MODULE NINE: FINANCIAL PLANNING

THE HIGHLIGHTS

Your Financial Skills

If you're a self-employed artist, you're running a business. That's a simple fact that you need to accept, get used to, and then rise to the challenge of making the business work. It isn't going to be easy either. Most small businesses fail within five years, half fail in only two years. Although there are many reasons for these failures, financial mismanagement is high on the list.

There are two reasons for actively managing your finances: **Because you have to** – the funding body needs a budget; Canada Revenue Agency (CRA) requires documentation of your income and expenses, – and **because you really should.**

Your financial situation may involve more than simply earning enough money to live on. For self-employed artists, finances are particularly complicated. It becomes a question of having to separate personal from professional finances, and understanding how your personal issues about money and value affect your financial picture.

Your financial self

Your personal life experience inevitably influences your attitudes toward money. Important influences may include your parents and immediate family, your friends, peers and work colleagues. Your attitude toward money is also informed by your values, beliefs and goals. Being aware of such influences can lead you to a clearer understanding of your financial needs, and can therefore result in better decision making.

Tracking your money

Review your "tracking your money" exercise.

Your financial strategy

The Financial Strategy section of a business plan will vary somewhat depending upon the plan's projected readership, its purpose and "stimulus," and the nature of your work.

If your plan is being written primarily to satisfy a Canada Revenue Agency audit or to request funds from a lending institution, you will need to focus upon **profitability** and demonstrate exactly how your income will exceed your expenses within a set amount of time.

If you have received (or are requesting) government or arm's-length arts agency grants, the most important aspect becomes **accountability** – whether you have spent (or predict you will spend) public money in a reasonable, responsible manner, and certainly not in a way that conflicts with the granting agency's values.

However, if your business plan is an internal management tool, **sustainability** (having enough money to continue working the way you want to work) may be your focus. What you decide to include and emphasize in this section will depend upon the picture you wish or need to paint.

Essential, your "financial plan" is a comparison between income (the revenues your business brings in) and expenses (what you need to spend to generate those revenues).

THE HOMEWORK

Financial Strategy

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However, if your business plan is an internal management tool, **sustainability** (having enough money to continue working the way you want to work) may be your focus. What you decide to include and emphasize in this section will depend upon the picture you wish or need to paint.

Basically, your "financial plan" is a comparison between income (the revenues your business brings in) and expenses (what you need to spend to generate those revenues). This comparison should be presented in at least two ways: what your financial track record has been to date, and what your projections are for the future (usually two to five years). The following two types of statements are usually found within a business plan:

- Balance Sheet – Current Assets and Liabilities.
- Cash Flow – Profit and Loss Projections.

If you are submitting this plan as part of a funding request to a lending institution, your projected profits will have to be high enough to comfortably repay the loan. Your plan will be assessed by the quality of the assumptions on which these projections are based. Make sure that your projections and claims are consistent throughout the document.

These financial statements should be complemented by an outline and justification of the purpose for any requested funding (capital expenses such as a computer, recording/editing equipment, or a kiln; increased promotion of existing work; expansion of the business; rights acquisition; etc.). Together, these elements comprise your **Financial Strategy.**

AN EXAMPLE OF A FINANCIAL STRATEGY

L'ECLAT DE VERRE

Business Plan/Financial Data

Sophie Latour has been working as a glassmaker for a number of years. She makes all kinds of objects, from vases to cups and masks. She has built an enviable reputation in her field and has decided to start her own business, called L'éclat de verre, in the heart of the Eastern Townships. She found a commercial space in the heart of the tourist zone. She has already developed various sections of her business plan and must now quantify her financial objectives in order to obtain financing from a lending institution.

CONTEXT

Sophie draws up this list of her start-up needs:

Ovens and tools	$6,250
Start-up inventory	$5,000
Office furniture	$875
Communications/Internet	$250 / month
Rent	$1,250 / month (including gas for the oven and insurance)
Subcontracting	$1,000 / month
	$14,625

Capital investment (S. Latour)

In cash	$3,125
In furniture	$ 875
	$4,000

Sophie has to invest in purchasing her equipment since until quite recently she rented equipment from the École de Verre de Sherbrooke. She estimates her needs in start-up inventory to be $5,000, and as the need arises she will hire a friend to help with the finishing of her creations and in-store sales. Since Ms. Latour will invest $875 of her personal furniture and $3,125, she will ask for $10,625 in financing ($14,625- $4,000). Here is the table to present for asking for the necessary loan:

REQUIRED START-UP FUNDS

Short-term assets	
Cash (working capital)	$2,500
Capital assets	
Equipment	$6,250
Office Furniture	$ 875
Start-up inventory	
Inventory	$5,000
Total funds required at start up	$14,625
Ms. Latour's investment	$ 4,000
Required financing	$10,625
Long-term-loan	$10,625

OPENING BALANCE SHEET

The balance sheet is a photograph of the resources possessed by a company at a given moment: the ASSETS and the means used to finance these assets: the liabilities and the owner's equity.

