Forecasting
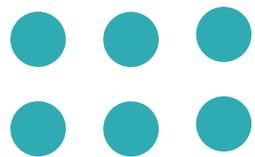
- **Presented by Jo Tomlinson**
- Owner and MD of Business Works UK
- Certified Quickbooks Trainer

York & North Yorkshire
GROWTH
HUB

Jo Tomlinson BA(hons) ACMA

MD Business Works UK LTD

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www.businessworksuk.co.uk

After 20 years in Industry analysing company data to support commercial business decisions, I founded Business Works with a vision to offer real-world solutions to businesses.

We have grown into a trusted partner for companies seeking a better understanding of their numbers, great customer service, and business growth.

With a team of 12, we are large enough to provide all the finance support SME business owners need, plus the value-added services that help them to flourish and grow.
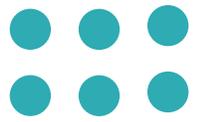
Table of Contents/Agenda

1 **What or who is the forecast for?**

2 **Historical data**

3 **Relevant variables**

4 **Assumptions**

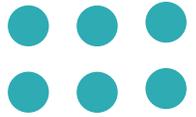**5** **Forecast options**

6 **Building a forecast**
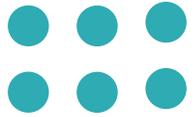
7 **Cash flow forecasts**
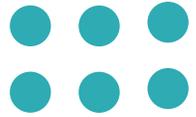
8 **Scenario analysis**

Who or what is the forecast for?

- A management tool
- Commercial finance/Grant application
- Equity investor

Trading History

- How has it gone to date?
- What have you learned?
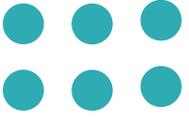- Why will the future be different to the past?

Relevant Variable

Some costs and revenues are directly linked to other costs or revenues

Break down revenues are costs into their base units

Link items as appropriate

Relevant Variables

Direct Costs

- Things you buy to sell
- Things you buy to convert into things you sell
    - Materials
    - Labour
    - Utilities
    - Packaging
- Other things directly relate to sales

Relevant Variables

Base Units

- Customers
- Sales per visit
- Number of visits per year
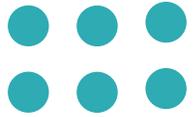
Relevant Variables

Base Units

- Stays

- Days per stay

- Extras per stay

Relevant Variables

Base Units

- New Clients
- Types of services purchased per month
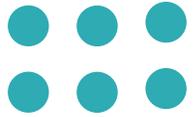- Repeat purchase frequency

Assumptions

Each variable needs an assumption or assumptions

5 new clients per month

£150 per month on average per new client

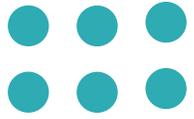1 one off each month – value £1k

Forecasting

Profit and loss

Cash flow

Balance sheet
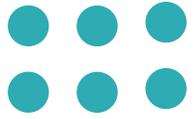
People

Stock

Factory hours

Forecasting
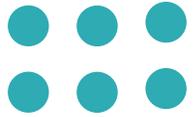
Annually

Quarterly

Monthly

Weekly

Daily

Forecasting

30 days

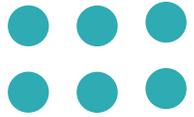Current year

3-5 years

10 years plus

Forecasting

Steps to Building a forecast

Build it step by step
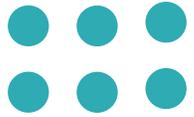
Logical order

Review and test

Forecasting

Start with **Revenue**

What were your high level aspirations in your Business Plan?

Can you break this down by Products/Services?
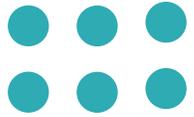
How will the months build up to the annual numbers

Forecasting

Sales/Revenues

Break down into units and price per unit
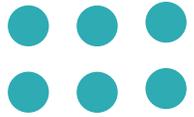
Split by products/Services

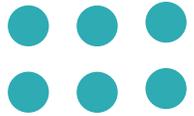Build in Growth rates

Forecasting

Direct Costs

- Things you buy to sell

- Things you buy to convert into things you sell
  - Materials
  - Labour
  - Utilities
  - Packaging

