Financial Projections

(aka, Budgeting and Forecasting)

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1. Introduction
    a. This evening we are going to talk about financial projections for your business.
        i. Why forecast; can't we just let the chips fall where they may?
            1) You need a road map.
            2) Collective signs that may say,
                a. Straight ahead; or,
                b. Redirect
            3) Enables you to see problems and take corrective action before issues escalate.
        ii. While there are dissimilarities, think personal budget.
            1) Estimate of money coming in; and,
            2) Estimate of money going out.
        iii. We will look at the three (3) primary financial statement reports and discuss/show how projections impact each.
            1) Profit and loss statement – aka, income statement.
            2) Balance sheet
            3) Cash flow statement
        iv. I will use the phrase "pro forma" a lot; means projected performance.
        v. A couple of points to remember:
            1) Financial reports deal primarily with history of business.
            2) Financial projections deal with anticipated future performance of business.
            3) When you merge the two (2) you have a very valuable management tool.
        vi. A good time frame for projections is five (5) years. Projections can be:
            1) Monthly
            2) Quarterly
            3) Annual

2. Before preparing actual projections, there's a lot of work to do.
    a. You need to create a business model that will be honed as you work your way through the projection process. Considerations of the model include:
        i. Industry parameters; i.e., sales/sf; billed time ratios; inventory turnover; asset requirements; ***SALES:TOTAL ASSET RATIO (page 13).***
        ii. Personal constraints – how much money do you have to work with?

iii. Critical to understand that there is a direct relationship between capacity and revenue.
1) Investment
2) Inventory turns
3) Sales per person

b. Refer to ***Feasibility Assessment for Growth.***

c. Critical to the projection process is a good set of justified assumptions.
i. Target market
ii. Competitive edge
1) Remember, market demand is often created, not latent.
iii. Competitors
iv. Branding/marketing plan
v. Sales channels

d. Result – This is the business for which I am preparing these financial projections.
i. Get a visual picture of it, but don't fall in love with it.
ii. It will be modified as you go through the projection process.
iii. May even be discarded, because you conclude that there is no way to get the anticipated business to work.

3. Examples (companies I own/have owned)
a. EDCON/Warren Cooley, LLC
i. Consulting
ii. Construction

b. The Living Tree

4. Let's look at your handout entitled ***Financial Management for Small Businesses.***
i. Review the five (5) exhibits.
ii. Explain cash versus accrual-based accounting.
iii. Talk through,
1) Budget (Forecasting) Process
2) Preparing a Budget (Forecast)