

01

Forecasting

Warm up

Read the quote. Does Lao Tzu think it's possible to make accurate predictions? Discuss with a partner.

Those who have knowledge, don't predict. Those who predict, don't have knowledge.

Lao Tzu, 6th century BC Chinese poet

LEARNING OBJECTIVES

Finance communication skills

- Making a forecast
- Projecting revenue
- Discussing cash-flow issues
- Making predictions

Reading

- A blog post about forecasting
- An email talking about cash-flow issues

Listening

- A presentation of a financial forecast
- A phone call about cash-flow issues

Language

- Common financial terms
- Forecasting verbs
- Cash-flow expressions
- Adverbs of certainty
- Predicting with *will/won't*

Forecasting revenue

- 1 Discuss the questions with a partner.
 - 1 Why do companies need to forecast revenue?
 - 2 How does your company forecast revenue?
- 2 Read the advice on creating a forecast. How similar is it to your opinion?

Good business requires good forecasting. Although nobody can predict the future, forecasting can help you identify possible issues for your business and prepare for them. In this series, we'll look at the basics of forecasting and the three major forecasts you'll need to make.

1 The sales forecast
This shows your projected revenue. When preparing your sales forecast, think about how much you sold, what trends you've identified in the market and how those trends may affect your income. Try to be realistic and make sure you include seasonal fluctuations in your calculations.

2 The profit and loss forecast
Take your sales data and add in your costs. Costs to think about include the cost of goods sold and operating expenses. Combine this with your revenue data to anticipate your gross profit, operating profit and profit margins.

3 The cash-flow forecast
When thinking about cash flow, try to predict when you will receive income and when you will have to pay costs incurred. Enter this information into the cash-flow forecast so that you can predict when you'll incur costs and when you'll receive the revenue to pay for them.

- 3 Find words and phrases in the text with the following meanings.
 - a money from selling your products _____
 - b long-term changes _____
 - c short-term changes _____
 - d the cost of making the products you sell _____
 - e the cost of running your business _____
 - f profit before expenses _____
 - g profit after expenses _____
 - h a measure of how much revenue the company keeps _____
- 4 Complete the sentences with the words in 3.
 - a Our _____ usually falls in December due to seasonal _____.
 - b Our gross profit is probably going to fall because higher oil prices will raise the _____.
 - c The trend in salary increases could raise our _____ and reduce our _____.
 - d Calculate the _____ by dividing profit by income.

Projecting revenue

1  **01** Pizza To Go is a takeaway pizza company with branches across Europe. Katerina is explaining the market conditions affecting the recent profit-and-loss forecast. Listen to the presentation and decide if the statements are true (T) or false (F).

- | | | |
|----------|--|-------|
| 1 | Everybody feels the forecast is balanced. | T / F |
| 2 | The commodity market is very stable at the moment. | T / F |
| 3 | The finance department expects cost of goods sold to rise. | T / F |
| 4 | Sales and profit margins are expected to rise. | T / F |
| 5 | Operating costs are forecasted to rise. | T / F |

2  **01** Listen again and complete the sentences with the verbs Katerina uses.

- a** We're _____ some major cost issues over the next six months.
b We're _____ significant volatility in the commodity market.
c We _____ rises in our direct costs soon.
d We've _____ a considerable rise in cost of the goods sold in the foreseeable future.
e We _____ a sizeable increase in sales of 15% this year.
f We _____ to limit the impact of these cost rises.
g We're _____ to introduce cost reductions across all departments.
h As we're _____ a number of problems, we need to think about ways to reduce departmental budgets.

3 Match the sentences (a-h) in 2 to the reasons you use them (1-4).

- | | | | |
|----------|---|--------------------------|--------------------------|
| 1 | to discuss predictions related to numbers | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 | to talk about possible changes | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 | to talk about things happening now | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 | to talk about future plans | <input type="checkbox"/> | <input type="checkbox"/> |

4 Match the expressions with a similar meaning.

- | | | | |
|----------|------------------------|----------|--------------------|
| 1 | significant volatility | a | reduce the effect |
| 2 | direct costs | b | the short term |
| 3 | the foreseeable future | c | major fluctuations |
| 4 | limit the impact | d | expense controls |
| 5 | cost reductions | e | cost of goods sold |

5 Complete the sentences to talk about your company.

- | | | | |
|----------|--|----------|---|
| a | We anticipate direct costs to ... | d | We're planning to ... in the near future. |
| b | We're seeing volatility in ... | e | We intend to limit the impact of ... by ... |
| c | We forecast ... in the foreseeable future. | | |

Over to you

Look at the profit and loss figures for Café Cream, a small coffee shop. Then roleplay the scenario at the back of the book.



Sales	\$180,000
Cost of goods sold	\$70,000
Gross profit	\$110,000
Operating expenses	
Salaries	\$30,000
Supplies	\$20,000
Rent	\$34,000
Operating profit	\$26,000

Student A: Turn to page 46.

