

# Financial Management Cohort

Timm Johnson, Director - Mason SBDC

September 25, 2024

# Workshop Agenda – Week

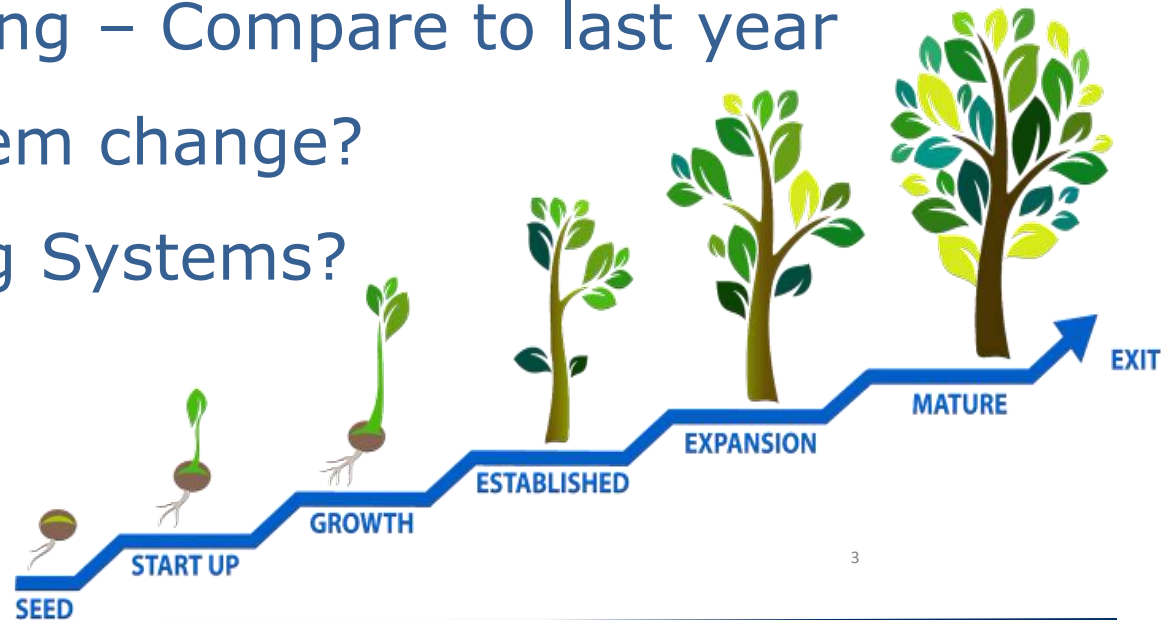
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## Week 2 – Building Forecasts & KPI

- Week 1 review – Chart of Accounts.
- Building and Cash forecast
- Creating a multi-year forecast
- Building a dashboard - Key Performance Indicators

# Homework?

- Did your Chart of Accounts make sense?
- Do you need to make changes?
- Accounting Process Changes?
- Financial Reporting – Compare to last year
- Accounting System change?
- Other Supporting Systems?



# Accounting – What's your System?

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# Building to Accounting Maturity

## GAAP Accrual Accounting

- Revenue & Expense Policy
- Liability Management
- Fixed Asset Management
- Accounting Controls

-----Audit Ready-----

## Accrual Accounting

- Accounts Receivable
- Accounts Payable
- Accrual P&L
- Job Cost and Profitability
- Class P&Ls

## Cash Management

- Cash Basis P&L
- Manual Invoicing
- Payment by Credit Card
- Limited Reporting

## LEVELS OF MATURITY

# Profit & Loss Statement

**Income - Expenses = Net Profit or Loss**

**Profit and Loss**  
January 1 - June 28, 2022

	TOTAL
▼ Income	
4100 Revenue	13,570.50
Billable Expense Income	0.00
Discounts given	-6.40
Markup	518.50
<b>Total Income</b>	<b>\$14,082.60</b>
▼ Cost of Goods Sold	
5000 Purchases (Cost of Goods)	6,258.00
Cost of Goods Sold	10.80
<b>Total Cost of Goods Sold</b>	<b>\$6,268.80</b>
<b>GROSS PROFIT</b>	<b>\$7,813.80</b>
► Expenses	<b>\$7,113.74</b>
<b>NET OPERATING INCOME</b>	<b>\$700.06</b>
▼ Other Income	
Late Fee Income	60.00
<b>Total Other Income</b>	<b>\$60.00</b>
▼ Other Expenses	
Unrealized Gain or Loss	0.00
<b>Total Other Expenses</b>	<b>\$0.00</b>
<b>NET OTHER INCOME</b>	<b>\$60.00</b>
<b>NET INCOME</b>	<b>\$760.06</b>

