THORNTON FENCE CONSULTING GROUP

NASHVILLE FENCE TECH & METAL fab 2024

NOMMA AFA

# Budget Development & Forecasting for Fence Company Growth

with

## TONY THORNTON

AFA

# Budget Development & Forecasting

***What is a Budget?***

**A budget is a detailed document that businesses use to track income (revenue) and expenses in a way to make operational decisions for the best financial outcome of the business.**

**ARE YOU PREPARING A BUDGET?**

# Budget Development & Forecasting

- Preparing a budget is one of the most important business practices an owner must do to ensure company stability and growth.
- Budgets support how a company will leverage capital (revenue) to achieve goals for growth.
- Both short term (monthly) and long term (annual) budgets should be developed, and necessary adjustments made to stay on track with long term.

# Monthly Budget

| INCOME | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Income** | | | | | | | | | | | | | |
| Chain Link | | | | | | | | | | | | | - |
| Wood | | | | | | | | | | | | | - |
| Ornamental | | | | | | | | | | | | | - |
| Vinyl/PVC | | | | | | | | | | | | | - |
| Agriculture | | | | | | | | | | | | | - |
| Automation | | | | | | | | | | | | | - |
| Other | | | | | | | | | | | | | - |
| **Total Operating Income** | - | - | - | - | - | - | - | - | - | - | - | - | - |

# Annual Budget

| INCOME | Actual | % of TS | Budget | % of TS | Difference |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| Chain Link | 1,000 | 3.6% | 900 | 3.3% | 100 |
| Wood | 2,000 | 7.1% | 1,900 | 7.0% | 100 |
| Ornamental | 3,000 | 10.7% | 2,900 | 10.6% | 100 |
| Vinyl | 4,000 | 14.3% | 3,900 | 14.3% | 100 |
| Agriculture | 5,000 | 17.9% | 4,900 | 17.9% | 100 |
| Automation | 6,000 | 21.4% | 5,900 | 21.6% | 100 |
| Other | 7,000 | 25.0% | 6,900 | 25.3% | 100 |
| **Total Sales (TS)** | **28,000** | 100.0% | **27,300** | 100.0% | **700** |
| | | | | | |
| **Cost of Goods Sold** (from details section) | | | | | |
| COGS - Chain Link | 600 | 2.1% | 900 | 3.3% | (300) |
| COGS - Wood | 1,200 | 4.3% | 1,900 | 7.0% | (700) |
| COGS - Ornamental | 1,800 | 6.4% | 2,900 | 10.6% | (1,100) |
| COGS - Vinyl | 2,400 | 8.6% | 3,900 | 14.3% | (1,500) |
| COGS - Agriculture | 3,000 | 10.7% | 4,900 | 17.9% | (1,900) |
| COGS - Automation | 3,600 | 12.9% | 5,900 | 21.6% | (2,300) |
| COGS - Other | 4,200 | 15.0% | 6,900 | 25.3% | (2,700) |
| **Total Cost of Goods Sold** | **16,800** | 60.0% | **27,300** | 100.0% | **(10,500)** |
| | | | | | |
| **Gross Profit** | **11,200** | 40.0% | **-** | - | **11,200** |

# Budget Development & Forecasting

## Actual vs Budgeted columns should be Inserted to allow comparisons

| INCOME | Actual | % of TS | Budget | % of TS | Difference |
|---|---|---|---|---|---|
| **Sales** | | | | | |
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# Budget Development & Forecasting

- Understand "Budget vs Cashflow" differences. Both monitor the flow of money, but two (2) key differences exist.

  ✓ Budgets offers a more granular detail on how the money is spent than a cashflow statement, providing an effective method for considering where to trim expenses

  ✓ Budgets are better tools used to evaluate direct work within the company vs a cashflow statement providing a high-level overview of how the money is used

# Budget Development & Forecasting

*Four Primary Steps to Prepare a Budget*

1. Understanding Your Company Goals
2. Estimating Company Income (revenue) for the Period of the Budget
3. Identify Company Expenses
4. Determine Company Budget Surplus or Deficit

# Budget Development & Forecasting

## Step One

### Understanding Your Company Goals

- It is important to have a firm understanding of the company goals.
  - 10% Growth
  - Additional Products
  - New Resources
  - New Equipment/Vehicles/Facilities

# Step Two

## Estimating Company Income (revenue) for the Period of the Budget

- Determine Company Income (revenue) and cashflow by Categories
  - Chain Link
  - Wood
  - Ornamental
  - Vinyl
  - Agricultural
  - Automation
  - Other

# Budget Development & Forecasting

## Step Three

### Identify Company Expenses

- Determine Fixed and Variable Expenses (cost)
  - Fixed Expenses remain constant/no drastic variations- rent, vehicles, insurance, etc.
  - Variable Expenses change due to sales totals, utilities, market changes, etc.

