

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

This book is dedicated to John Jones, Steve Harter, Cary Vollintine, Finn Thoresen, and Chris Atayan. Over the course of my career, these CEOs helped me become a shareholder in their companies and share in the value they were creating. I absolutely love being a shareholder in great businesses. It creates a huge sense of pride that I thoroughly enjoy and value. Thank you very much for the trust you have shown in me and allowing me to be a shareholder in your company.

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Introduction

“If you don’t know where you are going, any road will get you there.”

—LEWIS CARROLL, *ALICE IN WONDERLAND*

The purpose of this book is to give you a straightforward, easy-to-implement guide to using one of the most powerful financial tools in business: **a reliable financial forecast**.

Creating the forward-looking view of financial performance is a surprisingly effective way to transform the financial future of your company. It will:

- Help you drive growth, profitability, and cash flow higher.
- Create confidence and clarity about where your business is going financially.
- Provide the roadmap for turning your vision and strategy for your business into a crystal clear view of what success should look like financially.
- Enhance confidence and credibility with lenders and investors so they provide the capital and support you need to grow your business.
- Help you make more courageous, confident, and profitable financial decisions.

In short, a reliable financial forecast will help you win in business.

Put yourself in the driver's seat by tapping into the unique and exciting benefits that financial forecasting can unlock for you.

Too many entrepreneurs today are feeling more like passengers than drivers in their business. They're staring at their rearview mirror as they bounce along in the passenger seat. Oftentimes their company is careening along on the highway of business as they wonder and worry about where their business might end up financially.

But, as B. C. Forbes, the founder of *Forbes Magazine*, said:

*"A business, like an automobile, has to be driven
in order to get results."*

Just like an automobile, your business can be driven in a way that is reckless and scary...or wise and cautious. It can be driven fast or it can be driven slow. But the business "has to be driven in order to get results." The business is going *somewhere*. The million dollar question is *where is your business going?* And will you arrive at your intended destination safely and on time?

A reliable financial forecast will help you create the visibility and clarity you need to drive your company toward a bigger and brighter financial future. It will reward you and your management team in exciting and surprising ways. And it will pay huge dividends for everyone interested in, or invested in, the financial success of your company.

LOOKING THROUGH YOUR FINANCIAL WINDSHIELD

This book is not a math-based deep dive into the intricacies of financial modeling. It's about a common-sense approach for entrepreneurs and CEOs who want to use forward-looking financial information to make better business decisions. Whether you want to do the actual forecasting work yourself or not, I'll show you the benefits and a systematic approach to seeing more clearly through the financial windshield of your business.

It's really easy to run a business day-to-day and end up spending most of your time looking through the rearview mirror (by exclusively focusing on historical financial statements). As a result, questions like these go unanswered:

- What does the future of my company look like financially?
- What does the view through the company's *financial windshield* look like?
- How much cash can we distribute to owners this year?
- How much cash will we generate in the coming months or years to pay down debt?
- How long will it take to pay off our debt?
- What do our profitability and cash flow look like by month over the next six to eighteen months?
- If we achieve our growth plans over the next few years, how much more valuable will the company be than it is today?

As you begin your financial forecasting journey, some new questions will pop up like:

- Do you understand your business model well enough to create a forecast or projection of what is likely to happen in the coming months?

- Can you identify the areas of uncertainty that your management team must deal with in order to hit your financial targets?
- Do you have a plan for mitigating the risks that could derail your growth plans?
- How are you going to exploit existing opportunities to grow and improve your profitability and cash flow?

Once you put a reliable financial forecast in place, the answers to these questions will jump off the page at you. Decision making will become more focused. Accountability will skyrocket. Financial surprises will diminish. It will make your job as CEO or business owner a lot easier...and a lot more effective and rewarding.

WINNING IN BUSINESS IS FUN...AND REWARDING

I have had the privilege of working with some amazing entrepreneurs and CEOs over the last thirty years. I refer to them as serious-minded entrepreneurs and CEOs. I've seen firsthand the enormous passion and commitment they have for their company.

I define a serious-minded entrepreneur or CEO as a person running a company who pays close attention to the two “factories” that exist in every business: the **customer factory** and the **money factory**. The customer factory is the part of the business dedicated to creating happy *customers*. A happy customer is a customer that loves your products and services, comes back often, and refers their friends and associates to you. The money factory is the part of your business dedicated to creating happy *owners*. A happy owner is an owner who receives healthy (and predictable) cash distributions from the business. A serious-minded entrepreneur is focused on both their customer factory *and* their money factory. Either by taking the lead themselves in each area or by having a strong management team and advisors dedicated to making sure both sides of the business are operating together as a well-oiled machine.

I bet you are just like them.

