

Simple Steps for Starting Your Business

Session 5: Financial Matters

Instructor

SESSION 4: Financial Matters



Kathleen Donohue

- Independent consultant, trainer and Coach –
Schoolhouse Consulting & Training
- Formerly a project manager, practice manager, consultant, PMO manager



Simple Steps for Starting Your Business Student Webpage

<http://www.score.org/startyourbusiness>

Includes links to handouts, workshop materials, and additional resources.

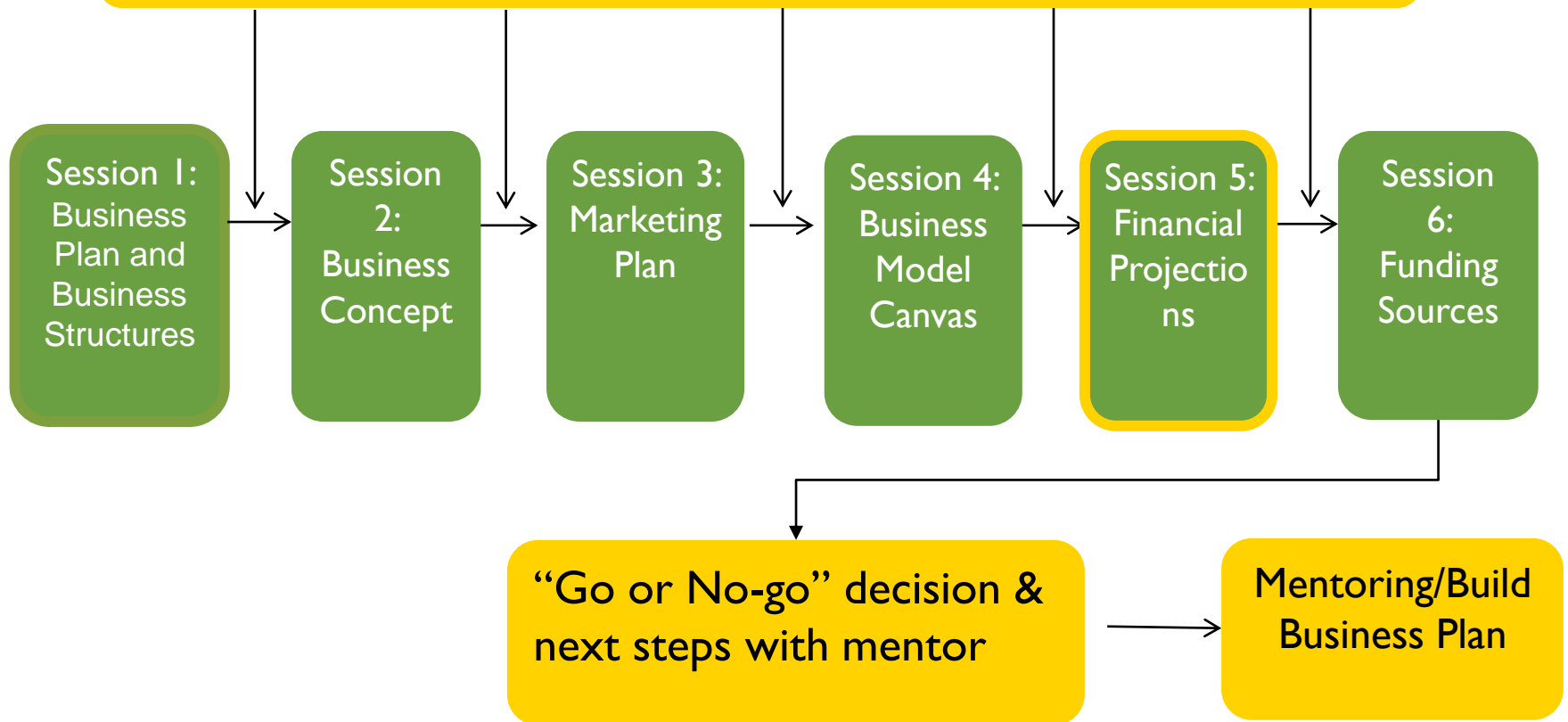
Our class slack page is

https://join.slack.com/t/scoresstsybjan2020/shared_invite/zt-k0tu1xdj-p_E2hhpf4zu2i_qcsqYzw

Process Roadmap

SESSION 4: Financial Matters

One-on-One Mentoring



Homework Review

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- How was it?
- Any questions about your feasibility plan?
- Did you finish the Comparison for Selection of Target Markets worksheet?

