

The Ultimate

Small Business Playbook



By: B2B CFO[®] www.b2bcfo.com

The Ultimate Small Business Playbook

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Introduction

Thank you for downloading the latest e-book from [B2B CFO®](#). We have tried to compile a collection of insightful business tips for the small business owner. These articles are written by B2B CFO® partners and are the result of over 5,000 years of collective experience in the business world.

We have organized these articles by author rather than topic since there are so many different categories that are addressed. Please review the table of contents in order to find the articles that can help you the most with your business.

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Articles By Mark Gandy

What Forecasting is Not

Forecasting is not about **predicting** the future. And while everyone knows that, the CEO's and [CFO's](#) in the war room continue to forecast like they are predicting what will likely happen. At least that's what I experience regularly through listening to corporate leaders.

Instead, let this small-town CFO offer his take on forecasting (it can be cash, production levels, sales, or how many games the Cubs will lose this year):

1. Forecasting is about trying to make better business decisions based on what we know today. Accordingly, *forecasting is not a prediction*. Bottom line, the forecast is only as good as your assumptions. Poor forecasts? Then the result is poor assumptions.
2. You will get better at this over time. *Accordingly, forecasting is not an ongoing practice of futility*.

Let's say you start a forecasting process as part of a new management system you start (one that forecasts sales, production levels, and inventory). I promise you the first 3 or 4 months will be fair to poor. But in time, you will get better and better. One way to show improvement in this process is to use a **waterfall chart** – I give them to clients who are only serious about excellence and want to take their B game to an A game in all areas of their business. Stay the course; you'll get better at this.

3. Forecasting starts at the macro level, *not the micro/detailed levels*. That's why I initially don't like accountants involved in forecasting. Many like to start with the details and look at history. Instead, the view should start high (where's the market heading, what are the current trends, what's happening in the economy). Ignore the macro level and you are flirting with disaster.

Case in point, I was visiting with a banker (one of the sharpest banking minds I've ever encountered in 20 years). We were talking about case goods for wine product. He stated some wineries like to push growth to the extent they case too many gallons, then they get stuck with all those case goods. The end result is that they have to dump the goods through huge discounts. I countered that would never happen in an environment where there is a formal forecasting and planning process in place. He agreed.

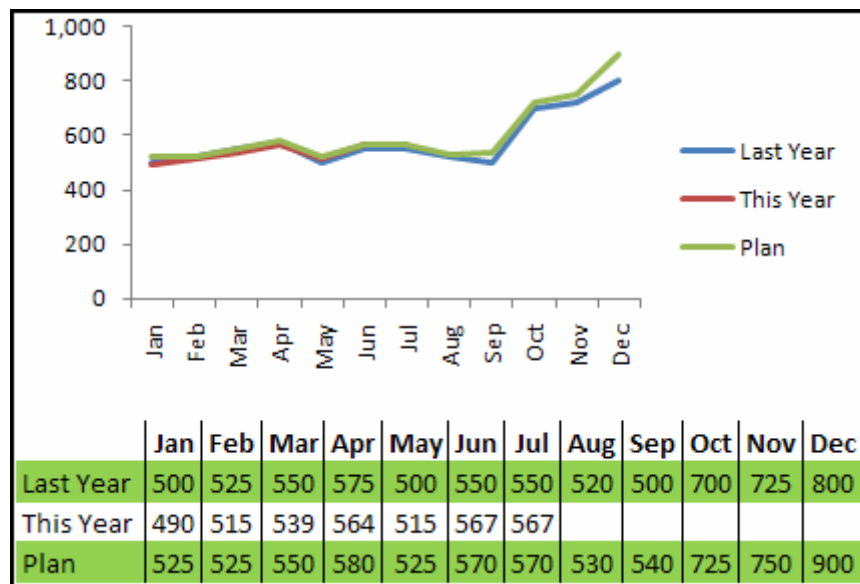
Parting Comments

Finally, eventually dump the term forecast and exchange it for the term plan, because that's exactly what we're doing—planning the future based on what we know today. The planning

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process should be adaptive, agile, and collaborative. Adaptive and agile are self-explanatory. Collaborative means getting the key team involved (the sales VP, the OPs manager, the CFO).

And while we said forecasting is about trying to make better decisions, specifically, it's about matching demand with supply. So if you are a products-based business, understanding the future demand helps you to plan production and inventory levels accordingly. The same applies to service-based businesses. There's an art to planning excess capacity human resources when future demand looks weak. Bottom line, the goal is to get demand to approximate your supply-side products or service levels.



Weekly Financials

One of my favorite topics—*weekly financial statements*.

My third controller/CFO client in 2001 actually taught me something. While I was big on the one-day close or same-day close already, I never knew about weekly financials in non-banking situations (as a KPMG Peat Marwick accountant, my bank clients had those ugly green bar reports showing their financials from the day before—so I knew about daily financials already, albeit in the banking arena).

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Ten years later, the weekly financial report is one of the most important flash reports you need to look at every Friday or Monday. And below are just a few recommendations to pull these off:

1. Keep them simple. Quickly, you want to know what happened last week and if changes are needed. You should only need to study this flash reporting in just a couple minutes, so detail is not required. Certainly, if you want drill-down capability, the make that supplemental detail, but keep the primary reporting stupidly simple.

2. Forget the monthly/period expenses. Just focus on direct costs. Only do payroll every two weeks? No big deal. In this case, you need two pieces of information—hours worked and average hourly pay rate. Those can be used to calculate direct labor. I have a sample contribution margin report below showing the numbers that count.

3. Consider a trailing 4 or 8 week analysis with a target column. I like 4 weeks because I'm concerned about last week and I already know what I want my target to be. If I want to do trend analysis, that's fine and there's great software to do that. I want this darn thing to be simple and a quick-read. Four weeks works for me. It should for you.

4. Tailor to your situation. In the example below, the format and process works great for retail, distribution, and hospitality. How about service firms with longer-term projects? Then customize. For example, columns could include each project showing current revenues with direct costs and then expected revenues and costs to complete. Remember, there are no rules for format and what's included or left out—you make the rules. Bottom line; find a weekly reporting format that works in your situation.

DO THIS. There is no excuse not to include these in your weekly flash reporting. Ignorance, laziness, and apathy are not reasons to punt on these. Want to be better? Implement this stupidly simple tool. The time and expense to develop and implement this process will be very low.

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	Trailing 4-Week Contribution Margin				Target
	1/13/2011	1/20/2011	1/27/2011	2/3/2011	
Revenue	725,000	729,000	692,000	713,000	715,000
Cost of Revenue					
Product	239,250	247,860	224,900	249,550	232,375
Labor	42,050	61,965	40,136	55,614	56,485
Freight	7,250	8,748	8,996	7,130	8,580
Other Direct	14,500	18,225	13,840	14,973	13,585
	303,050	336,798	287,872	327,267	311,025
Contribution Margin	421,950	392,202	404,128	385,733	403,975

	Trailing 4-Week Contribution Margin				Target
	1/13/2011	1/20/2011	1/27/2011	2/3/2011	
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue					
Product	33.0%	34.0%	32.5%	35.0%	32.5%
Labor	5.8%	8.5%	5.8%	7.8%	7.9%
Freight	1.0%	1.2%	1.3%	1.0%	1.2%
Other Direct	2.0%	2.5%	2.0%	2.1%	1.9%
	41.8%	46.2%	41.6%	45.9%	43.5%
Contribution Margin	58.2%	53.8%	58.4%	54.1%	56.5%

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