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How do you put together a growth forecast?

If only we had a crystal ball to see into the future, things would be much easier, however we don't and estimating future growth is one of the hardest exercises for a new business owner to grasp.

These forecasts are rarely accurate, but they do get us thinking about our business and the logic and diligence that we will put into our assumptions.

These forecasts are a great model for running "what-if" scenarios and this is why a lot of new businesses are required to provide one of these with their business plan when approaching a bank for finance, so let's have a look at the essentials they will require and how to prepare something looking three years into the future.

Generally we prepare these forecasts in a simple excel spreadsheet that will act as a timeline.

This timeline should be set out monthly for the next 36 months (three years). Here are some simple steps to follow: -

1. Make a few assumptions and look at other businesses/competitors in your area. Always write down your assumptions to compare back for next year. (We should always review this in year two using year one actuals.)As we are low on data to start with, we will look at realistic estimates of what future expenses will be.

2. Now look at a realistic estimate of what sales will be for the year. I suggest you look at some benchmarking websites to get an idea of your industry sales that averages out what other business turnover and look at the lower quartile.

3. Subtract the total expense of the business from the sales for each year of the comparison.

4. Compare each yearly net profit figure with the year before. To accomplish this, divide the year two totals by year one totals. For instance, if the business had a net profit of a $1,000 in year one and a net profit of a $1,100 in year one, this would represent a growth rate of 10 percent. Repeat for the three years.

5. Average all of the year-to-year growth percentages together to attain the average yearly growth of the company. This number is the forecasted growth of the company.

An example of this depending on what business you are in would be to estimate the number of clients/customers that would visit your website/shop.

This can only be based a certain rate of traffic. (You could look to certain benchmarking companies that maybe able to provide a more accurate figure.)

We would then need to look at a conversion rate of this traffic to new customers. Say 2,000 people look at your website (or advertisement/marketing material) weekly and that 42% of them will purchase from you within the next month.

Your average price of product is $10, therefore you growth for the month will be $8,400. Now of course you should minus your expenses in relation to gaining this growth but this is more a cash flow issue. This is also known as organic growth. As always, have a chat with a professional to work out your own specific needs.

Brad has more than nine years' professional accountancy experience. He has worked in senior management roles within taxation and business services dealing with a number of clients from a range of business sectors. www.callaughanpartners.com.au

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