



NBA Operating Plan Forecast (Profit and Loss Projection)

The National Business Association (NBA) takes pride in serving the small business community. Small businesses form the backbone of the American economy. Yet, they do not enjoy the same benefits and services that Fortune 500 company employees enjoy. The NBA, a not-for-profit association, was specifically designed and is actively managed to do just that - assist the Self-Employed and Small Business Community in achieving their professional goals. The NBA uses its group buying power to provide our members with support programs, cost and time saving products, services, and valuable small business resource materials.

The NBA has formed strategic alliances with governmental agencies to help the small business community. The NBA informs its membership on issues pertaining to the small business community from the Small Business Administration, Department of Commerce, and the Internal Revenue Service and disseminates information on government policy in Washington through its Public Policy Advisor. The NBA's partnership with SCORE - Counselors to America's Small Businesses and the Association of Small Business Development Centers (ASBDC) help members receive counseling, mentoring, and invaluable business tools through these organizations.

For more information on our benefits and services, please call us at 800-456-0440 or log on to our Web site at www.nationalbusiness.org. If you wish to contact us via e-mail, please do so at info@nationalbusiness.org.

The NBA Operating Plan Forecast (Profit and Loss Projection)

Where to Begin

The work of developing the estimates can begin either with sales or with expenses.

Most business people find it valuable to begin by estimating expenses first. This way, the user can project break-even points, assess their reasonableness, and determine if projected sales will yield an adequate profit margin. However, if a forecast has not been prepared previously for the firm, and unit cost information is not readily available, some will prefer to estimate the market potential first, in terms of the expected dollar amount of monthly sales. No matter which way the estimates are started, it is important to pay attention to both sales and expenses. Develop a complete estimate of expenses and project a reasonable estimate of sales that are attainable based on the prices and marketing methods to be used.

Expenses can be estimated by unit costs. To do so, determine the cost of materials and direct labor required for each unit produced or sold. These costs are part of the variable expenses that include any cost that varies directly with the number of units produced/sold, such as sales commissions, packaging cost, delivery fees, etc. Depending on the number of units to be produced/sold, the resulting variable expense is added to the total fixed expenses – those that go on regardless of the volume of business done, like phones, basic utilities, insurance, interest, depreciation, etc.

Based on the above, a selling price can be determined for the unit and an estimate made of the number of units that can be sold at that price. Multiplying the expected sales times the price yields dollar sales volume.

Revenue (Sales) - Look at each department of the firm. Determine the number of units of products or services you realistically expected to sell each month in each department at the prices you expect to get. Use this phase of the estimating process to review your pricing practices. Do the selected prices reflect the “best” balance between what customers will pay and the volume of sales to be attained, considering the nature and type of competition? Have all potential markets been considered? What returns and markdowns can be expected? (Final sales estimates should be net of returns and markdowns)

Cost of Sales - Estimate the cost of sales for each of the sales categories listed under Revenue (Sales). Where materials (inventory) is involved, do not overlook transportation-in cost. Include any direct labor. Careful development of the cost of materials for each department can be used not only for this Forecast, but also for calculating the firm’s Monthly Cash Flow Projection. The figures also are useful as tools for controlling operations.

Evaluating the Estimates - After the estimates have been made and entries totaled, the owner-manager can compare the projected results with the profit goals for the firm. If the Forecast shows that expenses will not be covered, (or even though covered, not enough profit will be left) there is time to plan for the changes. For example, are services or merchandise priced too low? If costs and expenses are not out of line with projected sales volume (compared with industry averages), attention can be given to increasing sales through new promotional efforts or improving merchandising techniques. If interest expense, for example, is out of line, is there any excess equipment, inventory, or other business property that could be disposed of so that indebtedness and interest payments could be reduced with the proceeds? Where the results of the Forecast indicate changes to be made, new estimates are calculated. A Forecast is not rigid. It can be revised as often as necessary to reflect what realistically can be expected in the future.