Agenda

SESSION 4: Financial Matters



- Importance of financial planning
- Building your financial model
- Start-up funds
- Fixed operating expenses
- Forecasting sales units and prices
- Understanding financial statements:
 - Income statement
 - Cash flow statement
 - Balance sheet

Benefits of Financial Planning & Goal Setting

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- Match business concept with personal income goals
- Gain a better understanding of financial risks and rewards
- Identify early development and start-up costs, ongoing operations expenses and funds needed to finance the business
- Have a plan to help guide business decisions and monitor results

Why is a Financial Plan Important?

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- Helps you examine the feasibility of your numbers
- Organizes your business finances
- A modeling tool that helps you evaluate variable factors
- A benchmark for tracking progress
- A blueprint you can adjust to achieve your financial goals



Financial Projections Template

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Common Concerns:

- The spreadsheets look complicated. I don't think I can do this on my own.
- I don't understand all the figures and math.
- This is overwhelming.
- Can I start my business without a financial projection model?

Businesses don't plan to fail – they often fail to plan!

Ann's Nursery Example

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- Produces specimen trees, shrubs and vines
- Projected third year sales: \$710,000
- Sells to retail nurseries and end consumers
- S-corporation

Financial Projections Template

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The first six worksheets are:

1. Required Start-Up Funds
2. Salaries and Wages
3. Fixed Operating Expenses
4. Projected Sales Forecast
5. Projected Sales Forecast (2)
6. Cash Receipts – Disbursements

Financial Projections Template Required Start-Up

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Fixed Assets	Amount
Real Estate-Land	100,000
Real Estate-Buildings	30,000
Leasehold Improvements	15,000
Equipment	5,000
Furniture and Fixtures	2,000
Vehicles	20,000
Other	
Total Fixed Assets	\$ 172,000

Operating Capital	Amount
Pre-Opening Salaries and Wages	-
Prepaid Insurance Premiums	2,500
Inventory	30,000
Legal and Accounting Fees	3,000
Rent Deposits	-
Utility Deposits	300
Supplies	1,000
Advertising and Promotions	2,000
Licenses	-
Other Initial Start-Up Costs	-
Working Capital (Cash On Hand)	3,000
Total Operating Capital	\$ 41,800
Total Required Funds	\$ 213,800

- How much do you need?
- What will it be used for?
- Also consider starting costs for employees: salaries, taxes, benefits.
- This develops the Assets part of opening Balance Sheet.

Exercise

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Identify your key start-up expenses



- Identify the categories that apply and the key components
- Identify which ones you know now and which you need to calculate
- Identify the steps to come up with a number

Sources of Funding

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Sources of Funding	Percentage	Totals
Owner's Equity	53.79%	115,000
Outside Investors	0.00%	-
Additional Loans or Debt		
Commercial Loan	15.81%	33,800
Commercial Mortgage	23.39%	50,000
Credit Card Debt	0.00%	-
Vehicle Loans	7.02%	15,000
Other Bank Debt	0.00%	-
Total Sources of Funding	100.00%	\$ 213,800
Total Funding Needed		\$ -

Salaries and Wages

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Employee Types	Number of Owners /Employees	Average Hourly Pay (to 2 decimal places, ex. \$15.23)	Estimated Hrs./Week (per person)	Estimated Pay/Month (Total)
Owner(s)	1	23.08	40	\$ 4,000
Full-Time Employees	3	5.77	40	\$ 3,000
Part-Time Employees	0			\$ -
Independent Contractors	0			\$ -
Total Salaries and Wages	4	\$ 28.85	80	\$ 7,000
Payroll Taxes and Benefits	Wage Base Limit	Percentage of Salary/Wage		Estimated Taxes & Benefits/Month (Total)
Social Security	\$ 110,111	6.20%		\$ 434
Medicare	--	1.45%		\$ 102
Federal Unemployment Tax (FUTA)	\$ 7,000	0.80%		\$ 19
State Unemployment Tax (SUTA)	\$ 7,000	3.45%		\$ 81
Employee Pension Programs	--	2.85%		\$ 200
Worker's Compensation	--	0.00%		\$ -
Employee Health Insurance	--	0.00%		\$ -
Other Employee Benefit Programs	--	0.00%		\$ -
Total Payroll Taxes and Benefits		14.75%		\$ 834
Total Salaries and Related Expenses				\$ 7,834

Fixed Operating Expenses

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	January
Expenses	
Advertising	900
Car and Truck Expenses	800
Commissions and Fees	-
Contract Labor (Not included in payroll)	-
Insurance (other than health)	400
Legal and Professional Services	150
Licenses	-
Office Expense	250
Rent or Lease -- Vehicles, Machinery, Equipment	200
Rent or Lease -- Other Business Property	300
Repairs and Maintenance	
Supplies	300
Travel, Meals and Entertainment	300
Utilities	500
Miscellaneous	200
Total Expenses	\$ 4,300

Forecasting Sales Units

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What unit categories make sense for your business?

