Cashflow forecasting

A cash flow forecast will help you work out the potential of the business to make a profit and identify when cash may be a little short. It's an estimate of the amount of money you expect to flow in (sales) and any cash out (your monthly expenses), usually over a twelve-month period.

Estimating is easier if you've got past sales and expense information to go on, but if you've never been in business before, or your business is brand new, it's less straight forward.

FIRST, ESTIMATE CASH IN

Unless you have guaranteed regular payments from customers, it's almost impossible to forecast with accuracy the money which will come into your business week by week. There will always be an element of guesswork with new customers coming in, old customers going out, opportunities and upsets.

To help predict sales more accurately:

- Use any advanced sales, pre-orders or contracts to adjust your figures
- Find any industry averages that could apply to your business
- Survey customers to determine how much they'd buy
- Adjust your figures on any current market conditions and trends
- Finally, apply your best guess (which can be relevant).

If you're still stuck, then one way to solve the issue is to work out what you must sell. Complete a break-even for your business to see what you absolutely have to sell to cover costs. This can be your sales forecast base line.

Sales also very rarely stay constant month to month and the main culprits are:

- Seasonality (holidays, weather, weekly fluctuations, budget cycles or an unpredictable crisis or boom)
- Limited capacity, if you can only process a certain number of customers each month
- Economic conditions and fluctuating demand
- Customers paying on time. Factor payment delays if you offer credit.

Placing an arbitrary number in the sales forecast column doesn't automatically mean it will happen, so carefully estimate what's likely, not what you hope.

ESTIMATE CASH OUT

Once you've predicted sales, it's time to complete the money going out section of your cash flow. These are made up of fixed costs which you'll have to pay regardless of your level of sales (rent, salaries, power, internet, subscriptions) and variable costs which go up and down depending on how busy you are (raw materials, consumables, inventory).

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Cashflow forecasting

As a new start-up, you may also have one-off costs like opening inventory, equipment, vehicles and any marketing launch expenses. Tips to help estimate accurately cash out:

- Research actual costs by contacting suppliers and getting quotes
- Search online for recent costs
- Add in a contingency (it often costs more than you think)
- Include a realistic salary for your own efforts
- Budget when tax payments are due
- Adjust expenses up or down depending on your sales forecast.

USING YOUR FORECAST

Once you've completed your forecast, check to see if there is a negative balance during any month. This is when you may need to add a cash injection from savings, arrange an overdraft or loan to prevent you from running out of cash.

After you've launched, update your cash flow each month by adding in actual sales and expenses next to your estimates. It will allow you to amend your predictions based on what is actually happening which will allow you to better:

- Predict future seasonality fluctuations
- Identify when you need extra funds or overdraft cover
- Assess the impact on profit if you want to add extra capacity
- See when you can afford new assets
- Calculate the timing of loan repayments
- Determine when you'll either run out of money or have excess cash to save.

Including best, worst, and most-likely case revenue scenarios allows you to see what could happen if you suddenly hit tough times or better than expected trading conditions.

The usefulness of your forecasts will depend on how accurate and up to date they are. It's important to update them against your actual business performance on a weekly or monthly basis. This will ensure your information is accurate and allow you to adjust future forecast figures as soon as it becomes clear they're likely to differ from your initial expectations.

Finally, remember the golden rule in business: always have more money coming in than going out.