

A **QUICK START GUIDE** TO FINANCIAL FORECASTING

Discover the secret to driving **growth**,
profitability, and **cash flow** higher



PHILIP CAMPBELL

Foreword by
Steve Player

LOOK WHAT ENTREPRENEURS, BUSINESS OWNERS, INVESTORS, AND ADVISORS ARE SAYING ABOUT THIS GEM OF A BOOK

“Philip’s approach to financial forecasting has helped us completely turn around our profitability and cash flow and get it moving in a positive direction. I love the way he speaks and writes in a way that is simple and easy-to-understand. The principles in *A Quick Start Guide to Financial Forecasting* have become an integral part of how we plan and manage our financial future every month.”

—ANDREA SATO, CHIEF EXECUTIVE OFFICER,
GARY’S VACUFLO, INC.

“Cut out the chart **Building a Financially Strong Business** in the bonus chapter. Pin it, tape it, or post it where you can see it daily. Follow every step on there. Then use what Philip teaches in this book to make it happen. It will help turn your business into a secure, financially strong generator of CASH.”

—STAN TOUCHSTONE, OWNER,
KISSIMMEE VALLEY FEED AND RANCH SUPPLY, INC.

“*A Quick Start Guide to Financial Forecasting* takes a natural law ‘What you focus on you are more likely to achieve’ and translates it into a practical tool for improving your financial performance in business. Philip is your expert guide to using this often-overlooked tool, a reliable financial forecast, to create the view through the financial windshield of your business. You are going to love the tips and tools he shares in the book.”

—LARRY TYLER, BUSINESS ADVISOR,
AUTHOR, *ROMANCING THE LOAN*

“Thought provoking and detailed. Not only does Philip explain how to prepare a financial forecast, but he also helps you to understand the value and benefits of forecasting.”

—JOANNA VU, CPA

“Philip Campbell has a special knack for helping business owners uncover financial insights that others miss. *A Quick Start Guide to*

Financial Forecasting is a brilliant example of his talent for helping entrepreneurs use insightful, forward-looking financial information to develop a bigger and brighter financial future for their company.”

—ED LETTE, FOUNDER, PRESIDENT AND CEO,
BUSINESS BANK OF TEXAS

“This book provides an incredibly useful tool for entrepreneurs and finance people alike. It paints a compelling picture of the power of developing a more forward-thinking approach to financial performance. And I love the bonus chapter on how to assess the quality of a company’s accounting department. Very enlightening!”

—PATRICK FINN, CPA, PRINCIPAL, FINNANCIAL GROUP, LLC

“Many business owners and managers exhaust themselves and their employees trying to overcome strategic problems with brute force in their day-to-day efforts. They’re working hard and moving fast, but they’re moving in the wrong direction. As a CPA and consultant to small/medium-sized construction and manufacturing firms, I see this with nearly every new client. They’ve run themselves ragged trying to figure out what’s been happening to their business in recent years. When they finally approach our firm and the first question from me is about their forward operational planning and not about their historical numbers it comes as a shock.

This is nearly always the case; businesses are trying to compensate for their lack of strategic planning and forecasting with short-term Band-Aids and feel-good, immediate solutions that at best prolongs the problem and at worse dooms the business to failure in the long term. That’s why the principles and tools in *A Quick Start Guide to Financial Forecasting* are so important to business owners and managers. Whether this is your first exposure to forecasting or you’re a seasoned CFO with a talented FP&A staff, reading and applying these principles will seriously sharpen your financial skillset.

By providing clear motivation for why any business over a couple million in revenue needs a forecast, a clear process to create a forecast, and removal of common barriers to forecasting,

Mr. Campbell has penned a recipe for forecasting success and proven this recipe with examples throughout the book. Use what you learn from this book to speak with confidence to your lenders and investors when approaching expectations for coming months. Make better strategic decisions like expanding into new sales territories or shutting down an operation. Use a forecast as a bellwether to know if bad times are approaching.