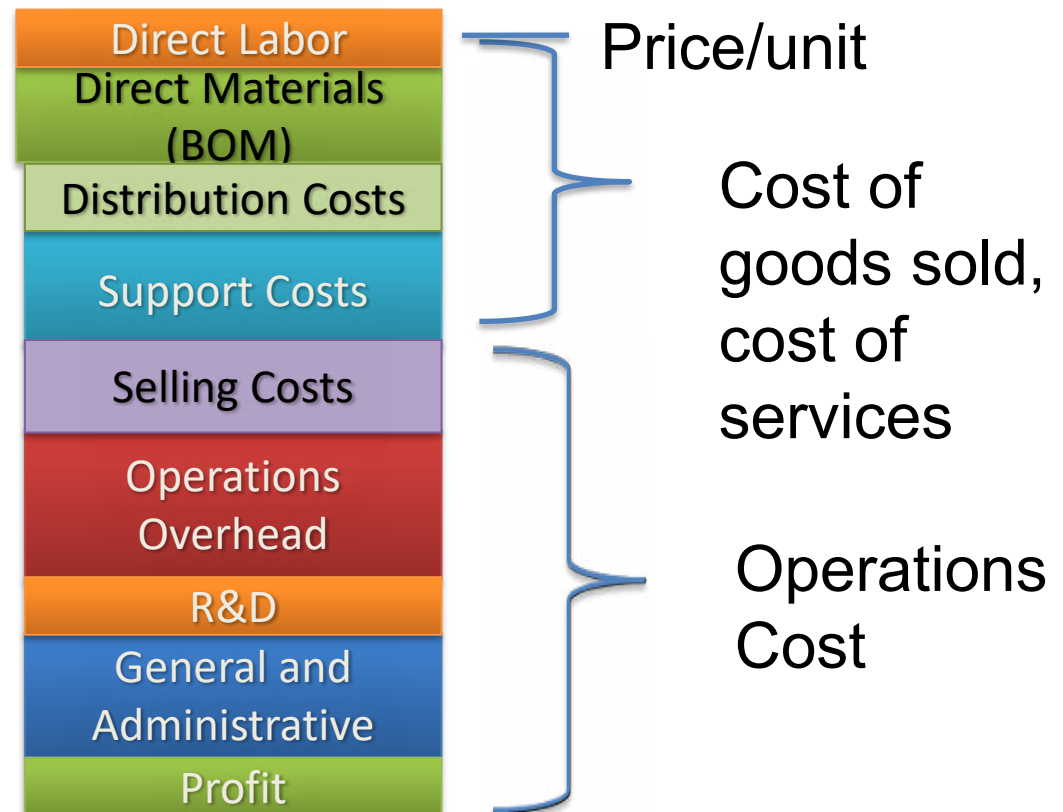
# Cost Stack – P&L Cost Centers

## Revenue (Rev)

$$\text{Rev} = \text{Price} * \text{Units}$$

## Gross Margin (GM)

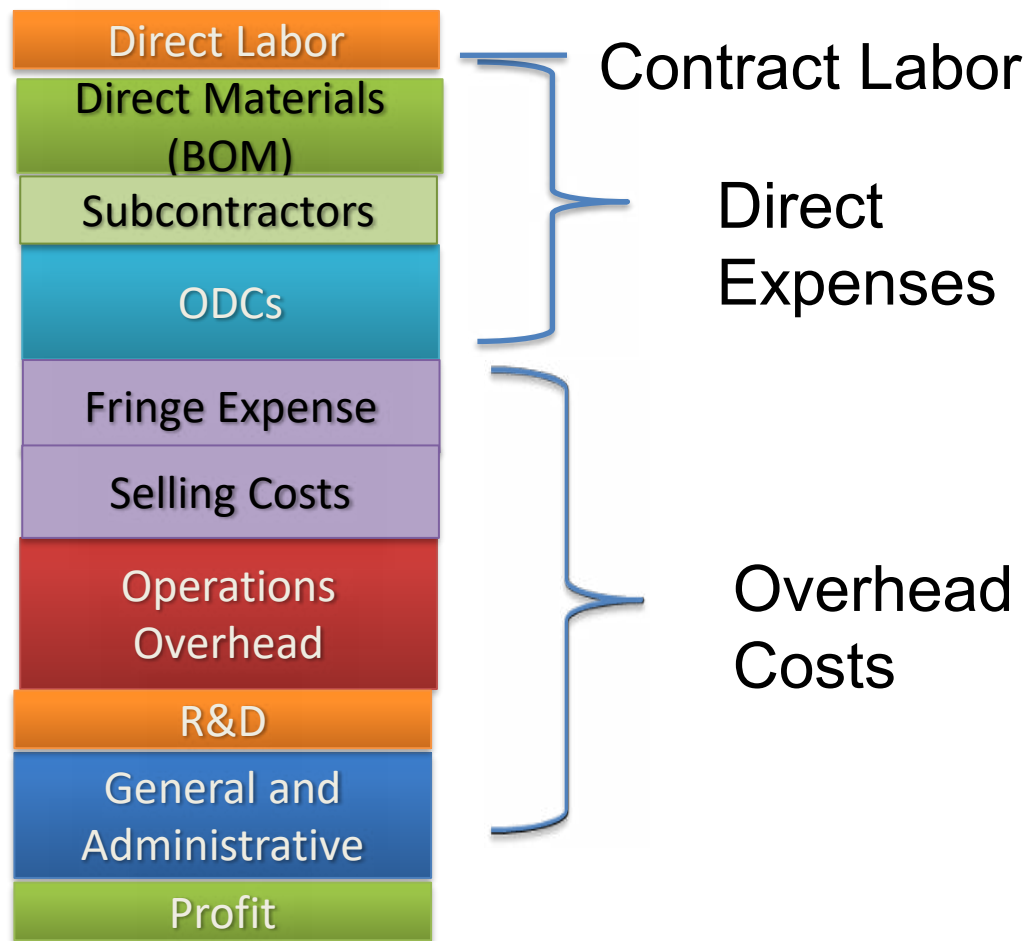
$$\text{GM} = \text{Rev} - \text{COGS}$$



# Cost Stack – Government Contracting

<b>Fringe Rate</b>	9.63%
<b>Overhead Rate</b>	32.83%
<b>G&amp;A Rate</b>	7.33%

<b>Total Indirect Rate</b>	<b>44.72%</b>
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# Financial Reviews

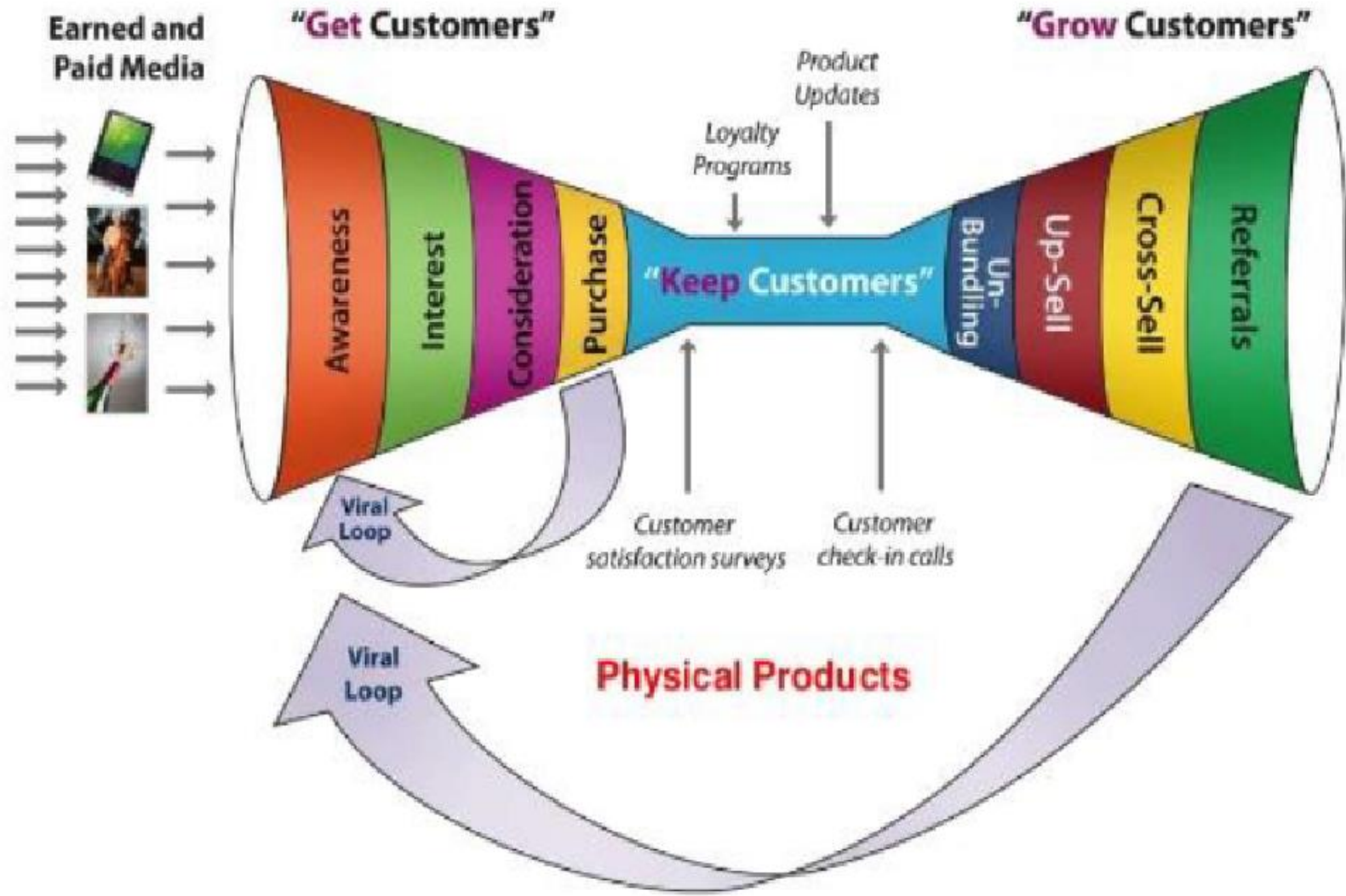
- The review process – Get into the Detail

		Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19
<b>Production Expenses</b>							
	<b>Common Short Code Fee</b>	6,075.00	1,575.00	75.00	75.00	1,575.00	75.00
	<b>Data Centers</b>	10,905.90	9,486.11	8,685.31	8,107.85	7,506.66	7,594.40
	<b>Dues &amp; Fees</b>	0.00	0.00	0.00	0.00	0.00	0.00
	<b>Monitoring Services</b>	128.00	128.00	128.00	128.00	128.00	128.00
	<b>Networks &amp; Domains</b>	156.41	41.33	92.33	29.37	285.37	266.11
	<b>SMS Gateway</b>	34,651.88	43,768.76	36,631.94	39,070.51	41,869.12	34,386.78
	<b>Support Expenses</b>	0.00	0.00	0.00	0.00	0.00	0.00
	<b>Voice Gateway</b>	6,441.63	6,673.03	3,362.31	3,364.85	3,287.39	2,683.88
	<b>Vulnerability Scannings</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Production Expenses</b>		58,358.82	61,672.23	48,974.89	50,775.58	54,651.54	45,134.17

# Customer Relationships

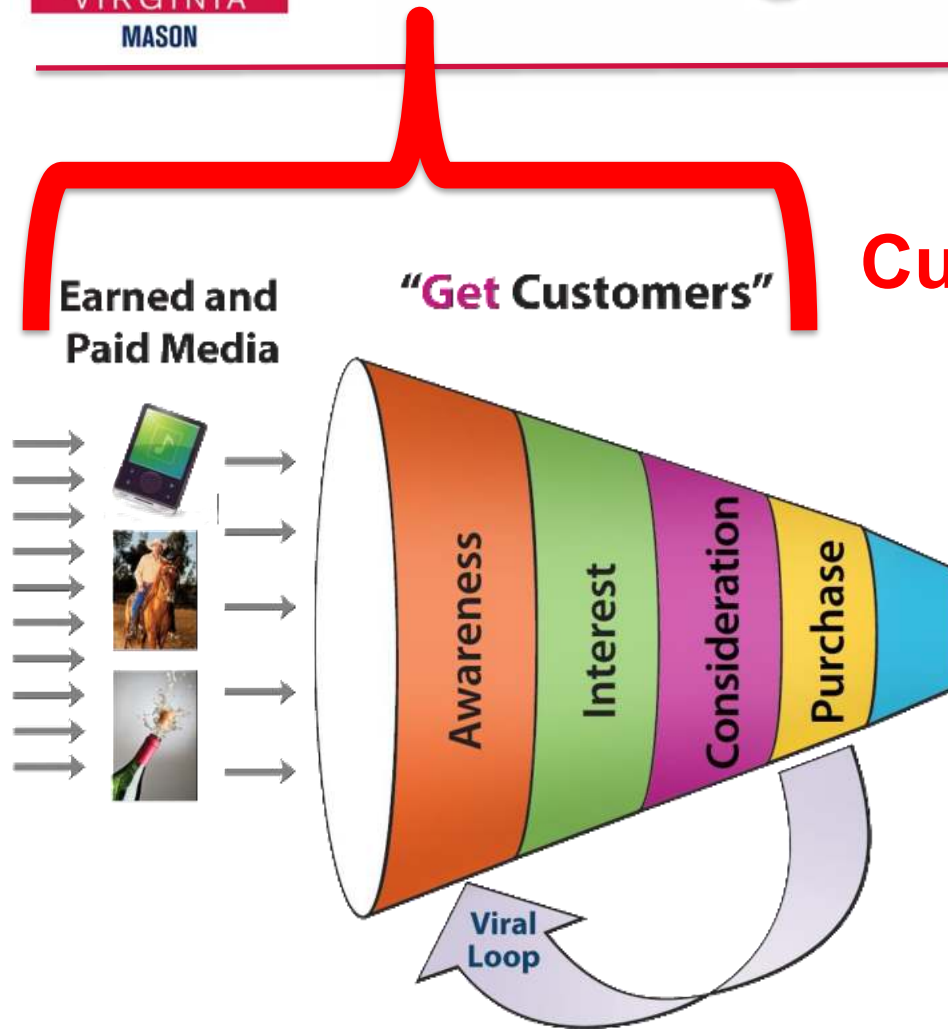


# Get/Keep/Grow – Customer Relationships



What does it mean to *GET*?