- Other things directly relate to sales
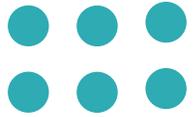
Forecasting

Direct Costs

- Use assumptions to build these up

- Break down by products and services as per revenue (allows you to look at profitability)
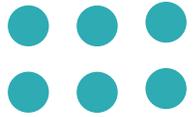
Forecasting

Direct Costs – Materials

- Order quantities

- Lead times

- Haulage and storage

Forecasting
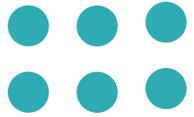
Direct Costs – Labour

- By person – unless you have a huge team to forecast
- Consider:
  - Lead times to recruit
    - Post advert
    - Interview
    - Notice periods
    - Training
  - Recruitment costs
  - Resources each person needs

Forecasting

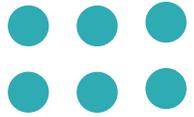Direct Costs – Labour

- Consider:
  - Payrises
  - Bonuses
  - Leavers

Forecasting

Direct Costs – Labour

- Consider: The full cost of a labour hour
  - A full-time person is contracted to 35-40 hours per week/52 weeks per year
  - Holidays – paid in full, but no labour hours available
    - 28 days p.a. minimum
  - Productive hours – chargeable hours worked
    - Possibly 80% of hours worked
      - Start up
      - Close down
      - Meetings
      - Admin
      - Training
      - Questions and queries
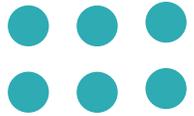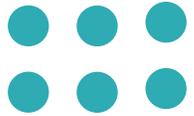
Forecasting

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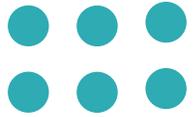
Forecasting

Direct Costs – Labour

Annual salary	£ 30,000	
Hours per week	40	
Weeks per year	52	
Total hours paid	2,080	
Holidays	28	Days
	224	Hours
Net available hours	1,856	
Productivity	80%	
Productive Hours	1,485	

Forecasting

Direct Costs – Labour

Annual salary	£	30,000
Employers NI	£	3,750
Employers Pen	£	713
	£	4,463
Total cost	**£**	**34,463**
Productive hours		1,485
Hourly cost	**£**	**23.21**
Not this cost per hour	£	14.42

Forecasting

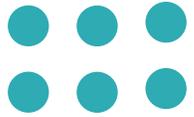Direct Costs – Labour

- Consider:
  - Leavers
  - Sickness absence
  - Overtime
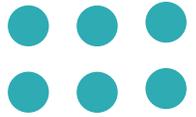
Forecasting

Direct Costs – Utilities

- Machine hours
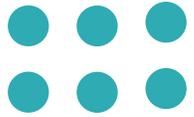- Office space

Forecasting

Direct Costs – Marketing

- What does this look like
  - Campaigns
  - PPC
  - Print materials
  - Lags
  - Percentage of sales
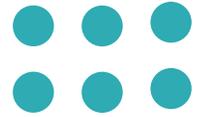 - Cost per lead - % lead conversion

Forecasting

- Costs that can be relatively "sticky"

- May change as you grow, but not directly in line with revenue
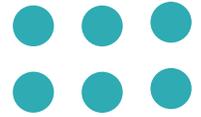
Forecasting

Finance and Interest

- Any current commitments – interest on loans etc
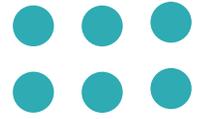- Any possible future commitments – new funding with interest

