

DEVELOPING REALISTIC CASH FLOW PROJECTIONS FOR BUSINESS START-UPS AND EXPANSIONS

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BACKGROUND

Developing accurate projections, especially the sales forecast, is probably the most difficult part of building financials for your business plan. Unfortunately many people don't spend enough time and effort on this part of their plan and end up living with the consequences after their project is funded.

The numbers used for your forecasts are derived from numerous sources. However, the foundation of forecast starts with a competitive analysis of your market.

THE MARKET

As you perform your research focus especially on the following questions:

- 1) What is your overall market size?
- 2) What is the growth potential?
- 3) How is the market segmented?
- 4) What is your target market strategy and have you clearly identified your product or product line?
- 5) Is my business idea good for this place, this time, and my resources?
- 6) Who are your competitors and what products and services are they providing?
- 7) Is your business impacted by national/world markets and economic conditions across the U.S. and abroad? If so, in what way?

RESEARCH IS EVERYTHING

You need to satisfy bankers and yourself that your plan and projections are viable. The best way to do this is to investigate every reasonable source of information that will help frame the market potential for your business. Plan on spending weeks, if not months doing this research. You should be able to go start your business knowing or at least reasonably assured that there is a piece of the market pie for you to put on your plate. The surest way to lose your business is to use anecdotal, inaccurate, or incomplete information.

After you have gathered all of the possible pertinent information, sift through it and use the best parts for your plan and projections. There is still risk of failure but you will have improved your chances dramatically and increased your knowledge base significantly.

If you are still not confident about proceeding, then change or even consider dropping your plan. **Things will not get better by going into business.**

WHERE IS THE INFORMATION?

There are two sources of information - primary and secondary. Primary sources are usually not available in written form. Primary sources are typically interviews, questionnaires, surveys, focus groups, or first-hand observation. Most of this is too expensive and time-consuming for potential small businesses and sometimes difficult to interpret, while secondary sources are generally more reliable and easier to find and use. Secondary sources already exist primarily in written form.

Make sure the information you gather is current and correct. This research is to help you survive. You should not be spending your time creating a pretty document.

BUILDING YOUR FIRST YEAR CASH FLOW PROJECTION

#1 – PRE-START-UP POSITION

The pre-start-up section of your cash flow projection is useful to start-ups and expanding businesses because it helps to define and confirm the exact amount of debt and equity financing you will need and