

## Financial Forecasting Best Business Practices

By Chris Benjamin, Rogue CFO <http://www.roguecfo.com>

Over the years I've seen plenty of great financial models, and many more not so great. To build an investor quality financial model/forecast there are a few simple yet very important best business practices you can implement to make your model stand out from the rest.

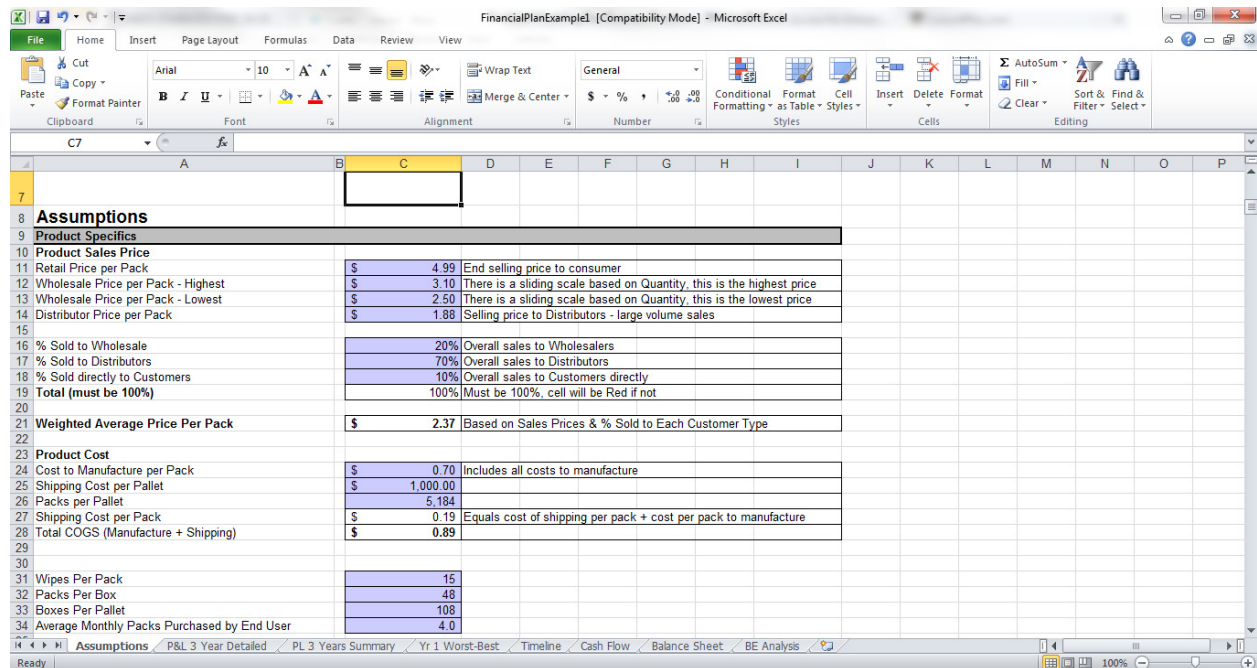
### Centralized Assumptions & Color Coding

Let's start with a 2 for 1 best business practice.

First, the use of an Assumptions tab is the single most valuable recommendation I can give you. In the image below, you'll see the multiple tabs with the first one titled Assumptions. This will be your centralized location for all assumptions built into the financial model.

The reasoning is that as you have changes both in the short and long term, you'll have a one stop location to make them. Any changes here feed the entire financial model. Rather than hunting through the model looking for where assumptions need to be changed, you know already.

As well you'll notice the lavender shading. All changing cells should be color coded in some way for yourself and/or the end user.



