



Develop a Financial and Business Plan

A financial and business plan provides a roadmap for the achievement of higher profitability and increased cash flow. The importance of a detailed, thoughtful plan cannot be overemphasized.

The future of your business and personal status can be dependant on a sound financial plan, including management of your business and finances, promotion and marketing of your business, achievement of your goals and objectives, outside sources of capital and obtaining credit from suppliers.

It is not an overstatement that a sound financial and business plan is a necessity for anyone who wishes to start, operate or grow a business. Without this level of planning, there typically is trouble.

Many entrepreneurs procrastinate when it comes to the preparation of their financial plan, despite its critical importance. They might believe that they do not have the skills to prepare the plan, perhaps there are time constraints or they might feel that things change too quickly to prepare an adequate plan. However, just as no reputable builder will begin construction or commence renovations, without a blueprint, neither should business people operate in the dark, by conducting nor starting a business, without a solid financial plan.

Business planning is key to any business throughout its existence. Every successful business regularly reviews and updates its financial and business plan. This review should be part of a three-stage process, coming after a comprehensive review of current performance and the identification of the most likely strategies for growth and enhanced profitability.

Upon the completion of your progress review and identification of your targeted growth areas, you should re-visit your business plan and develop it into a road map into the future of your business. A good plan should set the course of a business over its lifespan, by providing a means of ensuring that the key objectives are met. Increase your chances for success by adopting a continuous and regular business-planning cycle that keeps the plan up-to-date.

When you review your financial and business plan you need to take stock of where the business currently is, where you want it to go and then use the plan to set a course to achieve the objectives that you have established. By regularly comparing the actual business performance against the plans and objectives that you have set, you have the greatest possibility of meeting your goals. You must have a clear picture of the current status of the business and why you may have over or under performed. The successful business will assess its progress, on an ongoing basis, typically every quarter or six months.

The basic components of a financial and business plan include current and Proforma balance sheets, income statements and a cash flow analysis.



When preparing your financial plan, net profits are obviously a vital indicator of the performance of a business. However, the generation of a profit does not guarantee its continued development or even its survival. More businesses fail for the lack of cash rather than for the lack of profits.

Sales, expenses and profits do not necessarily coincide with their related cash outflows and inflows. Even though a sale may have been completed and the merchandise delivered, the receipt of the payment may have been delayed, as a result of credit terms, provided to the customer. Other key areas of cash impact include the purchase of inventory or equipment and the repayment of supplier or other debt obligations. Cash receipts often may fall behind cash disbursements, meaning that a business could experience a cash shortfall, while reporting profits. It is essential to forecast cash flow, as well as projecting sales and net profits.

When preparing your financial plan, you should take realistic views about your prospects and objectives. Sales forecasts should be reasonable and attainable. Costs should not be underestimated. Assumptions on the availability of credit or equity should be conservative and realistic. Be careful that you don't become mired in the minute detail of the business operation, while failing to recognize the key strategic factors.

Once you have prepared your financial and business plan, it needs to be implemented and then continually monitored to make certain that the objectives are being achieved. The plan needs to be part of an ongoing, rolling process, with regular assessment of your performance against the plan and development and agreement upon a revised forecast, if necessary.

For information on how you can put together the financial plan of your business, please contact Wayne McMahon at 800-888-5564 or by e-mail – wayne@profitsystems.net.