
THE FINANCIAL PLAN

The financial plan will help you (and any potential lender) estimate how much cash will be needed and when in order to start and maintain a profitable business. You'll also be able to estimate how much profit you can generate, given the level of capital you are able (or willing) to invest.

The process of creating financial projections for your business's income, cash flow and financial position will force you to think through the financial transactions you plan to complete at a fairly high level of detail. Through this process, any discrepancies, gaps or unrealistic assumptions will more than likely come to light.

The information you will need to pull the financial projections together will, for the most part, already have been created when you completed the marketing, operating and human resources plans in earlier sections. Since much of the information you'll be working with is subject to uncertainty, you'll be wise to create three sets of projections:

- a "pessimistic" scenario;
- a "most likely" scenario; and
- an "optimistic" scenario.

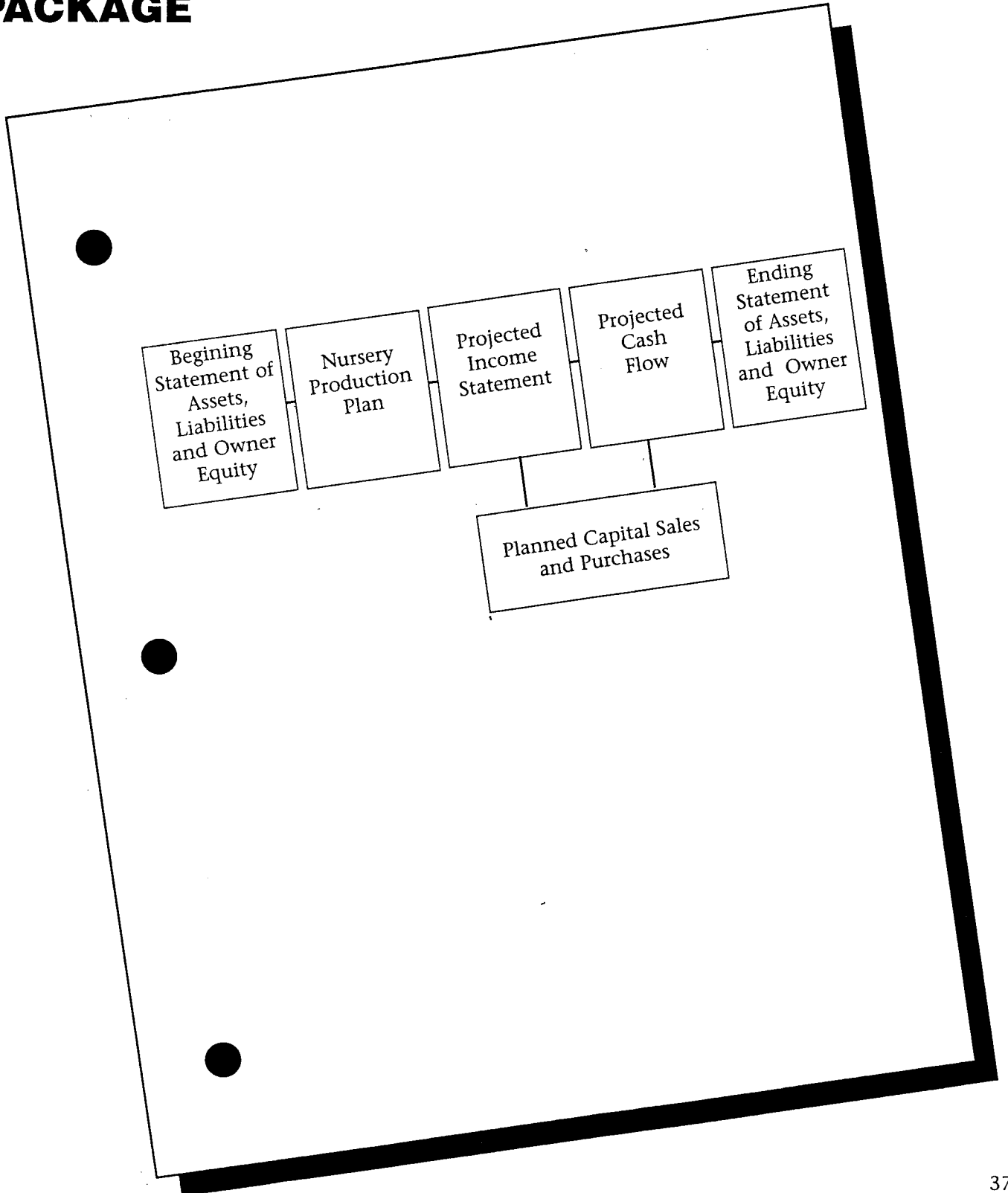
The change in profits and cash requirements from one scenario to another will indicate to you the degree of risk you're likely to be facing.

