

Forecast Your Future, Plan for Profits

Session Notes



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Small Business Seminar Series

Session 2
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Objectives

During this session, you will discover:

- ✓ 3 reasons planning is essential to profitability
- ✓ 3 limitations of planning
- ✓ where to find resources for the planning process
- ✓ how to find out how you compare to your peers
- ✓ 4 guidelines for navigating the process
- ✓ 2 methods for preparing your budget
- ✓ when to use each method
- ✓ how fast you can afford to grow your firm
- ✓ a major impediment to growth
- ✓ how much you need to sell to make money
- ✓ the 2 types of cost
- ✓ how to determine how much inherent risk is in your business
- ✓ a tool that helps you price your products or services
- ✓ when you can afford to sell for less and make more money
- ✓ how to test the impact of your decisions in advance
- ✓ the amount of outside funding you need, if any



Outline

- ◆ Process
- ◆ Planning
- ◆ Intermission
- ◆ Decision Tools
- ◆ Q&A

Part 1

Process ▶ WHY PLAN? ▶ LIMITATIONS ▶ RESOURCES

W_{HY} P_{LAN?}

- ➔ To get **funding**
- ➔ To **engage your team**
- ➔ To make **better decisions**

Those who plan the battle rarely battle the plan.

L_{IMITATIONS}

- ➔ **Teachable** vs. **Learnable**
- ➔ **GIGO**
- ➔ **Process** vs. **Plan**

R_{ESOURCES}

- ➔ Your *historical financials*
- ➔ Publications of *industry norms*
- ➔ *Spreadsheet*
- ➔ Your *good judgment*



Part 2

Planning ▶ GUIDELINES ▶ METHODS ▶ CASE

GUIDELINES

- You can't expect what you don't inspect
- Don't plan what you won't track
- Focus on the bottom line
- Guard your optimism

METHODS

Top down (a.k.a. percent of sales method)

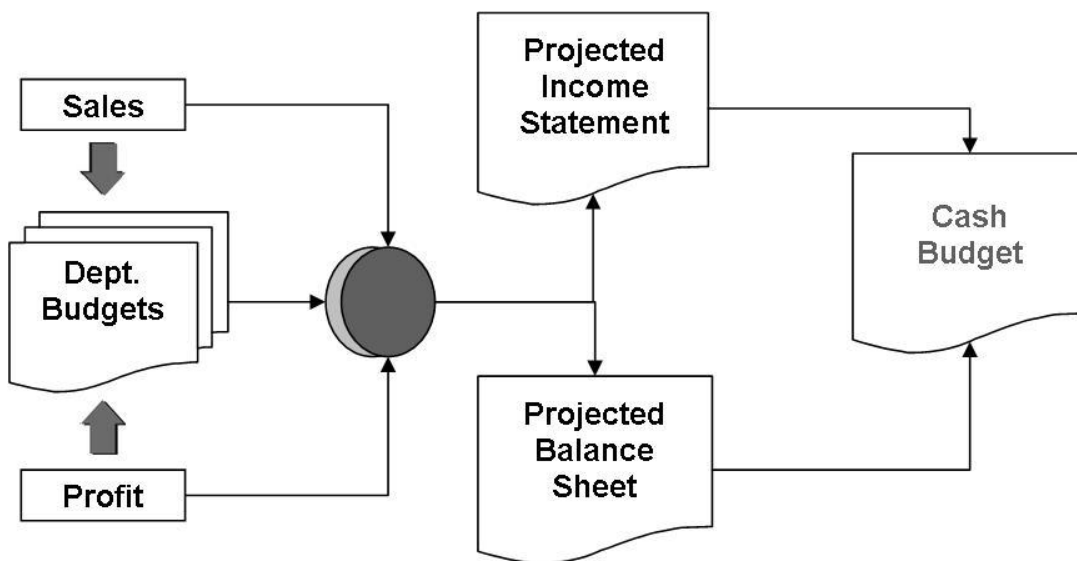
Sales → Costs → Profits

- Most common
- Established businesses

Bottom up (a.k.a. Cost – Volume – Profit Analysis)

Profits → Costs → Sales

- Use periodically
- Start-ups



*Part 3***Decision Tools**

- ▶ SUSTAINABLE GROWTH RATE
- ▶ BREAK-EVEN ANALYSIS
- ▶ SENSITIVITY ANALYSIS
- ▶ FUNDING NEEDS

YOUR **S**USTAINABLE **G**ROWTH **R**ATE

maximum rate of sales growth without additional outside funds

$$\text{SGR} = \text{ROE} (1 - D)$$

$$\text{ROE} = \text{Net Profit} \div \text{Equity}$$

$$D = \text{Dividends Paid} \div \text{Net Profit}$$

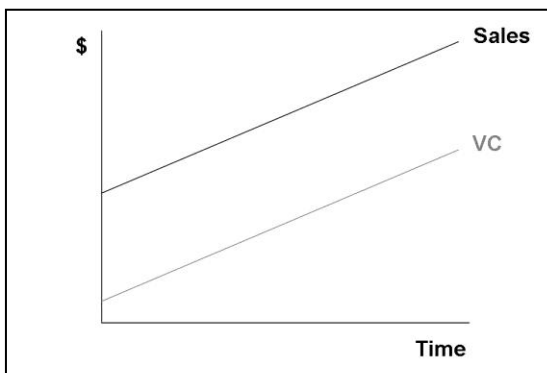
BALANCE SHEET	YR 2	YR 1	Δ
Accounts Receivable	120,000	60,000	60,000
Accounts Payable	60,000	30,000	30,000
Capital (Debt or Equity)	60,000	30,000	30,000

Caveat Human capital may be a bigger restraint to growth than financial capital

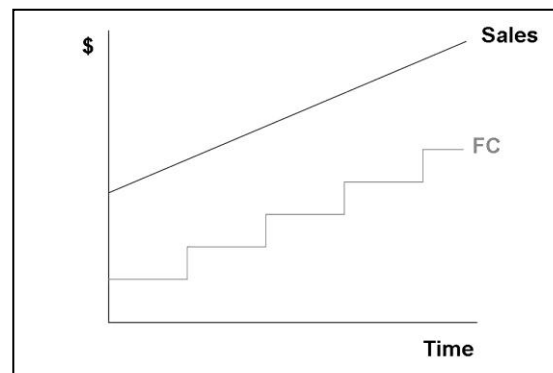
YOUR **B**REAK - **E**VEN SALES LEVEL

2 types of costs

Variable costs (VC)
change directly with sales



Fixed costs (FC)
don't change over a given *range of sales*



THE FORMULA

$$\text{Break-Even Sales Level} = \text{Fixed Costs} \div \underbrace{[1 - (\text{VC} \div \text{Sales})]}_{\text{Contribution Margin}}$$

Con•tri•bu•tion Mar•gin

percentage of each dollar of sales that goes to cover fixed costs and then to profit..

USES OF BREAK-EVEN

- Helps you understand how the risk of your business
- Serves as an aid in pricing your goods and services
- Shows you the affect of financing

SENSITIVITY ANALYSIS

What if

- Find the effect of changes on your plan
- Discover where the risk is in your plan
- Understand where the real drivers are

Small Business Seminar Series

NEXT SESSION: How to Grow Your Business in Tough Times

Discover: 3 inexpensive ways to grow sales now
2 questions to ask every customer
how to design a process to maximize sales
how to refine your offerings to get more business
and much, much more ...

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