



DATA
VETO

A background image featuring several pink piggy banks of various sizes and orientations, some appearing to be falling or floating. The image is partially obscured by a dark blue diagonal shape that frames the main text.

TIPS TO IMPROVE FINANCIAL FORECASTS

**Reliable forecasting as a risk
management tool**



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THE MEANING OF FORECASTING FOR GROWTH COMPANIES

A growth company aims for growth by growing risks. This is especially true for businesses that have received VC funding, as they tend to spend money before generating sufficient revenue from customers. Rapid growth requires reliable forecasting, which creates challenges and additional pressure for an already busy entrepreneur.

Without effective and well-planned forecasting, a company lacks visibility into the future of its operations, and an unexpected cash flow crisis could jeopardize its very existence. Despite their hectic schedules, every entrepreneur should prioritize developing a robust forecasting process. A general rule of thumb is that the higher the risk taken to achieve growth, the more critical forecasting becomes for the business.



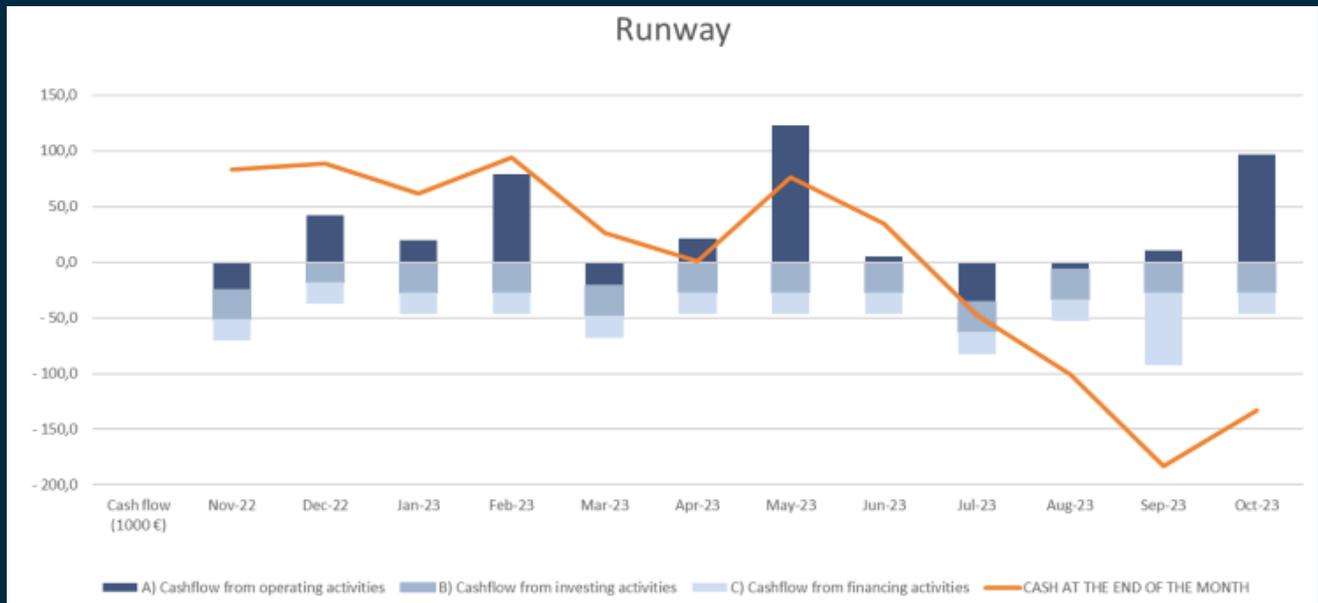
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This mini guide is intended for growth companies in different phases of growth, and the practical tips given are based on years' worth of experience in overcoming the challenges of forecasting.



START FORECASTING IN TIME

If you don't pay enough attention to forecasting, it can easily end up being swallowed by other tasks. In the worst case the focus is shifted on it well after the damage has been done, and you've run out of cash. At this point even spectacular forecasts are no longer helpful.

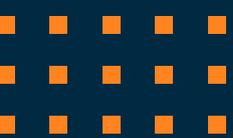


Picture: 12 month rolling cash flow forecast



Forecasting started in time is an excellent risk management tool for a growing business

Forecasting started in time is an excellent risk management tool for a growing business. For example, with cash flow forecast like the one shown in the image above, you can effectively anticipate cash risks and address them in a timely manner.



MAKE USE OF RECURRING EVENTS

If your company's new to comprehensive forecasting, start by picking recurring events from your bookkeeping system and attach them to the forecasts for the coming months. This will give you a good basis for a forecast, and recurring events are easy to edit when their prices change or contracts end.



Tracking recurring events with their VAT rates is an excellent way to incorporate VATs into your cash flow forecast.

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On the expense side recurring transactions typically include salaries, rent, insurance, interest, loan payments, etc.

On the revenue side they often encompass SaaS income and other regular income based on e.g. subscriptions.



MAKE FORECASTING A PROCESS

Make forecasting a regular process and connect it to the financial procedures associated with month-end closing. You can update significant changes more frequently, but a thorough review and update of the forecast should always be done once the actuals for the reporting month are known.



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If a forecasted event for a reporting month has not been realized, move it forward in the forecast. Accordingly, if the actuals for a reporting month include events forecasted for future months, remove them from the forecast. If the actuals reveal new recurring events missing from the forecast, update the forecast to include them.

Updating forecasts as a systematic process ensures that no part of the forecast is updated without considering its overall effect. Changes in the profit forecast can have a significant effect on cash flows, especially if a client pays for e.g. a year's service upfront.

