## How to forecast cashflow.

An accurate cashflow forecast is like a map of your business journey. Without it, you run the risk of getting lost before reaching your destination. Predict ahead with the confidence of knowing your cash runway (i.e. the amount of time a business has before it runs out of cash) can cover your overhead with some cash left for growth.

# Prepare your business



### Audit past behaviour

where you can drive your business as fast as possible while balancing out your operating expenses. Do you really need that extra vehicle?

Review how your cashflow has behaved over the last two or three years. The fluctuations and seasonality of money coming in and out are likely to be industry influenced. Identify these spikes and troughs when forecasting ahead.

#### Aim for efficiency Before your begin to charge your engine, find a level of efficiency

Can your business run smoothly with one less staff member? of small business owners say their biggest challenge

is generating enough

cashflow to keep going\*.

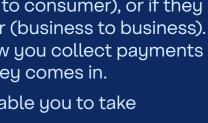
They may be successful, growing and profitable, and yet they can still fail if they don't have adequate cash to meet the growing needs of their businesses.

Even if you're making a profit, it doesn't necessarily mean you have cash in the bank. You may have stocked up excess inventory, or purchased fixed assets you don't always need. \* madeinca.ca/small-business-statistics-canada

### Cash or credit?

The flow of money in and out can depend on whether customers pay immediately with cash or credit cards (business to consumer), or if they are invoiced and pay later (business to business). Your credit terms and how you collect payments also influence when money comes in.

Mobile payment apps enable you to take payments on the go via your smartphone — aiding cashflow and reducing the need to chase late payments.



Using accounting software Accounting software lets you understand your financial situation in real time. Using a cloud-based service will keep your business's finances up to date every day, as your bank data feeds into the software.

# Predicting future cashflow

### Calculate fixed costs

Work out the total value of your fixed costs (or overhead), such as salaries, power, internet and rent. These costs need to be paid regardless of how much your business generates. If you're predicting growth, you can experiment with your future cashflow by adding anticipated extra overhead such as new employees, to see how that impacts your bank balance.



### It's important to know what's coming up on the

Identify what's on the horizon

horizon — a gap in planning for future expenses could spell disaster for your business. Insurance and tax payments are a few of the likely expenses you'll have to pay annually. Determine other future cash influences so you're prepared.

of new businesses fail in the first three years of operation\*. Many due to a lack of understanding of the importance of cashflow.

#### Estimate variable costs These are costs that vary depending on how much

you sell. They might include transport, inventory, materials, contractors, and any fees charged per sale.



## Estimate your upcoming monthly sales, using

Predict your sales levels

historical figures as a starting point, and taking into account seasonal fluctuations and events where sales can vary.

A cashflow forecast predicts:

### Cash sales will be paid immediately,

Timing of payments

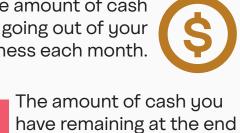
but sales on credit require payment terms. Map out when future payments will be made so you know when to expect money from credit sales. If you have a history of customers paying late, it's time to take action and remedy the cause.



your business each month. The amount of cash

The amount of cash coming into

business each month.





of the forecast period.

#### Looking ahead By completing a cashflow forecast

Benefits to your business

#### for the coming year, your business is forced to think ahead.

Managing payments



to a lack of preparation\* A cashflow forecast should be critical to your future plans. \* madeinca.ca/small-business-statistics-canada

Business failure is often due



#### collection policy. You may be offering payment terms which are too lengthy, or perhaps a regular client is constantly missing their

payment deadlines. Calculating a break-even point

of how much you need to sell to maintain your business. LOSS

point. This figure will give you an idea **BREAK-EVEN** 



Just in time (JIT) Your operation should only have the amount of inventory it needs to continue moving. JIT is a production strategy that aims

to reduce inventory — and the operating costs associated with

storing it — to improve a business's return on investment (ROI).

Predicting sales can be difficult, so it's

helpful to calculate your break-even

#### Your business will be more efficient if it knows when there are likely to

Periods of excess cash

be periods of excess cash. Plan how this money will be used or reinvested in advance so your venture can grow. Connect with a Coast Capital Business Advisor today.

Be aware, however, of any supply chain issues which may require you to hold more inventory than before, so you can continue to service your customers.



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