- The opening balance sheet is drawn up on the company's first day of operation.
- Short-term assets are the resources the company will use during the coming year of operation.
- Capital assets are material resources needed for operation and which have a lifetime of more than one year.
- Liabilities are debts that the company has committed to repaying during the following year (short term liabilities) or in more than one year (long-term liabilities).
- The owner's capital represents the sums of money or the goods invested by the owner in his/her company. This capital will be increased by the profits generated by the company's operation or by additional funds injected by the owner. This capital will decrease if the company has losses or if the owner takes money from his/her company.
- Total assets $14,625 are equal to total liabilities ($10,625) plus total capital ($4,000), which yields the following equation: ASSETS = LIABILITIES + CAPITAL

Opening balance sheet, January 2008

Assets	
Short-term assets	
Cash	$2,500
Inventory	$5,000
Total short-term assets	**$7,500**
Capital assets	
Equipment	$6,250
Office Furniture	$ 875
Total capital assets	**$7,125**
Total assets	**$14,625**
Liabilities	
Long-term liability	
Long-term loan	$10,625
Total liabilities	**$10,625**
PLUS	
Owner's capital (S. Latour)	**$ 4,000**
Total liabilities and capital	**$14,625**

HYPOTHESES LINKED TO FORECASTS

Hypotheses must consider the various elements in the financial strategy. It is important to present simple and realistic hypotheses. Since they are hypotheses, it is obvious that they will not be perfectly accomplished. Lenders analyze the plausibility of the hypotheses rather than their degree of precision.

Budgeted balance sheet

Inventory sold during the month is replaced and thus purchased during the same month.
Inventory at the beginning is safety inventory.

Depreciation Linear rate

Oven and equipment 10%
Office Furniture 20%

Budgeted income statement

Sales

According to a market study, sales are seasonal.
To estimate sales, we take:

Annual sales		**$52,500**
January	**3%**	
February	**5%**	Ski tourists
March	**7%**	School break
April	**12%**	Easter decorations sales
May	**10%**	Mother's Day
June	**5%**	
July	**15%**	Vacationing tourists
August	**13%**	Vacationing tourists
September	**6%**	Festival of colours
October	**7%**	Festival of colours
November	**5%**	Christmas presents beginning
December	**12%**	Christmas presents sales
Total	**100%**	

Cost of goods sold

The cost of goods sold (COGS) is a percentage of monthly sales (due to a hypothesis regarding inventory). The percentage is a hypothesis depending on the expected average unit profit margin.
%COGS/Selling price **40%**

HYPOTHESES LINKED TO BALANCE SHEET:

- **INVENTORY**: The simplest hypothesis to illustrate is when the inventory sold during a given month is replaced during the same month (see explanation of the cost of goods sold to do the calculation).

- **DEPRECIATION**: Whenever a company uses goods with a life expectancy of more than one year, it is necessary at the year end to calculate the portion of this asset (capital asset) which enabled the generation of revenues. The depreciation rate is set, which distributes the cost of the item over its useful life. For example, in the case of the equipment needed to make glass stones, we suppose a rate of 10%, which means that each fiscal year will support a depreciation charge of $625 (cost $6,250 x 10%).

- **DISTRIBUTION OF SALES**: It is important to estimate monthly sales and to justify one's choices. L'éclat de verre assumes that sales will be higher during the months when the number of tourists is the greatest. In its estimates, L'éclat de verre assumes cash sales only.

- **COST OF GOODS SOLD (COGS):** The percentage of COGS enables the identification of the desired gross profit on sales. Ms. Latour would like a gross profit (or margin) of 60% for L'éclat de verre. This means that a glass piece, the cost of which is set at $40 must be sold at $100 to obtain a gross profit of $60.

- The formula is simple: SALES (100 %) **–** COGS (40 %) = Gross profit (60 %)

- Determining the gross profit makes it easy to calculate forecasted inventory purchases, if we assume that inventory sold is replaced in the same month. For example, for L'éclat de verre, sales for February are estimated at 5% of the $52,500 total forecasted for the year (5% x $52,200 = $2,625). To determine the amount of purchases to be made, multiply February's sales by 40 % (40 % x $2,625= $1,050, which represents purchases for February).

The cash flow budget is a very important tool in an application for financing. For each month, it represents the inflow of money (or funds) from which are subtracted the outflow of money (or funds). This tool lets you know, as a function of the forecasted hypotheses, the months during which it will be necessary to use a credit margin. For example, for L'éclat de verre, February and March will require additional financing or higher than forecasted sales in the hypotheses. Some lending institutions can require a three-year cash flow budget. It is thus necessary to think about plausible hypotheses for a longer period of time.