I'm recommending *A Quick Start Guide to Financial Forecasting* to my clients and I highly recommend you read it too."

—JAMES H. JOHNSON, CPA, CITP, CGMA, MBA,
TRAINER, WRIGHT, & PATERNO CPAS

"The same way a pilot creates a flight plan and checks the weather forecast along their route, *A Quick Start Guide to Financial Forecasting* provides the view of where you want to take your business and helps you plan the route that will get you there safely and on time."

—ALI A. MOHAMMED,
MANAGING DIRECTOR, RAMCO INTERNATIONAL (U) LTD

"Philip Campbell has a unique talent for taking complex financial subjects and simplifying them so that every business can benefit. His knowledge and background are apparent in his depth of understanding of such difficult financial subjects as cash flow and forecasting. I have added *A Quick Start Guide to Financial Forecasting* to my list of required reading for entrepreneurs and business owners—a list which already includes Philip's first book *Never Run Out of Cash*."

—MARK A. ADAM B.A., B.Sc., M.B.A.,
LECTURER (SESSIONAL) IN FINANCE,
SCHOOL OF BUSINESS AND ECONOMICS,
THOMPSON RIVERS UNIVERSITY

"I enjoyed the focus on simplicity and the value of treating the forecasting process as a top-down exercise. The book provides specific tips and tools for those new to forecasting as well as the seasoned forecaster."

—JENNIE ENHOLM, CPA, CGMA

“I enjoyed and was challenged by the ‘think top-down, not bottom-up’ approach Philip Campbell teaches in this book. It will change the way you think as a business owner and help you drive different behavior throughout your company. *A Quick Start Guide to Financial Forecasting* is easy-to-read and provides engaging stories and examples you will find very relatable...and actionable.

I believe a business owner that is making some money, but not getting where he/she really wants to be, will benefit the most from this book. Sometimes business owners find themselves depressed for not having done ‘all the right things’. This book will inspire you to buckle down, take steps to create a reliable, top down overview and forecast, then hone in on where your business is truly going. THEN you can align it to where YOU want it to go!

I also believe that business owners that might not be making money, those that may have overpaid for their business or are overleveraged, will discover that Philip’s approach to financial forecasting will play a large role in their recovery.”

—JOHN ALBERS, PRESIDENT/CEO, THE ALBERS GROUP, LLC

Chapter 6

Choosing Your Software Tool—Spreadsheets vs. Forecasting Software

“If all you have is a hammer, everything looks like a nail.”

—ABRAHAM MASLOW

Forecasting tools generally fall into two categories: homegrown spreadsheets (usually in Excel) and forecasting software. Of course, spreadsheets are a common tool for all things financial. Creating a forecast in Excel can work well in a company with spreadsheet “power users,” analysts on staff to create and maintain the financial model, or an organization that prefers “roll your own” solutions to acquiring software from outside vendors. Spreadsheets can be fully customized and are relatively inexpensive to get started.

However, spreadsheets are not ideal for a company that prefers a more robust and lasting solution or one in which a complex legal entity consolidation is required to present consolidated actual and forecast results. Spreadsheets can become clunky and difficult to maintain over time, involve a lot of manual input, and are prone to human error unless significant time is spent managing and expanding the financial model. In addition, the underlying logic for modeling a

full set of financial statements is complex and must be developed and working properly before you can begin the actual forecasting work.

Forecasting software is specialized, dynamic, and built for large amounts of data as well as the ability to import data and perform complex reporting. However, it can be a costly solution that requires professional assistance and extra time to set up and maintain. Figure 6-1 shows the benefits and downsides of each.

