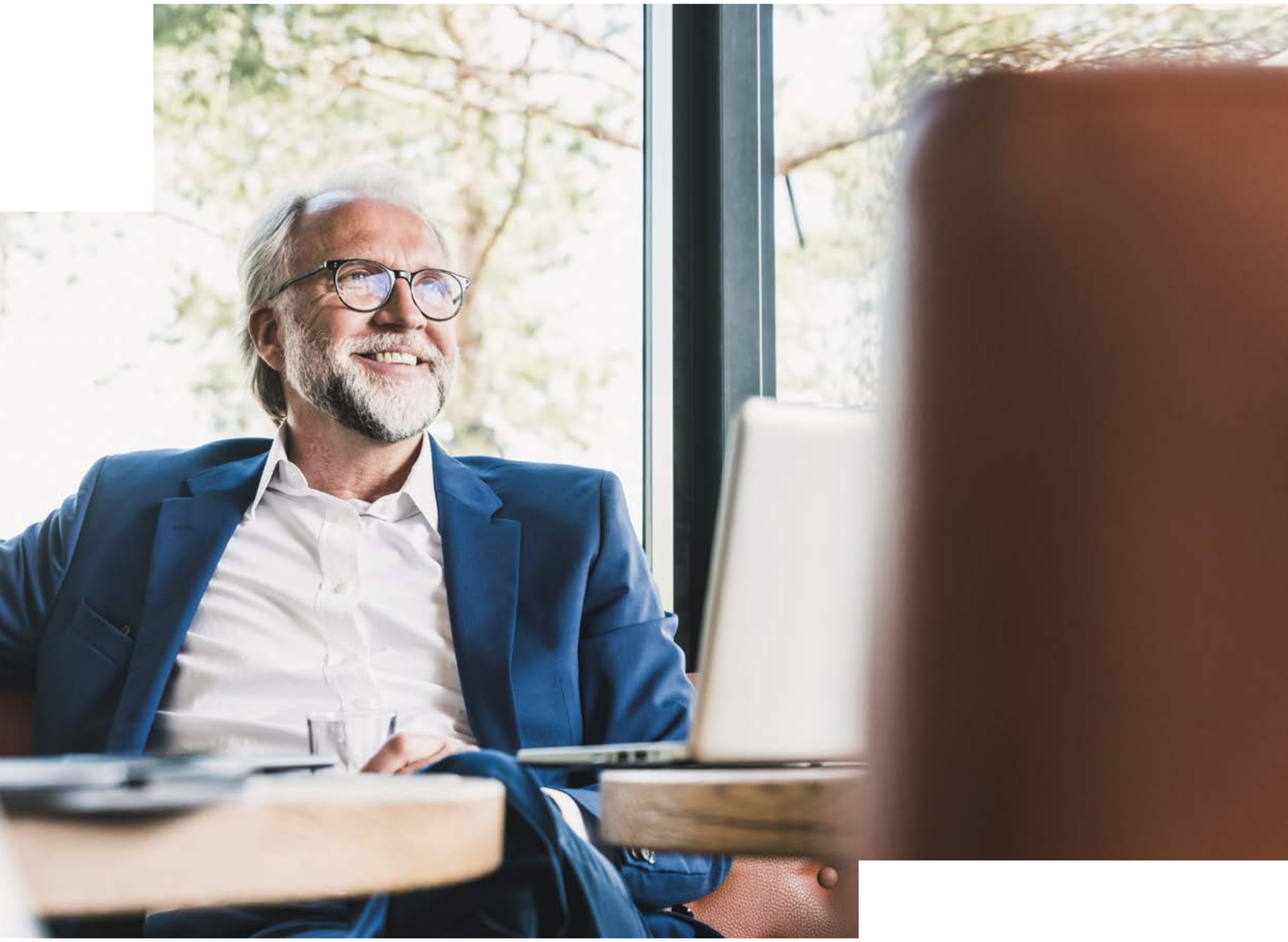
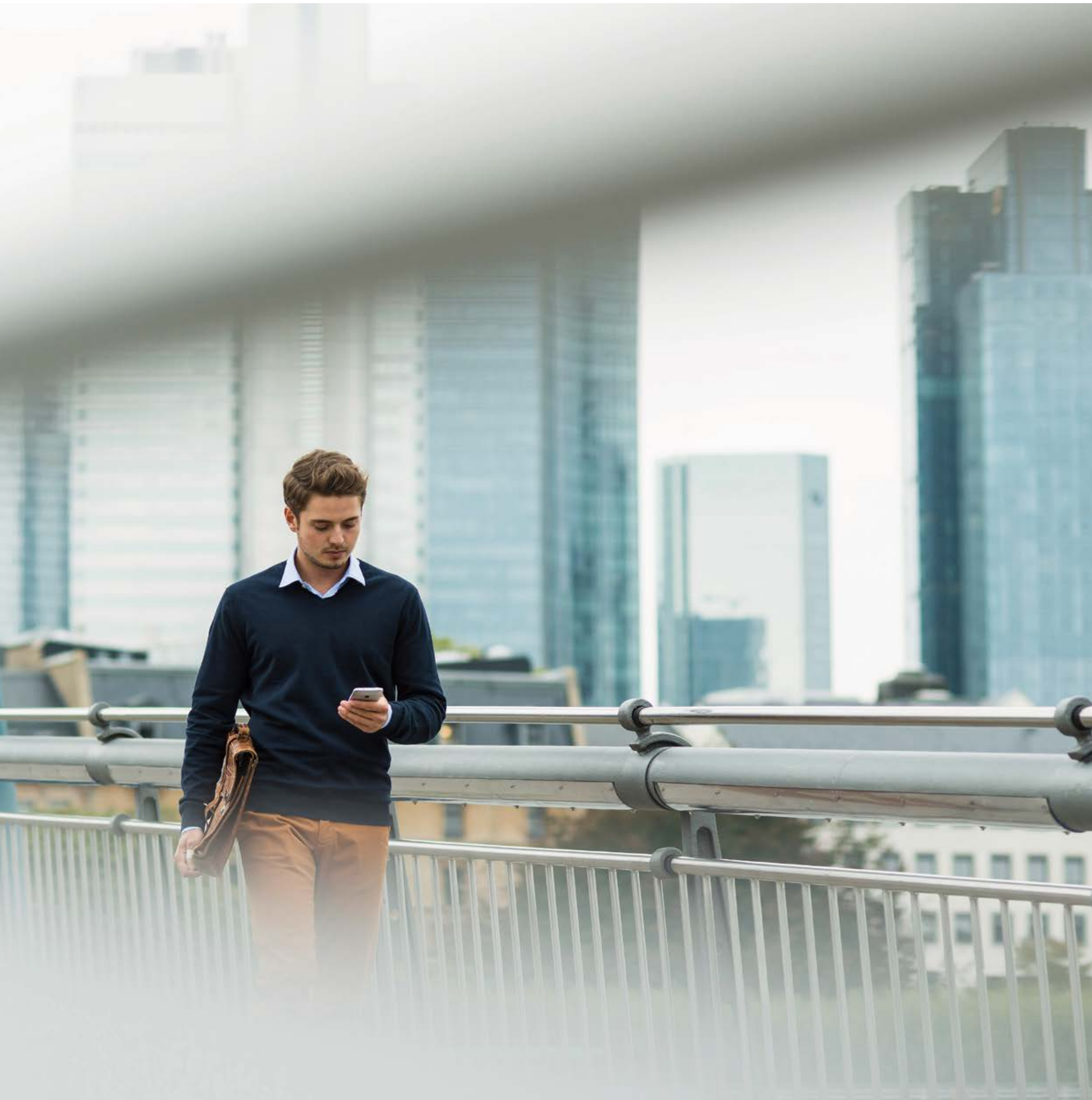
Financial planning for small and medium-sized companies



