It’s That Time Of Year

My first draft of this article started out as one of those nagging, a-new-year-is-starting, write-a-business-plan-or-you’ll-go-out-of-business-and-go-straight-to-hell things you’re probably very tired of. Fortunately for all of us, I caught myself before I’d gone too far on that theme and I decided to start again.

Because I know you don’t need me—or anyone else—to tell you that it’s important to plan. At least you shouldn’t. Beyond that, I realize that it would probably be much more helpful to hear something about exactly *how* to put together a business and marketing plan that’s appropriate for a quick printing business.

So let’s take a look at a formula for just such a plan.

Starting Point

The concept of creating a full-year business and marketing plan may seem like a monumental challenge. In reality, it’s only a process of answering two questions. What do you want your sales and profits to be? And, what will it take to make those sales and profit goals a reality? Please note that I’m saying what do you *want* sales and profits to be, not what do you *think* they will be.

Sales forecasting is usually viewed as one of the great mysteries of life, but it really shouldn’t be. I guess I was fortunate to have learned the most important lesson about sales forecasting pretty early in my business career. It’s not a crystal ball activity, or a matter of guessing at some percentage of sales increase. Your forecasting can be guided by this basic tenet: that very nearly any level of sales increase is possible *if you do the things it will take to make it happen*. That’s why you also need to answer Question #2.

You may have to come back and revise your sales goal/forecast later on in the planning process. It’s not uncommon to learn that an aggressive, initial sales goal is unreasonable in terms of the cost of achieving it. But let’s not worry about that yet. At this point, all I want is for you to come up with a single number...your total annual sales goal for the upcoming calendar year.

The next step is to break that figure down into monthly subtotals. The best way to do that is to look at your sales pattern over the previous few years. What I do in my own business is calculate the average *percentage* of my total annual business that came in during each of the 12 months of the year, using the last three years as a reference period. Then I multiply my total sales goal for the upcoming year by those percentages to come up with individual monthly forecasts.

I’ll probably adjust those monthly forecasts later on as I consider the marketing programs I’m going to put into place to make the sales growth happen. But again, I don’t want to get ahead of the process, which does involve some “number crunching.”

Profit Goal

Don’t ever forget that the purpose of being in business is profit, not just sales volume. After coming up with your sales goal and breaking it down into monthly increments, make a decision on how many dollars of profit or owner’s compensation you want to earn by the end of the year.

I encourage you to think in terms of raw dollars, too, not just profit as a percentage of sales. To me, it’s much more direct and important to say “I want to earn $100,000 this year” than it is to say “I want to earn 15% of whatever my total sales figure ends up being.” If you’re like most people, the actual dollars in your pocket or bank account will motivate you much more effectively than less tangible percentages will. And that kind of motivation can turn out to be an important factor in keeping you focused on your goals and your plan.

Once you’ve set that profit or compensation goal, set it aside for a while and start thinking about the costs involved in reaching your sales and profit targets.

Operating Budget

You’ve already established the “first draft” of your sales forecast. Use those monthly sales sub-totals to set up a 12-month spreadsheet to which you can apply cost and expense figures. But I’d like to suggest that you set up your expense categories a little bit differently than they probably appear in your regular financial reports. For planning purposes, I think it’s helpful to break your expense items down into three categories: *fixed expenses, consistent expenses,* and *opportunity expenses*.

Fixed expenses include things like rent or mortgage payments and vehicle or equipment leases. Those known expenses are very easy to plug into the cost side of your operating budget. Next, give some thought to the values you should use to forecast *consistent expenses* like utilities, payroll, and the cost of paper and supplies.

History and simple arithmetic can guide you in forecasting these expenses. Look at your actual utility costs over the last several years in the same way you looked at your monthly sales figures, and plug in an appropriate figure. If those costs have increased by the same percentage each year over the last few years, it's reasonable to use that same percentage factor to forecast next year's costs. To forecast labor costs, add up the total expected wages and benefit costs for each month, remembering to factor in any raises you plan to give, or any new employees you expect to hire.

I hope you'll notice that I'm recommending that you make these calculations by adding up actual dollars, not just by looking at the previous year's percentage of sales. With expenses like these, it's reasonable to forecast that with good management—which is what this whole planning process is about—most of the percentages will go down as your sales volume goes up.

The only exception to that dollar vs. percentage calculation strategy among the *consistent* expenses is with "cost of sales" items like paper, ink, and toner. To determine the number of dollars you expect to spend on these items, multiply your established cost percentage by your new sales forecast. In other words, if your paper, ink, and toner expense last year equaled 35% of sales, and your sales forecast for next year is $500,000, plug in an initial "cost of sales" forecast of $175,000.

Opportunity Expenses

The third category of expenses I'd like you to consider are what I call *opportunity expenses*. These can be defined as the variable costs you'll incur in making your sales forecast a reality, and include things like marketing and advertising expenses, the cost of new equipment needed to handle the volume you're forecasting, and any other "sales incentive" costs. As I'm sure you've realized, these are the specific costs associated with the actions you listed in answering Question #2.

Let's say that the actions you've determined to be necessary include an aggressive direct mail program. You also plan to hire an outside salesperson early in the year, and you think that by mid-year—if everything works as planned—you'll need to buy another press and hire an operator to run it.

The best way to proceed with the planning and costing of these activities is to construct a *marketing calendar*. You can start that process on the spreadsheet you've already established with 12 monthly columns. Under each month, list the advertising, marketing, or otherwise sales-building actions or activities you expect to carry out during that month. Next, calculate the monthly cost of each of those actions or activities.

