

# Financial Forecasting



Scottish Enterprise

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24<sup>th</sup> January 2023

# Financial Forecasting Workshop Objectives

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- ✓ **Achieve a clear view of the stakeholders across your business that require a view of the future financial performance of your business**
- ✓ **Understand the different approaches and focus points to apply in your forecasting**
- ✓ **Identify the key business drivers that need to be considered in your forecasts**
- ✓ **Have a view of where you are in terms of complexity and forecasting requirements and the tools available to you**



# Financial Forecasting Workshop Agenda

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**[A] Introduction – 5 mins**

**[B] Why forecast? – 5/10 mins**

**[C] Forecasting approaches – 15mins**

**[D] Key aspects to forecasting - underlying business drivers – 30 mins**

**[E] Putting it all together- Tools -20 mins**

**[F] Q&A - 10 mins**

## [A] Introduction



### Andrew Ingle-Finch

- Big 4 qualified (PwC) Accountant in both Accounting (Audit) and Advisory (Deals)
- Spent time in businesses of all sizes- Strategic Planning in an International Bank to start-up e-commerce business
- Enjoyed time as FD growing a payments and financial crime consulting business from 30 people with growth internationally to c. 120 people
- Experience across many industries though mostly Financial Services, FMCG, Property, Technology and Education typically helping business plan for strategic growth and/ or investment

**Please post your details in the chat so I can connect with you afterwards**

**Finally, some points to note on a workshop on financial forecasting.....**



## [A] Some initial questions to understand you

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**(1) I have some form of financial forecasting in place in the business?**

**(2) The most important time horizon for me to have a view on the future is? (1 month/ 3 month/ 6 months/ 1 year)**

**(3) I currently have a view of the future business direction and its' drivers with which to base my plans on?**





## [B] Reason to forecast financials across the business



### Business Resilience-

Anticipate the best and worst of times, let's you achieve confidence in times of uncertainty



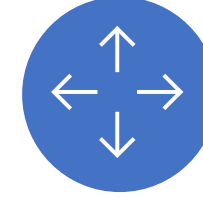
### Leverage

Thinking about the future for investment that will accelerate your growth beyond organic growth



### Understanding

Forces a deeper understanding of the business and discipline to regularly review how you are doing



### Mobilisation

Enables the business to organize itself around achieving the key strategic goals



### Competition

Better understanding of market dynamics and your competition



### Credibility

Conscious and unconsciously creates trust and confidence externally



### Controls

Raises risk awareness both internally and externally



### Preparation

Foresee increases in demand ahead of time and enable growth



## [B] Wider business stakeholders and why they are interested

### Employees



- How are we faring against business plan?
- How might I be impacted by the future?

### Investors



- Does the company have a credible process? Is management effective?
- Are the returns being achieved as planned?

### Business Owner



- Are we growing as I want? Is the company heading in the right direction?
- Can I make the investment I want?

### External Providers



- Are core ratios being maintained?
- Is there anything that may threaten my involvement in the business?

### Finance Team



- How are we faring against budget?
- Are there any cash issues?

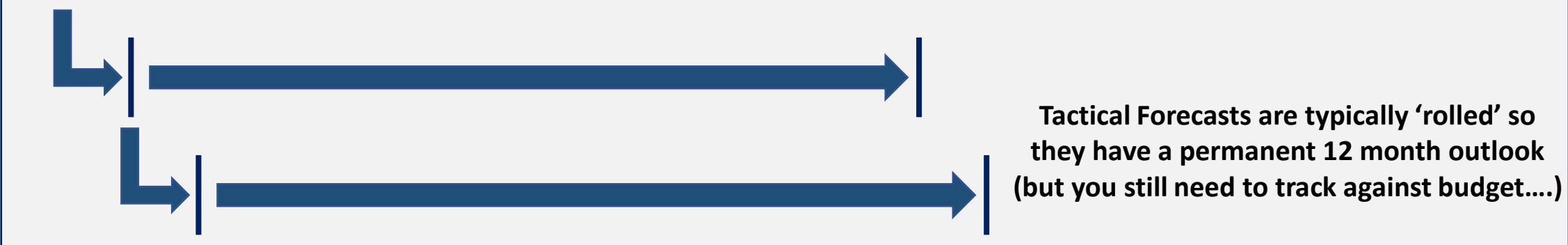
### Regulators



- Does the business have robust processes?
- Is it complying with key rules?



