RKFISCHER
AND ASSOCIATES

Financial Management I I

AGENDA

01 **FINANCIAL ANALYSIS**

02 **WORKING CAPITAL AND SMALL BUSINESS**

03 **BREAK-EVEN ANALYSIS**

04 **PLANNING , BUDGETING & CONTROLLING**

Financial Analysis

Financial Analysis

- **Horizontal Analysis** is used by investors and lenders to compare how you have done year over year. They are looking for an upward trend.
  - Comparing items on Income Statement and Balance Sheet to Prior Year
- **Vertical Analysis** is used to help compare you to competitors or others in industry. There is a lot of this information that can be found on Industry Canada (Financial Performance). Banks and investors have this information – you can pay for it.
  - Income Statement – Comparison to a percentage of Revenue for the period
  - Balance Sheet – Comparison of % of Assets for Asset Items and % of Total Equity and Liabilities for Equity and Liabilities
- **Financial Ratios**
  - Used to determine risk and whether you are able to cover your payments and if you were to take out a loan would you be able to pay it back.
  - Investors also use this to determine how you are running your business.

BALANCE SHEET COMPARISONS

Company Name

Your Company Name

	Year 0	Year 1	Year 2			Total Assets	
		2018	2019	Incr/(Decr)	Incr/(Decr)%	2018	2019
ASSETS							
Current Assets							
Cash		$348,815.00	$408,965.00	$60,150.00	17.24 %	3.38 %	3.27 %
Accounts Receivable		$835,000.00	$1,850,000.00	$1,015,000.00	121.56 %	8.09 %	14.77 %
Inventory	$500,000.00	$750,000.00	$1,500,000.00	$750,000.00	100.00 %	7.27 %	11.98 %
Prepaid Expenses		$59,000.00	$65,000.00	$6,000.00	10.17 %	0.57 %	0.52 %
TOTAL CURRENT ASSETS		$1,992,815.00	$3,823,965.00	$1,831,150.00	91.89 %	19.31 %	30.54 %
Non-Current Assets							
Property Plant & Equipment							
Land	$2,400,000.00	$2,400,000.00	$2,400,000.00			23.25 %	19.17 %
Equipment and Furniture	$1,500,000.00	$1,500,000.00	$1,900,000.00	$400,000.00	26.67 %	14.53 %	15.17 %
Less accumulated depreciation	($732,000.00)	($885,600.00)	($1,008,480.00)	($122,880.00)	13.88 %	(8.58)%	(8.05)%
Buildings & Improvements	$5,600,000.00	$5,600,000.00	$5,600,000.00			54.26 %	44.72 %
Less accumulated depreciation	($798,700.00)	($1,038,800.00)	($1,266,830.00)	($228,030.00)	21.95 %	(10.07)%	(10.12)%
Vehicle Fleet	$1,300,000.00	$1,300,000.00	$1,800,000.00	$500,000.00	38.46 %	12.60 %	14.37 %
Less accumulated depreciation	($854,100.00)	($987,870.00)	($1,231,510.00)	($243,640.00)	24.66 %	(8.57)%	(9.83)%
Intangible Assests							
Software Licensing	$250,000.00	$250,000.00	$350,000.00	$100,000.00	40.00 %	2.42 %	2.80 %
Less accumulated amortization	($125,000.00)	($150,000.00)	($175,000.00)	($25,000.00)	16.67 %	(1.45)%	(1.40)%
Goodwill	$500,000.00	$500,000.00	$500,000.00			4.84 %	3.99 %
Less accumulated amortization	($150,000.00)	($160,000.00)	($170,000.00)	($10,000.00)	6.25 %	(1.55)%	(1.36)%
TOTAL NON-CURRENT ASSETS		$8,327,730.00	$8,698,180.00	5370,450.00	4.45 %	80.69 %	69.46 %
TOTAL ASSETS		$10,320,545.00	$12,522,145.00	$2,201,600.00	21.33 %	100.00 %	100.00 %

INCOME STATEMENT COMPARISONS

(Note: Balance Sheet must be filled in first)

Your Company Name

	Year 1 2018	Year 2 2019	Incr / (Decr)	Difference %	Vertical Analysis 2018	Vertical Analysis 2019
REVENUE						
Enter Revenue Line Items						
Revenue	$10,000,000.00	$20,000,000.00	$ 10,000,000.00	100.00 %	100.00 %	100.00 %
NET SALES	$10,000,000.00	$20,000,000.00	$10,000,000.00	100.00 %	**100.00 %**	**100.00 %**
COST OF SALES					%of Income	
Enter for Cost of Good Sold						
Beginning Inventory *from Balance Sheet*	$500,000.00	$750,000.00	$250,000.00	50.00 %	5.00 %	3.75 %
Add: Products Purchased	$2,500,000.00	$5,000,000.00	$2,500,000.00	100.00 %	25.00 %	25.00 %
Freight-In	$25,000.00	$50,000.00	$25,000.00	100.00 %	0.25 %	0.25 %
Direct Labour	$750,000.00	$1,500,000.00	$750,000.00	100.00 %	7.50 %	7.50 %
Other Direct Expenses	$75,000.00	$125,000.00	$50,000.00	66.67 %	0.75 %	0.63 %
Less: Ending Inventory *from Balance Sheet*	$750,000.00	$1,500,000.00	$750,000.00	100.00 %	7.50 %	7.50 %
COST OF GOODS SOLD (only costs to make goods)	$3,100,000.00	$5,925,000.00	$2,825,000.00	91.13 %	**31.00 %**	**29.63 %**
Enter for Items Not in COGs						
Indirect Labour and Salaries	$3,575,000.00	$6,175,000.00	$2,600,000.00	72.73 %	35.75 %	30.88 %
COST OF SALES	$3,575,000.00	$6,175,000.00	$2,600,000.00	72.73 %	**35.75 %**	**30.88 %**
TOTAL COST OF SALES	$6,675,000.00	$12,100,000.00	($5,425,000.00)	(81.27) %	**66.75 %**	**60.50 %**
GROSS PROFIT	$3,325,000.00	$7,900,000.00	$4,575,000.00	137.59 %	**33.25 %**	**39.50 %**
MARGIN %	33.25 %	39.50 %	6.25 %			