When preparing a financial plan for an existing business, statements for the past two or three years should be included. This gives some comparison between projections and what actually happened in previous years. In particular it allows you to see if there are any major changes in key financial ratios between the historic numbers and the projected numbers.

When the business plan is being used to acquire financing, detailed lists of inventories, accounts receivable, accounts payable, insurance coverage, copies of legal agreements, orders, letters of intent, appraisals, personal net worth statements and references may also be required.

The British Columbia Ministry of Agriculture, Fisheries and Food has Planning Packages available to producers to assist them in their planning process. The following schematic illustrates how the financial planning package can be used when developing a financial plan. Copies are available from the Farm Management Branch or your closest district office.

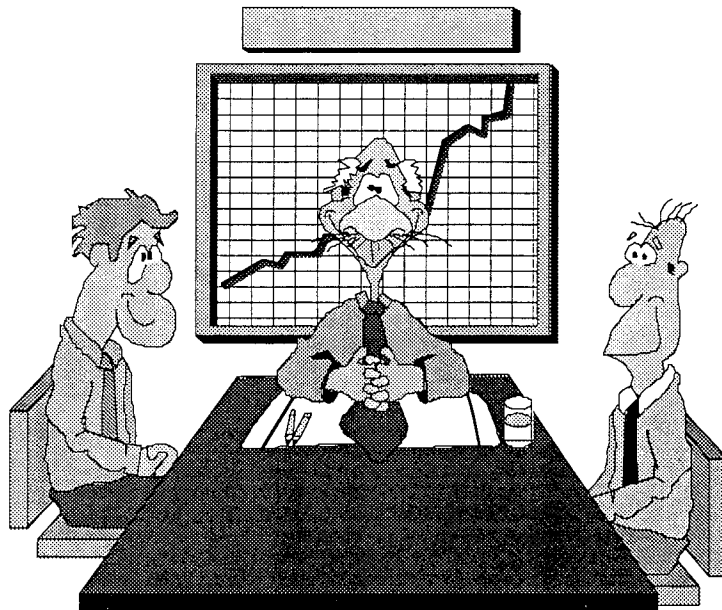
NURSERY PLANNING PACKAGE



INCOME STATEMENT

Prepare a schedule showing projected income from sales for the next two years. For an existing business, include information from the last two or three years. The figures used in the example form are shown only as an illustration; you should not, therefore, use the figures in preparing your own projections. These numbers follow the example of the nursery operator who wishes to increase his sales by adding a new line of product. This new line of product is one gallon azaleas.

Note that the operation incurs a very large increase in production costs in 1995 to achieve the increase in sales in 1996. This results in a loss showing on the income statement in 1995. There is however a corresponding increase in assets (via inventory increase) which shows up on the balance sheet. This inventory increase ensures that there is still equity in the company. On a cash flow basis, this becomes a cash deficit that must be made up with either borrowed money or increased cash investment by the owner or other outside investors.



