

Mind Your Own Business

Looking Forward – July 2013

In previous articles we have discussed analyzing our horse business's financial performance. Now it is time to stop riding our horse backwards and stop looking where we have been. It is time to turn around, look forward and create a financial plan that shows where we want our business to go in the future. A good financial plan should identify the financial performance you expect to see on your *Income Statement*, *Cash Flow Statement* and yearend *Balance Sheet*. The plan should be creating a *Financial Scoreboard* for your horse business.

Unfortunately, doing this kind of plan is foreign to most horse business owners and managers. In fact, most horse businesses have no plans at all. I believe the lack of planning has contributed to the current economic state of the horse industry. Most horse business owners run their businesses day-to-day, hoping everything will work out and trying to adjust to whatever comes their way. 'No Planning' and 'Checkbook Management' is the norm for most horse business owners. Horse business owners think if they work hard and most do, and serve their customers well and most do, they will be rewarded with lots of business. I hate to be the one to tell you, it isn't that simple.

Most horse business owners think that record keeping is management – it isn't. They use a record keeping system for their horses and their accounting and then give everything to their accountant at the end of the year – and their accountant is an accountant, not a business manager. They have no idea if they get more business if it will be profitable because without planning and a real management system they have no idea what happens to their fixed cost, labor requirements, inventory requirements, cash demands, etc. They have no idea what will happen if a competitive stable is open down the road. What if the competitive stable offers lower prices or more amenities? If you are serious about being in the horse business you need business planning, business management and business discipline. Treat your business as well as you treat your horses and your customers!

Some horse business owners do a kind of half-baked planning. They look at last year's numbers and throw out some arbitrary growth in sales or increase in 'bottom line' that they have no idea how the current numbers got there in the first place. The half-baked approach is also flawed because it isn't based on reality. The fact is neither hope nor faith nor hard work nor will all three combined magically produce a given set of objectives. You need to make some very specific things happen if your business's goals are going to be realized. If you can't spell out exactly what those things are, you are just blowing smoke and the smart people around you will know it!

A real annual plan must have these three characteristics:

1. It spells out realistic business goals and identifies specific strategies to achieve those goals.
2. It takes into account all the interconnections and interactions between the different elements in your business – Financial Management, Horse Care and Management, Business Operations, Customer Care and Billing and Administration. No record keeping system can do that.
3. It can be translated into hard numbers that can be tracked, measured and managed – if you can't measure it, you can't manage it.

An annual plan isn't a plan unless you can use it to project an *Income Statement*, *Cash Flow Statement*, and a yearend *Balance Sheet*. The plan should also allow you to show month-by-month how its number will be realized. The plan will let you know not only where your business is headed, but what needs to be done to get there.

1. You will have a management tool to measure your business's progress month in and month out.
2. If something gets off track you will be able to spot it immediately and remedy it before it becomes a problem.
3. You will be able to create best-case and worst-case scenarios from your plan.
4. You will be able to develop contingency plans if something serious happens.
5. You will learn to manage to the plan and adapt your strategies as necessary throughout the year.

The first step in developing a plan is getting ready. To get ready you need two sets of data. The first set is a list of all your long term goals that we discussed in the '[The Financial Goals](#)' article. You can review that article in the April issue of the [Desert Mirage Magazine](#) or on www.equinegenie.com on The 'Genie' Academy page under 'White Papers'. You can't create a plan for the current year if you haven't thought long and hard about where you want to be three, five or even ten years. You can't do everything in one year.

The second set of data is your business's recent history. This should include a full set of financials for at least three years. If you are a new horse business the data should include a full set of financials for as long as you have been in business.

The second step is projecting sales. I am sure you have heard the saying, 'no sales, no business', so begin your plan with sales and marketing. Make sure your plan identifies:

1. What services and or products you expect to sell.
2. Whom you expect to sell your services and or products to.
3. Why you expect them to buy your services and or products.