BUDGETED INCOME STATEMENT FOR THE FISCAL YEAR ENDING

December 31, 2009

	2008
Earnings	
Sales	$52,500
Cost of goods sold	
Start up inventory	$5 000
Plus: Purchases	$21,000
Minus: End inventory	$5,000
Cost of goods sold	$21,000
Gross profit	$31,500
Sales and administration costs	
Rent	$15,000
Subcontracting	$12,000
Depreciation-Equipment	$625
Depreciation-Office Furniture	$175
Publicity/telephone	$ 3,000
Total sales and administration costs	$30,800
Earnings before interest	$700
Interest on loan	$1,275
Net profit	($575)

The income statement presents earnings for a fiscal year from which are subtracted all operating costs: cost of goods sold, sales and administration costs, which include depreciation. It should be noted that several of the data in this income statement come from the TOTAL column of the preceding cash flow budget. Some lending institutions ask for budgeted income statements for three years.

BUDGETED BALANCE SHEET FOR DECEMBER 31

YEAR		2008	2009	2010
Assets				
Short-term assets				
Cash		$2,180		
Inventory		$4,000		
Total short-term assets		**$6,180**		
Capital assets				
Equipment	$5,000			
Minus:				
Accumulated depreciation	$500	$4,500		
Office Furniture	$700			
Minus:				
Accumulated depreciation	$140	$560		
Total long-term assets		**$5,060**		
Total assets		**$11,240**		
Liabilities				
Long-term liabilities				
Long-term loan		$8,500		
Total liabilities		**$8,500**		
Owner's capital				
Sophie Latour	$3,200			
Profit (loss)	($460)			
Capital at the end	**$2,740**	**$ 2,740**		
Total liabilities and capital		**$11,240**		

The budgeted balance sheet gives a new photograph of the business 12 months after the opening balance sheet. It reflects the assets on one side and the liabilities and the owner's capital on the other. For L'éclat de verre's first fiscal year, notice that the owner's capital is diminished by the net loss calculated in the earnings statement, that is by (- $575). Notice also that the total assets are equal to the total liabilities and the capital (assets = liabilities + capital). Some lending institutions ask for three year budgeted balance sheets.

11. Summation

A concise restatement of your "business case" (your strategy and highlights of the supporting material) is all that is necessary for this section.

12. Appendices: Supporting documents

The “appendices” section should contain any documents you believe will add credibility to the plan and substantiate claims you have made. You may wish to include:

- A résumé or biography.
- A performing, exhibition, publication, or recording history.
- A list of references (obtain permission from the persons to use their name for reference).
- A list of awards.
- Public funding (grants awarded) and private support.
- Press reviews.
- A list of clients (obtain permission from the clients to use their name for reference);
- “Product literature” (a brochure, a portfolio sample).
- Key copyright information (if your work is protected by a copyright collective such as CANCOPY).
- A list of applicable memberships and affiliations.
- A survey of resources (equipment, supplies, even strategic partners).
- The most difficult, but important, supporting document is your résumé or biography. While the content of a biography will vary considerably, here’s a good format to follow:

THE FINANCIAL PICTURE

Your financial situation may involve more than simply earning enough money to live on. For self-employed artists, finances are particularly complicated. It becomes a question of having to separate personal from professional finances, and understanding how your personal issues about money and value affect your financial picture.

YOUR FINANCIAL SELF

Your personal life experience inevitably influences your attitudes toward money. Important influences may include your parents and immediate family, your friends, peers and work colleagues. Your attitude toward money is also informed by your values, beliefs and goals. Being aware of such influences can lead you to a clearer understanding of your financial needs, and can therefore result in better decision making.

As you work through the following questions and sentence stems, let yourself accept whatever your first response is, and note it. Try not to censor or force your answers, but you can always go back after you have completed the list and add later insights, ideas and questions.

What is the difference between a budget and a spending plan?

Complete the sentence:

- Money is ____

Now place your pen in your other (non-dominant) hand, and again complete the sentence:

- Money is ____

Complete the sentence:

- I am worth ____

As a child, did you receive an allowance?

Was it simply given to you, or did you have to do something to earn it?

When did it begin?

When did it end?

If you didn't receive one, why not?

When did you get your first bank account?

Did someone take you to the bank and help you?

Who explained the workings of the bank to you?

Who showed you how money worked?

What did they tell you?

At what age did you first earn money (not including an allowance)?

What did you do with the earnings?

How was money talked about in your family?

What were the spoken and unspoken rules regarding money?