Row	Assumption	Value	Description
8	<b>Assumptions</b>		
9	<b>Product Specifics</b>		
10	<b>Product Sales Price</b>		
11	Retail Price per Pack	\$ 4.99	End selling price to consumer
12	Wholesale Price per Pack - Highest	\$ 3.10	There is a sliding scale based on Quantity, this is the highest price
13	Wholesale Price per Pack - Lowest	\$ 2.50	There is a sliding scale based on Quantity, this is the lowest price
14	Distributor Price per Pack	\$ 1.88	Selling price to Distributors - large volume sales
15			
16	% Sold to Wholesale	20%	Overall sales to Wholesalers
17	% Sold to Distributors	70%	Overall sales to Distributors
18	% Sold directly to Customers	10%	Overall sales to Customers directly
19	<b>Total (must be 100%)</b>	100%	Must be 100%, cell will be Red if not
20			
21	<b>Weighted Average Price Per Pack</b>	\$ 2.37	Based on Sales Prices & % Sold to Each Customer Type
22			
23	<b>Product Cost</b>		
24	Cost to Manufacture per Pack	\$ 0.70	Includes all costs to manufacture
25	Shipping Cost per Pallet	\$ 1,000.00	
26	Packs per Pallet	5,184	
27	Shipping Cost per Pack	\$ 0.19	Equals cost of shipping per pack + cost per pack to manufacture
28	<b>Total COGS (Manufacture + Shipping)</b>	\$ 0.89	
29			
30			
31	Wipes Per Pack	15	
32	Packs Per Box	48	
33	Boxes Per Pallet	108	
34	Average Monthly Packs Purchased by End User	4.0	



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## Summary Financial Tab

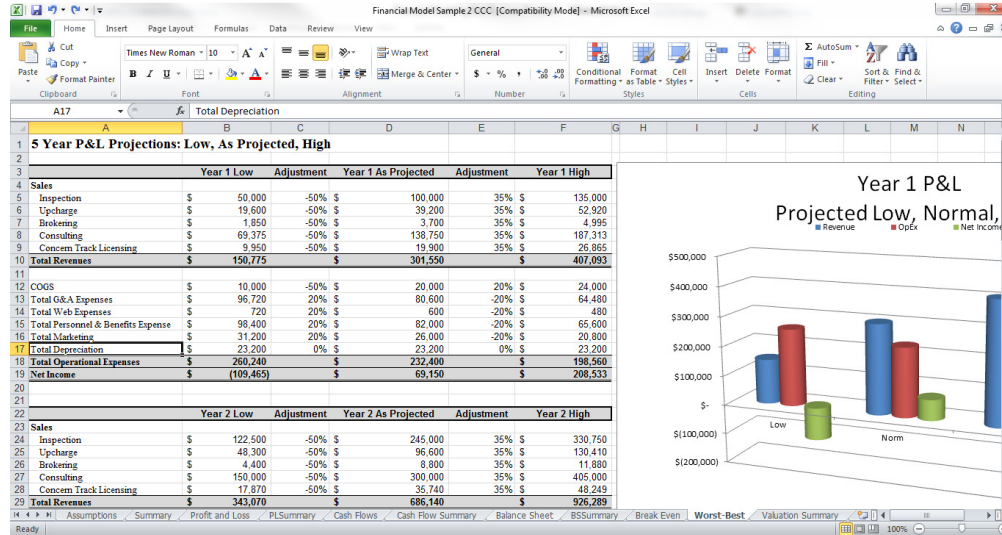
The screenshot shows an Excel spreadsheet with the following data:

Summary Of Financials			
<b>Cash Flow</b>			
	Cash Investment	Break Even Month	Valuation
	\$ 300,000	Q3 2009	\$ 2,100,000
<b>Revenue Streams</b>			
	Concern Track	Commodity Concern	Total
13 Year 1	\$ 19,900	\$ 281,650	\$ 301,550
14 Year 2	\$ 35,740	\$ 650,000	\$ 685,740
15 Year 3	\$ 144,100	\$ 816,000	\$ 960,100
16 Year 4	\$ 218,300	\$ 906,000	\$ 1,124,300
17 Year 5	\$ 397,500	\$ 976,000	\$ 1,273,500
18 Total Revenues	\$ 179,840	\$ 1,466,400	\$ 1,646,240
<b>Profit &amp; Loss Statement</b>			
<b>Combined Revenues: Concern Track &amp; Commodity Concern</b>			
	Projected Low	Projected Medium	Projected High
24 Year 1	\$ 150,775	\$ 301,550	\$ 407,093
25 Year 2	\$ 343,070	\$ 686,140	\$ 926,289
26 Year 3	\$ 480,000	\$ 960,100	\$ 1,296,132
27 Year 4	\$ 562,150	\$ 1,124,300	\$ 1,517,801
28 Year 5	\$ 636,750	\$ 1,273,500	\$ 1,719,225

Financial forecasts can get fairly elaborate and often while they achieve the goal of properly forecasting your financial performance, it's difficult to get a solid perspective on what the end results are. By creating a nice summary financial tab, you can see the highlights of the financial model. I find clients will focus on this to determine if growth is too mild or too aggressive, if cash represents balances that they would like to see, etc. From there you can dig into the details and make adjustments as needed.