# [C] Dual purposes- Tactical and Strategic and how they vary







## [C] Dual purposes- Tactical and Strategic and how they vary

**Tactical**

**12 months in outlook**

**Strategic**

**12+ months → 5 year**

Common Tactical Questions/ Areas	Common Strategic Questions/ Areas
Can I afford to recruit?	How can we scale?
How am I performing against budget/ plan?	What finance/ investment might I need?
What is my cash life/ horizon?	What is our market doing and how can I react? What opportunities do I see coming?
Am I as profitable where I expected to be?	What new propositions should I do?

**Any others relevant to you?**

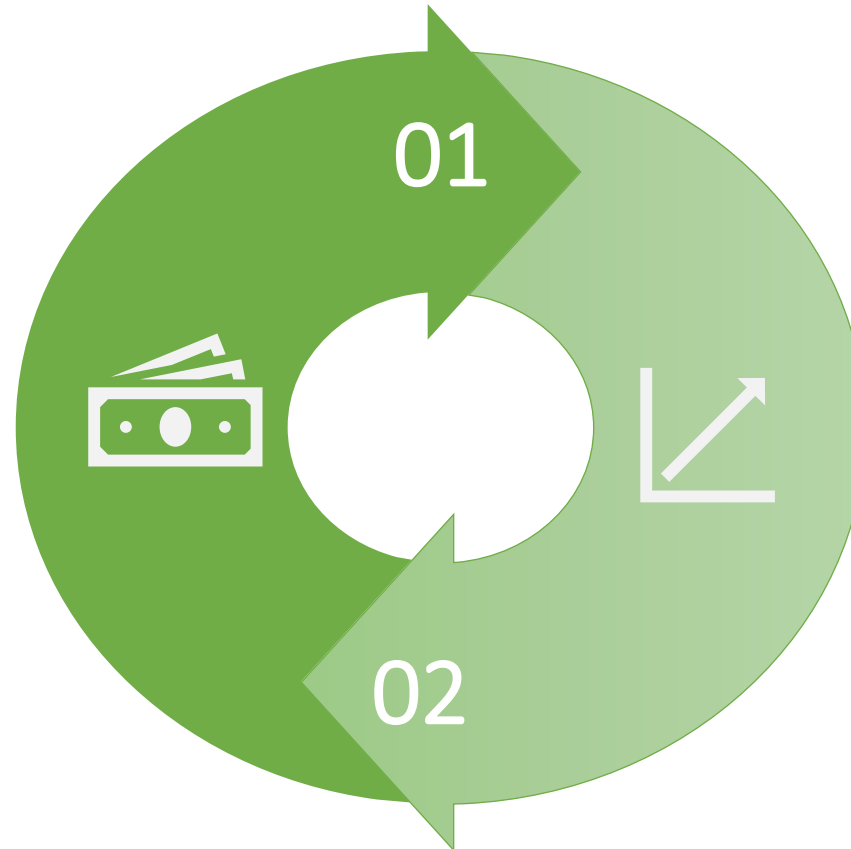


## [C] Forecasting needs to cover both cash and business performance

### Cash

Focuses on what is physically going in and out of the business:

- What is my cash timeline
- Do I have excess working capital
- Looking ahead, are there any pinchpoints?



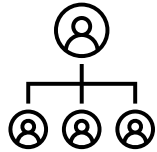
### Performance

Focuses on progress against budget and to show how my sales, costs and staffing are all performing:

- Are my sales enough?
- Are we converting opportunities?
- Are we controlling our spending?
- What are the bottlenecks?
- What are the fires?
- Can we invest?



