



Institute for Entrepreneurial Leadership

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Financial Projections Guide

[See our guide video](#)

Introduction

Sometimes when people hear financial projections, they get unnerved and freak out a little bit. We want to communicate that if you can add, subtract, divide and multiply, you have the skills that it takes to do this financial projection model. This is a basic model, what we're trying to do is to get people comfortable with spreadsheets and we really want to help them to understand how to think about the inputs that go into financial projections.

Many business owners end up pulling numbers out of the hat and they don't have alignment between their revenue and their expenses. Just having someone to push back on the numbers a little bit and ask some questions is really helpful. These are two common questions that you should use:

- How did you come up with that?
- To get that level of revenue, what are the other expenses associated?

A best practice is to share your experience or give examples that get them to think critically about the numbers they are entering. We don't want to tell them what they must do.

We want them to put in real numbers, but it's okay if they use a "best guess" for purposes of this particular exercise. It's most important for them to understand how to get the numbers and how to think about the inputs in general so when they get full information, they actually know how to enter the numbers. As you walk them through the spreadsheet, you will see the "aha" moments they have when the numbers start making sense. It is really great when it happens.

Cost of Goods Tab

Start on the first tab, COGS and the gross margin.

The data entry goes into the yellow cells. We've tried to make it really easy. If it's not yellow, it's a formula, so leave it alone. Of course they or you can adjust the model if needed, but generally it's best to keep it simple to start.

The first thing is to enter the different revenue streams here. Let's say the business might have event revenue, merchandise sales, food sales, etc. you enter those. These labels will transfer over to the Sales Projections sheet.

Next, go to the pricing. This is the price that the customer pays on the first line, and then what the unit of sale is on the line below. Eg. Unit being 1 ticket, a bundle of products, 1 appointment of 60 minutes.

And then, move on to the Cost of Input for one unit of sale. Just enter in the individual input costs for 1 unit of sale as you defined the unit above. The total Cost of Goods calculates at the bottom. Point out that if the COGS is higher than the Price to the Customer, there is a problem!

Sales Projections Tab

You see there is information that is populated based on entries in the first tab. The price here is the Price to the Customer. In the yellow cells, you're going to enter how many of those units you are delivering each month.

When you enter the Sales Projects, how many units are being sold monthly, the revenue automatically calculates. The COGS also calculates based on the unit costs that were carried over from the prior tab.



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Point out that we break this down month by month because there could be fluctuations, maybe there's a particular month where you expect sales to dip or you expect sales to be higher. Help them to be thoughtful about when it is that they may have sales increases or decreases based on seasonality or planned growth.

Profit and Loss Tab

The revenue and the cost of sales have carried over from the other tabs and you see the gross margin calculation. One of the things that you want to do as you move through this work is to make sure they understand the terms and what they mean. Discuss that if they are seeing a negative or low number here, which yes, believe it or not, we have seen that happen, that's not a good thing. Help them to understand how their assumptions about their revenue and their costs need to be adjusted.

Next, discuss the operating expenses. We have some of the standard categories in here, but feel free to edit these. Make sure that they are thinking through the different expenses that they have for their particular business. We see a strong tendency to underestimate these different costs, especially payroll expense. We're not trying to be super, super comprehensive here, but realistic and in the ballpark. So, make sure, when they say their payroll is \$200 for the month that they have thought about all the people needed to make the business work. Marketing is another area that we see gross underestimation.

Mind them that these are projections so it's not just about what they have been doing. They need to look forward to think about what costs are required to build the business that they project in the future.

Walk them through the calculation of gross margin and operating profit. It seems simple but many business owners are starting with no prior knowledge. Talk with them about the bottom line. Be sure they are including money for themselves either in payroll expense or that there is enough operating profit for them to take a draw. Many business owners forget this very critical component...paying themselves!

Sources & Uses

This might not be relevant for everyone and if you don't have time to really get into this, that's fine. Just explain that when you're starting a business, you need to have some money to start, or if you're going to grow, maybe there is an investment needed.

Start with entering the Uses. Again, ask about all the areas for which they might need funding to start or grow, i.e., build out, branding consultant, starting inventory, legal fees, etc. Explain the concept of working capital as the funding needed to cover the periods that are negative on the P&L during start up or growth phases or to cover payment timing issues general.

Then go back to the sources and enter the Debt and Equity sources of capital. The majority of business owners will be looking for loans. Explain that the Sources and Uses need to match to ensure that they have the funding needed. No one wants to over fund a business and at the same time, not having enough money to cover the Uses could be a death sentence to the business.

Summary

This template is designed to be a basic introduction to doing financial projections. They can get fancy with it if they have that skill set, but the most important thing is to make sure that they have a solid understanding of the inputs and how a financial model works.

Thank you again for your support and sharing your expertise!