FREEDOM

week three

BUDGETING & FORECASTING

BUDGETING

Now that you have all your financial information in black and white from week one, you can create a forward-looking budget. The starting place for a budget, however, is looking back.

Your goal with setting a budget is to have a target for each month on both the revenue and the expense side. You will not be perfect your first time out -- that is why we reforecast. More on that later!

Your budget will tell you how much you:

- spend running the studio
- can invest to improve the studio
- can pay yourself (and any shareholders)

A budget will also give you a much better idea of your cash flow. This will help you avoid running out of money and getting into a tight spot with creditors. Your budget will also show you where you can reduce expenses.

Pull out your P&L from last year -- look at it month by month and at your Year End Totals.

Last year's final numbers will serve as a great predictor for this year. Last year is also going to help you predict your studio's revenue and expense cycle.

In other words, when do you make the most money and when do you spend the most money...

BUDGETS PUT YOU IN CONTROL

The real advantage of setting a budget is that it helps you make strategic business decisions. Not sure what's going to happen over the next six months? Try a variety of different forecasting scenarios and see what numbers emerge.

Having a budget also means you're able to seek financing. So if you find you need a loan for a studio upgrade or expansion, you have everything you need to go and apply for one right away.

But most of all, a budget gives you more certainty and confidence. You get a clearer picture of the state of your studio and you know where you stand. It's like turning on a light in a dark room. You'll be able to see the obstacles and find your way around them.

And always remember that your studio budget isn't set in stone. As your situation changes, you can make changes to your figures and see what it means for your profit -- That is called reforecasting.

BUDGETING PRE-WORK

Your budget has to start somewhere and in finance starting with solid number is always a great plan.

Start by putting last year's final numbers into the LY P&L Worksheet tab. The line items on this sheet are just suggestions, use your real P&L to put your information into your budget.

Now you get a sense of what you did last year, now we need to figure out what you think you can do this year.

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FORECASTING

The LY P&L sheet is populated, so each of your revenue streams becomes a percent of your total revenue. This sheet is laid out Month by Month so you can see your ups and downs clearly.

Copy that % in the the corresponding columns on the TY Reforecast Tab. (Do it For all 3 sections)

The Cost of Goods Sold percentage of each months' revenue is also calculated on this sheet.

The General & Admin Expense don't fluctuate specifically based on revenue so each month should be pretty flat. The percentage of total spend is calculated for each line each month, and then the monthly average is shown at the end so you can get an idea of what you usually spend in a month...

Now you have an idea of when you make your money and when you spend it.

These elements will help you create your forecast and ultimately your budget.

PREDICTING YOUR REVENUE

As you review your P&L from last you you can see how much revenue you generated, and which months you generated your revenue.

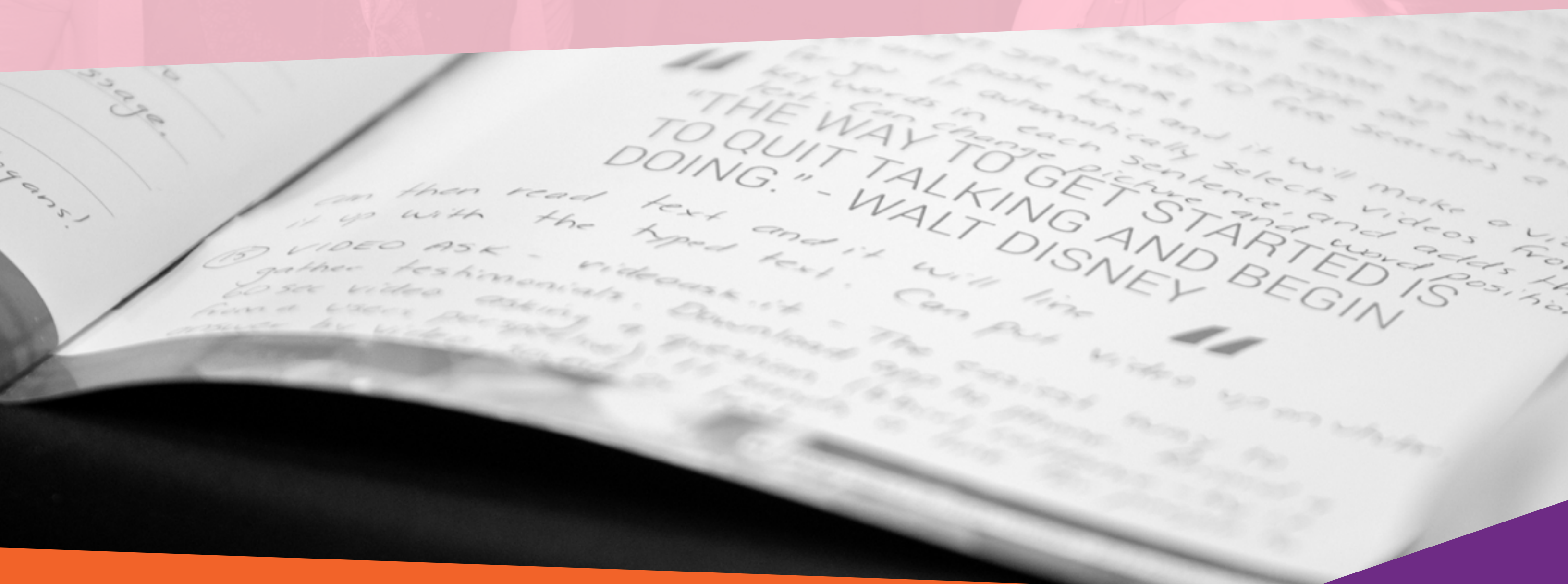
Both of these are an important part of your prediction.