## [C] There are wider requirements for forecasting to be effective



### Governance

Delivers data integrity, ownership of forecasting and clear definition of stakeholders across the business



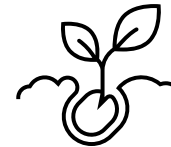
### Strategy

Clearly defined strategy that sets out the direction of the company, its operating environment and vision



### Market

Knowing your market, the competition and longer term likely developments



### Growth

Best when growth is the focus of the business with a clear commercial model defined and understood



### Historic data

Not essential but it enables more grounded basis to understand future direction



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[D] Key aspects to Forecasting- underlying business drivers



## [D] Real life key drivers that drive forecasts

The objective is to break down what drives your business and revenue in non-financial terms. These are then tracked, analysed and flexed to drive financial forecasts



Nights booked



Active merchants



Average records in account

coinbase

Monthly transacting users

amazon

Monthly purchases per user



Watch time

Uber

Rides booked

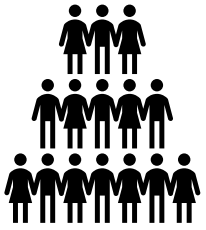
HubSpot

Weekly active teams



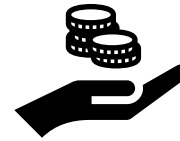
## [D] Key Growth drivers and areas to address

Pareto Principle- 80% of performance is generated by 20% of drivers. So find 10-20 that have the most impact



### People

- Operating and delivery model, headcount and delivery footprint
- Average cost per recruit
- Employee churn
- Employee/ Contractor ratio



### Commercial

- Profitability (Gross, Net)
- Sales conversions, pipeline throughput
- Pricing
- Customer numbers



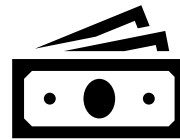
### Customer

- Customer Acquisition cost
- Customer lifetime
- Churn
- Consumption patterns across products
- Geographical (e.g. Region) or Demographic (e.g. Age)



### Market

- Market share
- Addressable market
- Market size and growth



### Cash

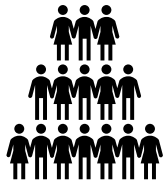
- Customer and supplier payment ratios
- Working capital requirements
- Currencies
- Loan and/ or investment terms
- Finance such as invoice, HP





## [D] What impacts my business? [Exercise]

We will now have a 10-minute break out exercise to allow you to think across these areas of the types of drivers most relevant to you.



**People**



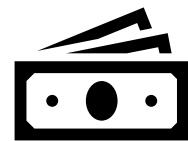
**Commercial**



**Customers**



**Market**



**Cash**



## [D] Financial drivers that also need reflecting

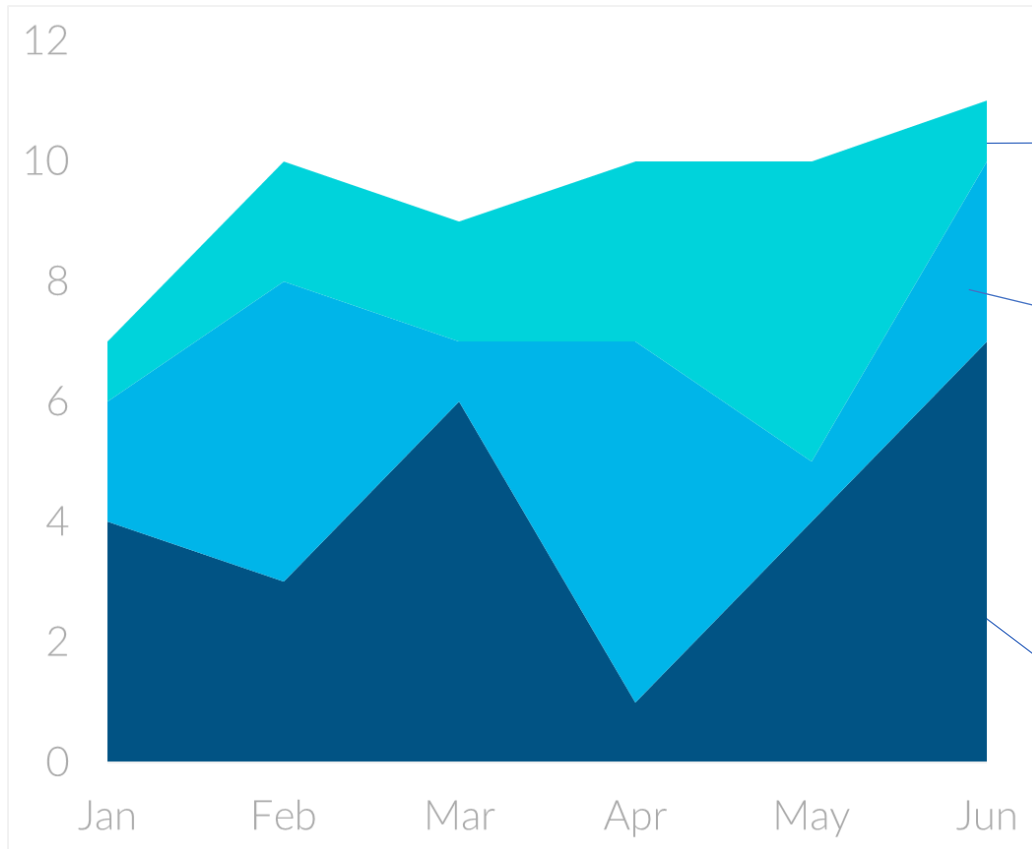
Outside of drivers that impact business activity, some finance specific aspects should be reflected.

