Utilized KPI reporting tools to adjust receipts forecast weekly based on session bookings trends
- Developed granular weekly receipts waterfall based on 5-year historical working capital trends and live KPI reporting
- Updated receipts methodology led to significantly improved/accurate forecasting, resulting in confidence from key stakeholders (Management, Lenders, Sponsor)

Sample Dashboard



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