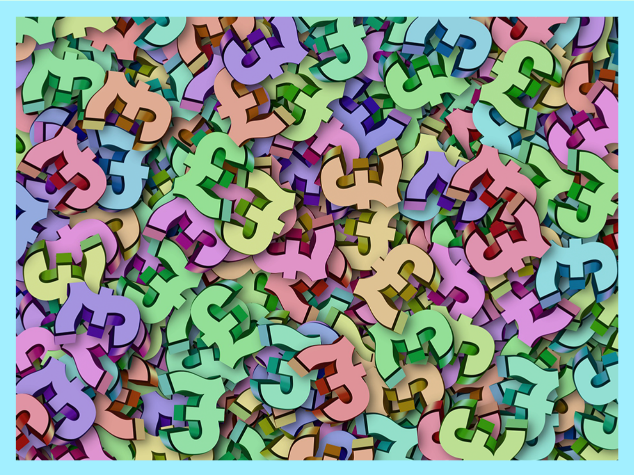
Project The Future – how to financially plan for different scenarios

It's not something that gets talked about much, but the reality that a lot of business planning is about making the best, most educated, guesses that you can. That's definitely the case when it comes to budgeting and trying to predict what money might come in and go out of your business.

Your mission here is to use all of the intelligence you have about what's gone before and what is likely to happen in the future (drawing on things like audience research, your SWOT analysis or PESTLE analysis) to make the best predictions you can. IN BUSINESS PLANNING terms, this is called doing financial projections. In plain English, financial projections are just that – your most educated guess about what money will come in and go out.

You might want to explore different financial scenarios
In our Could vs Should - Strategy and Tactics and Messy Thinking - Working Out Which Way to Go quick reads we talk about strategy being a bit like going into a changing room in a shop and trying on lots of different outfits.

The act of moving from all the things you COULD do to a smaller list of things you SHOULD do is what creating a strategy basically is. But it's messy, and you have to explore the pros and cons of each possible strategy (or outfit) before working out which is best for you.



Doing some money-based guessing – working up some financial projections for different strategies or scenarios – can really help you figure out which is the best way to go. Having good projections joins the dots between your sales, costs, and expenses to provide you with a holistic picture of your financials over the period your business plan covers. And in periods of real uncertainty, having a set of income and expenditure projections (predictions of what money will

As an example, say one of your aims is to increase your profit by 20% over the next 2 years. One way you could do that is to just sell more things without putting up your prices. Another way (or scenario) is that you don't increase the amount you sell, but you do put up your prices. A third way (or scenario) would be to look at how you could cut your costs. A fourth scenario might see you doing a bit of all of these things.

To work out the impact on your profit of all of these things, you simply work up different budgets for each of these scenarios. Each budget includes a range of projections – guesses that you are making about what will happen, to your income, your expenditure or both.

Once you've worked out which is the most sensible that goes into your budget. You'll definitely want to save the other scenarios somewhere though, and may even choose to include them as an Appendix to any business plan you show to a funder or the bank, just so they know you've done your homework.

Here's an example that you might find useful to look at. It's based on a music agency and the commission that the agent earns from the artists they represent.

Music agency example financial projections

Scenario 1 - as is	No.gigs	Average commission	Total
Artist 1	10.0	£250.00	£2,500.00
Artist 2	20.0	£200.00	£4,000.00
Artist 3	20.0	£150.00	£3,000.00
Totals	**50.0**		**£9,500.00**

This is how things are at the moment.

Scenario 2 - same artists, just busier (growth = more of same)	No.gigs	Average commission	Total
Artist 1	20.0	£250.00	£5,000.00
Artist 2	40.0	£200.00	£8,000.00
Artist 3	40.0	£150.00	£6,000.00
Totals	**100.0**		**£19,000.00**

Growth is based on selling more at the current price. Agent & their artists are doing twice as much.

Scenario 3 - same artists, but all generating more commission (growth = price increase)	No.gigs	Average commission	Total
Artist 1	10.0	£500.00	£5,000.00
Artist 2	20.0	£400.00	£8,000.00
Artist 3	20.0	£300.00	£6,000.00
Totals	**50.0**		**£19,000.00**

Growth based on increasing the price. Artist fees and agent's commission both go up.