# Getting Customers



**CAC =**  
**Customer Acquisition Cost**

# Customer Acquisition Cost varies with Sales Complexity

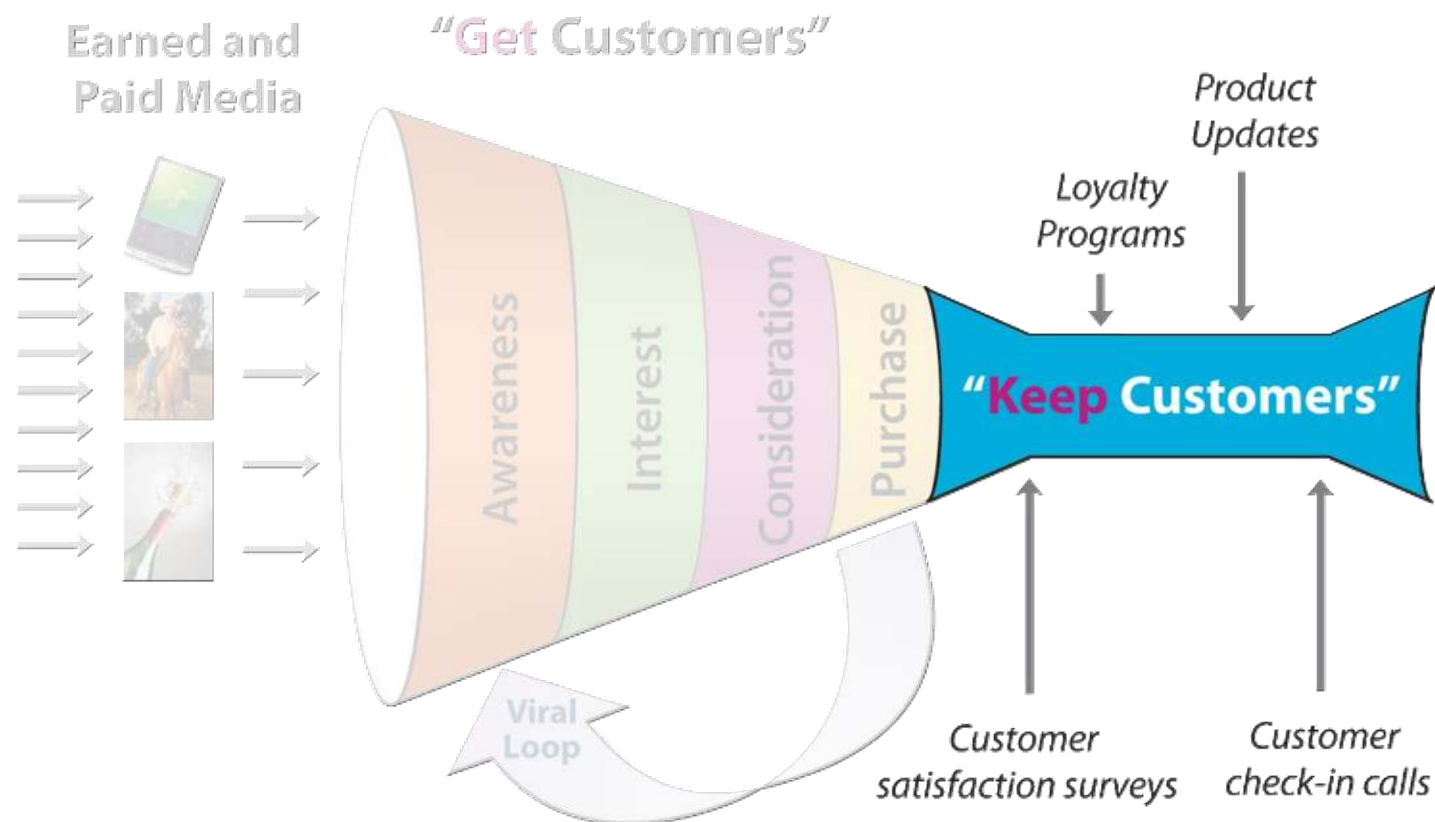


## Rough Estimates of Cost of Customer Acquisition (CAC)



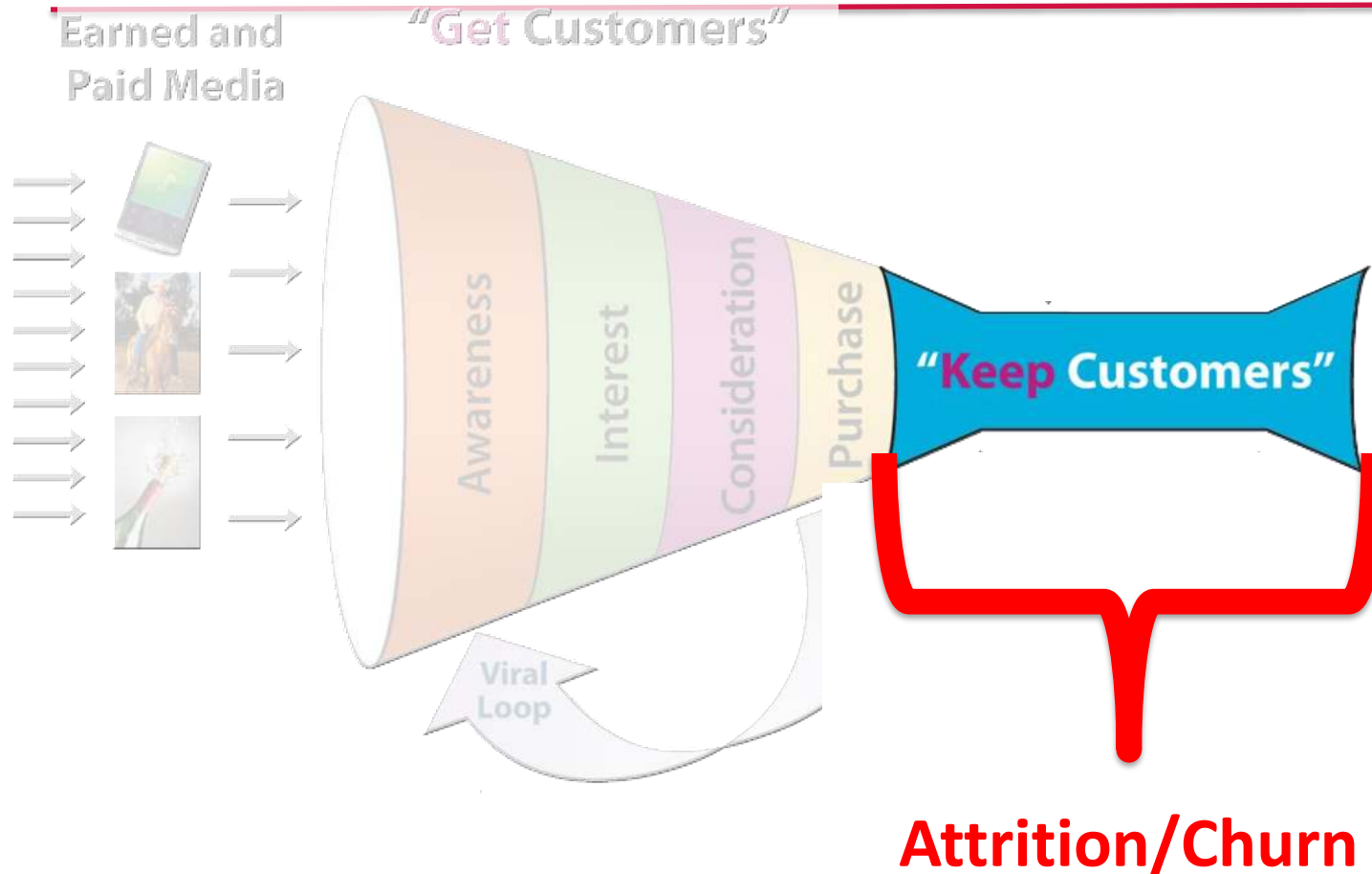