A useful starting point is to analyze your business's sales history over the last few years. During your analysis you should ask:

1. Are your sales increasing – if not, why not?
2. Who are your current customers and are you expecting them to continue to use your services or purchase your products?
3. Do you expect their business with you to increase or decrease?

Depending on your type of horse business you should be able to analyze your past sales by customer, by location, by service, by product, or by whatever category that might be appropriate, and then project your future sales on as much real information as possible. Whatever method you use the key is specificity.

The third step is preparing a business as usual projection. An annual plan is based on more than sales projections. You will need to include any planned investment, or any plans to address your business's weaknesses such as increasing profit or improving operating cash flow by managing receivables better. Your plan will eventually include much more than just sales projections. This is another argument for a real management system instead of a record keeping system.

Creating a full-blown plan from scratch with all its complexities is probably the reason that so few plans get created. Don't try to develop a final plan initially. Start by creating a *business as usual* plan. A *business as usual* plan will show you what your business will look like if nothing changes except the projected increase in sales and any corresponding increase in other line items on your *Income Statement*. Preparing a *business as usual* plan is a great teaching exercise and will help you create a meaningful final plan. It will help you spot problems and opportunities you may have missed.

The forth step is proactive planning. The proactive planning process gives you the opportunity to identify problems to attack and opportunities to take advantage of so that you can create a plan that will take your horse business where you want it to go. There are four steps that need to be included in the proactive planning process.

1. Create a *Trend Table* using your business past performance and your business as usual projections. If you don't know how to create a *Trend Table* call me.

2. Allow for longer-term decisions and opportunities. No business can afford to focus all its efforts on current sales alone. The sales plan with any other strategic decisions need to set the parameters for operating your horse business throughout the year.
3. Figure out the key drivers. Once you have identified the problems and opportunities to focus on, be sure to identify not only the key numbers on the financials, but also the ratios that drive those numbers.
4. Propose some improvements and pencil them in. If your projects show that you will wind up short of cash, pencil in a lower accounts receivable or inventory number on your *Financial Scoreboard*.

The fifth step is to refine your plan. Once you have a plan that looks good, seems workable and gets you on the path to achieving your objectives you may want to refine it as well as develop alternative plans allowing for different inputs and outcomes. Here are four steps you might want to consider.

1. Consider your different options and how they might affect your business.
2. Prepare best-case, worst-case and expected scenarios. Any plan incorporates numerous assumptions about what will stay steady and what will change.
3. Play 'what if'. Best-case and worst-case plans are generalized plans. They assume things go very well or very poorly throughout your business. A 'what if' plan takes a single variable and assesses its effect.
4. Talk to a tax authority about taxes. Projection and planning scenarios don't take taxes into account.

The sixth and final step is implementing the plan. Once you have a twelve-month plan figure out any seasonal variations that are peculiar to your horse business. Determine the scheduling of any major expenses that don't occur each month. With these estimates you can prepare *Income Statements*, *Cash Flow Statements*, and *Balance Sheets* for every month. You will have a plan for each time period that lets you see how you are doing as you measure and manage your business.

Your plan should never change. This doesn't mean that you should always stick to it or that you cannot take advantage of opportunities that surface during the year. Once a plan is made it is set in stone. A real management system like equineGenie will provide you with variance analysis against your plan. Planning and business discipline are key to a business's success!

In the next several article we will start discussing different business scenarios and using what we have learned to come up with the correct business decision. If you have a particular business challenge and would like it discussed I am willing to use it in a future article. Please contact me using the contact information below.

To be successful in a horse business does not require a finance education, but it does require an understanding of what your financials are telling you. This understanding will enable you to make better business decisions. A good *Horse Business Management System* will do the calculations for you and analyze and report the results with comments or suggestions. A good *Horse Business Management System* will save you valuable time you can then use to improve your business. I encourage you to investigate how *equineGenie* not only helps you manage and care for your horses and manage your business operations and support your customers, but helps you be financially successful.

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