# A Successful Business Financial Projection Can Be the Key to Securing Financing

A business seeking capital can?t afford to underestimate the importance of business financial projections. A business financial projection is simply forecasting your sales and revenue to the lender. This information is important because it is a key indicator to your ability to repay a loan.

If you are unsure about financial forecasting and how it relates to your business it is best to hire someone who does know. Most lenders will want to see a three or five year projection. There are 14 different items to include and fully support in your financial projections. With these different items it is best to give a month-by-month breakdown for the first year, a quarterly breakdown for the next two years, and an annual breakdown for the final two years you are projecting.

The different items to include in your projections are; sales revenue estimates, administrative costs, production costs, sales costs, capital expenditures, gross margin by product line, sales increase by product line, interest rates on debts, income tax rate, accounts receivable collection plan, accounts payable schedule, inventory turnover, depreciation schedules, and the usefulness or depreciation of assets.

The income projection enables the owner/manager to develop a preview of the amount of income generated each month and for the business year, based on industry supportable predictions of monthly levels of sales, costs, and expenses. When determining the total net sales you will be finding out how many units of products and services you expect to sell at the prices you are projecting. Make sure to think of what returns, allowances, and markdowns can be expected. The sales costs needs to be calculated for all products and services used. Ensure that when determining the costs of sale that you don?t forget anything such as commission paid to sales representatives, transportation costs, or any direct labor costs.

For the gross profit you would subtract the total cost of sale from the total net sales. To get your gross profit margin you will divide the gross profits from the total net sales. This will be expressed as a percentage of total sales or revenues.

When formulating your business financial projections there are five items that will ruin the accuracy of your projections, and hurt your chances of being approved for business financing. The first one is wishful thinking or being over-optimistic about your sales potential. Ask yourself: "Is it possible to achieve the sales levels you?re forecasting??. A good example is that a sales team can only visit a certain number of customers each week or a factory can only manufacture a given amount of products on each shift. Make sure to keep your projections realistic and even more important to be based on supportable evidence. It is imperative to also make sure that your sales assumptions are linked directly to your sales forecast or your information will contradict itself. Most lenders are "by the numbers?, so if your numbers don?t add up, you will get declined. A good example of this is to say that you expect increased sales in a market that is declining. That just does not add up.

Another thing not to do when projecting your business finances is to spend a lot of time refining the forecast. Try to avoid tinkering with the target numbers once they are set. Many business owners neglect to ask the opinions of the sales people who know the buyer?s intentions about what they think the projected sales should be. It is important to make sure your sales team agrees on any sales targets that will be set. One other fatal mistake made by business owners when working on financial projections is not getting feedback on the projections from an accountant.

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