Area	Why	Example
<b>Debtors</b>	Impacts the cash in the business, effectiveness of working capital	<ul style="list-style-type: none"> <li>• Bad debt</li> <li>• Debtor days- time to receive payment for invoices</li> <li>• Large suppliers who may prolong payment</li> </ul>
<b>Creditors</b>	As above	<ul style="list-style-type: none"> <li>• Creditor days- time to pay for services</li> </ul>
<b>Inflation</b>	Dictates the revenue you receive, cost of finance and wider market sentiment	<ul style="list-style-type: none"> <li>• Price rises</li> <li>• Staff costs</li> <li>• Loan finance</li> </ul>
<b>Non-driver based inputs- Qualitative information</b>	External commentary on the operating environment can give a usual macro picture to base	<ul style="list-style-type: none"> <li>• Focus groups</li> <li>• Analyst commentary</li> <li>• Market research</li> </ul>



## [D] The SO WHAT and the WHAT IF?

Driver based forecasting enables variance analysis and the vital 'so what' question to be asked



### Scenario forecasting

Range based adjustment of drivers to understand the impact on performance, e.g. sales conversion, churn, inflation

### 'Stretch'

Realistic extension to base activity that would see an enhanced performance e.g. sales campaigns, cost saving

### Base

The most likely outcome for forecasts and main comparison versus budget.

Introduction

Why  
Forecast?

Forecasting  
Approaches

Key  
Aspects

Putting it all  
Together

Q&A



## [E] Putting it all together- Tools



# [E] Financial Forecasting Framework

## Assumptions

## Financial Forecast statements

## Forecast essentials

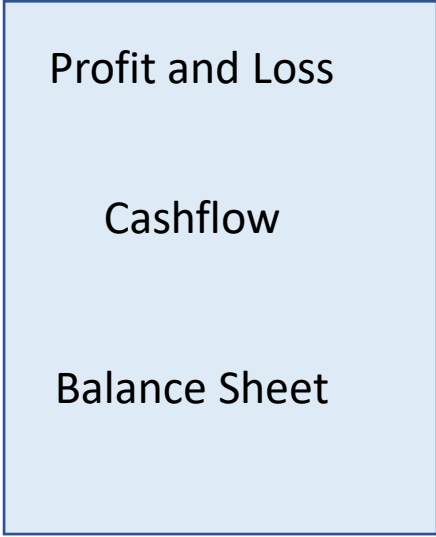
Business drivers



External factors



Business Plan and Strategy



Timeline- Strategic (up to 5 years), Tactical (12M Budget based)



