

TIP OF THE MONTH - BANISH THE BUDGET

When most of us hear the word “budget,” we do not feel a warm fuzzy sensation; what we feel is more like a migraine. I used to lecture to post graduate students on “managing without budgets”, but I never told them that many of my clients have been doing this for years! If you would rather do just about anything besides create a budget, you’re not alone. The word “budget” brings up connotations of endless numbers, constraints, the opposite of freedom and creativity, and hard work, none of which are very desirable.

Yet, the benefits of a budget are huge. Budgets can help you improve cash flow, keep you on track for higher profits, and alert you to items that need further action. We’ve all heard that old adage, nobody plans to fail, but many fail to plan and get there anyway...

From “Budget” to “Profit Plan”

To be successful with budgeting, we need to get rid of all of the connotations that go with the word. Perhaps it might work if we rename “budgeting” to “profit planning.” And then, rather than focus on how little we should spend, let’s start with how much revenue we’re going to make, and how.

Revenue Clarity

It’s simple to create a revenue plan if you go backwards. What revenue goal would you like to hit this year? Just like we would never get in a car without a final destination, a revenue plan gives us a number to aim for in our businesses.

Once you know your number, then we can use averages to come up with how many sales or customers we need to generate in order to meet our revenue goal. Here’s a quick example: Let’s say you want to reach £500,000 in sales this year. If your average order is £2,000, then you need 250 sales. If you have multiple products and services, then you’ll need to sum the product of the average sale times the needed number of sales for each line.

From there, you can make marketing and production plans based on the number of sales or customers you need.

Protecting Your Profit

Think of the expense side of your “profit plan” as protecting your profit margins so that you can ensure financial gain from all the hard work you do. Setting budget limits on spending will allow you to control overhead and other items so you can keep more of what you make.

Exceptional Reporting

A great “profit plan” report will provide several things. You can compare budget to actual, or better yet, just be alerted to the accounts showing exceptions. You can also get a “Profit and Loss” statement that compares the current period with the prior year/period so you can see how far you’ve come. In some cases an option is a benchmark report which provides industry averages so you can measure how you fare compared to other business in your industry.

A “profit plan” is a great tool for your business. If we can help you with the process or provide you with custom reporting, please give us a call.