- You need to figure out if you're selling:
 - Products
 - Services (hours or fixed price)
 - Combination (packages)
- Determine what makes up your “unit of sale”
- Determine your direct cost per unit
- Determine your price per unit

Sales Unit Data Sources

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Sales unit category or grouping

- Product, service, package, volume, customer type

Unit cost and price

- Build up from sources
- Subcontract
- Competition

Sales volume in units

- Estimate from market
- Competition
- Back in number to make business profitable

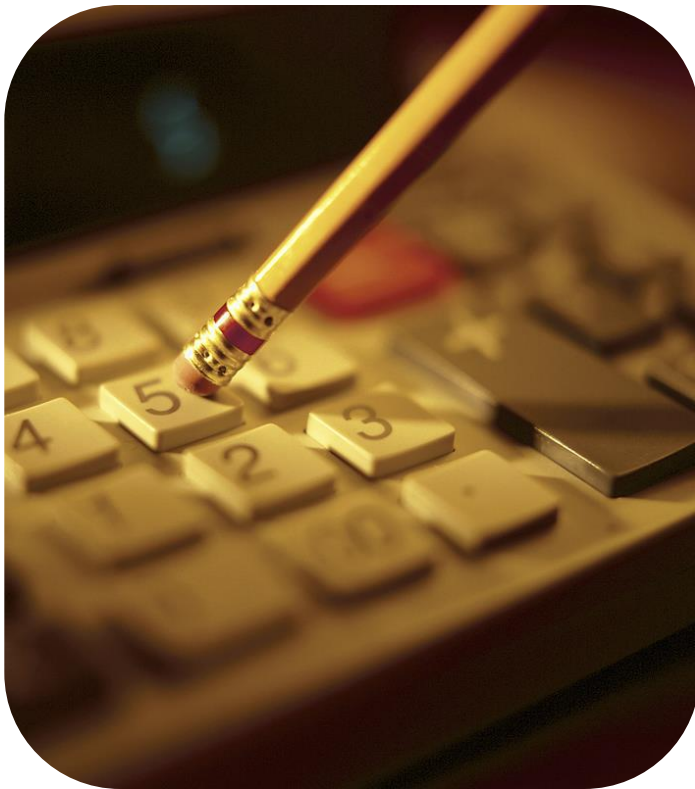


Ann's Nursery has three categories of sale:

1. Direct to local retailers
2. Through representatives to distant retailers
3. Through internet-based sales to end consumers

Gross Profit Margin

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What is gross profit margin?

- Sales (\$) minus direct cost of sales

Why is it important?

- Requires you to cost out what you're selling
- Helps you determine adequacy of gross price for what you're selling
- *Look up your industry average GPM on link on Slack at #resources (last entry)*

Projected Sales Forecast

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Product Lines	Year 1 Totals	January
Plant Mix		
Bags Sold	125	6
Total Sales	\$ 250,000	11,000
Total COGS	\$ 137,500	6,050
Total Margin	\$ 112,500	4,950

Additional Inputs

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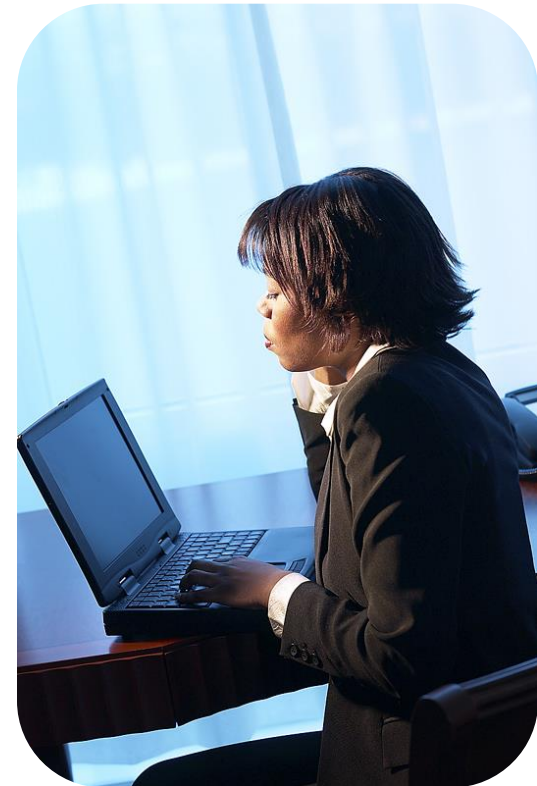
Accounts Receivable (A/R) Days Sales Outstanding			
Percent of Collections	Year 1	Year 2	Year 3
Paid within 30 days	30%	30%	30%
Paid between 30 and 60 days	30%	30%	30%
Paid in more than 60 days	40%	40%	40%
Allowance for bad debt	0%	0%	0%
This should equal 100% ---->	100%	100%	100%