# What does it mean to *Keep?*

# Keeping Customers





# Keeping Customers



# Churn: Your Enemy

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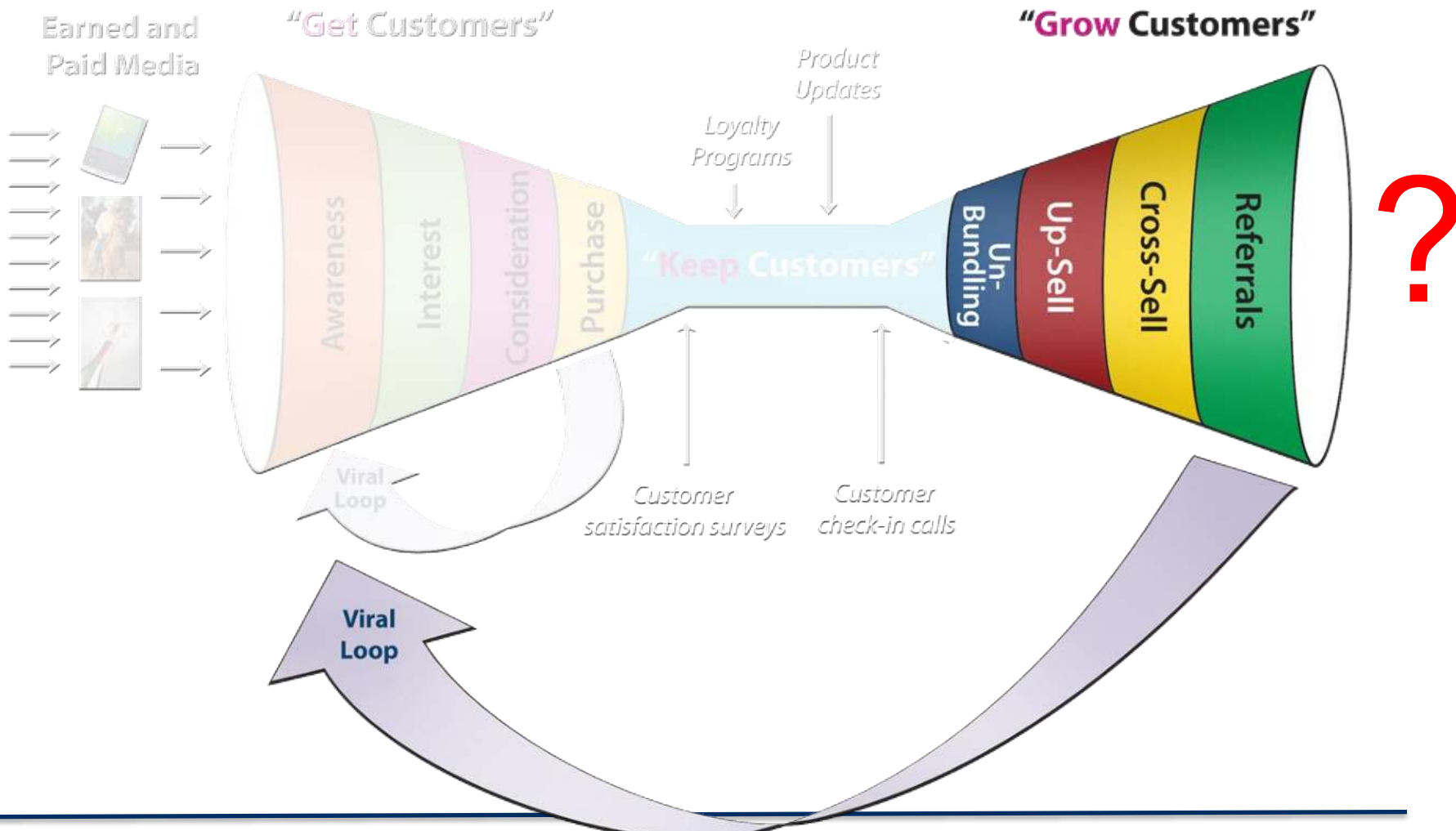
Some churn per month is OK