Liquidity Ratios

- Measures the ability to turn assets into cash to meet short-term obligations
- **Current Ratio (Times)** = Current Assets / Current Liabilities
  - Measures the extent that your current assets exceed your current liabilities
  - A good current ratio is between 1.2 and 2
  - Below 1 means that the business does not have enough liquid assets to cover it's short-term liabilities
- **Quick Ratio (Times)** = Quick Assets/ Current Liabilities
  - Measures the extent that your most liquid assets exceed your current liabilities
  - Inventory is not a quick asset as it could take time to turn into cash
  - Good quick ratio is 1 : 1
  - Depends on industry as well

Debt/Coverage Ratios

- Focuses on Debt which is money borrowed by a business to purchase assets.
  - Banks want to make sure you are able to cover a loan based on your financials.
- **Debt to Total Assets (percentage) = Total Liabilities / Total Assets**
  - Want to ensure shareholders have put enough money in business to spread the risk – measure proportion of all debts to assets.
  - Want to be below 50%
- **Debt to Equity Ratio (times) = Total Debt (Total Liabilities) / Total Equity**
  - Most banks use this over Debt to Total Assets when financing. The number required is dependent on the bank and the industry .
  - A good debt to equity ratio is around 1 to 1.5 for most banks. Capital intensive industries can be as much as 2 that will still receive loan.

Debt/Coverage Ratios

- **Times Interest Earned Ratio (times) = Earnings Before Taxes + Interest Charges/ Interest Charges**
  - The higher ratio makes lenders certain that you will be able to pay the interest /financing costs on time.
  - You want to have over 2.5 – but good would be over 4.
- **Fixed Charges Coverage Ratio (times) = Earnings Before Taxes + Interest Charges + Lease/ Interest Charges + Lease**
  - More inclusive than the Times Interest Earned Ratio as includes Lease/Rental payments which most businesses have.
  - NOTE: Do not just look for something that says LEASE – RENT is same thing – this was missed by a lot of students by not understanding the wording last semester.
  - You want to have over 1.25 or greater

Asset Management Ratios

- Measures the efficiency of how a business manages its assets or resources to earn profit.
- **Average Collection Period (days) = Account Receivables / Average Daily Sales (revenue/365)**
  - How long you are taking collect money from your customers (want to shorten time in clients hands)
  - 30 days is average but differs by industry. If you are dealing with government or large businesses – they will determine when they will pay you.
  - If you can reduce your collection time – it increases your working capital
- **Inventory Turnover (times) = Cost of Sales / Inventories**
  - The number of times inventory is turned over in a year.
  - A higher number is better. If you are holding on to inventory and not turning it – the worth of your inventory is depleting. You are buying too much or are having trouble selling.
  - This will differ by industry by a good turnover is 4 to 6 times a year

Asset Management Ratios

- **Capital Assets Turnover (times) = Revenue / Capital Assets**
  - Capital assets (fixed assets) – property, plant, equipment
  - Low turnover shows there is too much investment in non-current assets. Higher turnover indicates you are efficiently using assets to generate revenue.
  - Age of assets plays a role so doesn't tell whole picture
  - Differs by industry. 2.5 is good for retail while for utilities it could be as low as .5
- **Total Assets Turnover (times) = Revenue / Total Assets**
  - Turnover of all assets and shows efficiency in how assets are being used to generate revenue.
  - Differs by industry as above.

Profitability Ratios

- Deals with the performance of the business and measures how successful the business in in generating profit in respect to revenue, assets and equity.
- **Profit Margin on Revenue (percentage) = Profit Margin / Revenue**
  - Profit Margin = Profit Before Taxes – Other Income + Financing Costs
  - Shows ability to make financial gains. Shows how much you are generating for every dollar of revenue.
  - 10% is considered average, 20% is good, 5% is low
- **Return on Revenue (percentage) = Profit for Year / Revenue**
  - Profit for year – Net Income
  - A good rate of return is 5-10%

Profitability Ratios

- **Return on Total Assets (percentage) = Profit for Year / Total Assets**
  - Profit for Year – Net Income
  - Shows profit performance in respect to all of your assets
  - A good rate of return is over 5%. Differs dependant on industry.
- **Return on Equity (percentage) = Profit for Year / Equity**
  - Profit for year – Net Income
  - Shows shareholders how much has been earned on their investment
  - Dependent on industry, but good rate on average is 15-20%.