With the revenue percents from your last year end and your newly done Class Capacity Chart and pricing models you can start to plug in the numbers you think you can hit the coming year.

We want to look at the TOTAL Revenue you can generate for each of your revenue streams. The work you did with your Last Year's P&L will help populate your monthly revenues.

Once you predict your revenue, the rest sort of falls in line.

****Pro Tip:** if you have multiple years of P&Ls, it is a great exercise to see WHICH MONTHS you generated your income for the last 3-5 years -- this past data will allow you to spot trends in your Revenue Streams



PREDICTING YOUR COGS
Look at your Cost of Goods sold section, these lines are all a percent of revenue so as you plugged in your new revenue numbers these should populate.

PREDICTING YOUR G&A
Even if you are a profitable business, keeping a keen eye on your expenses always helps drive your profit.

As a general rule, you should never increase your expense lines by more than 10% of increased revenue.

Look at you Year End Revenue from last year and the new revenue numbers you put in for this year -- what it the total difference? If the difference is less, you need to find spots in your G&A to cut. If the difference is an increase, add 10% of that number to your G&A.

Example:
Total Revenue LY $200,000
Revenue Forecast TY $265,000
Difference: +$65,000
10% added to G&A: $6,500

This is where we start to see that budgeting and forecasting is both an art and a science. YOU decide where that $6,500 needs to go.

****Pro Tip:** if you have multiple P&Ls with revenue increases or decreases you can get a sense of where the G&A increases or decreases over time and use that to pinpoint where you will add or shave off in your forecast.

Take all of the numbers you put into the forecast and populate your budget.

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BEFORE YOU LOCK YOUR BUDGET

Once you have a basic studio budget, you can start playing with the numbers.

What if sales go up by 10 percent?

What if you lose your biggest client?

What if you negotiate lower rent?

You can try dozens of different variables here. Many studios use this type of exercise to find out when they can afford to hire some admin staff, or an extra teacher. You can too, by adding payroll to your costs and seeing how that affects your profit.

You can create several versions of the budget to cover many variables. Experiment as much as you like and see what the outcomes look like.

Once you have populated each line of your Budget and you feel like this is as accurate as you can be TODAY. Lock the budget -- the locked budget now becomes a tool, but should never be changed.

Anytime you need to change your predictions, you are reforecasting.

REFORECASTING

This is the most rewarding part -- checking your predictions and adjusting for the future... and over time getting better and better at it!

Once you (or your bookkeeper) closes the books each month, it is time to see how well you did, and to tweak the rest of the year.

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This workbook will show you where you were right on with your predictions and where you fell short or went over...that's okay.

We have our budget, that is locked and should not be adjusted at all the rest of the year. So now you need to create a place that you can work through the changes you need to make.

Take your locked budget and plug it into the Working Reforecast Tab (each month you will put your final numbers into the month that has closed (your actuals) and then compare it to what you predicted on the Monthly Tabs (Jan, Feb, Mar, etc.)

Once you see how you did, go back and change the coming months on the Working Reforecast Tab...

You just did your first reforecast.

Now take a look at the summary page -- this shows you your original budget next to your reforecast (this automatically changes each month as you change the numbers so you can see overall, how close your actuals end up to your budget!)

The best thing about budgeting and reforecasting is that you can start any time. You will have the most impact if you start at the beginning of the year, but by starting tomorrow you still impact the rest of this year!

Each time you reforecast you will get better and better at it, so don't worry if the first time you were off the mark, check your thought process, and adjust the coming months. It takes practice but soon you will excel at predicting the ups and downs of your studio.

DON'T BE AFRAID TO ASK FOR HELP

Setting a budget and reforecasting isn't complicated but it can still help to involve an expert. A bookkeeper or accountant can double-check the numbers and help you make realistic predictions about business growth, upcoming expenses, and tax exposure. They can also advise you on what to do if the actual numbers deviate from the predicted ones, and are two of the most important hires you will make in your studio.

Bookkeepers and accountants charge for their time. But when it comes to business budgeting they will often save you far more than they cost. So if in doubt, ask one for help.

When building your studio budget, consider accounting software like Quickbooks or Xero. When set up right, an accounting system will automatically record all your income and expenditure so you don't have to manually gather the information.

Smart software can also show your income and expenditure in graphs and charts. That makes it much easier to spot trends and see how your business is performing. -- Some even have a budget and reforecast tool built right in!

10 TIPS ON BUDGETING & FORECASTING

one

The Budget is the Budget. Once it is locked it is locked, everything after that is a reforecast.

two

A budget should be a realistic prediction of the coming year based on last year or the last several years.

three

All budgeting should be worst/worst -- what is the worst case scenario for the revenue line what is the worst case scenarios on the expense lines.
Example -- you have had a 30% revenue growth year over year for 3 years -- your worst would be remaining flat.

four

Each line on the P&L is a lever that you can push or pull to change your net profit.

five

Getting to profit is typically not about making 1 big change in your P&L it is a lot of little changes that all add up.

six

To accurately forecast you have to start by looking at what HAS happened.

seven

Each reforecast should look at the trends of the past months to predict the future months.

eight

Think annually but plan monthly.

nine

Most businesses are cyclical, and a huge part of forecasting is finding your studio's individual cycle.

ten

Do the work EVERY month to have the most impact, missing even one check in can change your profit for months to come.

See you next week!

MY BEST,

Clint

FREEDOM