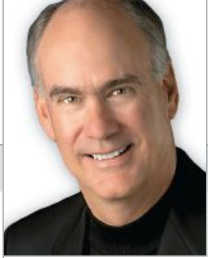

THEBENCHMARK

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FYI Beginning with this issue, the Benchmarking column written by Kevin Kehoe, will rotate among the 3PG Consulting group's three owner-managers: Kehoe, Frank Ross and Jeff Harkness.

Why are you in business?

So, what's your budget like this year?

Budget!?! Frank, you know you can't budget in this industry! There are way too many variables — there's the weather, there are labor issues, things die… Frank! It simply can't be done. No way, no how, just forget it!

Sound familiar? I hear it all the time. But the truth is, budgeting *can* be done — and very easily, too, when the process is taken one step at a time.

I suspect budgeting gets its bad rap because of the more popular methods being used today. One such method is what I refer to as the Ego Method. This is where ownership reviews the income statement for the year just completed. They see the revenue figure was at $750,000, for example, and for no other reason other than to placate their egos, they set a goal of $1 million for the next year. Why $1 million? Other than the fact that it has a nice ring to it, I have no earthly idea.

Another method is the Inflation Method. Here, ownership looks at local statistics measuring inflation, and the record says that inflation was 4% for the most recent reporting year. Because they can think of no reason why not, they increase all of their figures by the inflationary 4%.

And then there is the Percentage Method. In their infinite wisdom, ownership picks a sales figure — it could be the $1 million we mentioned earlier — and then figures all of next year's expenses will be the same percentage of sales as they were last year.

All of these methods focus on the top line of the income statement: *sales*.

Time to realign

Why are you in business? Is it because of the bragging rights you achieve because of a higher sales figure? Hardly. You are in business to make a profit. Sales are simply a means to an end. Profits give you life. They give you purpose. And, they create the lifeblood of your business — cash flow.

So, if I were going to budget for next year's activities, where would I start? Certainly, not by asking how much sales I want to produce. I'd start with my motive for risking everything I own to do it all over again. I'd start my budget by looking at my bottom line, and calculating how much profit I need to make.

Notice my choice of words here. It's not how much profit I *want* to make. It's how much profit do I *need* to make?

I am often asked how much profit someone needs to make in his or her business. Honestly, I do not know the answer to that question, but I can suggest a process by which you can calculate the minimum amount of profit you need to make:

1. Add all of the principal payments you intend to pay on your outstanding notes.
2. To that figure, add the down payments and principal payments on any new fixed asset additions you intend to buy.
3. Add about 8% of your sales growth for next year over this.
4. Throw in some bonus expense for the job well done by the team.
5. Don't forget Uncle Sam: Figure 25% of the sum of the above for good measure.
6. Add it all up, and you've got a pretty good idea of what your minimum profit needs to be for your company to survive and prosper.

Budgeting is not a difficult process, so long as you know where to start. Don't wrestle with how much sales you might do next year. Start at the bottom line and work your way up the income statement. Start with how much profit you *need* to make, and build a winning budget.