Edition 2019

This broschure is available in English as “Financial planning for small and medium-sized companies”, in French as “Planification financière pour petites et moyennes entreprises”, and in Italian as “Pianificazione finanziaria per le piccole e medie imprese”.



Financial planning overview

Financial planning tools (attachments)

Income statement forecast
The expected income and expenses for the next financial year

Balance sheet forecast
The expected asset and financing situation at the end of the next financial year

Cash flow forecast
The expected cash flow for the next financial year

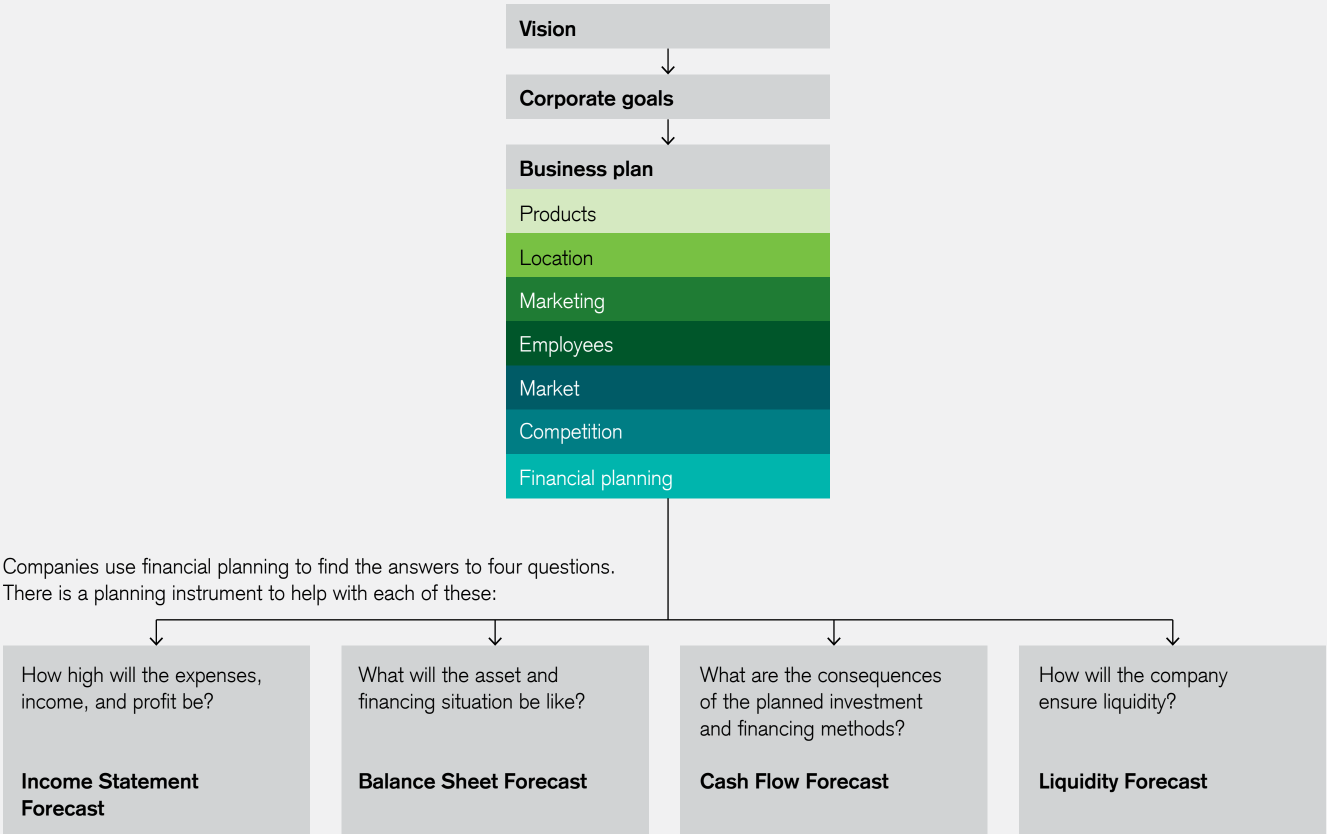
Liquidity forecast
The expected income and expenditures during the next financial year

Worksheets

From vision to company goal

All entrepreneurs should think about the future development of their companies – even if, in the initial phase, these thoughts are not yet structured or polished down to the last detail. These still general ideas are called a vision. Visions later become more precise ideas – corporate goals that founders want to realize.

Visions become more specific as you turn them into long-term corporate goals and include them in a written business plan. A business plan includes all corporate areas: products, marketing, sales, personnel, finances, etc. This helps identify relationships and problems at an early stage. The failure to carefully draft a business plan could mean that decisions are made on the spur of the moment, and sight of long-term goals is lost.



Business plan brochure
Our “Business plan – a practical guide” brochure provides instructions on creating a business plan. You can obtain a printed copy from any Credit Suisse branch or online at www.credit-suisse.com/corporateclients.