INCOME STATEMENT EXAMPLE

	INCOME STATEMENT			
	1992	1993	1994	1995
REVENUE				
Dec Shrubs-#1	\$100,00	\$63,000	\$63,000	\$63,000
Dec Shrubs -#2	75,000	62,500	62,500	62,500
Conifers #1	130,000	40,750	40,750	40,750
Conifers #2	120,000	108,750	108,750	108,750
Deciduous #5	125,000	100,000	100,000	100,000
Azaleas	-	-	-	-
	\$550,000	\$375,000	\$375,000	\$375,000
EXPENSES				
Plant material	140,000	95,000	97,000	180,525
Fertilizer	4,500	4,000	3,800	9,500
Chemicals	3,800	2,555	2,455	8,700
Irrigation & Maint.	10,230	9,000	9,400	10,000
Equip. operation	7,800	7,500	8,250	9,000
Other	22,000	12,500	14,500	12,000
	\$188,330	\$130,555	\$135,405	\$229,725
Man. wages & sala.	65,000	55,000	55,000	55,000
Staff wages & sala.	154,000	144,000	105,000	152,000
Advertising	2,000	2,000	1,500	6,000
Acct & Legal	5,500	5,500	6,000	7,000
Depreciation	38,000	30,000	24,000	20,000
Interest	8,900	12,500	10,700	37,474
Other	40,200	36,500	37,500	38,000
	\$313,600	\$285,500	\$239,700	\$315,474
TOTAL EXPENSES	\$501,930	\$416,055	\$375,105	\$545,199
NET INCOME	\$48,070	-\$41,055	-\$105	-\$170,000

CASH FLOW SUMMARY

Accurate cash flow planning is essential. Inadequate working capital is a common cause of small business failure, especially during the first three to five years.

When cash flow is tight, you may want to evaluate the benefits of leasing rather than purchasing capital assets.

Identify the cash inflows and outflows for your business operation over three years of operations. Remember that cash may not be received until one or more months after the sale is made. In the nursery industry it is not uncommon to be paid 90 days after invoice. It is critical when doing cash flow planning to develop realistic assumptions on the time lag for payments. Similarly, some expenses, such as insurance, are paid all in one payment, creating peaks and valleys in cash flows. The surplus or deficit at the bottom of the statement will show the increase or decrease of any bank loan which you will require during the year.

For proper monitoring of business operations and for most financial institutions, monthly summaries are required for the upcoming year. Any projections past one year are usually done on a yearly or quarterly basis. The example provided below follows the example of the nursery operator who wishes to increase his production and sales by 50,000 one gallon azaleas.

In this example you can see that even though the end of year cash position is only negative \$118,432, the lowest point in cash comes in April with negative \$429,227. The nursery operator will have to have financing available to cover this. If monthly cash flows are not done there is no way of predicting that the cash flow will hit this low of a figure. Yearly or quarterly projections will not pick this up.

**CASH FLOW
SUMMARY
EXAMPLE**

See Appendix 1
page 59

PROJECTED STATEMENT OF ASSETS, LIABILITIES AND OWNER'S EQUITY

Prepare a schedule showing a projected statement of assets and liabilities at the end of each year for the next three years. For an existing business, include information for the last two or three years. This statement shows how the nursery's assets and liabilities are building over the period covered by the statement. It can be useful as well for determining whether there is security available for any loans that might be required.