Market-Value Ratios

- These are for businesses which are on the stock market or publicly traded. Provides insight into how investors view a business.
- **Earnings Per Share (amount) = Profit for Year / Number of Shares Outstanding**
  - Profit after dividends are paid / common shares outstanding
  - How much money is made for each share of stock
- **Price / Earnings Ratio (times) = Price per common share/ Earnings per common share**
  - Determines the market value of the stock relative to the company's earnings

Working Capital and Small Business

Working Capital and Importance

- Net working capital are the funds that are used to manage a business's day to day operations and is calculated by subtracting all your current liabilities from your current assets.
- It relates to short-term sources of financing not long-term.
  - Deals with current assets and current liabilities
  - Current is the next 12 months
  - Answers the question of do you have the resources to satisfy your obligations as they come due.
  - **Net working capital is Current Assets – Current Liabilities**
  - **Non-Working Capital Accounts are those that are longer term (greater than 12 months)**
- Having working capital enhances the liquidity, solvency, creditworthiness and reputation of the business.
- Businesses need working capital in order to buy raw materials or inventory (for those reselling).
  - With no working capital – it is hard if you received a large order to buy the materials or inventory needed to make or fulfill the order as your suppliers want paid either right now or within 30 days and you will not collect from your customers until 30 days later or more depending on size / type of order.

Days of Working Capital

- How many days it takes for a business to convert its working capital into revenue.
- My issue with the book – is it does not define what is included other payables besides account payables. Also it does not include other current assets and liabilities.
- Limitation of Days Working Capital - doesn't say whether days are good or poor unless compared to other businesses in the same industry.
- Calculation
  - Average Working Capital X 365 / Average Sales Revenue
  - Average Working Capital taking beginning of year and end / 2 – come up with average.
  - Average Sales would be beginning and end of year.

Example Computech Inc.

- **Information General Calculation**
  - 2013 – Current Assets End of Year (beginning of 2014) – $105,000
  - 2014 – Current Assets at End of 2014 - $136,000
  - 2013 – Current Liabilities End of Year (beginning of 2014) - $52,000
  - 2014 – Current Liabilities at the End of the Year - $60,000
  - 2013 Revenue end of year (beginning of 2014) - $350,000
  - 2014 Revenue at the end of the year - $420,000

Calculation

- Average current assets – $120,500
- Average current liabilities - $56,000
- Average Sales - $385,000
- Calculation = $120,500 -$56,000X365/$385,000
- Answer = 61.14 Days
- Takes into account averages as year is not just the end of the year as well as all

Inventory Conversion Period & Turnover

- These are calculations that a bank will look at to see if you are improving or getting worse year over year.
- If your inventory is sitting there and not turning and is not being sold – you have a chance of losing that as an asset depending on what you are selling. If you are buying too much inventory and it is staying around too long – it could go to end of life or you have to discount it to get rid of it. Is one that needs to be compared to industry average.
- **Inventory Conversion** (Inventory / Cost of Sales / 365) – Time it takes to obtain materials, manufacture a product and sell it. Time period a company invests cash while it converts materials into a sale. (in days)
- **Inventory Turnover** (Inventory / Cost of Sales) – Number of times inventory is sold/consumed in a given time period. In case of end of year – it is within that year. More accurate when performed on average inventory, but do not always have it. (in turns)

Inventory Conversion Period & Turnover

- Companies may keep more inventory than needed because the lead time from the supplier is long (especially overseas).
  - If a company keeps too low of inventory and they get a large order that they have to fulfill and don't have the money to purchase or have a long lead time – this can be an issue.

.

Trade Receivables Conversion Period and Average Collection Period

- These two calculations are the same exact thing. They are measuring the time it takes to collect payment from a customer from the time of sale. If you are collecting slowly then you are leaving money in your customer's pocket instead of yours. The longer it takes to collect – less likely to collect and then have to write-off to bad debt.
- Will help in determining your credit policies .
- **Account Receivables Conversion** (Account Receivables / (Revenue/365) The time between sale of the product and the cash receipt you provide on the payment from the customer.
- **Average Collection Period** – Also called Days Sales Outstanding (Account Receivables / Average Daily Sales).

EOQ

- Economic Order Qty is a calculation if you are a business that relies on inventory it can help you manage ordering and your costing. It represents the ideal order quantity a company should purchase at a time, to minimize inventory costs such as holding costs, shortage costs, order costs, and any borrowing costs. (Square Root of (2x ordering cost x yearly demand) / annual carrying cost for 1 unit)
- It is a good reference tool especially on your higher priced items or high volume items, but if you are using an accounting system they are keeping track of your ordering and your sales and sets a reorder point which is what most businesses use. The larger accounting systems also calculate the lead times as well.
- Most small businesses are not using EOQ – this would be used in a larger business or one that is highly intensive on manufacturing. Most let systems calculate the reorder point.

Credit

- If you are selling large cost items it is worth doing a credit check and setting credit limits for customers. A credit check may cost $50.00 but if you are selling a $20K item and can't collect on it - $50.00 is nothing.
- Most small businesses do not pay for credit insurance as it is expensive and would only be a factor if you have huge bad debt, but you are losing a % of the receivable.
  - Exceptions:
    - ✓ Export Canada offers a program for this for things shipping out of the country which is harder to collect than in Canada.
    - ✓ If someone is doing factoring – in order to reduce the interest rate being charged in some cases.
    - ✓ Insuring AR reduces risk for financers

Factoring

- Factoring - You are “selling” your accounts receivable at a discount – but there is no guarantee your AR will be collected within 90 days, and if not you will have to pay back that delinquency immediately. This is often taken off of your collections (the customers who are actually paying) first, and adds less available cash for the business.
- Factoring could be used if you have negative working capital and you need cash to pay suppliers or you need it to pay for inventory for a large order.
- Factoring should be a last resort for someone who is short on cash and if done should only be done for a very short period as the fees and rules associated with factoring can end up putting someone out of business.