- Your financial future, and the financial future of your family, is riding on the success of your business.
- Winning in business is one of your highest priorities right now.
- You love your company and the unique challenges and opportunities it presents.
- You own a big chunk of the company and you have a passion for making it bigger and better every year.
- Deep down you know that your business must grow financially in order to turn your vision of success into reality.
- You've decided to turn the accounting and financial side of your business into a strategic asset that can help you grow and make more money.

I LOVE BUSINESS

I discovered early in my career that working with entrepreneurs and CEOs like you was part of my calling in business. I witnessed your love of business and your willingness to take risks to achieve your vision for your company. You have a unique ability to motivate people, you know how to get and keep customers, and you work relentlessly and tirelessly to make your company better and better every month.

I remember saying to myself many years ago, "I love business and there are smart entrepreneurs out there growing exciting companies. I understand how they think and I know the downsides they will experience if they allow the financial side of the business to underperform. I can mix my love of business with my unique approach to the accounting and financial side of the business to form a combination with CEOs that is both fun and rewarding for everyone involved. That's my calling!"

I'm a 55-year-old CPA and financial officer who absolutely loves business and the challenge of making money. I've spent the last thirty

years helping entrepreneurs and CEOs like you build, improve, buy, and sell great businesses. I've built a rewarding career by teaming up with smart CEOs and helping them grow and achieve their financial goals. It puts a big smile on my face just thinking (and writing) about it.

As a young CPA, I learned quickly that the key to adding value was helping business owners and executives understand what's going on *below the surface* of their financial statements. Later, as a CFO, I discovered the power of creating the forward-looking view of financial performance for CEOs. I learned that when you put insightful and action-oriented financial information in front of a smart CEO amazing things begin to happen in their business.

I've seen the surprise and delight on their face when they get visibility into what's about to happen financially rather than just seeing information about the past. It opens their eyes to the power of clarity and insight about the future. They begin to view financial information in a whole new light. They even begin paying closer attention to their financial statements. They discover the importance of identifying and focusing on the key drivers of financial performance. And not long after that, results begin to improve. Profitability and cash flow accelerate. The company begins to grow. And that puts a big smile on *everyone's* face.

THE TWO QUESTIONS YOU MUST ANSWER EVERY MONTH

You need to ask, and answer, two simple questions about the *financial side* of your business at the end of every month:

1. What happened (last month)?
2. What's about to happen (in the coming months)?

You need to have the information available to you to answer those two questions quickly...every month.

A well-designed monthly reporting package (with easy-to-understand historical financial statements and insight about results vs. plan) will help you answer the first question.

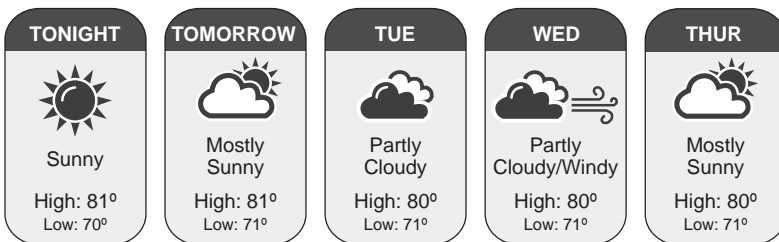
A reliable financial forecast will help you answer the second question. It will tell you instantly if your company is on track to achieve your financial goals or if you need to intervene in a specific area of the business.

When I am operating in a CFO or consultant role, it's my job to deliver financial information that answers those two questions in a simple, easy-to-understand fashion. In less than two minutes, you want to know how your business performed against your plan and what's likely to happen in the coming months. That's the objective of a well-designed monthly reporting package together with a reliable financial forecast.

IT'S ALL ABOUT DECISION MAKING, NOT PRECISION

Picture this in your mind. You are in Honolulu, Hawaii (one of my favorite places to spend time—you should put it on your travel list if you have not been there, or if you have not been there recently). Here's the weather you are enjoying on a beautiful Sunday afternoon as you admire the awesome view of Diamond Head on Waikiki Beach (this was in December).

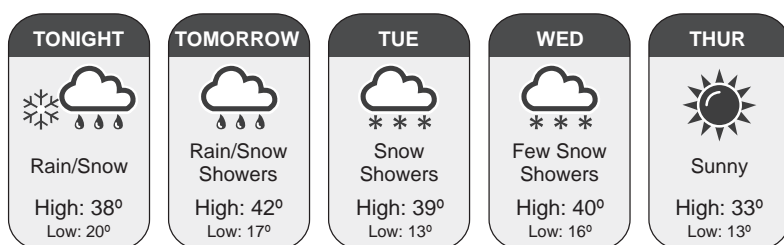
HAWAII WEATHER FORECAST



But you are leaving for Flagstaff, Arizona on Monday. (Why you would want to leave Hawaii in December is a whole different issue—the Humpback whales are just arriving—and whale watching in Hawaii, especially when you do some island hopping to Maui, is super-fun).

