

Lombardi Partners Bulletin

Dear Valued Clients,

As we have now entered the new Financial Year and given the restrictions re-imposed on Metropolitan Melbourne announced yesterday, planning and forecasting is crucial for the year ahead.

Do you have the following?

- 2020/21 Budget
- 2020/21 Cashflow Forecast.

If you don't, you need to ask yourself why? Do you know where your business is heading?

To assist you, we revisit "Forecasting and Cashflow Planning" from our March bulletin ensuring that you are ready to navigate through the tough Financial Year ahead.

Forecasting

Forecasting plays a pivotal role in the operations of a business. It is an important and necessary aid to planning and planning is the backbone of effective business operations. Many businesses have failed because of the lack of forecasting or faulty forecasting in which the planning was based on.

Forecasts create estimates, based on hard data and critical analysis on a business' future revenue and expenses. How much will you be making or spending in 3 months, 6 months or 12 months. Without a forecast how do you know?

To begin forecasting your finances, you need to start with projecting expenses. Be specific – consider everything.

Next, project your income. Given the economic climate at present this may be difficult to predict, however work on worst case.

Income less expenses will give you a position for the month, quarter, year. If it is in the red, you need to look at strategies for growing income and reviewing costs. Short term financing may also be required therefore you need to start planning for this, whether it be speaking to your bank manager or broker.

Having the road map for the next 6-12 months will provide you with assurances that there will be light at the end of tunnel.

Cashflow Planning

Positive cashflow is the aim of all businesses. Most businesses will be having negative cashflow in an economic downturn as we are experiencing currently, therefore knowing your cash inflows and outflows is crucial. You should be considering the following:

- Seasonality of sales – if your sales are subject to seasonality and the next 6 months will be lean, this is the time to plan for it.
- Cash outflow – knowing *when* your cash will be leaving is as important as knowing when it will be coming in.
- Cash control – how efficient are you using your cash? How much cash is tied up in stock or work in progress? What procedures do you have in place for collecting debtors? How do your cash inflows compare to cash outflows?

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- Debt – do you need to take on more debt to get you through? Can you service the new debt? What options is your current back presenting?

There is a wide range of tools to aid with the questions above, including:

- Knowing your business – know your numbers, run regular reports to see how the business is trading, get insights on the cash inflows and outflows.
- Budget – take control of your expenses and set targets for income.
- Forecast – covered previously, however important in predicting and maintaining a healthy cashflow position.

What tools do I need for a budget, cashflow forecast or business plan?

- Cloud Accounting – such as Xero has inbuilt budgeting functions and allows you to track actual performance versus budget.
- Spotlight Reporting – the most advanced forecasting, reporting and dashboard tool for small business.
- Excel workbooks – whilst powerful, the most inefficient as you are entering/re-entering data from your software.

Lombardi Partners are committed to assisting you through these difficult times and can assist you with developing a budget, creating a cashflow forecast or helping you create a plan for the year ahead.

If you need assistance, please get in touch with your Lombardi Partners contact on 9328 5300.



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