Setting up Credit Terms / Policy

- Credit Terms/ Policy will differ based on your business. There will be in some cases some industry standard set.
  - Example: For services, there is usually a down payment of a percentage and the rest collected at the end or progress payments.
  - Example: If you are dealing with the government or a large company – they will tell you when they will pay and is usually 60 -90 days so you need to make sure that you have enough customers paying in 30 or some immediately.
- Most businesses overall have 30 day payment terms. If everyone is paying within that time period, it may not be advantageous to offer a discount for payment early as in Net 10 with a 1% or 2% discount. It is great if you can get customers to pay some down upfront, but it is all very dependent on the type of business you have.
- It is also very dependent on the type of business in changing the credit policy as well in addition to calculating the return on investment. It is dependent on the "customer" if by lengthening the credit time will entice them to buy from you or buy more from you.
- It is hard to enforce interest on late payments. Most will ignore that amount on the bill and pay what the original invoice was. You would need to have contract (order agreement) that has you automatically charge that amount to a credit card and have them agree to it upfront.

Break Even Analysis

Terminology

- **Break even –** is the point in which total cost and total revenue are equal.
- **Fixed Costs –** those costs you pay on a regular basis and do not change depending on how much you sell.
  - Rent, Insurance, Interest Payments, Professional Accounting Services…etc
- **Variable Costs –** those costs that fluctuate depending on how much you make or sell.
  - Direct labor, cost of raw materials, Freight in costs, utility costs (if in a manufacturing environment….etc.)
- **Contribution Margin for Sales** = Sales Revenue – Variable Costs
- **Contribution Margin per unit** = Revenue per unit – Variable cost per unit
- **Contribution Margin Ratio (PV ratio in book)** – Contribution Margin / Sales Revenue

Why Break Even is Important?

- Break Even analysis helps businesses determine cost structures and the units that then need to sell and revenue they need to make to cover fixed costs or make a profit in a business.
- Banks will want to calculate break even points to determine if you are able to cover the cost of receiving a loan and whether you will be able to make monthly payments.
- Helps you in budgeting and setting "realistic" targets for your business. You know when you will make a profit and determine what you have to sell to hit your projected profits.

Why Break Even is Important?

- Helps business in devising a pricing strategy for your products and services as well. You have to understand your costs before just setting an arbitrary price and make sure you are covering costs.
- Helps with controlling and monitoring as well. You might make 50% margin on a product but then once you look at your fixed costs you see you are not bringing in the profit you might want. You then need to focus on what expenses need to be reduced or eliminated. This is always a temporary measure as in the end you have to increase your sales as well.

Break Even Point Calculations and Use

- When would you use one break even point calculation over another?
  - **Unit break even point** is more for internal use and helps a business determine how many units of a product they need to sell to just break even
    - ✓ It helps you determine how many sales you need to make.
    - ✓ Can help you determine how many resources you need to make the sales
    - ✓ It helps you determine if the pricing you set is going to make you money. Depending on the business you may not be able to raise the price (competition…etc) so you will need to look at other measures. Ex: lower priced suppliers (lowering variable costs), increased sales planning, reducing or eliminating unneeded fixed costs.

Unit Break Even Calculations

- Fixed Costs are $25,000
- Variable Costs for a unit is $50.00
- Price per Unit is $100.00

- Calculation 25,000 / (100 – 50)
- Answer = 500 units to break even

- 500 units x $100 each = $50,000 Revenue
- 500 units x $50 each = $25,000 Variable Costs
- $50,000 Revenue - $25,000 Variable Cost - $25,000 Fixed Cost = $0 Profit

Break Even Point Calculations and Use

- Revenue break even point is internal and external and can be determined by units if you have them (internal), but a bank in many cases many not have that information.
- Determines how much money you need to make to cover your costs. This is really important when a business is starting out.
  - ✓ Bank wants to make sure that the loan that they are giving is going to be able to be covered by the business including principal and interest monthly.

Revenue Break Even Calculations

- Revenue/Sales = $100,000
- Variable Costs = $50,000
- Fixed Costs = $25,000
- Price per unit $10.00
- Cost per unit = $5.00

- If you do not have the price per unit but have the number sold you can get to the unit price and variable cost per unit.

- Calculations
  - PV = Unit Contribution / Unit Selling Price or
  - Contribution Margin = Revenue – Variable Costs
  - Contribution Margin Ratio (PV) = Contribution Margin/Revenue
  - BEP = Fixed Costs /price per unit – variable per unit
  - BEP = Fixed Costs / PV

- PV = $5.00 / $10.00 = 0.50 (unit)
- Contribution Margin 100,000 – 50,000 = 50,000
- PV = 50,000 / 100,000 = .5

- BEP = $25,000 /.5 = $50,000 or
- BEP = $25,000 / 5 = $5000 units x $10 = $50,000

  - 5000 units x $10 each = $50,000 Revenue
  - 5000 units x $5 each = $25,000 Variable Costs
  - $50,000 Revenue - $25,000 Variable Cost - $25,000 Fixed Cost = $0 Profit

Break Even Point Calculations and Use

- Cash break even difference is that it subtracts depreciation from the fixed costs, since depreciation is not a cash item.
  - Might be used if a business is looking to buy a business..
  - Might be used if a business is an extreme high asset business
  - Reason …… how much real money (cash flow) are you generating from the business to cover costs without depreciation.
  - Not used often

Break Even Point Calculations and Use

- Profit break even point just adds the profit that you want to make into the fixed costs to cover also the profit you want to make.
  - This is a great tool for planning purposes. If a business is setting profit goals they want to make sure that their revenue goals that they are setting are aligned. It is all good for a business to set a forecast for what revenue they want to hit, but they also need to understand what profit that will generate as well as you can actually make increased sales and not make the profit you are looking for without understanding how your variable and fixed costs affect your business.

