

How to Look at Numbers and Forecast the Future

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What's the thing that bothers me the most? – looking at numbers! How do I forecast cash flow, expenses, sales, and make them all fit together into something that's realistic?

This question is brought to us by a partner in a sales-development firm specializing in building and implementing revenue growth strategies for individuals and businesses.

You're not alone! Most business owners I talk to would rather do just about anything than look at the numbers. Why? You may not have the right tools in place. Or, maybe you're not sure what the numbers are telling you. And, when things aren't going well you probably don't want to know what the numbers have to say. When things are up, why bother, you're too busy taking care of business. Of course, most business owners are so busy working "in" the business, handling day-to-day matters, they don't have nearly enough time to work "on" the business, which is what the numbers are all about. Let's see if we can turn it around, so it makes more sense to pay attention.

First of all, numbers aren't magic, but a reflection of what's going on. Like any mirror, the reflection, or reports, may be clear, or fuzzy, depending on the quality of the system you're working. If your chart of accounts is poorly organized, or income and expenses are recorded

haphazardly, then your reports won't be very clear or meaningful. The good news is that once you get a system of reports set up, delivering the information you want, it's as easy as punching a button to get the information regularly.

You have to think backwards, from what you want to know, and design how you enter the numbers in order to deliver the reports you want. For small to mid-sized businesses, QuickBooks is a great, basic accounting package. I strongly recommend you try it out. I've seen companies as large as \$10-\$20 million get what they need from QuickBooks. You may also want to ask someone to help you set up, or re-calibrate your reporting system. I find it's often faster, easier and more effective to talk out what I want with someone who's done it before.

So, what numbers are important? Let's look at it this way. There's past, present, and future. Past is for historical reference and paying taxes. Most people spend way too much time here. The past is the past, and except for what it can tell us about what we do, or don't, want to do in the future, it has limited value. The present is the real time environment. It's all about today's sales, today's expenses, today's profits. You have to keep your hand on the pulse of daily activities and financial outcomes, in order to get what you want.

Most of my clients finally learned to track sales daily. Believe it or not, some people find monitoring sales and expenses so important that they watch it hourly. They know immediately if they are on track and that gives them a huge competitive advantage. It is a lot easier to adjust things on a daily basis than it is monthly. Of course, in order to know how you are doing, you also have to know what you wanted to do. That brings us to the future, and the category of forecasting. Unfortunately, most business owners shy away from forecasting, figuring it's just a bunch of guesses. In fact, when you get good at it, forecasting can be a very accurate indicator of what is likely to happen. Think of it this way. You can take the time to lay out a forecast of paper, and see if you like how it comes out, or not, before it happens. If you like the outcome, by all means, keep going. If you don't, you have the opportunity to change things before they happen. Or, you could just let things play out the same old way, and deal with the consequences after the fact. Personally, I like to have the opportunity to do what I can to control my destiny, and once you get good at forecasting, I bet you will, too.

How do you build an accurate budget and forecast? Look at the past, and the present. Ask yourself what expenses are likely to go up, down, stay the same? Treat each line in your report like

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a separate item, and go ahead and guess. Don't delegate this out. After all, you're the owner of the business. No one else can decide what expenses stay, which ones expand, and which ones have to be cut. Separate the fixed expenses, the ones you can't really cut much further without making big changes, like rent, electricity and telephone, from the expenses that vary according to how much business you bring in – these are your Cost of Goods Sold expenses. Insure that you have enough money for sales and marketing. After all, if you plan to grow your business, sales and marketing are the fuel for that growth plan. Don't forget to plan for increases in salaries and benefits as the business grows.

When building a forecast, be sure to pick a reasonable growth rate. 15% a year is healthy, and will allow your business to double every 5 years. Analyze whether you're hitting that growth rate, then figure out what you have to do, and what you'll have to spend, to make it happen this year, and every year.

Once you have a forecast and a budget, you actually are on the road to control. Every company needs some type of a budget of expenses and forecast of revenue to follow, to make sure there is no unnecessary spending, and to insure the company grows according to plan. Controlling the company's

money – incoming and outgoing – is one of the most important tasks in running a company. Your job, as CEO, is to get those controls in place, and use them regularly.

Finally, remember, you have to practice to get good. If you avoid the topic of forecasting and analyzing, you'll never get good, and you'll always feel like you lack total control of what's going on. It will probably take you three rounds of planning, analysis and adjustment, to get confident you know how to predict the future and grow into it. Start now, and you'll be there sooner than you think.

Looking for a good book? One staple is *Finance for Non-Financial Managers*, by Lawrence W. Tuller. It's an easy to understand book, on the basics of managing a business financially.

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