



Forecasting

Forecasting is making intelligent, well informed projections about your business as a basis for future planning.

Though straightforward in many ways it is an extensive subject that is vital to good business management and this brief guide can only touch on the essential points.

Please do not hesitate to contact us if you would like further advice and information.

THE IMPORTANCE OF FORECASTING

Reliable forecasts are key to being in control of your business. They are critical to successful business planning, operational decision making, and most of all effective cashflow management.

From startups to mature businesses, accurate forecasts are also essential for raising finance. A lending source will not only want to see comprehensive forecasts but also to be assured of the reliability and integrity of your forecasting.

And for public companies, the quality and accuracy of forecasting can have a considerable bearing on the share price.

In short, forecasts give you an opportunity to identify both potential problems and possible opportunities and plan what to do about them. The better your forecasting, the fewer surprises you have to contend with!

TYPES OF FORECAST

There are many different types of forecast but the three most important are

- › Cashflow forecast - the expected flow of money in and out of your business
- › Profit and loss forecast - the amount of profit or loss you expect to see at the end of the forecast period
- › Balance sheet forecast - an estimate of what your business will owe and own at a particular time

We can help with both the preparation and interpretation of each of these.

THE CASHFLOW FORECAST

Of the different types of forecast, the cashflow forecast is the most important for day-to-day business management. It is key to good cashflow management, which in turn is key to the smooth running of your business.

Having a reliable cashflow forecast and corresponding sales plan in place will enable you to concentrate on running your business with greater confidence and focus.

The cashflow forecast enables you to predict revenue and expenditure on a month-by-month basis so that you can iron out the peaks and troughs and ensure you always have enough money in the bank to pay your bills.

As the last two years have so painfully shown, businesses that encounter cashflow problems, even through no fault of their own, can quickly slide into insolvency.



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Be warned, though, cashflow problems do not arise only when a business is struggling, they can also result from unexpected success, such as running out of cash trying to meet an unexpected upturn in orders, which again points to the need for accurate forecasting.

DEVELOPING A CASHFLOW FORECAST

Usually a cashflow forecast is drawn up for a year. Its principal components are:

1. A receipts or revenue forecast – items such as expected cash from sales, debtors, net VAT receipts, sales of assets, other receipts and capital
2. An expenses or costs forecast – items such as expected payment to suppliers, cash purchases, wages and drawings, net VAT payments, rent, heating, lighting, telephone, bank interest

In its simplest form a cashflow forecast starts with the opening balance, adds in total expected receipts and subtracts total expected payments to arrive at a projected closing balance for the period.

THE SALES FORECAST

Central to this process is the sales forecast, which is a month-by-month forecast of the level of sales you expect to achieve over the forecast period. This is an essential tool for any business, and the more accurate and more detailed it is, the more useful it will be.

The sales forecast forms the basis of your sales plan, which helps you manage your production, staff and financing needs more effectively and avoid unforeseen cashflow problems.

You can prepare a sales forecast for all products or services, for specific groups of products or services, or for individual products or services.

In certain circumstances it can also be helpful to prepare forecasts based on individual customers or groups of customers.

To achieve more sophisticated forecasts you can factor in broader considerations such as economic indicators, industry growth, and competitor performance.

You can also further enhance forecasts by conducting scenario planning and sensitivity analysis.

There are many different approaches to drawing up a sales forecast and we recommend you take professional advice to ensure you get the most out of the process.

TIPS & TRICKS

Here are some useful tips to help you avoid some of the more common pitfalls:

- › Know the difference between optimism and wishful thinking
- › Make sure your assumptions are realistic and your targets achievable
- › Consult your sales staff when drawing up sales assumptions
- › Make sure any external data you use is from reliable sources
- › Make sure your sales targets are consistent with the assumptions in your sales forecast

FORECASTING DURING TROUBLED TIMES

Typically, forecasting makes projections based on past performance and future plans. In normal years this is a relatively straightforward process, extrapolating forecasts from the previous year and factoring in plans for the next year and beyond. However, in a volatile economic climate such as we are presently experiencing, past performances tend to be untypical and future predictions fraught with uncertainty.

At such times forecasting does not become less important but more important. However assumptions and projections have to be tested more rigorously and more frequently to ensure the forecasts remain realistic.

WE ARE HERE TO HELP

We realise that business owners want to get on with the day-to-day challenges of running their business and do not always have either the time or the expertise to give forecasting the attention it deserves.

Which is where we come in. Preparing and interpreting forecasts for our clients is one of our core strengths. Why not contact us to discuss how we can turn these skills to your advantage?