Forecasting Cash Flow

- Cash flows that do not impact profit
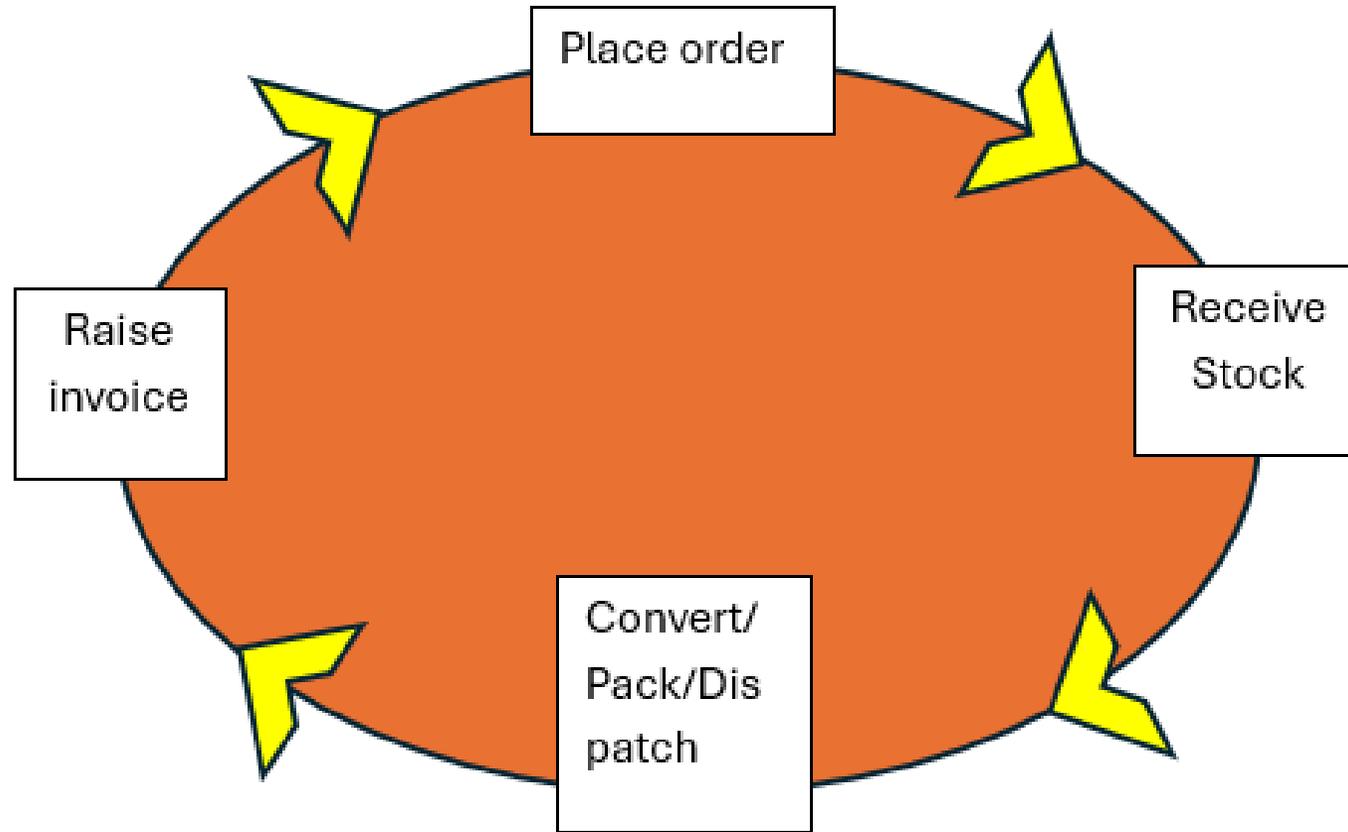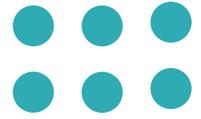
- Timing considerations

Forecasting Cash Flow

- Taxes – VAT/PAYE/CT (and pension payments)
- Repayment of any loans or buy back of equity
- Stock purchases

Forecasting Cash Flow

Forecasting Cash Flow
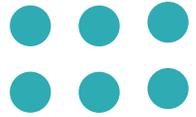
- Payment terms

- Resource lags

Scenario Analysis

- What if???

Running scenarios can:
- Stress test your numbers
- Give investors or lenders more confidence in them
- Highlight risks you hadn't considered

Management Information

- Monthly Profit and Loss v forecast
- YTD Profit and Loss v forecast
- Monthly cash flow forecast

On what date will cash run out, based on your forecast?

Resources

1. MTD
2. Accessing Capital for Growth
3. Forecasting
4. How much is your business worth
5. Selling some or all of your shares
6. Shared Business Ownership
7. Profitability
8. Project Evaluation
9. Directors Loans v Dividends
10. Cash flow v Profit

Thank You

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