Accounts Payable (A/P)			
Percent of Disbursements	Year 1	Year 2	Year 3
Paid within 30 days	0%	0%	0%
Paid between 30 and 60 days	100%	100%	100%
Paid in more than 60 days	0%	0%	0%
This should equal 100% ---->	100%	100%	100%

Understanding Financial Statements

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- **Income Statement**
 - Gross profit margin and overhead expense management
- **Cash Flow Statement**
 - Funds management
- **Balance Sheet**
 - A/R, Inventory & A/P management
- **Breakeven Analysis**
 - Use of industry comparison ratios



Why 3 Financial Statements?

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1. Income statement

- How long to reach profitability?
- Do I make a profit or loss?

2. Cash flow statement

- Do I have enough sources of funds to operate, sustain & grow the business?

3. Balance sheet

- What are my assets & liabilities?
- How much am I worth?

Income and Expense Statement (P&L)

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	January	February	March
Revenue			
Plant Mix	10,000	10,000	10,000
Plant Mix - Web	-	-	-
Plant Mix - Distant Nursery	-	-	-
Product 4	-	-	-
Product 5	-	-	-
Product 6	-	-	-
Total Revenue	\$ 10,000	\$ 10,000	\$ 10,000
Cost of Goods Sold			
Plant Mix	5,500	5,500	5,500
Plant Mix - Web	-	-	-
Plant Mix - Distant Nursery	-	-	-
Product 4	-	-	-
Product 5	-	-	-
Product 6	-	-	-
Total Cost of Goods Sold	\$ 5,500	\$ 5,500	\$ 5,500
Gross Margin	\$ 4,500	\$ 4,500	\$ 4,500
Payroll	\$ 7,834	\$ 7,834	\$ 7,834

Cash Flow Projection

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	January	February	March
Beginning Balance	\$ 3,000	\$ 3,000	\$ 3,000
Cash Inflows			
Cash Sales	3,000	3,000	3,000
Accounts Receivable	-	3,000	7,000
Total Cash Inflows	\$ 3,000	\$ 6,000	\$ 10,000
Cash Outflows			
Investing Activities			
New Fixed Asset Purchases	-	-	-
Additional Inventory			
Cost of Goods Sold	-	5,500	5,500
Operating Activities			
Operating Expenses	4,300	4,300	4,300
Payroll	7,834	7,834	7,834
Taxes	-	-	-
Financing Activities			
Loan Payments	1,346	1,346	1,346
Owners Distribution			
Line of Credit Interest		70	157
Line of Credit Repayments			
Dividends Paid			

Cash Flow Projection

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	January	February	March
Beginning Balance	\$ 3,000	\$ 3,000	\$ 3,000
Cash Inflows			
Cash Sales	3,000	3,000	3,000
Accounts Receivable	-	3,000	7,000
Total Cash Inflows	\$ 3,000	\$ 6,000	\$ 10,000
Cash Outflows			
Investing Activities			
New Fixed Asset Purchases	-	-	-
Additional Inventory			
Cost of Goods Sold	-	5,500	5,500
Operating Activities			
Operating Expenses	4,300	4,300	4,300
Payroll	7,834	7,834	7,834
Taxes	-	-	-
Financing Activities			
Loan Payments	1,346	1,346	1,346
Owners Distribution			
Line of Credit Interest		70	157
Line of Credit Repayments			
Dividends Paid			

Balance Sheet

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ASSETS	2014
Current Assets	
Cash	3,000
Accounts Receivable	37,500
Inventory	30,000
Prepaid Expenses	5,867
Other Initial Costs	-
Total Current Assets	\$ 76,367
Fixed Assets	
Real Estate -- Land	100,000
Real Estate -- Buildings	30,000
Leasehold Improvements	15,000
Equipment	5,000
Furniture and Fixtures	2,000
Vehicles	20,000
Other	-
Total Fixed Assets	\$ 172,000
(Less Accumulated Depreciation)	\$ 8,757
Total Assets	\$ 239,609

