Teachers
Financial Planning

# Financial planning for businesses

An outline of the basic tenets of financial planning for beginners.

Developing a solid financial plan is arguably the single most important feature of running a successful business.

You may have the best product on the market, a well thought out marketing campaign and industry contacts your rivals would kill for, but if your finances don't add up your chances of a bright future in business are slim.

Whether or not the numbers line up is ultimately going to determine the success or failure of your business.

Unfortunately for many businesses this is easier said than done, and for start-ups and established businesses alike financial planning can be a daunting task. Many small businesses simply don't have the time, resources and expertise needed to build a comprehensive financial plan.

This guide is designed to walk you through the key concepts involved in creating an effective financial plan: goal-setting, risk mitigation and budget management.

## Goals

Think of goal-setting as the preliminary stage of financial planning. The overall financial plan is the 'how', but first you must answer the 'what'. If you don't know where you want to go, how are you going to get there?

Whatever your goals may be, you should think in terms of short, medium and long-term.

Perhaps you want to increase your net sales value to 7% by the end of the current tax year. Maybe you want to expand overseas and open a new office in the US by 2020.

Financial plans only cover 12 months and are, in a sense, short-term but there should always be an overarching target for the next 2, 5 and 10 years.

Structuring your goals in this way allows you to put in place the stepping stones to your business' success and provides helpful indicators you can use to measure your performance. Just remember to keep it realistic.

We can advise on setting financial goals.

## Risks

Conducting a financial risk assessment is an intrinsic part of the planning process. You can't expect to have a sound plan if you haven't identified your business' vulnerabilities and put contingency measures in place.

The type of financial threats your business might face will depend on several factors, such as the type of business you run, its structure, and the sector you operate in. Interrogate each area of your business – customers, suppliers and employees – and ask yourself questions such as:

- Are you dependent on a handful of suppliers?
- Are you reliant on a key member of your team to generate sales?
- How diverse is your client base?

After identifying the potential risks, you can begin thinking about ways to mitigate them. The solutions will depend on the nature of the threat. Investigating insurance policies, targeting new customer bases and diversifying your suppliers are 3 general ways to protect yourself against losses, and hedge against falling demand and problems in your supply chain.

We can help you with risk assessment.

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## Numbers

The budget is the centrepiece of your financial plan; your business' guiding light, the document that forecasts your sales, expenditure and cash flow.

As such, it will provide the framework for your financial targets, your benchmarks and your approach to business management.

Everything you've worked on previously - your goals, market research, and risk assessment - will ultimately determine the shape of your budget and you can now turn to looking at your ingoings and outgoings.

### Sales, expenditure, cash flow

Your budget must contain at least the following 3 essential pieces of information: sales, expenditure and cash:

- **Sales:** These figures provide you with an estimated turnover for the year ahead; use figures recorded in previous years as a guide and think about factors that may impact your future sales such as marketing campaigns, consumer demand and your competitors' strategies.
- **Expenditure:** You'll need to include all your fixed and variable costs while considering how these are likely to change in the future.
- **Cash:** This is used to help you forecast your monthly cash flow; note down the timings of when you expect money to enter and leave your account. This will enable you to work out your balance sheet projections.

Start-ups without an existing set of figures will instead have to make informed guesses, making the first budget a tougher process.

Though it might be tempting, there's no advantage to be gained in overestimating your sales and downplaying your expenditure. Be realistic and err on the side of caution.

Contact us about financial planning.

### 1 budget or 3?

Think about how you will organise your figures. Do you work from 1 large spreadsheet or do you break it down into 3: 1 for your sales, 1 for your expenditure, and 1 for your cash flow?

Having a single spreadsheet might work for the very smallest of businesses, however we recommend that you do the latter.

Putting all your critical data into a single document can quickly get confusing. Keeping track of every penny that enters and leaves your business, from equipment purchases down to teabags can quickly become a complex endeavour. If you have never done anything like it before, it is advisable to seek out advice from a professional or a fellow business owner.

A budget is supposed to provide you with quick and easy information about your business. If it's taking you hours to interpret your figures once the initial structure and data collection process is over, you're doing it wrong.

## Nothing is set in stone

The world of business is constantly shifting; sectoral changes, government policy and movements in the broader economy can surprise even the most experienced of financial planners.

An important concept to embrace when financial planning for a business is the idea of flexibility. If your goal is to increase your sales by 70% by the end of the year, you also need to forecast your sales targets for the first quarter. What happens if you miss your target i n the first quarter? Is the 70% goal now unattainable or do you have some resources to free up to try and reach your target?

Part of doing business is coping with change and acting accordingly. While your budget is supposed to be as accurate as possible, none of us can see into the future, and it's critical that you can take a reactive approach in the face of changing conditions.

## Software

Gone are the days of the 'pen, paper, calculator' method of drafting a budget. Nowadays most businesses use software to create and update their budgets. Not only does it make the process quicker and easier, software performs automatic calculations and automatic links between multiple budgets.

The foundations you lay today will propel your business forward with a particular goal in mind. You won't act like a headless chicken in the face of unforeseen challenges. Rather, you will consult your plan, adjust it if necessary and continue chugging forward.

We will work with you step-by-step to develop a realistic financial plan, built to ensure your business' future.

Contact us for more information on business planning.