Projecting Financial Results

Business Smarts 2020
A Non-profit Economic Development Corporation

Resources & Solutions for Small Business

123 Main Street, Cranford, NJ 07016
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In Partnership with…

H C E D C

Hudson County Economic Development Corporation

NJSBDC at New Jersey City University

Hudson County Community College
INTRODUCTIONS
(Poll questions)
• New or existing business
• Type of business
• Primary job skill or function
• First HCEDC event?
Projecting Financial Results

Workshop Objectives

• How to make assumptions for your financial projections
• Prepare a market forecast
• Prepare a cash flow projection
  - sales projections
  - expense projections
Creating Assumptions

Projections of financial data should be based on one of the following:

- Actual results
- Supportable data
- Reasonableness
Market Forecasting

Ask the following:

1. Who has the need for my product/service, the financial ability to purchase it, and the ability to find it?
2. How many of these people or businesses exist today?
3. How much money does each person/business spend every year on the problem my product/service solves?
4. Who else do I share this market with?

Source: “How Big is Your Market Potential, Really?” Caroline Cummings
https://articles.bplans.com/how-to-determine-your-tam-total-addressable-market/
Market Forecasting

- **Potential Market (#)** – the number of prospects with sufficient interest, income, and access to your product

- **Target Market** – the part (segments) of the Potential Market that your company decides to pursue

- **Total Addressable Market ($)** – the total number of target prospects times estimated average annual $ revenue per customer

- **Obtainable Market** – the number of annual customers your company expects to actually obtain (often arrived at by taking a % of total target prospects)
SWOT Analysis
Example 1: Fitness Center

Potential Market:

- A hair salon in a small city (population 120,000 people)
- Provides high-end salon services
- Average haircut and style is $65
- Majority of clients are women
- Potential market = women aged 18-75 = 55,000

Source: “How Big is Your Market Potential, Really?” Caroline Cummings
Target Market

• Target women aged 25 - 55 = 35,000

Source: “How Big is Your Market Potential, Really?” Caroline Cummings
Market Forecasting

Total Addressable Market

Assume:

• Average annual revenue per customer = $450
  (approx. 7 visits per year)

Total Addressable Market =
(35,000 x $450) = $15,750,000

Source: “How Big is Your Market Potential, Really?” Caroline Cummings
Market Forecasting

Obtainable Market

Assume: Your salon will capture approx. 1% of Total Addressable Market over the first 2 years of operation

→ 35,000 x 1% = 350 customers
→ $15,750,000 x 1% = $157,500 in revenue

Source: “How Big is Your Market Potential, Really?” Caroline Cummings
Projecting Your Cash Flow

Projecting Financial Results
Projecting Your Cash Flow

Joe’s Fitness Center (JFC) -
A startup with one location in Hudson County, NJ
Preparing Sales Projections

Total Sales by Month in Year 1

Projecting Financial Results
## Preparing Sales Projections

### Marketing Budget

<table>
<thead>
<tr>
<th></th>
<th>Startup</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advertising</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online ads</td>
<td>$2,000</td>
<td>500</td>
</tr>
<tr>
<td>Email</td>
<td>600</td>
<td>300</td>
</tr>
<tr>
<td>Direct mail</td>
<td>1,150</td>
<td>683</td>
</tr>
<tr>
<td>Brochures</td>
<td>2,408</td>
<td>0</td>
</tr>
<tr>
<td>Events</td>
<td>1,312</td>
<td>0</td>
</tr>
<tr>
<td>Website</td>
<td>0</td>
<td>350</td>
</tr>
<tr>
<td><strong>Other Marketing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Signage</td>
<td>8,345</td>
<td>0</td>
</tr>
<tr>
<td>Dues &amp; Subscr</td>
<td>1,000</td>
<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$16,815</td>
<td>$1,908</td>
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</tbody>
</table>
## Preparing Sales Projections

### Sales Revenue Support

<table>
<thead>
<tr>
<th></th>
<th>Startup</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Fitness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership</td>
<td>$3,719</td>
<td>3,849</td>
</tr>
<tr>
<td>Enrollment</td>
<td>2,790</td>
<td>4,365</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,509</td>
<td>$10,314</td>
</tr>
<tr>
<td><strong>Personal Training</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training Sessions</td>
<td>0</td>
<td>2,100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,509</td>
<td>$10,314</td>
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</table>
Expense Projections
# Startup Expenses

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold Improvements</td>
<td>$37,843</td>
</tr>
<tr>
<td>Capital Equipment</td>
<td>10,589</td>
</tr>
<tr>
<td>Rent &amp; Admin Expenses</td>
<td>30,225</td>
</tr>
<tr>
<td>Opening Inventory</td>
<td>0</td>
</tr>
<tr>
<td>Marketing Expenses</td>
<td>16,815</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>888</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$95,916</strong></td>
</tr>
</tbody>
</table>
Expense Projections

Staffing Expenses
Projecting the Cash Flow Deficit

Cash Flow

- Costs exceed flow recovery
- Start-up revenues at first
- Maximum negative cash flow
   that needs to be financed
- Break-even

Cumulative cash flow recovery

Business growth

Business maturity

Time

1 2 3 4 5 10

http://rsbdc.org
## Sources of Capital

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner’s Investment</strong></td>
<td></td>
</tr>
<tr>
<td>Joe (100%)</td>
<td>$20,000</td>
</tr>
<tr>
<td><strong>Bank Loans</strong></td>
<td></td>
</tr>
<tr>
<td>SBA Loan</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>Other Loans</strong></td>
<td></td>
</tr>
<tr>
<td>Joe’s parents</td>
<td>$75,000</td>
</tr>
<tr>
<td><strong>Additional Income</strong></td>
<td></td>
</tr>
<tr>
<td>Pre-opening sales</td>
<td>$ 6,509</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$151,509</td>
</tr>
</tbody>
</table>
Year 1 Cash Flow Projection

Joe’s Fitness Center

Cash flow projection

- TOTAL CASH IN FLOW
- TOTAL CASH OUTFLOW
Year 2 Financial Projections

Joe’s Fitness Center

- Expected growth of the industry is 2.22% until 2022
- JFC expects to capitalize on its experience and growth at a rate of 3% for the next 2 years
- Minimum wage will change from $10.30 in 2020 to $11.10 in 2021, increasing Joe’s operational cost
Understanding Financial Statements
Q&A Panel Discussion

Questions? Comments? Feedback?

SBDC at New Jersey City University
Hudson County Community College Continuing Education & Workforce Development
UCEDC - HCEDC

Projecting Financial Results
Participating Panelist Partners

[Logo: NJSBDC at New Jersey City University]

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