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### Best – Worst Situation



A simple yet useful tool is a Best-Worst case analysis. The way I've traditionally prepared these is at a summary level (Revenues, COGS, Op Ex, Payroll, etc.). Take your forecast, and then make a version projected high and projected low. Essentially I add in a factor, say 20%, for revenues and 10% decrease in costs. Essentially it shows here's the forecast as it is, the next section shows "here's what happens when revenues are up by 20% and expenses down 10%" and third, "here's what revenues down by 20% and expenses up by 10% looks like". Use percentage adjustments that make sense, and depend on the industry you are in.

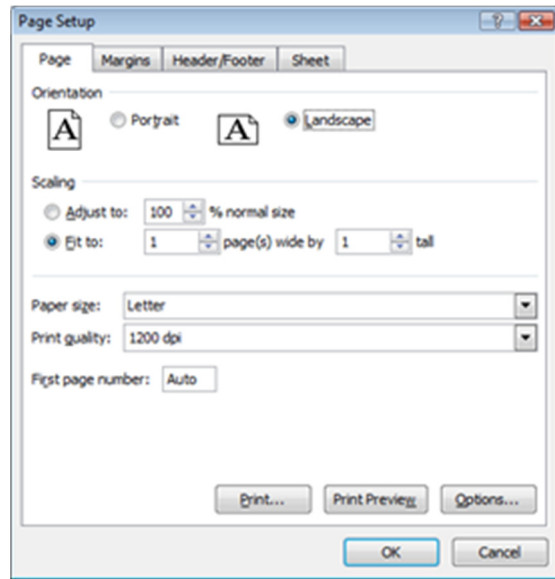
### Include all Financial Statements, Valuation, and Capitalization

I don't just forecast P&L, Cash Flow and Balance Sheet. Include a Valuation & Capitalization where it can be useful. Adding in both of these tabs is a fairly simple exercise, and provides valuable information about how changes in the forecast impact ownership & returns to investors.

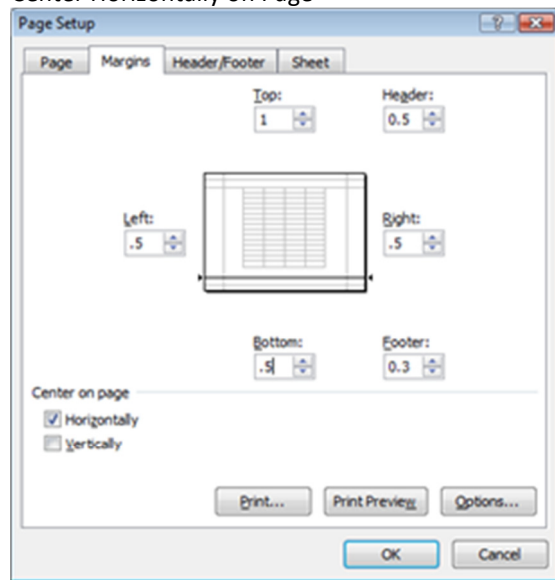
### Don't Hardcode Formulas

Remember the Assumptions tab? It has a purpose – all inputs should be located there. Don't hard code numbers into formulas throughout the model. A simple example would be tax rate. It's easy enough to assume that taxes will always be 34% build that into the model. The problem comes when the tax rate changes, and now rather than change the 34% in one location, you have to modify multiple cells. Just a simple example, now picture a growth rate build into multiple sheets and multiple lines. Much easier to do it right from the start.

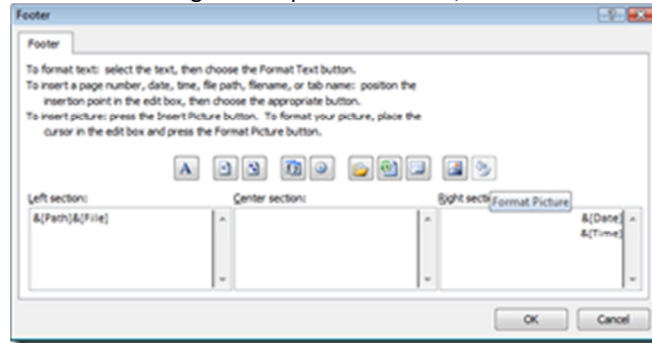
Adjust page formatting at the beginning of this process to ensure it is duplicated consistently.



