How to Start Financial Projections on your Startup Business

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Lulu enjoyed the freedom of running her own business. Over the years she grew to become the largest distributor of traditional African cloth to both large and small shops in and around Nakuru. Her customers valued her creative brands and consistently lower prices.

However, on a particular day in March, Lulu paced up and down the reception area of her main supplier’s office in Cameroon. Agitated, frustrated, and yet determined, she psyched herself up for the big meeting with the supplier.

She felt compelled to travel to Yaoundé after a recent meeting held the previous week with a friend who just completed her MBA. While Lulu did employ a regular bookkeeper, she did not retain a treasurer or CFO so that her operating costs, she thought, stayed to a minimum. So, her friend’s advice came as a bit of a shock. While Lulu did indeed retain the widest depth and breadth of traditional African cloth in her area, she did not make money on most of her sales. Her friend discovered that she overpaid for her supplies and then she sold most of her material too cheaply to her customers. One phrase that Lulu’s friend uttered stuck in her mind: “it is not enough to be in business for the fun of it, you must also make money.” It made Lulu feel foolish.

So, as the doors opened to the conference room and her Cameroonian suppliers welcomed her in to the meeting, Lulu realised that it might be her last chance to strike a deal that would straighten out her beloved business.

As Business Talk continues to collect reader responses to share on what boundaries should exist between corporations, investors, NGOs, and donors and the next big philanthropic debate, we delve into how to commence financial projections.

In the above example, Lulu’s experience might border on math anxiety. Why did she shy away from the simple math required to figure out her own business profitability?
Does Lulu’s example seem farfetched? Not really says Haron Wachira, CEO of Achili Holdings, based in Nairobi. Achili Holdings implores small business owners to look at their bottom lines more critically. Mr. Wachira conservatively estimates that the majority of all smalltime dairy suppliers actually lose money on the business. He states that farmers dabbling in dairy underestimate all the direct and indirect costs associated with rearing and maintaining cows.

So, as a small-scale business startup, how do you overcome any math anxiety and proceed towards financial projections?

First, go sit in a quiet place, without any distractions, and remove any financial jargon and protocols from your mind. Take a paper and simply write down everything that you physically own that you could use to launch or scale up your small business. Do you own a laptop? If so, write it down on the paper. How about a mobile phone or possibly a previously designed logo? Write down everything you can think about without worrying about how to classify the items. You may surprise yourself with how much you own that becomes usable in your business.

Second, write down all the objects and processes you need to launch your new business or new product minimally. Do not dream of grand product launches with fanfare and triumph. Instead, dream about actually starting with a minimally viable product (MVP) with a minimally complicated launch. So, what do you need for your launch? If you require an additional staff member, would they also need a computer, a phone, or how about any training they may need? Might you require a vehicle?

Third, you must plot and strategize on how you will get from your current state to your desired state that would enable you to launch the product or business. Business Talk intends to explore more on how to raise funds for your business next week.

Fourth, if you own everything you listed that you need in order to launch, how many of your products or services could you sell in your first month? Your second month? Think through your sales on a month-by-month basis. Do NOT make assumptions about how much you can sell in one calendar year and then simply divide by twelve. Sweeping assumptions will yield you unreliable results. Your best guesses on what you can sell each month should derive from specific examples and ideas on whom and where you will sell.

Many entrepreneurs find it difficult to guess how much they will sell when they first start. So, they also might make a guess about their first month of sales and then just assume that their revenues grow a certain percentage each month thereafter. Such guessing leads to a higher likelihood of startup failure.

Instead, your projections come from two main factors that will drive your results: marketing and operations. What type of results do you expect from you marketing efforts? What type of sales force will you utilize and how many new clients per month do you expect from each sales agent? Next, do not irrationally predict sales larger than what you could actually supply given your respective operationally capabilities. Do not predict supplying all the food for every outgoing Kenya Airways flights if you operationally could only supply a small cafeteria. Even if you received the tender from KQ, you could not fulfill the contract.

Wealthy charitable investor Libby Cook, out of Boulder, Colorado, in the United States, who desires to invest in Kenyan startup businesses that hold a social mission advises prospective investees that it is far better to make conservative sales estimates and then exceed your targets
rather than excitedly over-predict and then fail to meet your projections. Such failure to meet expectations kills investor confidence and spells doom for an entrepreneur’s prospects of future funding.

In summary, do not avoid financial projections and just follow your gut. You need a plan. You can determine much of your projections yourself before you even need a costly financial consultant.

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In next week’s edition we explore “How to Fund your Business Venture”. Read current and prior Business Talk articles on the Business Daily’s website.

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