

Financial Plan

Why do we need a plan?

- To gain clarity
- To maintain focus
- To keep motivated
- To make informed decisions

Basic Financial Plan – to get us underway

When preparing a basic financial plan for our business we start with the end in mind. That is how much we want to be able to withdraw from the business on a monthly basis. We set this as our goal and plan everything else around that.

There are three levels of financial goals:

1. Basic goal – this is the amount of money we need on a monthly basis to meet all of our expenses.
2. Growth goal – this is the amount we need for expenses plus extras so we can invest in our future, clear debts, build up cash deposits and have additional funds to spend.
3. Dream goal – our ultimate monthly goal.

Step 1 – Determine your goals

Write down the amount for each of these goals and then decide which of the goals you are going to build into your financial plan. In the early stages of your business the basic or growth goals are the ones to use.

Step 2 – Set aside an amount for paying tax

For simplicity, we recommend that you factor in an amount of 30% for tax. Your goal is the amount after tax so divide that figure by 0.7, to arrive at the net monthly amount the business needs to generate.

Step 3 – establish all of the business costs

Write down all of the monthly costs the business will incur.

Step 4 – establish the amount of monthly income the business needs to generate

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Add the costs to your grossed-up goal to establish the monthly income you need to generate. This figure is often referred to as turnover, sales, fees or income. We will refer to it as sales in order to differentiate it from your personal income goal.

Step 5 – determine how to generate that level of sales

Once you know how much you need to generate you now need to pull together a plan to bring in that level of sales.

Step 5 – do a sanity check

Check the plan is viable.

Example – Steps 4 and 5

A pilates teacher wants her business to generate total sales of £50,000 for the year and based on her current predictions she believes she will be able to bring in sales as follows:

Classes	Number of people	8	
	Price per class	£12	
	Classes in year	48	
	Income per class	£4,608	
	5 classes per week		23,040
1 to 1's	Price per class	£55	
	Classes in year	48	
	Income per client	£2,640	
	10 clients per year		<u>26,400</u>
			<u>£49,440</u>

There is a shortfall of £560, but by simply increasing the price of each class by 50p she would generate a further £960 per year and meet her target.

If our pilates teacher wanted to generate a turnover of £55,000 she could take on two extra private clients, add a further class or introduce a monthly workshop for say 10 people.

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The basic financial plan assumes that you wish to withdraw all of the funds from the business on a monthly basis. However, it would be advisable to build up a cash balance in the business bank account which can be used to grow the business. Decide on how much this will be and factor it into your calculations.

As the business grows your financial plan will become more complex but always remember to focus on what you want financially from the business.

If you use a good cloud based accounting software you will be able to easily develop your plan further with monthly forecasts for the year ahead.