Student B: Turn to page 51.



The cash-flow forecast

- 1 Discuss the questions with a partner.
 - a Why is it important to forecast your cash flow on a regular basis?
 - b What factors should you consider when forecasting your cash flow?
- 2 What can organizations do if they have a cash-flow crisis? Complete the mind map with a partner.



- 3 Katerina has prepared the cash-flow forecast for Pizza To Go. She has written an email to Paolo, the finance director, outlining some potential cash-flow problems. Complete the cash-flow forecast using expressions from the email.

To: Paolo

Subject: Cash-flow forecast

Hi Paolo,

I've completed the cash-flow forecast for May–June and have attached the documents. I'm concerned that our net cash flow is deteriorating. As you can see, we're forecasting a net cash flow of €290,000 for June. Now that we're moving out of winter, we expect cash inflows to fall as people start going out more and takeaway sales dip. As the summer continues, we can expect sales to fall further.

This dip unfortunately coincides with the payment of several large invoices – increasing our credit purchases – and a dramatic increase in overheads from May to June of €170,000, caused by increased rent and energy costs. These factors will affect our cash outflows. Although we should have lower purchases next month, overheads will remain high for some time.

These changes mean the closing balance will be €60,000.

I think this position may worsen going forward and we may need to take corrective action.

Let me know if you'd like to discuss this.

Best,
Katerina

Pizza To Go Cash-flow forecast May–June

	May (€000)	June (€000)
Cash ^(a) _____		
Sales	650	580
Total Inflows	650	580
Cash ^(b) _____		
Credit Purchases	100	300
^(c) _____	230	400
Wages	170	170
Total Outflows	500	870
^(d) _____ Cash Flow	150	- 290
Opening Balance	200	350
^(e) _____ Balance	350	60

- 4 Tell a partner how serious you think Pizza To Go's cash-flow situation is and what you would do about it.



5  **02 Listen to a follow-up call between Paolo and Katerina and answer the questions.**

- a** How concerned are Paolo and Katerina about:
- 1** the fall in sales?
 - 2** the rise in credit purchases?
 - 3** the rise in overheads?
- b** How does Katerina suggest they can reduce their cash outflows this month?

6  **02 Listen again and complete the sentences.**

- a** I know what you mean, but the downturn in sales is _____ temporary.
b Yes, they are and they'll _____ have an impact on cash planning.
c We _____ won't have such high costs next month.
d Costs will _____ be closer to the average next month.
e Our research suggests rents will _____ rise even further next year.
f We could talk to the energy company and _____ delay payment on this until the winter.

7 Match the sentences (a–f) in 6 to the degree of certainty the speaker feels (1–3).

- | | | |
|------------------------------------|--------------------------|--------------------------|
| 1 I'm sure about this. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 There is a strong chance. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 I'm not sure about this. | <input type="checkbox"/> | <input type="checkbox"/> |

8 Use the prompts to write complete sentences using *will/won't*.

- a** costs / certainly / increase

- b** sales / probably / fall next month

- c** rent / definitely not / rise this quarter

- d** maybe / sales / rise soon

- e** we certainly / not cut / prices

- f** overheads / most likely / remain the same in June

Grammar tip

Predicting with *will/won't*

*We can make future predictions with *will/won't* + verb.

Rents **will increase** next year.

We **won't have** such high costs next month.

*We use adverbs to show how certain/uncertain we are.

Adverbs go **before or after** *will* in positive sentences:

Rents **will probably** increase next year./Rents **probably will** increase next year.

but only **before** *won't* in negative sentences:

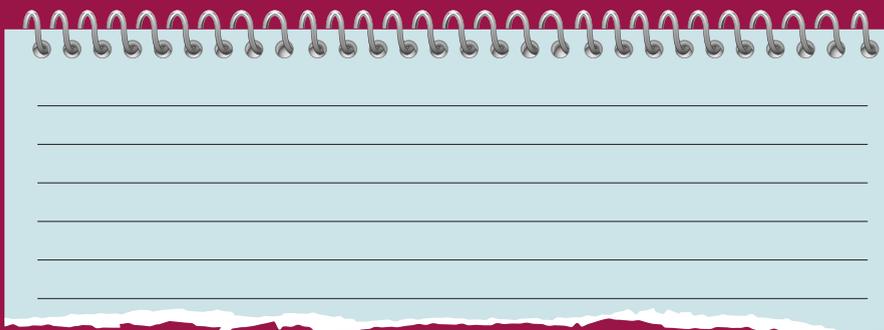
We **probably won't** have such high costs next month.

Over to you

1 Imagine your company has short-term cash flow problems. Write some things your company could do to solve the problem. (Try to use some of the expressions in 6.)

Think about:

- short-term sources of credit
- ways to encourage customers to pay early
- ways to extend credit with suppliers
- any other ideas.



2 Discuss the problems with a partner and share your solutions.