Let's say that your initial thought on a direct mail program is to send a mailing out every month to a certain number of customers and/or prospects. Estimate and add up the recurring component costs of this program, including printing and postage and any other out-of-pocket costs, then plug that total into the *opportunity expenses* section for each month of the year. Let's say that this direct mail program also involves buying a mailing list at the beginning of the year and using it all year long. In a case like that, add the cost of the mailing list to your direct mail program expense for January, or whatever month you'll actually pay for the mailing list. You'd handle any other non-recurring cost—for example, a design cost—in exactly the same way.

If you're planning on starting the process of hiring a salesperson in January of the new year, it would be reasonable to expect that you're not going to have someone hired and actually working until at least February. So you wouldn't plug in any compensation expense for that person *until* February. (By the way, I recommend forecasting this expense here in the *opportunity expense* section, not as part of your overall labor cost forecast. I think it will make it easier for you to do a good job of tracking and analyzing expenses throughout the year if you keep all of your *sales-building* expenses in one place.)

Moment Of Truth

When you've completed this marketing calendar, costed out each of the sales-building activities that are part of it, and then applied this forecast of *opportunity expenses* to your plan, you'll have arrived at a moment of truth. Now it's time to subtract the total of budgeted expenses from your sales forecast and see how that figure compares to your profit goal.

If those two figures are in synch, you have only one more question to ask: *Can I afford to do all the things I think it will take to hit this sales forecast?* And if the answer to that question is *yes*, your business and marketing plan is largely complete, except for some fine-tuning. If the answer is no, or if the comparison of forecast sales and budgeted expense doesn't yield the figure you've set as your profit goal, you have more work to do, and some important decisions to make.

The situation you'd be in at this point is really pretty straightforward. If you can't spend what you've decided it will take to hit your initial sales goal, you have to lower that sales goal. If you have to cut a sales-building activity from your marketing budget, you also have to cut out the sales volume you expected that activity to bring you. As I said earlier, you can start your planning with the knowledge that just about any level of sales increase is possible if you do the things that are necessary to make it happen. But if you can't do those things, it's just plain crazy to expect it to happen anyway! And since every other part of your business plan ultimately relates to your revenue stream, it's very important that you base all of your planning on a solid and reasonable sales forecast.

If forecast sales minus budgeted expenses doesn't yield your initial profit goal, you either have to take some cost out of your expense budgets or lower your profit goal. Can you reasonable expect to reduce the expenses you've forecast for labor? For cost of sales? For any other *fixed* or *consistent* expense?

If you can, by all means target those cost reductions, *and put a program in place to make them happen!* If you can't, don't kid yourself. Don't sit back and let yourself think that costs will somehow be lower than you've forecast. And *please* remember, if you cut from the sales-building activities you've budgeted as *opportunity expenses*, you're putting yourself back in the position of being unable to support and attain your top-line sales goal!

Fine Tuning

Once you've come up with what you feel is a fully reasonable annual sales forecast and profit goal, the next step is to fine tune your monthly sales forecasts and expense budgets. First, adjust them to reflect whatever overall changes you've just made. For example, let's say you've reduced your sales forecast by $30,000. Calculate the percentage of your original sales forecast that figure represents, and reduce each monthly forecast by the same percentage. Or let's say you've determined that a 1.5% reduction in "cost of sales" is possible. Make that change to the dollar figure listed for that category in each month.

The last step is to consider the effect of your sales-building activities on the rate in which sales revenue comes in. To this point, you've broken out the monthly sales forecast sub-totals only as a "historical" percentage of annual sales. New—and especially more aggressive—sales-building activities will effect that historical distribution of sales.

If I were starting out with a new direct mail program in January, I wouldn't expect to gain much in the way of sales from that program in January. In fact, I wouldn't expect to see much happening until I'd sent my mailers out three or four times. That's the way direct mail works, it's a cumulative effect.

So in terms of my sales forecasting, I might take most of any increase from last year's January and probably February sales *out* of this year's January and February forecast, and plug it in a few months later when I should reasonable be expecting to start seeing the results of the mailing program.

Let's also say that one of my planned sales-building activities is to run a special on a certain product category in June, offering lower than normal prices as an incentive for people to buy. I can reasonable expect a "spike" in sales in June from that program, and in terms of forecasting, I would take some of that expected "sales spike" figure out of several other months' sub-totals, and add it into June's. (Please remember this: If a lower than normal price is part of a program, it's going to be reflected as a higher than normal "cost of sales" for the duration of the program. That's fine, because a significant "spike" in sales will bring more *profit dollars* to your bottom line. Still, you have to change both figures to get an accurate forecast.)

Bottom Line

I hope you'll find this helpful in putting together a basic business and marketing plan. When your planning is complete, you'll have a sales-building schedule to follow (the marketing calendar) that you've decided you can afford, and the means to monitor and manage your progress with a reasonable and well thought out sales/expense/profit forecast. Then, of course, the idea is to follow the plan.

Step #1 is to execute the sales-building activities on schedule. Step #2 is to compare actual results to your plan *every single month*. Step #3 is to act quickly if any of your *fixed* or *consistent* costs get out of line.

Step #4 is to be a little more patient with your sales-building activities. The truth is that it's a lot easier to forecast expenses accurately than it is to forecast exactly how people will respond to the things you do to try to get them to buy. It has been proven that if you do the right things in marketing a quick printing company, people will respond. The timing of their response is the variable you can't fully control. But it's also been proven that printers who cut back on marketing, advertising, and other sales-building activities at the first sign of a sales shortfall usually end up paying a higher price for that.

I hope you have a *great* 1994!