



October is Your Time!

If you own or at least control a small business, get excited about the month of October. This article is written for the September issue, so you'll have time to get ready for October.

What's so special about October? For one thing, it's $\frac{3}{4}$ of the way through the year. January through September is done and in the books.

You may not realize it, but you can predict your full year's financial results after nine months of actual data. Just divide Revenues and Expenses by 9, and then multiply by 12, and in most cases you've got a pretty good estimate of your company's projected financial performance for the year.

Actually, that's the short version. In reality I do a little, but not much more. I do that divide by 9 and multiply by 12 thing (or just multiply by 1.33), but I do it for *each* Revenue and *each* Expense category.

And then I look at each line, and make my own judgement about increasing or individual categories. You're probably not going to sell many surfboards in November, so this line is a good candidate for a reduction.

This process, with just a little practice, should take no more than 2 hours. Actually, 2 hours is generous, but look at what you get in return.

Plan This Year's Taxes in Advance

First, you get a handle on your income tax liability, but you get that handle in October, while you've still got time to do something about it.

And there's a *lot* you can do, particularly if you've had a good year—meaning higher taxes you must pay—and you've got some cash flow to work with.

This article doesn't discuss what you can do—talk to your accountant or tax preparer about that. There are a number of strategies available.

Sadly, if you wait til tax return time, you've only got one tax reduction strategy—the IRA contribution.

Plan Next Year's Business

You can do everything in the first section in one night, except possibly talk to the accountant!

This section will take 2 or 3 nights. If you have to, sacrifice some details to keep from having to stay up night after night doing this next project.

Start with your forecast of this year's ending Income Statement. That's the one with the divide by 9 and multiply by 12 numbers.

Recall that you increased or decreased some calculations, based on your best judgment of what would happen in October, November, and December.

Well, now you're going to do the same thing, only instead of forecasting 3 months, you forecast for 12 months!

While you could do it with simple percentages (sales up 10%), you'll feel better if you do it on a month-by-month basis.

The month-by-month model is particularly good if your business has substantial seasonal swings (a Christmas store, for instance).

A spreadsheet program such as Excel is perfect for this kind of financial modeling.

Things To Watch For

- **Revenues** are always a function of Price and Volume, so your pricing strategies really determine Revenues. Pricing strategies are the hardest part of the entire exercise. Thus, Revenues are the most difficult to forecast.
- **Expenses**, however, are surprisingly predictable. Rent, Electricity, Insurance, and Communications are examples of expenses that can be accurately predicted. Other expenses may not be so easily forecast, but don't worry about that for this purpose. (Easy for me to say, right?) You'll find that overruns in some expense categories will be offset by underspending in other categories. And we're trying to get a handle on how we intend our business to perform in the coming year.

Final Thoughts

As previously stated, Revenues are the hardest to forecast. In my early years, I was significantly short in my Revenue forecasts. That shortfall is linked to the complexities of working out the price and volume dynamics.

But expenses! For years, we consistently have been right on target with very little variance.

The point is that Expenses are much easier to predict.

So, here's a variation. Don't limit yourself to one Revenue forecast, particularly if you have basic Spreadsheet skill.

Come up with three forecasts—Best Guess, Worst Case, and Blow The Doors Off!

Your results, both Revenue and Expense, are almost certainly going to fall within these ranges.

There's more good news. Each time you do this, you get better. So don't limit yourself to doing this only once. You'll find that next year, you'll do it faster, and with greater accuracy.

What's the benefit to you? Simply this. You know where you're going in advance. And that gives you control.

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