Revenue Break Even Calculations

- Revenue/Sales = $100,000
- Variable Costs = $50,000
- Fixed Costs = $25,000
- Price per unit $10.00
- Cost per unit = $5.00

- Profit Target is $3000.00

- Calculations
  - Profit BEP units= Fixed costs + profit objective/ price per unit – variable cost per unit
  - Profit BEP = Fixed Costs + Profit / PV

- PV = $5.00 / $10.00 = 0.50 (unit)
- Contribution Margin 100,000 – 50,000 = 50,000
- PV = 50,000 / 100,000 = .5

- Profit BEP Units = $25,000+ $3000/5 = 5600 units
  Profit PEP = 28,000/.5 = $56,000
  Profit BEP as well = 5600 units x Price per unit = $56,000

- $56,000 Revenue - $28000 (VC) - $25,000(FC) = $3000 Profit

Planning, Budgeting, and Controlling

Planning (Strategic Planning)

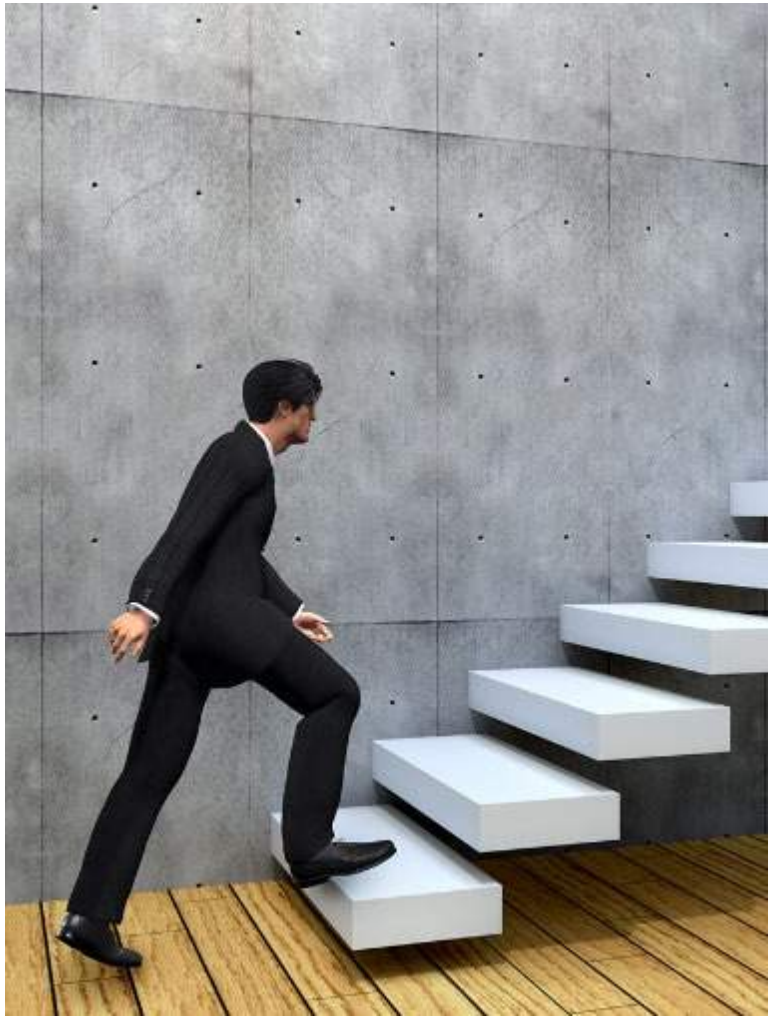
- Should be done every 3 to 5 years and plans need to be updated annually as things can change within a business or externally.
- Where we disagree with the book – is you need to start with your Future Situation as your current situation can hinder the goals you want to set and that you set your Mission, Vision, Value Proposition, and Core Values of your business based on where you want to go not where you are today as those could differ greatly.
  - Small businesses usually do not have "divisional goals" – they look at the business as a hole taking in account and involving departments but is primarily the owner or owner/board that set strategic direction for a small business.
  - Could cause you to send a defensive strategy instead of a growth one looking at what hinders you which may could be changed.
  - Goals for a small business (owner-operated) also need to take into account the owner's personal goals as well.
- Your Current Situation looks at SWOT (strengths & weaknesses) that are internal and (opportunities and threats) that are external. You also need to determine for weaknesses and threats what you can do to mitigate the circumstances.