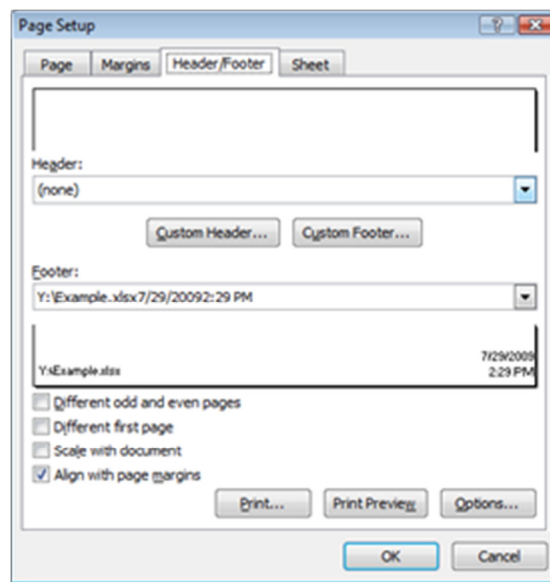
- Margins
  - Center Horizontally on Page



- Header/Footer
  - No Header
  - Footer containing the file path and name, time and date



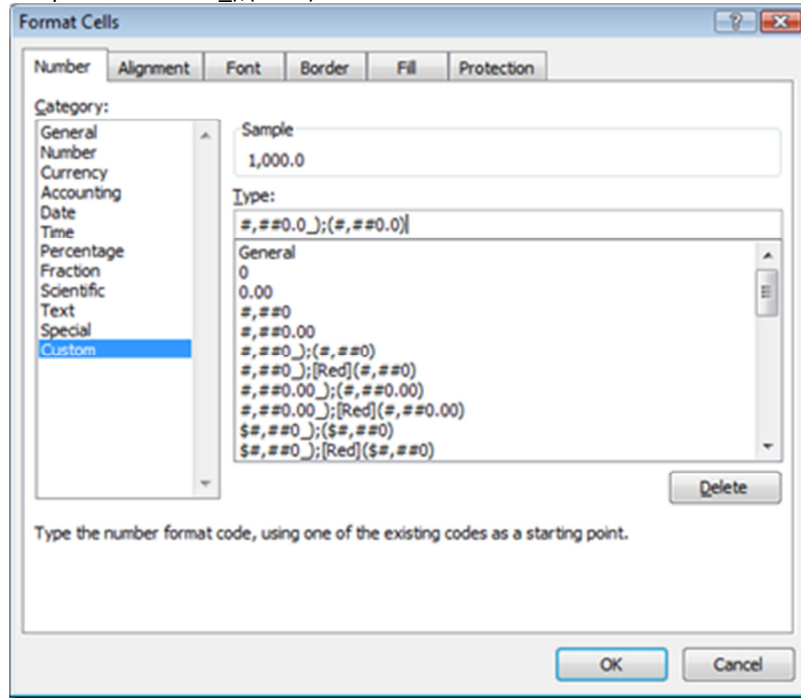
- Footer contents should be in 9 point font and *not* be scaled with page



Some final tips:

- Use "Center Across Selection" instead of "Merge Cells" when formatting
- Never "Hide" cells. If you don't want them displayed, group them by pressing CTRL + Shift + Right Arrow, or Shift + F2)
- Make extensive use of Cell Comments (right click on cell and "Insert Comment") to note where the input or formula came from. This prevents "What was I thinking syndrome" the day after.
-

- Utilize Custom Number Types for the type of number that will be in the cell. This format ensures that the numbers and percent's will all line up nicely:
  - For numbers: `#,##0.0_);(,##0.0)`
  - For percent's: `0.0%_);(0.0%)`



If after reading the article you decide you need outside help with your financial forecast, get in touch! I've built close to 100 models of various scope over the last decade for companies large and small, public and private, startups to ready to sell.



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