However, keep your forecasting process as simple as possible. Don't go into too much detail with your forecasts: they are not meant to be perfectly precise down to the last euro or cent.



USE THE STRUCTURE OF MANAGEMENT REPORTING

Combine the forecasts with the same structure used in management reporting. By doing this, you can easily get the actuals through accounting, this way simplifying the monthly forecasting process and reducing the manual work that comes with tracking actuals.



At the same time, you can integrate the forecasts with the P/L report, making it a more comprehensive tool for monitoring business performance.



Combine the forecasts with the same structure used in management reporting.

MGM Report	Apr	Apr	Apr	Apr	YTD	YTD	YTD	YTD	2023	2023
Apr-23	Actual	Target	Diff (%)	2022	Actual	Target	Diff (%)	2023	Target	Forecast
SaaS	76,1	73,0	4,2 %	70,7	296,8	289,0	2,7 %	261,4	892,5	885,8
Professional Services	11,0	10,0	9,7 %	13,3	19,8	40,0	-50,5 %	54,8	120,0	119,8
Total revenue	87,1	83,0	4,9 %	83,9	316,5	329,0	-3,8 %	316,2	1 012,5	1 005,6
COGS	5,4	8,0	-33,1 %	7,9	21,7	32,0	-32,2 %	28,5	96,0	78,2
Gross profit	81,7	75,0	8,9 %	76,0	294,8	297,0	-0,7 %	287,7	916,5	927,4
OPEX										
G&A	17,6	20,0	-11,8 %	18,6	73,7	80,0	-7,8 %	67,2	240,0	226,5
Sales & Marketing	12,0	12,5	-4,4 %	12,2	51,3	50,0	2,7 %	50,9	150,0	152,6
Professional Services	5,6	10,0	-44,4 %	10,2	22,2	40,0	-44,4 %	40,6	120,0	76,3
Service Desk	5,6	5,2	6,9 %	5,2	22,2	20,8	6,9 %	20,8	62,4	63,9
R&D	30,0	21,0	42,8 %	17,4	112,2	84,0	33,6 %	68,7	252,0	274,2
Total OPEX	70,7	68,7	2,9 %	63,6	281,8	274,8	2,5 %	248,3	824,4	793,5

Image: An example of the structure of a management P/L -report



MAKE FORECASTING EASY

In a growth company everyone has their hands full. However, when it comes to forecasting, you often need input from, for example, salespeople regarding sales revenue. You certainly don't want them to spend any more time on forecasting than what's absolutely necessary.



Ensure that whoever's creating a forecast sees what the previous forecast consists of

So, make sure that creating and updating forecasts is as easy and as intuitive as possible. To make the updating of forecasts easier, ensure that whoever creates the forecast sees what the previous forecast consists of. In addition, confirm that the tool used for forecasting is not making the process any more difficult than it should be.





DON'T FALL FOR OVER-OPTIMISM

Forecasting new sales can easily become too optimistic, which can lead to unexpected cash problems if expenses are blindly relied upon revenue forecasts. Salespeople are often rather confident in their own skills - which is a good thing - but can lead to overly optimistic sales forecasts.



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When forecasting new sales, take into account not only the probability of the deal closing, but also the realistic time it takes for the customer signing the contract, and how soon after that revenue can be recognized from said customer.





TRACK FORECAST DEVELOPMENT

Tracking forecast accuracy is a crucial part of the forecasting process. Make a table of sales forecasts as shown in the picture below. From it you can see how your forecasts are developing over time.

1000 EUR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Target	100	110	120	130	140	150	160	170	180	190	200	210	1860
January	100	110	120	130	140	150	160	170	180	190	200	210	1860
February		100	110	120	140	150	160	170	180	190	200	210	1830
March			100	110	120	145	160	170	180	190	200	210	1785
April				100	140	145	160	170	180	190	200	210	1795
May					110	130	140	170	180	190	200	210	1730
June						110	130	150	175	190	200	210	1675
July							120	140	150	190	200	210	1630
August								120	140	170	200	210	1580
September									125	150	200	210	1545
October													
November													
December													
Cumulative													
Target	100	210	330	460	600	750	910	1080	1260	1450	1650	1860	
Actual	100	200	300	400	510	620	740	860	985				
Target vs actual %	100,0 %	95,2 %	90,9 %	87,0 %	85,0 %	82,7 %	81,3 %	79,6 %	78,2 %	0,0 %	0,0 %	0,0 %	



Create indicators for forecast accuracy and set targets for them.

By tracking your forecasts you're automatically more in tune with e.g. the management of working capital and components related to it.

Create indicators for forecast accuracy and set targets for them. By integrating their tracking into management reporting and board materials, you can ensure that the development of the forecasting process remains a priority in board discussions.





DATA-DRIVEN **FINANCIAL MANAGEMENT** **FOR GROWTH COMPANIES**

Dataveto is a service provider specialized in developing financial management for startups and growth companies.

In addition to accounting services, we build and maintain comprehensive financial reporting for our clients and develop business forecasting processes at a fixed monthly price. We also support companies in various stages of M&A - processes.

Dataveto was founded in 2022, but our team has decades' worth of experience in tackling the financial challenges of growth companies. We always take a deep dive into our client's business, provide hands-on, practical and concrete services, and are fluent in both SaaS and entrepreneur.

Schedule a meeting! Visit www.dataveto.fi to book a meeting with us. Together, we'll assess your company's situation and identify potential areas for development and prioritizations.