Future Situation – Setting Goals

- Identifying the outcomes that you want to achieve with your strategic plan.
  - Are general statements about the future that need to be:
    - Specific
    - Measurable
    - Achievable
    - Realistic
    - Timely
  - Goals should fall in the following 4 categories for your strategic plan
    - Financial
    - Customers
    - Internal Business Processes
    - Learning & Growth

Examples of Business Goals

- Profitability
- Achieving or Maintaining Financing
- Change Management
- Customer Service
- Employee Retention
- Productivity
- Growth
- Core Values
- Marketing
- Competitive Analysis



Personal Goals & Objectives

- It is also important that the business owner(s) outline their personal goals as well as their business goals.
- Examples of Personal Goals
  - Time Goals
  - Education Goals
  - Professional Goals
  - Personal Income/Financial Goals
  - Health and Fitness Goals
  - Family Goals
  - Retirement Goals

Strategic Goal Category Examples

- **Financial – affect your financials**
  - New products to generate 15% of revenue by end of year
  - Increase revenues by 30% year over year
  - Reduce expenses by 20% in 2 years
- **Customers – affect your customers**
  - Triple the number of customers in next 5 years
  - Reduce support complaints by 15% in 2 years
  - Improve customer satisfaction by 25% in the next year
  - Reduce the number of returns by 30% by 2021
- **Internal Business Processes – affect your business**
  - Improve overall productivity
  - Increase the number of suppliers
  - Restructuring the business
- **Learning and Growth – affect your people**
  - Increase employee engagement by 25% by 2022
  - Improve employee skills

Objectives

- The actual steps or actions that you plan to take in order to reach each of your goals.
  - Objectives can be ambitious, but they need to be realistic, such that you push yourself there is a chance of reaching them.
- Goal Versus Objective
  - Goal – Increase Employee Retention by 35%
  - Objective – Develop employee rewards program
  - Objective – Create a benefits program

Mission Statement

- The mission statement outlines the purpose of your business along with your business objectives and is how you plan to achieve your vision.
- This is an external statement which identifies:
  - Key Customer Target or Market
  - Purpose of the Business
  - Problem(s) that your Business Solves
  - Culture or Character of the Business That You Want to Portray
- Usually are between 2-4 sentences and 100 words in length.

Vision Statement

- The vision statement communicates the goals and direction of the business to employees and manage. It is based on economic foresight and guides internal directions.
- The vision statement is an internal statement and should include:
  - The desired future state of the business
  - The period or time frame to achieve that future state
  - Should be written in an inspirational manner
  - Employees/Management need to understand the statement and provide input

Value Proposition Statement(s)

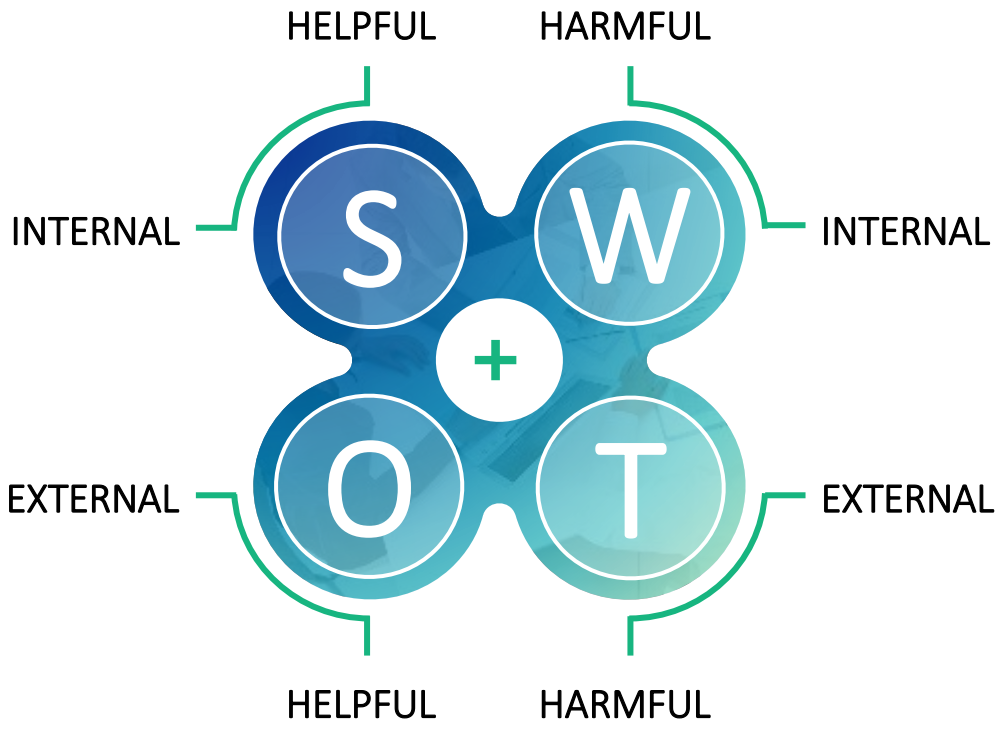
- The value proposition of your business is focused on why someone would buy from you including how your products and/or services solve or improve the situation.
- Value proposition statements should include:
  - An explanation of how you solve the product
  - Why buy from you over your competition (unique selling proposition)
  - Features and Benefits