Higher can mean your ship is sinking

You will need to understand why  
you're leaking and seal those leaks

# What does it mean to *Grow?*

# Growing Customers

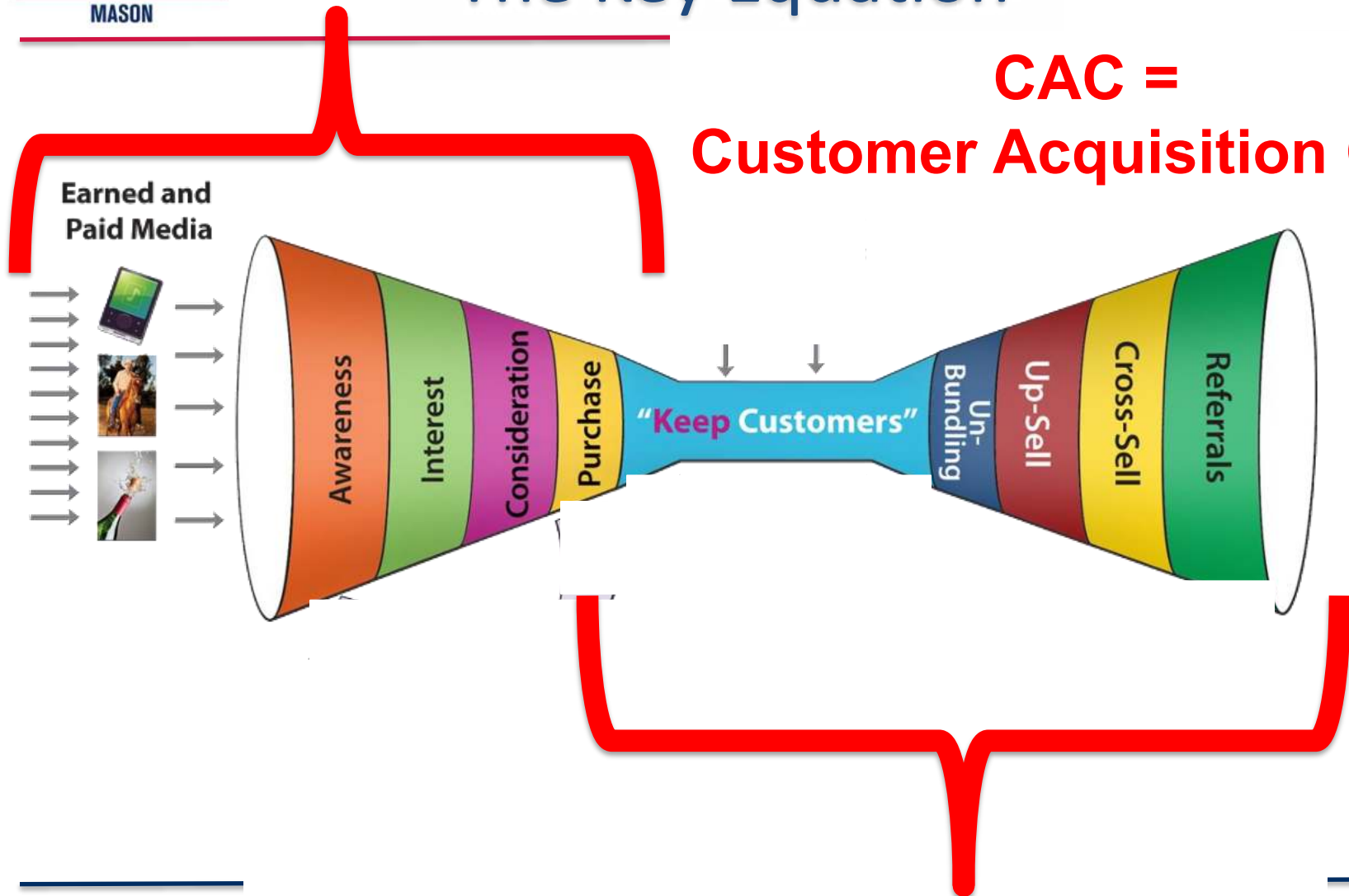


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# Customer Relationships: The Key Equation

**CAC =**  
**Customer Acquisition Cost**



# Plans translate to budgets / models

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A financial model is a mathematical simulation used to forecast a business' financial performance into the future given a range of operational and financial scenarios

# Why build budgets / models

- Compare you business to industry benchmarks (ratios)
- Make your business / executives aware of problems before they arise
- Compare periods of performance to track trends (sales growth, costs)
- Staffing decisions
- Contract / Product profitability / Rap Rate
- Financing requirements
- Align financial resources with plans
- **Demonstrate you can repay loans**

**Goal: Know where your business is going**

# How to build a quality model

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A good financial model consists of two things:

1. Well thought out projections about the future of the business
2. A properly structured, understandable, and dynamic spreadsheet

....With input from the full executive team!



# Projections Cash View

- Predicting Cash and Profit by month for the next 2 years
- Compare future predictions against prior years
- Create in the same P&L Format you are using today
- QBs - Set the date range 2 years into the future
- Download to Excel

## Report period

Last Calendar Year ▼

01/01/2023

to

12/31/2025



## Display columns by

Months ▼

## Show non-zero or active only

Active rows/active columns ▼

## Compare another period

Select period ▼

## Accounting method



Cash



Accrual

# Projections (Cont'd)

- All businesses should have a sales driver that is in **their control**
- Think critically about how to project different items
  - Backlog of Exist Contracts
  - Quality of Pipeline
  - Renewals – Contract, Seasonal
  - Don't Forget your Capacity to Deliver
- COGS/Direct Costs
  - % of Sales?
  - Unit Cost?

**What's Your  
Sales Driver?**

# Projections (Cont'd)

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- Labor Costs – Bottoms Up Staff Plan
  - Labor calculated each for each Employee
  - Allocate based on Planned Utilization Rates for each Cost Center for Service Companies
- Other Costs associated with Headcount
  - Fringe Expenses - Medical, Taxes, Retirement
  - Communications, Tools, Equipment
  - Bonus, Raises
- Categorize at the Cost Center Level

# Projections (Cont'd)

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- Non Labor Overhead/G&A Expenses
  - Normal Monthly Spending
  - Annual One Time Expenses (i.e. Liability Insurance)
- Growth Spending
  - Recruiting
  - Facilities
  - New Hire one time costs

# Actively using a budget

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- Monthly reviews to see actuals vs. projected
- Monitor costs overruns / underruns
- Check coverage ratios on financial products
- Evaluate for additional capital needs
- Quarterly planning for adjustments if needed
- Continue to ensure strategy is being executed
- Pricing Proposals



## Cash Flow Projection - Year 1 for: SAMPLE Business CY 2023

*sample*

After reviewing these samples, begin with your new Start-up Sheet. Hover the mouse across cells with red triangles for tips about that cell. Work with your SBDC Business Advisor to edit the rows to fit your specific business and test your assumptions.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	% of sales
Beginning Cash Balance	6,200	5,104	3,883	2,337	425	(421)	(817)	(2,029)	(2,075)	(2,921)	(4,533)	(5,229)	6,200	
<b>CASH RECEIPTS</b>														
Sales	5,000	5,000	5,000	6,000	6,000	6,000	7,000	7,000	7,000	6,000	6,000	6,000	72,000	100%
Other	-												-	
	-												-	0%
<b>Total Cash Receipts</b>	<b>5,000</b>	<b>4,250</b>	<b>4,500</b>	<b>6,000</b>	<b>5,500</b>	<b>5,500</b>	<b>5,500</b>	<b>6,000</b>	<b>5,500</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>72,000</b>	<b>100%</b>
<b>CASH DISBURSEMENTS</b>														
Cost of Goods Sold	1,500	1,275	1,350	1,800	1,650	1,650	1,650	1,800	1,650	1,500	1,500	1,500	18,825	26%
Gross Wages	2,623	2,623	2,623	2,623	2,623	2,623	2,623	2,623	2,623	2,623	2,623	2,623	31,476	44%
Payroll Expenses				866			866			866			2,598	4%
Supplies (Office & Operating)	100	100	100	100	200	100	100	100	200	100	100	100	1,400	2%
Repairs and Maintenance				50		50		50		50		50	250	0%
Marketing	500	100	100	100	500	100	100	100	500	100	100	100	2,400	3%
Travel													-	0%
Accounting and Legal				1,000									1,000	1%
Rent	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	17%
Telephone	30	30	30	30	30	30	30	30	30	30	30	30	360	1%
Utilities	100	100	100	100	100	100	100	100	100	100	100	100	1,200	2%
Insurance	-												-	0%
Taxes (Real estate, personal prop)			500										500	1%
<b>Total Cash Disbursements</b>	<b>5,853</b>	<b>5,228</b>	<b>5,803</b>	<b>7,669</b>	<b>6,103</b>	<b>5,653</b>	<b>6,469</b>	<b>5,803</b>	<b>6,103</b>	<b>6,369</b>	<b>5,453</b>	<b>5,503</b>	<b>72,009</b>	<b>100%</b>
<b>Net Cash Flow</b>	<b>(853)</b>	<b>(978)</b>	<b>(1,303)</b>	<b>(1,669)</b>	<b>(603)</b>	<b>(153)</b>	<b>(969)</b>	<b>197</b>	<b>(603)</b>	<b>(1,369)</b>	<b>(453)</b>	<b>(503)</b>	<b>(9)</b>	
<b>Adjustments to Net Cash Flow</b>														
(+) New Owner Investment														0%
(+) Other Investments														0%
(-) Debt-Loan Paymts	243	243	243	243	243	243	243	243	243	243	243	243	2,916	4%
(-) Owner Withdrawals	-	-	-	-	-	-	-	-	-	-	-	-	-	0%
<b>Adjusted Net Cash Flow</b>	<b>(1,096)</b>	<b>(1,221)</b>	<b>(1,546)</b>	<b>(1,912)</b>	<b>(846)</b>	<b>(396)</b>	<b>(1,212)</b>	<b>(46)</b>	<b>(846)</b>	<b>(1,612)</b>	<b>(696)</b>	<b>(746)</b>	<b>(2,925)</b>	