Tips

- Use financial planning as a management tool
- Don’t forget to plan for sub-segments (such as “sales planning,” “production planning,” etc.)
- Develop worst-case/best-case scenarios
- Try to identify both risks and opportunities
- Get employees involved at an early stage
- Regularly adapt your financial planning to real-life developments: the future can only be “planned” to a certain degree

What is financial planning?

Financial planning translates the long-term goals stated in the business plan into figures, and forecasts income, expenses, and profit. It also focuses on future assets and liquidity. Financial planning also obliges the management to actively confront the company's future.

The particular benefits of financial planning are:

- The forecast information can be compared on a regular basis with the business "reality" (forecast vs. actual comparison) only if you've prepared a financial plan in advance.
- Problems can be detected early on and countermeasures can be taken immediately.
- During the planning period, it's easy to review the current company situation – as a type of self-assessment.

Financial planning tools

Whether your company is large, medium-sized, or small, smart financial planning contains the following four tools at a minimum:

- Income statement forecast (budget)
- Balance sheet forecast
- Cash flow forecast
- Liquidity forecast

These planning tools are interdependent. For instance, the revenues defined in the income statement forecast also influence the debtors in the balance sheet forecast, and the expected incoming payments in the liquidity forecast.

When drawing up a financial plan, you plan for the next year in detail and for the next two to three years in general. The principle here is: as realistic as possible, as detailed as necessary.

Financial planning is not just for the company as a whole but can also apply to individual departments and products.

The bank's assessment

A company's financial plan is also in the bank's interest. After all, the forecast figures show whether planned investments will require additional capital and when there could be a liquidity bottleneck. The bank can develop suitable financing solutions with the business owner early on. At the same time, it gives the bank a fuller picture of the company, which in turn can have a positive influence on the creditworthiness and credit rating.

Vision

Corporate goals

Business plan

Financial planning

Income statement forecast (annual)

Materials expenses	**Gross profit**	Revenues
Operating expenses	**Earnings**	Operating income
Non-operating expenses	**Net profit**	Non-operating income

The income statement forecast ("budget") shows the profits expected for the next year. The expected income and expenditures are compared for this purpose.

Balance sheet forecast (annual)

Cash and cash equivalents	Debt
Receivables	Current
Inventories	
Tangible assets	Non-current debt
Financial assets	Equity

The balance sheet forecast predicts the asset and financing situation at the end of a year in the plan. It shows the assets, liabilities, and equity.

Cash flow forecast (annual)

Incoming cash from business operations
Incoming/outgoing cash from investment activity
Incoming/outgoing cash from financing activity
Net cash inflow/outflow
Initial balance, cash and cash equivalents
Ending balance, cash and cash equivalents

The cash flow forecast shows the incoming and outgoing cash during a period due to planned investment and financing processes.

Liquidity forecast (monthly)

Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.

The liquidity forecast predicts the incoming and outgoing payments during a year. It answers the question: will we always have enough funding to pay our regular expenses (rent, salaries, etc.)?

How do I create a financial plan?

Generally, the forecast is based on the past and includes relevant goals for the future. It is also a good idea to prepare a "zero-based budget," i.e. based on a free budget with forecasts that are not based on past data. Here you should consider which factors are critical for the company to function in future. Then a chart is used to define the forecast figures.

In general, you should not use too much data. Stick to the most important figures. The function and origin of each forecast figure should be transparent. A financial plan should not be too detailed; you want to retain an overview.

There are two types of financial plans: first, "top-down," meaning that management defines the forecast figures and the employees respond to these. Second, there is "bottom-up," meaning that employees define the forecast and management either accepts it or revises it.

Financial plans are prepared toward the end of the financial year. The financial figures from the prior year, along with the situation for the current year, are known, and you can plan very well for the next year.

Table templates, such as the worksheets attached to this brochure, should be used as assistance but must be adapted to your own needs. Good financial planning is primarily based on assumptions about the future; merely punching in numbers is not what counts.

If you have a business plan, include this in your financial plan.

Financial planning checks

Financial planning is little use without a check. The only way to identify deviations in good time and take counter-measures is to regularly check the current figures against the target figures.

How are checks performed?