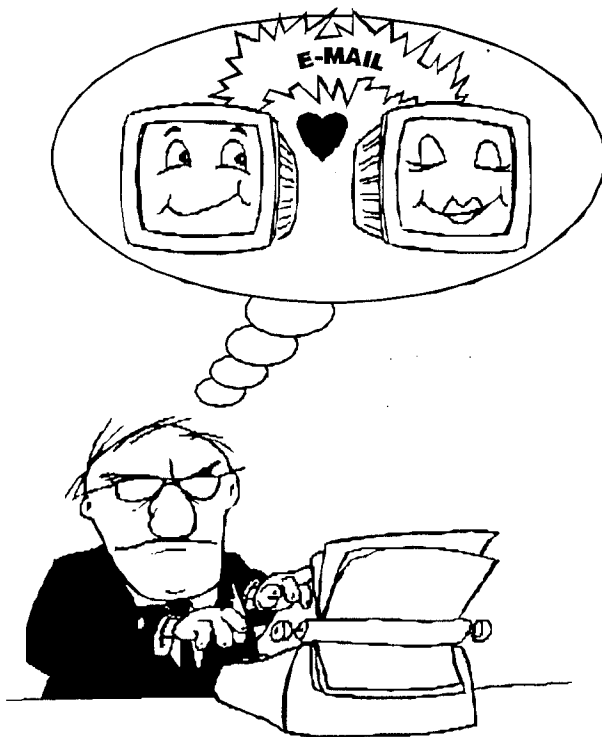
PROJECTED STATEMENT OF ASSETS, LIABILITIES AND OWNER'S EQUITY EXAMPLE

BALANCE SHEET @ DECEMBER 31, 1995		1995
ASSETS		
<i>Current Assets</i>		
Cash		\$165,000
Accounts Receivable		42,000
Inventory	176,000	
Plant	12,600	
Other		<u>189,200</u>
		<u>6,500</u>
Other		\$72,700
 <i>Fixed Assets</i>		
Land		100,000
Buildings		23,000
Equipment		<u>77,000</u>
		200,000
 <i>Other Assets</i>		
		<u>\$272,700</u>
TOTAL ASSETS		
LIABILITIES & EQUITY		
<i>Current Liabilities</i>		
Accounts Payable		22,500
Other Liabilities		<u>22,500</u>
		100,000
 <i>Non Current Liabilities</i>		
		<u>150,200</u>
 <i>Equity</i>		
Capital & Retained Earnings		<u>\$272,700</u>
TOTAL LIABILITIES AND EQUITY		

CAPITAL SALES, PURCHASES

Investors and lenders will require detailed information on the capital purchases that are anticipated during the planning period as well as information on how these assets are to be financed, and the expected useful life of the asset. For a new business, detailed information itemizing the cost of land, buildings and equipment would be required. An established or expanding business would detail just the changes anticipated.

Leasing assets and contracting services should be considered where they can be employed as a feasible way to increase profitability or reduce risk.



CAPITAL SALES, PURCHASES EXAMPLE

Item	Sales Trade-in	Purchases	Cash Down	Required Financing	Monthly Payments	CCA Rate
Intermediate Assets						
Bob Cat	0	27,000	6,000	21,000 ⁵	628.45	
5 Ton Truck	0	40,000	10,000	30,000 ⁶	820.66	
Total Immediate		67,000	16,000	51,000	1449.11	
Long term Assets						
Greenhouses	0	5,000	0	50,000 ⁷	1037.03	
TOTAL		117,000	16,000	101,000	2,487.03	

⁵ Dealer financing at 4.9%
⁶ Bank financing at 8.5%
⁷ Bank financing at 9.0%

LOAN SUMMARY

Information on existing loans is required for both existing loans and new loans. Loan information should outline the interest rate being paid, frequency of payments, security given, type of loan, i.e. amortized (where annual payments remain the same over the life of the loan) or non-amortized and outstanding balance, the amount of new loans and outstanding balance, and financial institution for existing loans.

LOAN SUMMARY EXAMPLE

Item	Loan #1	Loan #2	Loan #3
1. Date incurred	July 1, 1995	July 1, 1995	
2. Original amount	21,000	40,000	
3. Purpose	Skidsteer loader	5 ton truck	
4. Amount owing	21,000	40,000	
5. Interest rate	4.9%	9.0%	
6. Payment frequency	monthly	monthly	
7. Annual payment	7541.40	9847.67	
8. Principal	21,000	40,000	
9. Interest	1624.07	9239.67	
10. Source/lender	Dealer	Dealer	
11. Security provided	6,000 down	10,000 down	
12. Term	36 month	60 month	
13. Amortized/ non amortized (A/N)			

The above table gives an example of the two dealer loans showing the interest rate, yearly payment, total interest paid over the life of the loan etc.