You need to make some decisions about what to pack. So, you pull up the weather forecast for Flagstaff and it says:

FLAGSTAFF WEATHER FORECAST



(Not everyone realizes Flagstaff is 7,000 feet above sea level even though it is in Arizona. Average annual snowfall there is about 100 inches.)

Is a weather forecast always going to be *exactly* right? Nope.

Is it *likely* to be cold and wet where you are going? Yep.

Is there any question what kind of clothes you should pack for your trip? Nope.

The question *isn't* whether the forecasted temperature is exactly right or if the exact day of the snow is right. The question is “What kind of clothes should I pack?” The forecast shows that it will likely snow and be very cold and wet on the front end of your trip. The forecast gives you enough information to make a smart decision about what to pack for your trip. That’s where the forecast brings value. It helps you make better decisions. The value of the forecast is in painting a picture of what you are likely to experience when you arrive in Flagstaff so you can make wise decisions *before* you leave Hawaii.

THE PANORAMIC VIEW

Let's say you decide to visit the Grand Canyon during your visit to Flagstaff. You are looking out over the South Rim and you want to take a picture to capture the beauty you are surrounded by and share it with your friends and family. But it's hard to capture the complete beauty in front of you in a single photograph. The beautiful view spans from your far left to your far right. So, you use the special panoramic feature of your smartphone (or camera) to capture more of the beautiful view.

Merriam-Webster defines panorama as “a picture exhibited a part at a time by being unrolled before the spectator; an unobstructed or complete view of an area in every direction; a comprehensive presentation of a subject.” In photography, capturing the panoramic view is a way to “stitch together” multiple images to create a single, wide photograph. In essence, you are able to capture a more complete view of the beauty in front of you.

Traditional financial statements are that single, non-panoramic, picture of financial performance in the past. The “panoramic view” of financial performance includes a reliable financial forecast so you have the more complete view of what's about to happen financially. A reliable financial forecast helps you “stitch together” the wider, more panoramic view of your financial performance. Why settle for that single snapshot of the past when you have a tool available to you to capture a complete view of your financial past, present, *and* future?

“We are all forecasters. When we think about changing jobs, getting married, buying a home, making an investment, launching a product, or retiring, we decide based on how we expect the future will unfold. These expectations are forecasts.”

—Philip E. Tetlock and Dan Gardner, *SuperForecasting*

A FUN LITTLE EXPERIMENT

Take a minute to try this fun little experiment. Stand up, cover your eyes with both hands, and then try to walk slowly to the opposite side of the room without bumping into something. Even in a room you are familiar with, it is very uncomfortable to walk across the room with both hands covering your eyes without running into something.

Now try it again...but this time separate your fingers just a tiny bit so you can see a little bit of light between your fingers. That little bit of visibility between your fingers is enough to help you walk safely across the room without bumping into something. That's what a reliable financial forecast is all about. It's not about providing *complete* visibility or certainty. It's about providing a little *glimpse* of what lies ahead so you increase the likelihood of reaching your destination safely.

It's like driving your car at night. You can only see as far as your headlights...but that's all you need. You can make your whole trip that way. It doesn't matter if your drive is five miles or five hundred miles. Shining a light on the road immediately ahead of you is all you need in order to get where you are going safely.

YOUR ROLE IN THE BUSINESS

If you have a CFO on your team, great. This book provides them the step-by-step process they can implement for you. It also shows a CFO how to use financial forecasting to increase their personal credibility and influence inside your company so they can play a more strategic and vital role in the future of your company.

If you don't have a dedicated CFO on your team, that doesn't mean your company doesn't have a CFO. You have one all right. It's YOU. (The million-dollar question is whether you're a CFO Rock Star or not.) You will need to learn how to implement the forecasting process I have set out for you. Or you can get some help from someone inside, or outside, your company to do it.

Either way, one of the benefits you will receive by reading this book is it provides you the roadmap for how a seasoned CFO can create true and lasting value for your company. This roadmap will come in very handy as your company grows and you begin looking for a dedicated CFO to add to your leadership team in the future.

CPAs, accountants, bookkeepers, and consultants who serve businesses will benefit from financial forecasting as well. The business owners and entrepreneurs you serve are starving for more insightful and action-oriented financial information. Helping clients see what's about to happen financially is a powerful way for you to add value. It helps you move past just providing the traditional financial statements or a tax return for your clients and begin to make a true and lasting impact on your client's business and its financial future.