How did money affect your life as you were growing up?

Is there any time that you recall your parents taking their earned money and doing exactly what they wanted with it? What did you learn by seeing this happen or not seeing this happen?

Did your parents discuss financial planning? How did they do it nor not do it?

How old were you when you got your first credit card? Why did you apply for one?

How are you being influenced by your parents' values and behaviour now, in the present, concerning how you deal with money issues?

What was it like to ask for money in your family?

What is it like for you to ask for money as an adult?

Besides your family, where else did you learn about the workings of money? How did that learning differ or agree with what you'd learned from your family?

What have you learned that is positive about money?

How are you learning about the workings of money now?

What else do you want to learn about how money works?

Packaging Your Business Plan

Your business plan should be simple, logical, and relevant to your work and the intended audience. While it is difficult to go wrong with a neat presentation on high-quality white paper and bound tastefully, you may wish to add some subtle touches that reflect your artistic personality or use new technologies to creatively represent your work. Photographs or examples of artwork on digital media, as appropriate, can be added to the plan, especially if the work is difficult to explain.

HOW DO I SHAPE MY CAREER GOALS AND BUSINESS PLAN INTO A "CAREER STRATEGY"?

The process of developing a list of goals and creating a business plan gives you the opportunity to take a realistic, objective look at yourself and your work. The resulting documents hold everything you need for success except the "kinetic force" (the movement or the action). You have to provide that part. Just like a hammer that has been abandoned in the grass, a business plan and a set of goals will not get you any closer to building your dreams if you don't use them.

Implementation steps

The specific steps you should take to implement your plan will depend on the plan itself. These are, however, some general steps to consider:

- Just start. Don't wait until you have more time – work has a tendency to stretch to fit the time allowed for it. If you don't make time for it, it won't happen.
- Revisit the plan and review your goals often.
- Make sure that your goals and the actions you are taking to realize them are consistent with your values and what it is you really want to achieve.
- Evaluate the success of your actions. You need to be able to gauge whether your efforts are bringing you closer to realizing your goals.

If you had hoped to increase your visibility in the community, for example, you should monitor such quantitative measures as the number of visitors to your performance or exhibition, the number of inquiries about your work, and the increase in the number of clients. A large number of visitors to your website definitely can be persuasive! Measuring the quality of your career and life should not be forgotten in this process. For example, if you believe success is reflected by how many people buy your work, an exhibition which draws a large audience and critical acclaim but results in few sales will probably seem a failure.

Leslie Feist's song, *1234*, was featured in a commercial for iPod nano. It propelled her indie release to the top of U.S. and U.K. charts, with over 73,000 downloads per week, in 2007.

- Revise your goals, your plan, or your actions as you go. As your career evolves, your plan should grow with you. Many people will shelve their business plan, pull it out two years later, and, discovering that their predictions in the plan don't match the reality of the day, conclude that the entire effort was a waste of time. These people have missed a considerable opportunity. Whenever circumstances change for you, go back to your plan and modify it as required to keep it current.

- Validate your plan. Consider drawing on the experience of a veteran colleague you know to be experienced and well versed in the same area you are entering. You can bring such a person into the process even while determining your career goals and developing your business plan or after the fact as a final check on the validity of your overall strategy.

You may, for example, decide to work formally or informally with a mentor. Through a mentor, you can often get "real world" training, advice, support, and encouragement often lacking in a self-employed cultural worker's professional life. Mentoring can also provide measurable and tangible benefits.

- Renew your plan. Revisions to your business plan should be a continuous, lifelong, and beneficial process. There will, however, be a time when revision isn't enough. If your career has significantly changed direction or focus, a simple revision to your plan won't work. If you started out in the area of film production but decided later to become a screenwriter instead, you will need a different plan. In such cases, use your original plan as a building block, but acknowledge that you need to take a fresh look at your career and devise a new plan. You might find out something new about yourself in the process.

Consider the case of writer **Ann Douglas**. A periodical writer who decided to become an apprentice through the Periodical Writers Association of Canada's Mentoring Program, Douglas worked closely with a respected senior writer to acquire the skills to develop and market her first book. *Baby Science: How Babies Really Work* eventually spent 17 weeks on the *Globe and Mail*'s bestsellers list and has since been followed by a number of other top sellers which have been profiled in *The Walrus*, *The Globe and Mail*, *Reader's Digest*, *Homemakers,* and *Today's Parent.*

When you follow these steps to develop and implement your business plan, you unite your purpose (defined during your self-assessment), your tools (your goals and business plan), and the appropriate actions (what you are going to do to realize your plan). As a result, you will have a clearer vision of the future of your cultural or artistic business. As you move toward turning that vision into reality, you can't help but head in the direction of success – whatever success means for you.