Using the Forecast for Controlling Targets - Once operating expenses have been developed and entered on the Forecast, they can serve as definite targets for controlling business operation. As the actual operating results become known each month they are entered on the Forecast for comparison with the targets.

Evaluating Actual Results - Actual sales, cost of sales, and expense performance can be evaluated against several standards: to the targets for the month; to the operating average for the industry; to last

year's performance. Where actual sales are below target, or actual costs, or expenses, are above target, the owner-manager is able to pinpoint the cause(s).

For example, if payroll has been identified as overly large in relation to total sales-- Is time on each job being accurately recorded? Is travel time being properly accounted for? When employee overtime is paid, has the customer been charged? If work was done on a guaranteed-charge basis, does actual time on the job exceed the estimate? Are "fringe" benefits costs being omitted in the estimate? Can labor time be reduced by combining jobs or other changes? This is only one illustration of the value which this management tool can be for controlling the firm's operation.

Further Analysis - Comparative analysis using units of business activity can be of further help in gauging performance trends for better operations, control of sales, cost of sales, and expenses. Perhaps the more profitable departments of the operation suggest expansion possibilities, just as the less productive invite close review.

Value of this Forecast

An OPF can yield multiple benefits to the small business owner. First, the OPF is a valuable planning tool. Second, when the planning phase has been completed, the OPF becomes a key management tool in controlling the business operations to achieve the results planned for.

As a Planning Tool - The OPF enables the owner to develop a "preview" of the amount of profit or loss, which can be expected to be generated each month, for each quarter, and for the business year - based on reasonable predictions of monthly levels of sales, costs, and expenses. By having a "preview" of future operations the owner can compare, ahead of time, the year's expected profit or loss against profit goals and needs established for the business. If the results as forecasted are not satisfactory, there is time to identify what must be done in order to achieve satisfactory results for the year.

As a Control Tool- A completed Forecast enables the owner-manager to compare the figures for the actual results, as they become known, with the estimated or "targets" projected for that month. Where the results are out of line, steps can be taken to correct undesired deviations. By being able to see quickly where the trouble is, less time and money will be lost in getting back on track towards overall profit goals.

Limitation Regarding Cash Flow - Valuable as the Forecast is both as a business planning tool and as a management tool for controlling the business, the Forecast does not provide information about cash. Profits and cash are not the same thing. In order to project the firm's future cash requirements— as well as project the amount of cash it will have available to meet those requirements—it will be necessary to complete a separate schedule specifically designed for that purpose. (See SBA Form 1100, titled "Monthly Cash Flow Projection.") However, monthly estimates of sales, cost of sales, and expenses, needed for a cash flow projection can be easily obtained from this Forecast once it is completed.

Industry "Averages" - In starting the estimating process it may be desirable to enter into the "Industry Percentage" column of the Forecast, the average operating percentages for your industry. These percentages may be obtained from various sources such as Trade Associations, accountants, or banks. Also, the reference librarian in your nearest public library can refer you to appropriate documents containing the percentage figures. Industry "averages" can serve as a useful benchmark against which to compare cost and expense estimates being developed for your firm. Later, they will be useful for comparing the firm's actual operations.

Developing the Estimates - To get the most out of an Operating Plan Forecast, estimates should be developed for each operating element (sales, cost of sales, and expenses) for each month of the firm's operating year. When a firm's business cycle covers more than twelve months, or where special factors influencing the firm's activities will not properly be reflected during that period—example, long term construction projects—the Forecast should be extended for the appropriate additional period.