WALKING THROUGH THE FORECASTING PROCESS

Here's how we'll walk through the financial forecasting process in this book:

1. Highlight the benefits of financial forecasting. This section speaks to the WHYs and purpose of forecasting. Specifically, why forecasting is the single most powerful tool to include in your financial toolkit if you are serious about creating financial success.
2. Show you the step-by-step process for planning, creating, and presenting your financial forecast. We'll talk about the common mistakes that people make in forecasting so you can avoid the pitfalls. I'll provide you the recipe to follow as you create your first forecast.
3. Provide you with next steps and tips on how to overcome the obstacles and roadblocks that can get in your way as you get your financial forecasting process up and running.

I have also included two bonus chapters for you.

The first bonus chapter is a 3-part plan for breathing financial life back into your business. It will give you a sensible plan, a roadmap,

you can follow that will guide you on your path to building a strong, wealth generating business. This roadmap will guide you along the full financial life cycle of your business.

The second bonus chapter will help you evaluate your accounting and finance function, what some consider a necessary evil, and turn it into an asset the financial community respects and admires and that forms the foundation for helping you grow and succeed financially. Too many entrepreneurs have a weak accounting and financial function in their business. It handcuffs their ability to grow and attract capital and talent. It hurts their credibility with bankers, lenders, investors, partners, and all those in the financial community you need to grow your business successfully. I'll show you how to turn the accounting and financial function within your business into an important strategic asset. An asset that will help you win in business. An asset that will help you create confidence and credibility with all the people interested in, and invested in, the financial success of your company.

Free Downloads and Examples

I have included in the free resources section of the website that supports this book (www.ILoveForecasting.com) several rapid-learning videos so you can watch an example of the forecasting process in action. I pull up my forecasting software tool of choice while you watch the step-by-step process with me explaining a very specific aspect of the forecasting process for you. You can both read and watch how the process works so you know exactly how to get started with your own forecast.

The short, rapid-learning videos are an important part of how I want to add value for you with this book. It will help crystalize the principles in a way that you will really enjoy. I sincerely want you to get value in an amount far, far greater than the time and money you have invested with me. I hope it will make the information easy to understand and easy to implement.

“Life is very much like a buffet line. Life is self-serve. Nobody brings it to you. You cannot sit at the table and bang your knife and fork for service. You have to get up, accept responsibility, and serve yourself.

If you want to get to the front of the buffet line of life, two steps are necessary. First, get in line! Make a decision to be excellent at what you do and then get in line. From that moment on, do something every day to improve. Second, stay in line. Don't make an occasional attempt at personal improvement and then go back and watch television. Get in line and stay in line.

Keep putting one foot in front of the other. Learn and practice new things every single day. Keep moving forward. Never lose your momentum.”

—Brian Tracy, *Focal Point*

In the videos (and throughout the book), I will focus on modeling a full set of financial statements. We are not just forecasting profit. We are going to create a forecast that includes an income statement, balance sheet, and statement of cash flows. We want a full set of financial statements so we have a view of what we expect financial results, financial position, and cash flows to look like for the near future. That way we are hooking the overall vision and strategy you have for your company up to the likely financial implications of achieving that strategy.

SMALL HINGES SWING BIG DOORS

Financial forecasting is a powerful business tool all by itself. But what excites me even more is the way a reliable financial forecast opens the door to even bigger benefits in your business. It starts by providing you a clear view of where you are going financially. It shines a light on the dangers and opportunities that lie ahead on your journey to grow and succeed in business.

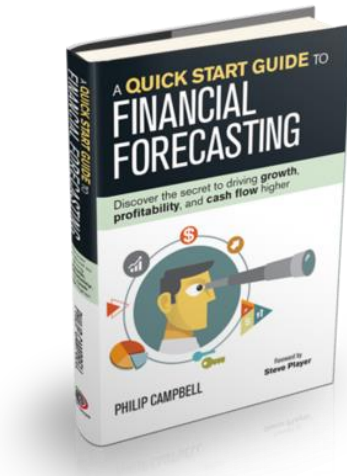
Then even larger doors begin to swing open.

As you make forecasting a part of your monthly financial rhythm, you begin to develop a deeper understanding of your business model and the key drivers of financial results. It creates clarity for you and your management team about what financial success should look like. It highlights the specific drivers of profitability and cash flow that are ripe for improvement. Your team begins to better understand the financial statements and they start using them as a decision-making tool. It becomes so much easier to respond to the curve balls that business will throw at you from time to time.

Your confidence goes up. Your lenders' and investors' confidence in you goes up. The business becomes easier to manage. You spend less time fighting fires. You reduce risk. You free up more of your time to focus on the parts of your business you enjoy and the areas where you can have the biggest impact.

And it all starts with a reliable financial forecast.

A Quick Start Guide to Financial Forecasting



I hope you enjoyed reading this complimentary chapter from the book **A Quick Start Guide to Financial Forecasting: Discover the Secret to Driving Growth, Profitability, and Cash Flow Higher**.

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