Figure 6-1
SPREADSHEETS VS. SOFTWARE

Homegrown Spreadsheets	
BENEFITS	DOWNSIDES
Easy to get started quickly	Underlying financial model must be created
Ease of use if you are proficient with spreadsheets	Robust reporting capability must be created
Customization of the drivers, assumptions, and the look and feel	Manual entry of data in some cases
No new software to install or learn	Forecast periods must be regularly added to the model
No reliance on an outside vendor	Can become clunky and difficult to maintain over time
Inexpensive to get started	Complexity goes up as data is added
	Prone to human error

Forecasting Software	
BENEFITS	DOWNSIDES
Handles the underlying complexity of the financial model	Software must be purchased and learned
Handles the reporting of historical and forecast periods	Requires professional assistance to implement in many cases
Built on a database that can handle the accumulation of data	Takes longer to get your forecast process up and running
Ability to do multi-entity consolidations and reporting	Time and costs increase when customization is required
Ability to import data electronically	
Promotes a more repeatable forecasting process	

Whichever way you go, the software you build or choose for forecasting should:

- Include the underlying logic for forecasting (or modeling) a full set of financial statements.
- Provide the ability to forecast with financial and nonfinancial data.
- Import historical (actual) financial results.
- Present both historical and forecast results in reports, report packages, and exports.
- Display graphical views of data and trends (this is a powerful feature for communicating insight).
- Be easy to update and maintain each month.
- Make your monthly financial reporting process simple and fast.

FORECASTING SOFTWARE

I'm one of those financial guys who believes that spreadsheets are essential to business . . . but they are also a bit overused. It's the old saying that when all you have is a hammer, everything starts to look like a nail. Most of the time I spend in spreadsheets is focused on trying to simplify something. And building and maintaining a financial model over time is the opposite of simplification (at least for me because I'm not a spreadsheet power user).

There are many planning and forecasting applications on the market. Many of the high-end enterprise resource planning (ERP) and corporate performance management (CPM) systems include robust forecasting capabilities. These are generally expensive and used by large companies with large budgets. (By large company I'm referring to greater than \$500 million in revenues.) There are also tools that can work well in large companies as well as medium to smaller businesses. Those include:

- SurvivalWare
- PlanGuru
- Hyperion
- Adaptive Insights
- Prophix
- Host Analytics
- Budget Maestro
- bi360
- Tagetik
- . . . and many more

My personal experience with these tools is almost exclusively with SurvivalWare because I have been using it for the last twelve years. (As a result, I have had limited need to explore or evaluate other forecasting tools.) So, my specific comments and insights about forecasting tools will be based on my experience and knowledge of SurvivalWare. I'll also share some information about PlanGuru based on input from a super-bright CPA who owns and manages an accounting firm that caters to the accounting needs of U.S. based law firms. But all the forecasting tools are worth researching before you make your decision about which tool is best for your needs and for your company.

SurvivalWare – My Forecasting Tool of Choice

SurvivalWare is a powerful financial analysis and forecasting tool. I have used it for small and large companies, single entity and multi-entity companies, and multi-location franchise and non-franchise businesses across a wide variety of industries. I value the underlying financial model that is built for forecasting as well as its strong financial analysis, graphing, and reporting capabilities.

Rusty Luhning is the founder of Luhning SurvivalWare, Inc. and the genius behind the SurvivalWare application. Rusty spent twenty years creating sophisticated, customized financial models for large organizations including Marriott, Texaco, Federal Express, and

many others. Back in 2000, he decided to bring the sophisticated financial modeling technology used for large corporations to small and medium-sized companies. He recognized that smaller companies needed access to an affordable way to create forecasts and projections. He created SurvivalWare to put a powerful planning and analysis tool into the hands of companies who needed it even more so than large companies.

SurvivalWare is a windows-based program that is heavily graphical and comes with a simplified user interface. It is delivered with two off the shelf corporate planning models pre-built. You can also engage SurvivalWare consultants to create customized planning models and analysis systems that can be run by non-technical business owners and financial staff or advisors using the SurvivalWare platform.

Multi-Location, Multi-Entity Company. One client of SurvivalWare had multiple legal entities and was using spreadsheets as their consolidation and financial reporting tool. The owner wanted to put more focus on the key drivers of performance and she wanted a forecast so she could begin planning and working on driving profitability higher. She created a profitability forecast for each entity and then had it rolled up in order to see the consolidated view of results in addition to the entity level view. The project took her a long time to complete in her homegrown spreadsheet.