FINANCIAL PERFORMANCE INDICATORS

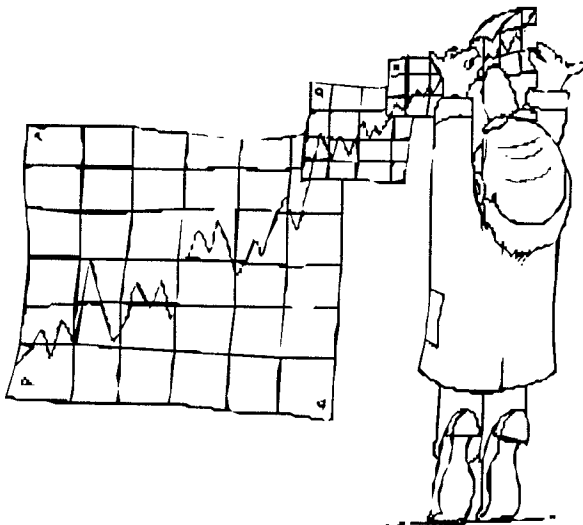
In this section, calculate profit, risk and growth ratios for your business. These ratios are calculated from information on the financial statements and provide guidelines to measure the progress of your business and alert you to problems.

Profitability ratios including Return on Equity and Return on Investment indicate how efficiently your capital is being used.

Risk ratios including the Current Ratio, the Debt Servicing Ratio, and Debt to Equity Ratio indicate the ability of your business to carry on when unexpected problems arise.

Growth ratios including the Sales Growth Ratio and the Equity Growth Ratio can be used to track financial progress.

Future ratios should be based on the "most likely" sales forecast. For more information and examples of how to calculate these ratios, refer to the British Columbia Ministry of Agriculture, Fisheries and Food Factsheet 1990-07, *Financial Analysis Using Financial Ratios*.



FINANCIAL PERFORMANCE INDICATORS EXAMPLE

You can use the financial information provided to calculate the appropriate numbers for the table below. Bench-marks are given where the industry data is available.

Financial Ratios (Formula)	1995	1996	1997	Bench-mark ^a
Profitability Ratios				
Return on Equity (%)				10.3%
$\frac{\text{net income} \times 100}{\text{total equity}}$				
Return on Investment (%)				5.1%
$\frac{\text{net income} + \text{paid interest} \times 100}{\text{total investment}}$				
Liquidity (Risk) Ratios				
Current Ratio				3.34
$\frac{\text{current assets}}{\text{current liabilities}}$				
Quick Ratio				1.25
$\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$				
Debt to Equity Ratio				50.9%
$\frac{\text{total liabilities}}{\text{total equity}}$				
Interest Coverage Ratios				
Debt Servicing Ratio (%)				
$\frac{\text{net income} + \text{interest}}{\text{interest expense}}$				
$\frac{\text{annual payments} \times 100}{\text{total revenue}}$				
Growth Ratios				
Sales Growth (%)				
$\frac{\text{sales increase} \times 100}{\text{previous sales}}$				
Equity Growth (%)				
$\frac{\text{equity increase} \times 100}{\text{previous years equity}}$				

^a Don Ference & Associates., 1991, Profile of the BC Nursery Industry, pub. BC Nursery Trades Association

THE LONG-RANGE PLAN

The long-range plan (covering the next 5 to 10 years) helps to keep your business progressing toward goals which are consistent with your long-range goals and objectives. Answers to questions such as "where would I like the business to be in 10 years?" and "what will the business look like?" will form the backbone of your long-range plan. When you've defined the goals and objectives, you can then anticipate the major steps or milestones which must be reached over the next five years in order to achieve the longer term objectives.

Reaching these milestones will likely require additional management, production and/or marketing skills. You can begin to think about what these needs are now and formulate plans to acquire them.

THE LONG-RANGE PLANNING EXAMPLE

Business Goals and Objectives

- maintain a profitable business with a positive net income
- maintain production goals set out in this plan
- implement production and labour practices which will optimize yields
- develop a reputation as a producer of fine quality nursery stock, especially Azaleas

Major Milestones

- get out "from under the bank" within 10 years

Additional Production, Financial and Labour Management, or Marketing Skills Required

- attend conferences and workshops on management skills
- read to keep abreast of new developments in the industry