**Step by Step to Building a Financial Plan through Understanding & Evaluating your Economic Climate**

*The economic climate is a key factor for evaluating our company’s future, and the financial success!*

What the economy is doing will affect your business, because the economy affects customers discretionary spending – good and bad!

Recognize the factors driving the National & Local Economy:

1. Interest Rates
2. Inflation Trends
3. Home Building Starts
4. Commercial Lending by Banks
5. Employment Trends
6. Government Spending and Government Projects
7. Local Trends in your economy

These are some of the key areas that affect the economy on a national, and of course local level. It is quite possible and happens often, that a local economy is performing completely the opposite of the national economy. What do we care about as contractors and small business owners?

The local economy of course!

**Interest Rates** – The cost of money is the interest rate. Banks charge interest on money they loan. The costs of this money have a dramatic impact on areas such as homebuilding, mortgage financing, and consumer demand. Typically the lower the rates, the more this factor stimulate the economy.

**Inflation** – The value of the dollar is either higher or lower. Inflation reduces the value of a dollar, effectively reducing the ability of a dollar to acquire goods and services over time. Higher inflation figures mean consumer’s money is worth less, impacting how they spend money on discretionary purchases.

**Home Building** – Home construction drives the trades, ours included. Even if you do not involve your company in new home construction, your company benefits due to the upgrade, accessory, service, IAQ, Tune-up and maintenance.

**Commercial Lending** – The lending to develop commercial projects is a driver for all forms of local economic growth. Residential development follows the commercial development. As commercial lending and development goes, the residential will follow.

**Employment Trends** – Unemployment determines how people feel emotionally about the economy, not to mention spending patterns because they either have a job, or do **not**!

**Government Spending** – Depending on where you are, the local economy may benefit from government spending, or government projects. The government is the largest single employer in the U.S., now employing 1 of every 6 people in the United States.

**Local Economic Trends** – Every local economy has certain characteristics that define it. Knowing the major employers, the major industries, factors that create growth or decline, all contribute to your understanding of the local economy, which impacts your business.

*Economics impact our ability to grow, and how we have to operate to maximize our profits. The need to have a financial plan is magnified when the economy is tight!*

Having a sound financial plan is even more critical during periods of recession, or economic downturns.

1. Define your markets you do business in operationally. For each of these markets set specific, measurable, attainable financial goals you want to accomplish.
2. Sales Revenues
3. Margin Dollars (Gross Profit Dollars)
4. Margin Percentage (GP Dollars divided by sales)
5. Key performance benchmarks
6. Direct Labor to sales percentage by market

* Retrofit
* Demand Service
* Maintenance
* New Home

1. Sales per employee
2. Sales per install vehicle
3. Sales per service vehicle
4. Average sale in sales process
5. Closure rates in sales processes
6. Average service ticket

These are just a few KPI examples you may want to use to set financial goals.

1. Have good/sound financial structure in place, departmentalization, proper pricing, and the historical data for the budget to be built.
2. Establish a budget that meets the slowest three months operating model. That slowest three months model says we build all of our operating expenses in overhead to support our slowest 3 month period, so our plan is designed to allow the company to live within its means. We set the budget to make a small profit during these slowest 3 months, and when business picks up, we can always increase spending. The budget can be built with the historical data, and the forecast using the factors listed above as they impact the revenue of the business.
3. Take each factor above, such as interest rates, and determine through your own subjective opinions, if you believe they will have any impact on areas such as homebuilding. If so, you may need to adjust your sales revenues, based on how these affect your own customers (builders).
4. Review the budget and financial goals with your team, to determine if they agree with your assumptions. If they do, then it can be transformed from a budget to a working budget. If they do not, review their reasoning and make and adjustments that are appropriate. Remember, the factors listed above impact any set of assumptions drastically.
5. Now the trick is to apply the working budget to the real world. Operations!
6. Are the company compensation practices in alignment with this new financial plan and the economic impact?
7. Are the operational practices, such as same day installation in place?
8. As the economy influences the revenues, the markets, and these can be good or bad, the financial plan must drive operational changes in the company.
9. Can we afford to carry the staff we used to carry if revenues are slipping?
10. The real-world budget versus the real-world of operating and serving customers sometimes collide, not very nicely. Such as when you know you cannot afford to carry staff, but do you have the will power to make the change?

**Economics impact the financial plan and budget process!**

**The financial plan is what guides us, and our decision-making.**

**Establishing goals sets up the company financial plan!**

**A financial plan and budget change immediately after completing!**

**Real world issues and economics affect our new budgets!**

**We use weekly operational meeting to adjust operations to meet plans!**

Why is this Critical to my Success?

* The budget process is impacted by economics. Evaluating those factors can help us establish a realistic financial plan.
* Establishing the budget and financial plan, and goals, allows us to measure our financial performance.
* Financial planning for the company, by market segment allows total accountability for financial performance.
* Having specific, measurable financial goals allows you to focus your decisions and make the right choices for the company based on what you called out as important during your budget process.
* **Properly implemented financial plans based on history, economic variables, and proper company financial controls helps you MAKE MORE PROFIT!**