Then she realized that it was impossible to maintain each month. It turned out to be a one-time exercise because it could not be turned into a repeatable process each month. Not only that, but the spreadsheet version only included the income statement. There was no forecast for the balance sheet and cash flow. The complexity of forecasting a full set of financial statements was way beyond the capability of her homegrown spreadsheet approach.

With the help of SurvivalWare, and customizing it to the specific needs of her business model, she was able to implement a powerful

tool that simplified the monthly forecasting and management process for her multi-location and multi-entity business. It put the focus on the key drivers of performance and helped turn the monthly financial information into a fantastic decision-making tool for her and her investors.

Unique Capabilities for Franchise Companies. Another very unique capability of SurvivalWare is how it can be used by a franchise company. In years past, I was a CFO of an international franchisor where I came to understand a fascinating problem that exists in the franchise world. Everyone in franchising knows that the success of a franchise company ultimately comes down to financial performance at the location/franchisee level. Yet, the vast majority of franchisors don't have location-level profitability and cash flow numbers. They have no effective way of providing financial rankings, comparisons and benchmarks to their franchisees across the key performance measures that determine profitability and cash flow at the location level. Most franchisees have no fact-based, consistent way to compare their monthly financial results to best practices or overall averages so they can focus on the areas most in need of improvement.

Any business with hundreds of company-owned locations would have complete financial data on those stores to manage and compare. But virtually no franchise company has that same level of financial information. There are franchise systems with hundreds of franchisees running very similar businesses yet they don't have frequent, comparative, action oriented financial data so each franchisee knows exactly where they stand on the critical drivers of financial success at the location level. As a result, most franchisees are starving for easy-to-understand comparisons and benchmarks on key performance measures. It was true in the 1990s . . . and it's still true in many franchise companies today.

SurvivalWare solved that problem for a number of popular, respected franchise companies with hundreds of locations across the

U.S. Many of the features that make SurvivalWare a strong financial analysis and forecasting tool were ideally suited to the challenges of a multi-location franchise system. It provided the unique ability to:

- Allow the electronic import of a full set of financial statements from every franchisee automatically, regardless of the accounting system the franchisee used and regardless of their chart of accounts.
- Allow the electronic import of nonfinancial data from point-of-sale systems and other data sources in order to calculate the key drivers and metrics of financial performance.
- Automatically convert each franchisee's financial statements into a common format. The system uses an internal "map" from the franchisee's chart of accounts to the franchisor's common chart of accounts. This allows them to import a full set of financial and nonfinancial data every month.
- Provide the ability to review and distribute a full set of financial and operating rankings, benchmarks, and best practices based on the key performance measures that drive profitability and cash flow at the location level.
- Give franchisees a graphical dashboard view into those same key performance measures for the last 24 to 36 months to help them understand and manage their cash flow in a way impossible from their accounting system.
- Make it possible for the franchisee and/or the franchisor to create a reliable financial forecast down to the cash flow level.

Now the franchisor could finally bring the key performance measures and detailed financial results from across the system to their franchisees in an easy-to-understand, clear, and consistent format. The software made it possible for the franchisor to sort, filter, analyze, and present the key drivers of financial results across their entire system. Franchisees could quickly and easily see the dollar value of improving any of the key metrics and quantify how much money

they could put to their bottom line by improving in that specific performance category.