NBA Operating Plan Forecast (Profit and Loss Projection) for 1st Quarter for

Category	Actual Ind %	Month 1			Month 2			Month 3			1st Quarter Total		
		Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %
Revenue (sales)													
Taxable Sales													
Non-taxable Sales													
Total Revenue (sales)													
Cost of Goods Sold													
Purchases													
Cost of Labor													
Material & Supplies													
Other Costs													
Total Cost of Sales													
Gross Profit													
Expenses													
Advertising													
Car & Truck Expenses													
Commissions & Fees													
Depreciation													
Employee Benefit Programs													
Insurance (other than Health)													
Mortgage Interest													
Legal & Professional													
Office Expense													
Rent or Lease													
Repairs & Maintenance													
Supplies													
Taxes & Licenses													
Travel & Entertainment													
Utilities													
Wages													
Total Expenses													
Net Profit / (Loss)													

NBA Operating Plan Forecast (Profit and Loss Projection) for 2nd Quarter for

Category	Actual Ind %	Month 4			Month 5			Month 6			2nd Quarter Total		
		Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %
Revenue (sales)													
Taxable Sales													
Non-taxable Sales													
Total Revenue (sales)													
Cost of Goods Sold													
Purchases													
Cost of Labor													
Material & Supplies													
Other Costs													
Total Cost of Sales													
Gross Profit													
Expenses													
Advertising													
Car & Truck Expenses													
Commissions & Fees													
Depreciation													
Employee Benefit Programs													
Insurance (other than Health)													
Mortgage Interest													
Legal & Professional													
Office Expense													
Rent or Lease													
Repairs & Maintenance													
Supplies													
Taxes & Licenses													
Travel & Entertainment													
Utilities													
Wages													
Total Expenses													
Net Profit / (Loss)													

NBA Operating Plan Forecast (Profit and Loss Projection) for 3rd Quarter for

Category	Actual Ind %	Month 7			Month 8			Month 9			3rd Quarter Total		
		Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %
Revenue (sales)													
Taxable Sales													
Non-taxable Sales													
Total Revenue (sales)													
Cost of Goods Sold													
Purchases													
Cost of Labor													
Material & Supplies													
Other Costs													
Total Cost of Sales													
Gross Profit													
Expenses													
Advertising													
Car & Truck Expenses													
Commissions & Fees													
Depreciation													
Employee Benefit Programs													
Insurance (other than Health)													
Mortgage Interest													
Legal & Professional													
Office Expense													
Rent or Lease													
Repairs & Maintenance													
Supplies													
Taxes & Licenses													
Travel & Entertainment													
Utilities													
Wages													
Total Expenses													
Net Profit / (Loss)													

NBA Operating Plan Forecast (Profit and Loss Projection) for 4th Quarter for

Category	Actual Ind %	Month 10			Month 11			Month 12			4th Quarter Total		
		Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %
Revenue (sales)													
Taxable Sales													
Non-taxable Sales													
Total Revenue (sales)													
Cost of Goods Sold													
Purchases													
Cost of Labor													
Material & Supplies													
Other Costs													
Total Cost of Sales													
Gross Profit													
Expenses													
Advertising													
Car & Truck Expenses													
Commissions & Fees													
Depreciation													
Employee Benefit Programs													
Insurance (other than Health)													
Mortgage Interest													
Legal & Professional													
Office Expense													
Rent or Lease													
Repairs & Maintenance													
Supplies													
Taxes & Licenses													
Travel & Entertainment													
Utilities													
Wages													
Total Expenses													
Net Profit / (Loss)													

NBA Operating Plan Forecast (Profit and Loss Projection) YTD By Quarter for

Category	Actual Ind %	1st Quarter YTD			2nd Quarter YTD			3rd Quarter YTD			4th Quarter YTD		
		Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %	Estimate	Actual	Var %
Revenue (sales)													
Taxable Sales													
Non-taxable Sales													
Total Revenue (sales)													
Cost of Goods Sold													
Purchases													
Cost of Labor													
Material & Supplies													
Other Costs													
Total Cost of Sales													
Gross Profit													
Expenses													
Advertising													
Car & Truck Expenses													
Commissions & Fees													
Depreciation													
Employee Benefit Programs													
Insurance (other than Health)													
Mortgage Interest													
Legal & Professional													
Office Expense													
Rent or Lease													
Repairs & Maintenance													
Supplies													
Taxes & Licenses													
Travel & Entertainment													
Utilities													
Wages													
Total Expenses													
Net Profit / (Loss)													