# Summary Financial Plan

## Software Platform License, LLC Summary P&L (000s)

	2019 Actuals	2022 Budget	2023 Plan	2024 Plan	2025 Plan
<b>Revenue</b>					
<b>Platform Sales</b>					
SaaS License Platform	3,298	13,054	21,281	30,672	38,766
Reseller Sales	-	-	-	-	-
Professional Services	-	-	-	-	-
<b>Total Revenue</b>	<b>3,298</b>	<b>13,054</b>	<b>21,281</b>	<b>30,672</b>	<b>38,766</b>
<b>Direct Expenses</b>					
Customer Support Costs	113	234	322	381	381
Consulting Costs	421	1,115	1,735	1,758	1,758
Hosting/Platform Costs	77	77	77	77	77
<b>Total Direct Expense</b>	<b>612</b>	<b>1,426</b>	<b>2,135</b>	<b>2,216</b>	<b>2,216</b>
<b>Gross Profit</b>	<b>2,686</b>	<b>11,628</b>	<b>19,147</b>	<b>28,455</b>	<b>36,549</b>
Margin %	81%	89%	90%	93%	94%
Sales & Marketing	669	2,378	3,718	5,035	6,092
General & Administrative	418	726	1,001	1,258	1,281
Research & Development	251	514	557	658	658
<b>Total Operating Expenses</b>	<b>1,338</b>	<b>3,618</b>	<b>5,276</b>	<b>6,951</b>	<b>8,031</b>
<b>Net Operating Margin</b>	<b>1,348</b>	<b>8,010</b>	<b>13,871</b>	<b>21,505</b>	<b>28,518</b>
Depreciation & Amortization	5	16	26	30	30
<b>Profit Before Taxes &amp; Interest</b>	<b>1,343</b>	<b>7,993</b>	<b>13,845</b>	<b>21,475</b>	<b>28,488</b>
Net margin %	41%	61%	65%	70%	73%

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# Financial Modeling Tools

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- **SCORE Templates** - <https://www.score.org/templates-resources/business-planning-financial-statements-template-gallery>
- **LivePlan** - <https://www.liveplan.com/>
- **Timm's Templates**
  - 12 Month Simple Cash Plan
  - 12 Month Government Contractor Services
  - 12 Month Manufacturing
  - 5 Year Tech Company Plan



# Industry Comparison

## INDUSTRY FINANCIAL DATA AND RATIOS IT Consulting - DMV

Financial Metric	2023	2022	Last 5 Years	All Years
Current Ratio	3.45	6.79	5.16	3.1
Quick Ratio	3.26	6.02	4.59	2.75
Gross Profit Margin	45.62%	60.93%	60.47%	58.58%
Net Profit Margin	-60.35%	16.73%	9.83%	6.94%
Inventory Days	--	--	--	0.22
Accounts Receivable Days	68.98	48.84	40.79	49.5
Accounts Payable Days	22.27	15.71	12.26	17.96
Interest Coverage Ratio	-1.42	1.36	19.1	18.48
Debt-to-Equity Ratio	2.22	0.94	1.32	1.67
Debt Service Coverage Ratio	--	-10.49	5.37	7.33
Return on Equity	6.61%	44.58%	57.78%	59.99%
Return on Assets	-23.26%	21.80%	39.79%	32.61%
Gross Fixed Asset Turnover	23.39	39.01	30.17	27.9
Profit per Employee	--	--	\$11,130	\$25,190

Growth Metric	2023	2022	Last 5 Years	All Years
Sales Growth	--	9.29%	27.54%	17.41%
Profit Growth	--	64.96%	26.83%	20.03%

Industry-Specific Metric	2023	2022	Last 5 Years	All Years
Average Billable Rate	--	--	--	--
Revenue per Employee	--	--	--	\$150,962

## Industry Financials

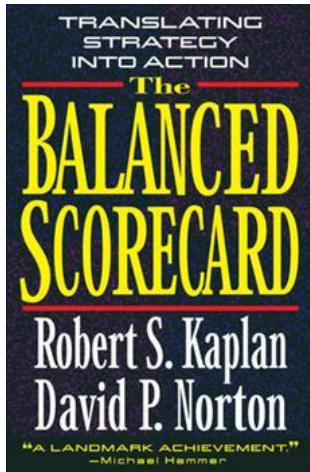
### Income Statement

Percentages	2019	2020	2021	2022	2023
Business Revenue	100%	100%	100%	100%	100%
Cost of Sales	27.34%	27.09%	27.33%	27.78%	28.08%
Cost of Sales - Labor Portion	6.10%	5.04%	5.10%	4.42%	3.80%
Gross Margin	72.66%	72.91%	72.67%	72.22%	71.92%
Officers Comp.	14.71%	15.03%	14.86%	15.08%	15.03%
Salary-Wages	20.85%	21.47%	21.41%	21.60%	21.62%
Rent	4.63%	4.45%	4.42%	4.43%	4.40%
Taxes Paid	3.58%	3.11%	3.09%	3.31%	2.86%
Advertising	1.29%	1.33%	1.33%	1.66%	1.21%
Benefits-Pensions	3.25%	3.27%	3.23%	3.20%	3.00%
Repairs	0.62%	0.52%	0.52%	0.58%	0.52%
Bad Debt	0.10%	0.00%	0.00%	0.08%	0.00%
Sales, General, Admin & Misc.	18.19%	18.03%	17.92%	17.73%	17.50%
EBITDA	5.44%	5.70%	5.89%	4.55%	5.78%
Amortization Depreciation Depletion	0.93%	1.24%	1.24%	1.07%	1.05%

Let's take a 5 minute break

# Historical Context and Concept

***“Managers can create a balanced scorecard by translating their company’s strategy and mission statements into specific goals and measures.”***



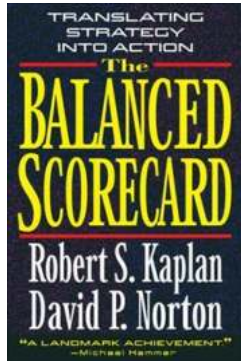
# 1996 !