Scenario exploration



Variance Analysis



Enterprise business partnering



# [E] Examples- Assumptions

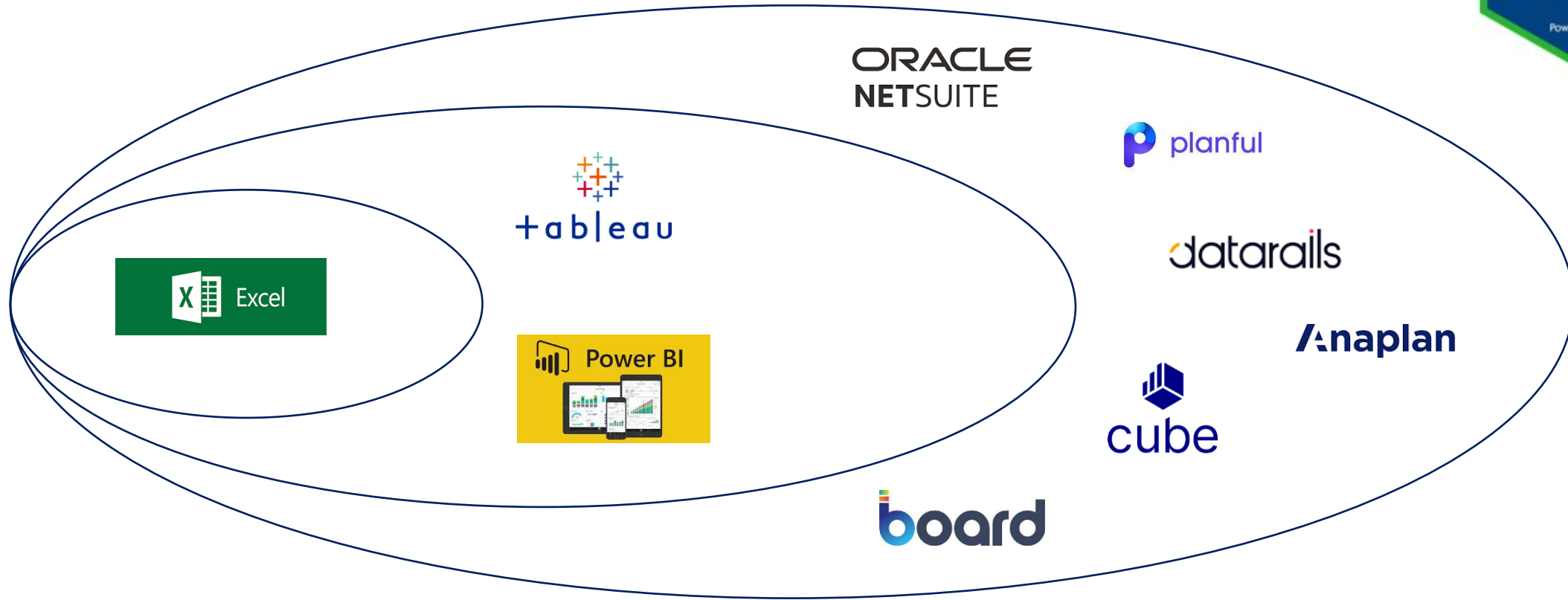


Channel		Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	
<b>Ecommerce</b>																
Channel metrics	Quarterly growth rate	10.0%		5.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
	Unit price increase	5%		1%	6%	1%	1%	1%	6%	1%	1%	6%	1%	1%	1%	1%
Website traffic visitors	Total visitors	7,404	11,846	18,954	30,327	48,523	77,637	100,928	131,206	170,568	221,738	243,912	268,303	295,133	324,646	
	Quarterly growth (%)	228%	60%	60%	60%	60%	60%	30%	30%	30%	30%	10%	10%	10%	10%	
	<i>Paid, inorganic visitors (%)</i>	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
	<i>Paid, inorganic visitors (No.)</i>	1,162	1,859	2,975	4,760	7,615	12,184	15,840	20,592	26,769	34,800	38,280	42,108	46,319	50,951	
	<i>Unpaid, organic visitors (%)</i>	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%
	<i>Unpaid, organic visitors (No.)</i>	6,242	9,987	15,980	25,567	40,908	65,452	85,088	110,614	143,798	186,938	205,632	226,195	248,814	273,696	
	Ecomm conversion rate	5.69%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
	Orders	421	592	948	1,516	2,426	3,882	4,037	5,248	6,823	8,870	9,756	10,732	11,805	12,986	
	Approx total units	1.94	818	1,520	2,600	3,440	4,152	5,758	10,410	9,877	12,244	15,123	24,155	24,020	29,950	38,238
	Order/ unit ratio	1.94	2.57	2.74	2.27	1.71	1.48	2.58	1.88	1.79	1.71	2.48	2.24	2.54	2.94	





[E] There are a lot of wider tools- better able to deal with data. It's a question of time, cost and need.



Introduction

Why  
Forecast?

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Approaches

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Aspects

Putting it all  
Together

Q&A



Q&A

Site tour and  
close



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