

Financial Projections

(aka, Budgeting and Forecasting)

Presented by



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. Annual
 - 3. Quarterly

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.
 - 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. Inventory turns
 - 2. Sales per person
 - b. 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
 - c. 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. 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)