Paul Carlson, CPA, Uses PlanGuru

Paul Carlson is a CPA who owns and operates a unique accounting firm that caters to the accounting needs of U.S. based law firms. Paul uses PlanGuru to provide a reliable financial forecast for clients as part of his fractional Controller and CFO services. This service is designed for growing businesses that reach a point where they require the guidance of a Controller or CFO, but are not large enough to support a full-time position. His part-time Controller and CFO service provides the needed guidance for clients without the price tag of a full-time employee. Paul's firm goes above and beyond providing financial statements and tax returns for clients by helping law firms proactively manage and improve the financial side of their business. He uses financial forecasts to help his law firm clients:

- Avoid cash surprises.
- Provide a financial road map the partners can use to guide and manage the firm.
- Establish goals and measure financial and nonfinancial progress toward those goals.
- Provide the managing partners a way to document their partner distribution expectations.
- More clearly understand the difference between profits and cash flow.
- Closely link business decisions to the financial and cash flow implications of those decisions.

Paul has been using PlanGuru for five years. It is a database driven financial modeling tool that helps reduce formulas and assumption errors and provides the ability to forecast a full set of financial statements (including cash flow). Paul uses the “supporting schedules” feature so he can forecast payroll costs down to the employee level to make it easier

for clients to understand the numbers. (He has found this very helpful in working with his law firm clients.) PlanGuru provides what Paul describes as “clean control” of the key forecast assumptions. He also likes the ratio analysis reports and the ability to provide a scorecard that summarizes the key financial indicators for his client and helps provide the monthly feedback they need to continue to grow and improve their business.

You can learn more about Paul Carlson and his accounting firm at lawfirmvelocity.com and pcarlsoncpa.com.

The Case for Spreadsheets

I mentioned earlier that one reason I don’t use spreadsheets more often is that I am *not* a spreadsheet power user. For some reason that skill has alluded me over the years. But there are lots of spreadsheet power users out there who can turn a spreadsheet into an incredibly powerful tool for financial forecasting and analysis.

Meet James H. Johnson, CPA, of the accounting firm Trainer, Wright, & Paterno CPAs in Huntington, West Virginia. James is a power user extraordinaire who can work magic with a spreadsheet. He works in the firm’s consulting practice (TWP Consulting), where he specializes in helping manufacturing and construction companies turn numbers and data into insight and financial improvement. Much of his work revolves around helping CEOs understand the forward-looking view of financial performance while also doing a much deeper dive into operational performance metrics and day-to-day improvement opportunities. This is where his advanced systems knowledge shines when building and maintaining complex spreadsheets.

James uses ODBC and other database connectivity tools to connect directly to a company’s Enterprise Resource Planning (ERP) system from within his spreadsheet models. In a construction company, he would use these tools to bring in work in process details like

committed costs, final agreed upon price, and other data points relevant to decision making. In a manufacturing company, he might auto-populate detailed manufacturing and SKU level data to help management make very specific operational and manufacturing decisions. He merges his knowledge of accounting and technology to build spreadsheets that can be used every month to help a company fine-tune their decision making at both the strategic planning level as well as the day-to-day operational level.

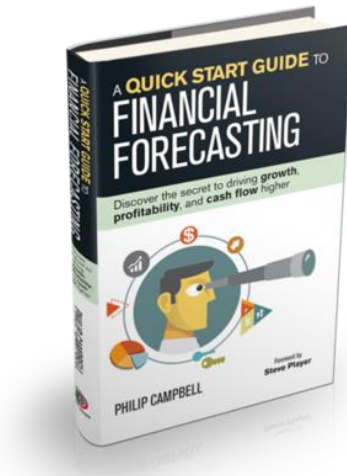
You can learn more about James and the firm at www.twpcpa.com.

GETTING STARTED

Chances are you are going to want (or need) someone to help you get your forecasting process up and running. Talk to your CFO, your controller, your CPA, or another outside resource experienced in using forecasts as a monthly tool for decision making. They will likely have a tool of choice that they regularly use for forecasts. They may have even created sophisticated financial models in spreadsheets designed to “plug and play” for their clients. Either way, the benefit for you is that you won’t have to make the decision yourself about which tool is best. Just make sure you talk with them about the benefits and downsides of the tool they prefer (or suggest).

If you have a hard time lining up the resources to help you, send me an email at pcampbell@financialrhythm.com or pcampbellcfo@gmail.com and I will happily point you in the right direction.

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