[Balanced Scorecard - What is the Balanced Scorecard? \(intrafocus.com\)](http://intrafocus.com)

## Approach & Key Findings:

- 1 yr. of Research : 12 Companies Interviewed
- outcome was a “dashboard framework”
- metrics **were not solely financial measures**
  - 4 measures linked by metrics:
    - **financial measures** (Revenue, all Operating Expenses, Margin)
    - PLUS ++ 3 operational measures :
      - **customer satisfaction**
      - **internal processes**
      - **organization’s ability to learn and improve**

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## Begin by Linking Measurements to Strategy

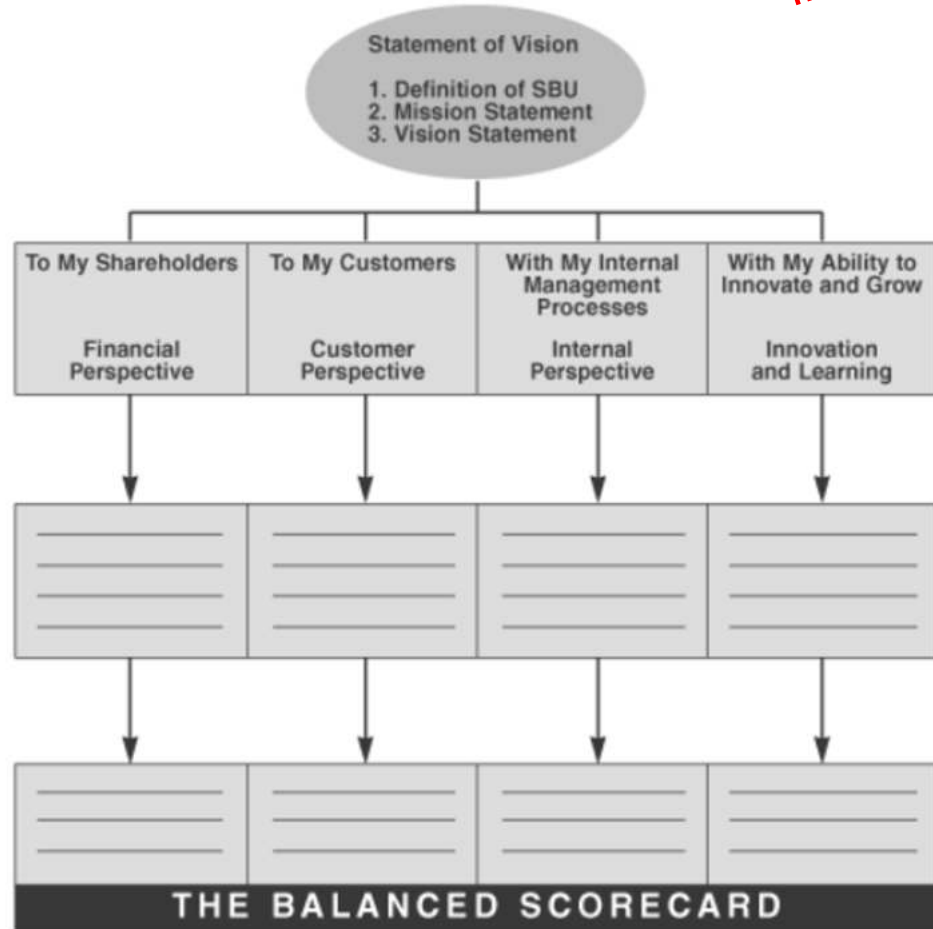
*Illustrative only*

What is My  
Vision of  
the Future?

If My Vision  
Succeeds, How  
Will I Differ?

What Are  
the Critical  
Success Factors?

What Are  
the Critical  
Measurements?



# Importance of a Scorecard

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- Know what is on track and off track
- See anomalies (both good and bad)
- They are a LEADING indicator
- Every business will have a different scorecard
- You need to determine which numbers and how many

# Key Performance Indicators

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- **A Measure** – Every KPI must have a measure. The best KPIs have more expressive measures.
- **A Target** – Every KPI needs to have a target that matches your measure and the time period of your goal. These are generally a numeric value you're seeking to achieve.
- **A Data Source** – Every KPI needs to have a clearly defined data source so there is no gray area in how each is being measured and tracked.
- **Reporting Frequency** – Different KPIs may have different reporting needs, but a good rule to follow is to report on them at least monthly.

# Types of KPIs

	<u>Raw Numbers</u>	<u>Progress</u>	<u>Change</u>
Measure	# of new Customers	% Complete	% Increase of Sales
Target	1,000	100%	22%
Source	CRM	Project Plan	P&L
Frequency	Monthly	Quarterly	Monthly



# Scorecard Process

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- Determine metrics
- Determine weekly goals for each metric
- SLA based (i.e. Account receivables collection)
- Straight line based (Sales goal attainment)
- Other (candidate pipeline)
- Assign who is responsible for goal
- Decide who will be responsible for scorecard updates
- Decide how they will get numbers
- **Weekly/Monthly review!**

Looking for anomalies and  
patterns both  
positive and negative

# KPI Examples

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## Examples of Sales KPIs

1. Number of New Contracts Signed Per Period
2. Dollar Value for New Contracts Signed Per Period
3. Number of Engaged Qualified Leads in Sales Funnel
4. Hours of Resources Spent on Sales Follow Up
5. Average Time for Conversion
6. Net Sales – Dollar or Percentage Growth

## Examples of Financial KPIs

- 7. Growth in Revenue
- 8. Net Profit Margin
- 9. Gross Profit Margin
- 10. Operational Cash Flow
- 11. Current Accounts Receivables
- 12. Inventory Turnover
- 13. EBITDA

# KPI Examples

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## Examples of Customer KPIs

14. Number of Customers Retained

15. Percentage of Market Share

16. Customer Reviews

17. Average Ticket/Support Resolution Time

# KPI Examples

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## Examples of Operational KPIs

- 18. Order Fulfillment Time
- 19. Time to Market for New Offer
- 20. Employee Satisfaction Rating
- 21. Employee Churn Rate
- 22. Average Employee Utilization Rate
- 23. Average Billing Rate
- 24. Revenue per FTE

# KPI Examples

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## Examples of Marketing KPIs

- 25. Monthly Website Traffic
- 26. Number of Qualified Leads
- 27. Conversion Rate for Call-To-Action Content
- 28. Keywords in Top 10 Search Engine Results
- 29. Blog Articles Published This Month
- 30. E-Books Published This Month

# Aptar Group

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- Next Breath KPIs
- Month, Quarter & YTD Revenue, GM and IBIT
  - Compared to previous year and budget
- Staff Utilization Rate
- Average Revenue per hour
- Contract Backlog
- With explanations for variances

# Homework

- What are 5 KPIs for your business?
- What are your Sales Drivers for Forecasting



# Questions?

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