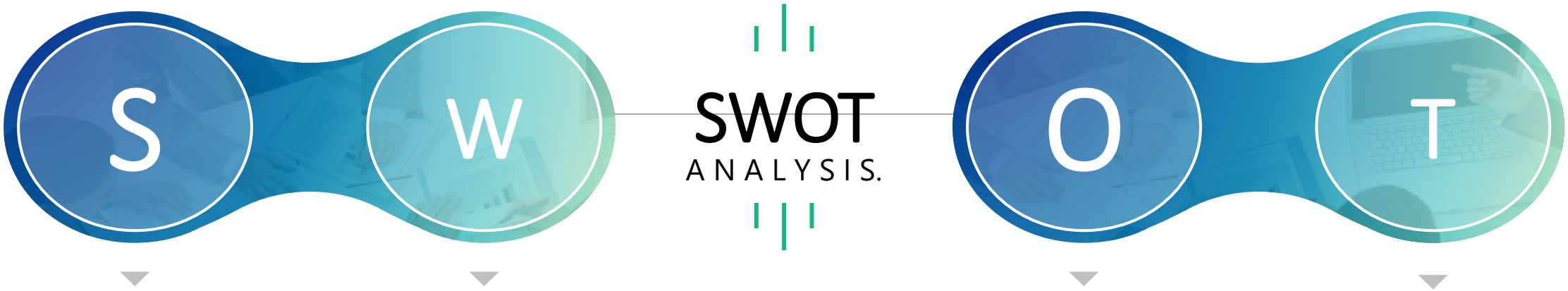
Core Values

- The core values of a business are the guiding principles or culture that you want to operate within your business. It is also how you want to be viewed externally .
- Typically you want no more than 4-6 core values
- The right values can help motivate employees and improve morale.
- Do not set values that your business can not live by, other wise they cannot be trusted by employees or customers.

SWOT Analysis

- Tool for understanding the internal strengths and weaknesses and external opportunities and threats of a business
  - Internal Factors
    - ✓ Financial Resources
    - ✓ Physical Resources
    - ✓ Human Resources
    - ✓ Access to Natural Resources
    - ✓ Current Processes
  - External Factors
    - ✓ Market Trends
    - ✓ Economic Trends
    - ✓ Funding
    - ✓ Demographics
    - ✓ Legislation
    - ✓ Relationships with Suppliers & Partners
    - ✓ Political
    - ✓ Environment





STRENGTHS

- Long-term employees who know the business
- All assets are paid for
- Our margins are over 60%.
- We are hiring a Controller

WEAKNESSES

- Several employees are retiring in 2 years
- We have stagnated growth
- We have lost 1 customer that was 20% of our business
- We don’t spend enough on marketing

OPPORTUNITIES

- We are planning to hire sales agents to help us sell
- We are coming out with a new product in 6 months
- We are looking to expand to the U.S.

THREATS

- Uncertainty over U.S. Trade Agreement
- We have a new competitor that already sells in the U.S.
- A recession is coming in the next 6 months.

What is GAP Analysis

- GAP analysis is the exercise which has you look at the differences between your current and future states and determine what has to occur to close the gap between them.
  - Example:
    - ✓ Current: 4 product sets in market
    - ✓ Future: 7 product sets in market
    - ✓ GAP: need to introduce 3 new product sets

Gap Analysis

- You will look at everything that you feel you need to change to meet your goals. You then need to prioritize them as you need to break them out in what you can get accomplished in a year.
- A strategic plan may look 3-5 years out, but you have a business to run as well and need to determine what you can get done in the next year. You will look at your current situation and the future for each item and then define resources and time lines.

Strategy Map & Balanced Scorecard

- **Strategy Map (step before balanced scorecard)**
  - Looks the same but has what you want to get accomplished by each area, and timeframe and resources needed.
    - ✓ Financial (always are financial targets)
    - ✓ Customer
    - ✓ Internal Processes
    - ✓ Learning & Growth
- **Balanced Scorecard**
  - Looks at measurements and Lead/Lag Indicators and determine who is responsible for each one associated with the tasks that need to be accomplished in that year in order to achieve the results stated in the Strategy Map.
- **Strategy Map indicates "*what needs to get done*", whereas the Balance Scorecard puts "measurements" to *what needs to get done*.**
  - There is a saying: "What gets measured – gets done!"

Budgets

- Budget starts with sales forecast that is built based off the financial goals that the business owner sets.
  - In most small businesses – the owner sets the sales targets even if there is a sales team. This might not be the case in a business that has a board and is looking to go public – they might have key sales manager/vp in there to do just that.
  - You set up an income statement and balance sheet. You might calculate out 5 years out so the owners see where they have to hit, but the most important is the first year as that is the one where you have the most control , taking into consideration spending, new resources, new assets, loans you may need, sales…..etc.
- Follow-on would be to do a cash budget afterwards.

Cash Budgets

- The cash budget in a small business is what is usually started from the beginning as it is usually the owner who does the forecast for sales (determines sales goals) and determines the overhead. If a larger small business they may have different departments “inputting” into this, but is usually the owner with help from accountant or bookkeeper.
- The cash budget is most reflective of providing an overall picture of the business. Most look at one year out.
- Most accounting systems can have you input the cash budget into the system and track how you are performing against it.