# Budget Development & Forecasting

## Step Four

❖ *Determine Company Budget Surplus or Deficit*

- *After accounting for Company Income (revenue) and Expenses (cost) you determine your company surplus or deficit.*

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# Budget Development & Forecasting

## Budget Development Procedure

### STEP ONE
**UNDERSTANDING YOUR COMPANY GOALS**

- It is Important to have a firm understanding of the company goals
- 10% Growth
- Additional Products
- New Resources
- New Facilities

### STEP TWO
**ESTIMATING COMPANY INCOME (REVENUE)**

- Determine Company Income for the Period of the Budget
- Chain Link
- Wood
- Ornamental
- Vinyl
- Agricultural
- Automation
- Other

### STEP THREE
**IDENTIFY COMPANY EXPENSES**

- Determine Fixed and Variable Expenses (Cost) the Company will incur
- Fixed Expense remain constant/no drastic variations - rent, vehicles, insurance, etc.
- Variable Expenses change due to sales totals, utilities, market changes, etc.

### STEP FOUR
**DETERMINE COMPANY BUDGET, SURPLUS, OR DEFICIT**

- After Accounting for Company Income (Revenue) and Expenses (Cost) you determine your company surplus or deficit.

# Budget Development & Forecasting

## What is Forecasting?

Refers to a decision-making practice of predicting what will happen in the future based on past and present market conditions.

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Provides a conservative estimate of how much sales revenue will be obtained in the upcoming year.

## ARE YOU FORECASTING?

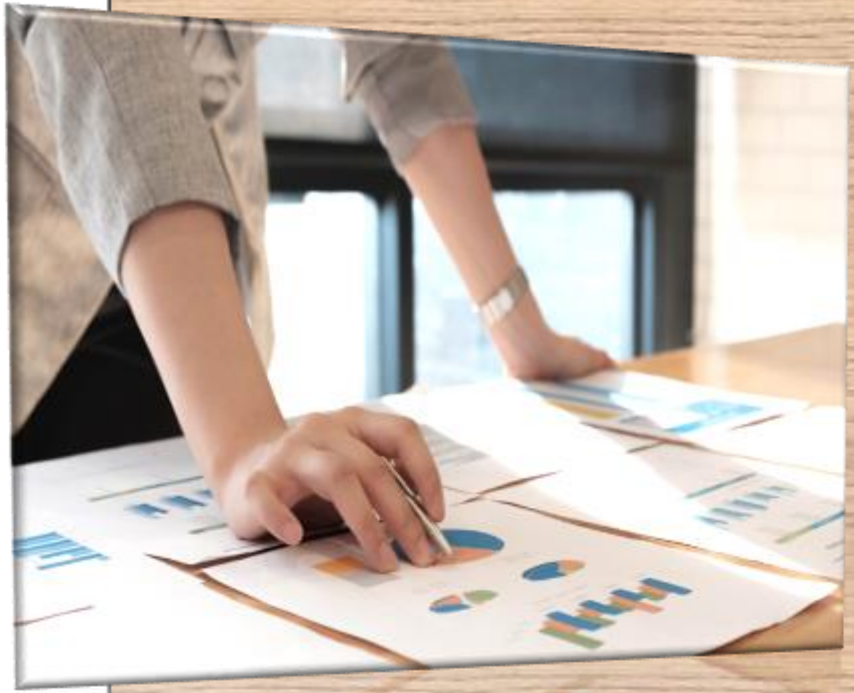
# Budget Development & Forecasting

- ***Preparing a forecast is one of the most important business practices an owner must do to ensure company stability and growth.***
- ***Forecast is a tool that enables businesses to chart their next moves and creates budgets that will hopefully cover the unforeseen issues.***
- ***Both budgeting and forecasting are tools that business owners must utilize to plan for the future.***

# Budget Development & Forecasting

## Two Primary Forecasting Methods

- ✓ Qualitative Method
- ✓ Quantitative Method



# Budget Development & Forecasting

## Qualitative Method

- ✓ Also known as judgmental method and provides subjective results
- ✓ Comprised by personal judgements by experts or forecasters
- ✓ This method is considered bias because of expert knowledge and experience
- ✓ This process is non-mathematical and rarely uses data

# Budget Development & Forecasting

## Quantitative Method

- ✓ This method is a mathematical process
- ✓ Provides consistent and objective outcomes
- ✓ Steers away from opinion and intuition
- ✓ Uses data and figures to support the process

# Budget Development & Forecasting

## Considerations for Forecasting

- **Involves Future Events-** making them important for planning
- **Past & Present-** considerations for what has happened in the past and what is expected in the future
- **Use Both Methods-** to prepare the best forecast for the company

# Budget Development & Forecasting

## Process of Forecasting

- ✓ **Develop the Basis-** considering the company's condition and identifying where the business is currently positioned in the market
- ✓ **Estimate Future Business-** involves estimating the future conditions of the industry where the business operates and projecting/analyzing how the company will fare
- ✓ **Regulate the Forecast-** comparing past trends with the company

# Budget Development & Forecasting

## Source Data for Forecasting

- ✓ **Primary Resources-** first hand information gathered by owners from past reports, interviews and fact gathering groups to support the forecast
- ✓ **Secondary Resources-** sources that can supply information published by others such as industry reports, economic interviews, etc.

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# Budget Development & Forecasting

## What ARE WE FORECASTING?

Revenue Projections - Cost of Good Projections = Gross Profit Projections

Gross Profit Projections - Expenses Projections = Net Profit Projections

**LET'S RUN OUR BUSINESS,
INSTEAD OF LETTING THE BUSINESS RUN US!**

# Thank you.

Please complete the session survey.