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Financial Forecasting - Not Budgeting - Provides the Direction, Profits, & Cash-Flow You Desire!

By Robert C. Benson

In his book, *The Art of Leadership*, Max Depree states, "The first task of leadership is to define reality." Yet, most small companies do no planning and mid-sized companies who plan tend to prepare budgets instead of a financial forecast. Going on a one year business journey without formal planning makes no more sense than going on a one year vacation without planning. Following are some winning insights for ABA Insiders concerning planning your annual activity with financial forecasts instead of with a budget.

1. In addition to planning profits, preparing a comprehensive financial forecast projects your cash-flow and capital requirements, which results in anticipating your financial needs and strategies in advance, instead of reacting after the fact.
2. Budgets are viewed as restrictive and limiting, whereas financial forecasts empower you to make cost/benefit decisions leading to greatly improved profits and cash-flow.
3. Financial forecasts help you determine the right sales level for your business.
4. The proper pricing, cost, and margin structure for your business can be established.
5. You can determine your operating leverage, (how much you make when you go past breakeven) resulting in better day-to-day management decisions.
6. A financial forecast will show you how much debt you can handle.
7. Planning your staffing, property and equipment needs becomes clear and decisive.

A financial forecast provides you with the financial strategic performance measures to track month-to-month progress toward you financial objectives.

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