Cash Budget Example:

- Revenue November : 285K
- Revenue December : 200K , Purchases 100K
- Revenue Jan – 225K, Feb – 285K, March 290K, April 300K
- collections: 10% **within** 30 days, 40% in 31-60 days, and 50% in 61-90 days
- opening balance for Jan is 27,200
- payments Cash 30%, 30 days – 70%
- Purchases Jan – 115K, Feb- 125K, Mar – 100K , Apr – 150K

	Nov	Dec	Jan	Feb	Mar	Apr
Cash Receipts						
Revenue	$285,000.00	$200,000.00	$225,000.00	$285,000.00	$290,000.00	$300,000.00
Collections						
Within 30 days (10%)			$22,500.00	$28,500.00	$29,000.00	$30,000.00
Within 60 days (40%)			$80,000.00	$90,000.00	$114,000.00	$116,000.00
Within 90 days (50%)			$142,500.00	$100,000.00	$112,500.00	$142,500.00
Total Receipts			**$245,000.00**	**$218,500.00**	**$255,500.00**	**$288,500.00**
Cash Dispersements						
Cost of Sales (purchases)		-$100,000.00	-$115,000.00	-$125,000.00	-$100,000.00	-$150,000.00
Payments						
Cash (30%)			-$34,500.00	-$37,500.00	-$30,000.00	-$45,000.00
30 Days (70%)			-$70,000.00	-$80,500.00	-$87,500.00	-$70,000.00
Total Payments			**-$104,500.00**	**-$118,000.00**	**-$117,500.00**	**-$115,000.00**
Distribution Costs			-$52,300.00	-$50,300.00	-$50,060.00	-$50,500.00
Administration Expenses			-$108,000.00	-$82,000.00	-$111,500.00	-$85,860.00
Total Disbursements			**-$264,800.00**	**-$250,300.00**	**-$279,060.00**	**-$251,360.00**
Cash Surplus or Deficit						
Total Receipts			$245,000.00	$218,500.00	$255,500.00	$288,500.00
Total Disbursements			-$264,800.00	-$250,300.00	-$279,060.00	-$251,360.00
Gain (Deficit)			-$19,800.00	-$31,800.00	-$23,560.00	$37,140.00
Financing						
Beginning Balance			$27,200.00	$7,400.00	-$24,400.00	-$47,960.00
Gain (Deficit)			-$19,800.00	-$31,800.00	-$23,560.00	$37,140.00
Closing Balance			$7,400.00	-$24,400.00	-$47,960.00	-$10,820.00

Business Plan

- One of the issues that most small businesses have is they want a business plan written but they have not developed a strategy. We have not had one business yet that had a defined strategy that wanted a business plan written. It would be an easy task if that was the case.
- A business plan is your "IMPLEMENTATION PLAN" of your strategic plan. A business plan usually looks 3-5 years out, but is more detailed relating to the next year.
- Banks want 5 years of proforma financials but they only really believe the first 2-3 years as you can not plan that far out with great accuracy.

Business Plans (different than book)

- **Executive Summary** is a high level overview of your plan
- **Company/Ownership** is where the business owner(s) show the structure of the business and the knowledge and background of the owners as that is a risk factor for a lender/investor to know if the owner knows what they are doing.
- **External Environment** (what we call Market Analysis). One needs to understand the size of the market, market segments, competitive field, market trends and conditions, and industries that your products and services address.
- **Products and Services** – provides a detailed outline of all the products that you currently sell and plan to sell.

Business Plans (different than book)

- **Marketing & Sales Summary** – Focuses how you plan to go to market and sell your products and services as well as developing a forecast (5 year) Marketing side looks at SWOT, Branding Strategy, Messaging, Product Strategy, Pricing, Placement and Promotional and has to support the sales forecast. The sales side focuses on the forecast and your sales strategy.
- **Operational Summary** – focuses on the capabilities of the business to deliver on the promises that it makes to its customers. The section will differ depending on the type of business as operations differs by business.
- **Management and Personnel Summary** – Looks at the experience and background of the management team, includes organizational chart (current)/future, includes skills that will be required and jobs/resources needed and tables showing future organizational structure, timelines and costs.
- **Financial Plan** – This is the economic overview of the business including general financial assumptions, 2 years existing financials if not new business and 5 years proforma or projected financials including income statement , balance sheet, and cash flow statements. Also includes break-even analysis, and financial ratios.

Financial Indicators

- Small businesses and their accountants are not going to calculate the sustainable growth rate – this is more pertinent for a larger business when you are talking larger numbers. Might be used more for a business that is looking to go public.
- **Financial Health Score** – Have not seen that used before and neither has my spouse who is a CPA, but will admit I like it and may use this going forward in our business plans and financial analysis tool.

Control System

- If businesses actually implemented this it would help them substantially.
- We try to set specific **performance indicators** for each business that we work with to track on an ongoing basis. Some may change depending on what the business does, there may be additional ones for a specific industry.
  - Example: For a restaurant you might want to track spoilage (wanting that to be LOW)
- It is useless to set the indicators unless you set the **performance standards** that you want to hit.
  - Example: Calculating efficiency for a business but not setting where you should be. A business performing under 70% efficiency most likely has high labour costs and time is being wasted where additional revenue could be generated.

Control System

- You then need to **measure your performance** on a regular basis.
  - Some you will want to do monthly, others quarterly , and always look at annually.
  - The more you measure – you have time to make changes that can affect an outcome.
- If variations are occurring – you need to uncover why.
  - We had a client whose labour was through the roof and didn't know why. It was the amount of time to complete the project with so many trips to a site. There were costs in traveling time.
- Take corrective action.
  - In the case above – it was cheaper to pay overtime at time and a half for them to stay onsite and complete the job instead of the drives back and forth.

Contact Us

RK FISCHER AND ASSOCIATES

Business Consultants and Business Coaches

www.rkfischer.com

Phone: (289)278-1970 or (877) 504-2049 (Toll Free)

Email: sales@rkfischer.com