Breakeven Analysis

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Gross Margin % of Sales	
Gross Margin	\$ 151,300
Total Sales	\$ 347,000
Gross Margin/Total Sales	43.6%
Total Fixed Expenses	
Payroll	\$ 94,013.18
Operating Expenses	\$ 71,068.69
Operating + Payroll	\$ 165,082
Breakeven Sales in Dollars (Annual)	
Gross Margin % of Sales	43.6%
Total Fixed Expenses	\$ 165,082
Yearly Breakeven Amount	\$ 378,608
Monthly Breakeven Amount	\$ 31,551

Breakeven is where:

Gross Profit Margin

=

Total Expenses

OR

Sales Volume = 0 Profit

Breakeven Sales \$ = Fixed Cost / GM%

The spread between breakeven and sales forecast is very important (the wider the better).

Benchmarking & Financial Ratios

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Ratios	Year One
Liquidity	
Current Ratio	0.5
Quick Ratio	0.3
Safety	
Debt to Equity Ratio	1.4
Debt-Service Coverage Ratio - DSCR	-0.1
Profitability	
Sales Growth	0.0%
COGS to Sales	56.4%
Gross Profit Margin	43.6%
SG&A to Sales	42.0%
Net Profit Margin	-4.8%
Return on Equity (ROE)	-17.0%
Return on Assets	-7.0%
Owner's Compensation to Sales	13.8%
Efficiency	
Days in Receivables	38.9
Accounts Receivable Turnover	9.3
Days in Inventory	55.2
Inventory Turnover	6.5
Sales to Total Assets	1.4

Test the feasibility of your plans by conducting research:

- RMA annual statement studies
- Industry norms and key business ratios (Dun & Bradstreet)
- Financial ratios, business statistics & benchmarks:

www.bizstats.com

Review

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- Importance of financial planning
- Building your financial model
- Start-up funds
- Fixed operating expenses
- Forecasting sales units and prices
- Understanding financial statements:
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Simple Steps for Starting Your Business

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Learn More...

- ✓ Session 1 → Startup Basics Jan. 11
- ✓ Session 2 → Business Concept Jan. 25
- ✓ Session 3 → Marketing Plan Feb. 8
- ✓ Session 4 → Business Model Canvass Feb 22
- ✓ Session 5 → Financial Projections Mar. 8
- Session 6 → Funding Sources & Next Steps Mar. 22

Homework

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1. Complete a rough draft of your financial projections worksheets.
2. Obtain your RMA ratio data.
3. See your SCORE mentor to finish your projections and get help with the RMA data.
4. With the help of your mentor, you will be reviewing output sheets and modifying inputs several times before it makes sense.

See you at the next session on Funding Sources.

Help Us, Help You

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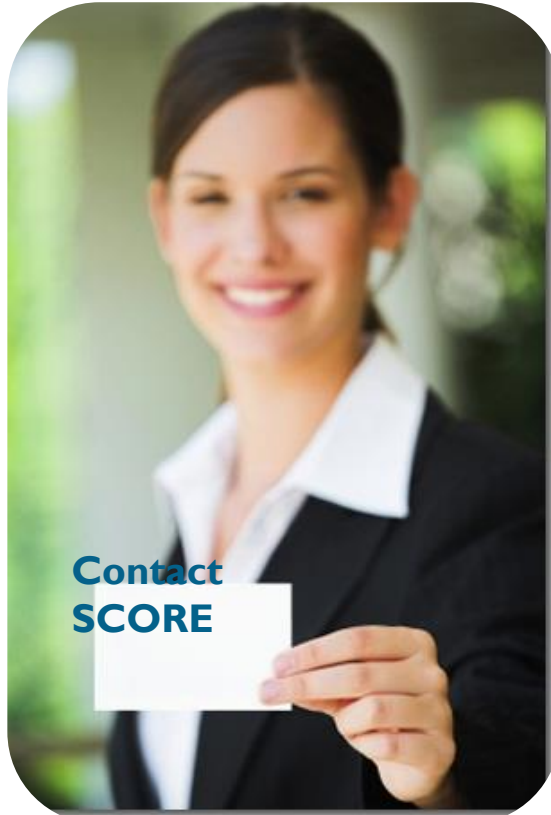
Please complete our workshop survey:



Please complete the form on Slack.

Need Help?

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- Ask SCORE for advice online: www.score.org/ask_score.html
- Find a SCORE office near you: www.score.org/findscore
- Email SCORE: contact@score.org
- Website: www.score.org