For each planning tool, the target figures are compared with the current ones. The following method has proven effective in practice:

- Include columns in the tables for: forecast figures, current figures, deviations, text comments, and measures.
- Also list deviations as a percentage! This is more informative than absolute figures.
- Formulate text comments so that they are short and to the point about the cause of a deviation.
- The income statement forecast in particular should have the same structure as the income statement. This makes it easier to compare the target vs. actual figures.
- Don't check only the numbers! It's just as important to identify causes and understand relationships.

When are checks performed?

For the liquidity forecast: here, checks are made on a monthly basis – depending on the company's situation, it may also be wise to compare the incoming and outgoing payments each week. For the income statement forecast, balance sheet forecast, and cash flow forecast, checks are made with interim balance sheets every quarter or every six months. Revenues are checked every month.

Who must be informed?

Differences between the target and actual figures must be discussed with the responsible employees, the custodian, or the client advisor at the bank. It's important that all responsible parties work together to find the possible cause of the deviations and to launch corrective measures.

Vision
↓
Corporate goals
↓
Business plan
Financial planning
↓

Check

Target	Actual		Check
Income statement forecast Forecast expenses and earnings	**Income statement** Current expenses and earnings	→	**Target vs. actual comparison (interim statements quarterly, semi-annually)**
Balance sheet forecast Forecast asset and financing situation	**Balance sheet** Current asset and financing situation	→	**Target vs. actual comparison (interim statements quarterly, semi-annually)**
Cash flow forecast Forecast incoming and outgoing cash	**Cash flow statement** Current incoming and outgoing cash	→	**Target vs. actual comparison (quarterly, semi-annually)**
Liquidity forecast Forecast incoming and outgoing payments	**Liquidity** Incoming and outgoing payments	→	**Target vs. actual comparison (monthly, possibly weekly)**

Budget control per quarter

	Year forecast		Q1				
	Target figures	**in %**	**Target figures**	**in %**	**Actual figures**	**in %**	**Comment on Q1**
Operating income from deliveries and services (revenues)	**2000**	**100**	**450**	**100**	**420**	**100**	Q1 fewer repairs, but order books very good for Q2
– Expenses for materials, goods, and third-party services	850	42	190	42	180	43	
= **Gross profit**	**1150**	**58**	**260**	**58**	**240**	**57**	
– Personnel expenses	770	39	150	33	150	36	Temporary employee was now hired full-time
– Facility expenses	40	2	10	2	10	2	
– Maintenance, repairs, replacement, leases	30	2	6	1	12	3	Unplanned repairs to welding equipment
– Vehicle and transport expenses	20	1	5	1	4	1	
– Property insurance, taxes, fees, permits	30	2	8	2	8	2	
– Energy and disposal expenses	5	0	2	0	1	0	
– Administrative and IT expenses	40	2	10	2	15	4	Additional expenses; new IT system: software problems
– Advertising expenses	25	1	5	1	3	1	
– Other operating expenses	15	1	4	1	3	1	
– Interest expenses	38	2	9	2	9	2	
+ Interest income	2	0	0	0	0	0	
– Write-downs	30	2	6	1	6	1	
= **Earnings**	**109**	**5**	**45**	**10**	**19**	**5**	
+/– Non-operating income	5	0		0		0	
– Tax expenses	20	1		0	5	1	
= **Net profit/loss**	**94**	**5**	**45**	**10**	**14**	**3**	

How to use this guide

Modular structure
This brochure is intended as a planning and budgeting tool. It contains four instruments that complement one another: income statement forecast, balance sheet forecast, cash flow forecast, and liquidity forecast.

For instance, if the client advisor at your bank asks you for a budget, this usually means the financial planning tools listed here. Depending on the situation, it's sufficient to present a carefully drafted budget. Often – for instance in the case of liquidity bottlenecks – you will also provide the bank with a look at your liquidity planning.

Worksheets
This brochure includes worksheets as a basis for individual financial planning. They have intentionally been kept general so that they can be used by all small and medium-sized companies.

Key figures
The financial situation of your company can be quickly reviewed using clearly defined key figures. Data from the income statement forecast and balance sheet forecast is used as the basis. However, proper interpretation is essential. A key figure must relate to comparable parameters, such as a key figure from a prior period or an industry average.

Internet
You can also download the worksheets as Excel sheets online credit-suisse.com/checklists-and-templates. SME clients can find more information and assistance about financing on the Credit Suisse website.
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SMMI 1 1540694 12.2019