I am all about eliminating the guesswork we face in our businesses. Yes, I am a budget freak. Some of this stems from what my mentor, Emol Fails, Ph.D., instilled in me a long time ago. One such morsel was the construction industry is the second most risky business behind restaurants in the U.S. That doesn’t say much for us on that side of the landscape business—but think about it: We’re in the business of selling labor, the greatest variable of all. We perform our work outdoors, so we have weather to deal with every day. Most times we’re at the mercy of others for payment for our services, and, to make matters worse, we’re uneducated in the art of financial management. Only one of every 10 contractors who opens his doors will see his 10th anniversary. Now, that’s a horrible statistic.

I’m also all about maximizing profits. It’s what my partners and I do everyday, and we do it by eliminating bad decisions. Fails taught me to make a plan to reduce bad decisions. That’s what a budget is—a plan. Think about this: Would you ever commit to doing a job without an estimate of costs, overhead and profit? Of course not. So why, I ask, would you ever start a whole year of jobs without a budget? You wouldn’t.

Fails also told me without a well-conceived plan, we have the chance of making the right decision about 55 to 60 percent of the time. With a well-conceived plan, Fails follows up, the odds of making the right decision increase to 65 to 70 percent. Now, some of you might think increasing your chances of making the “right” decision by 10 to 15 percent isn’t worth the effort, but believe me it is. A well-defined business plan will more than double the profits generated without a plan.

**Say when**

So, when do you prepare a budget? Budgeting is a perpetual process. If you’re a calendar-year operator, you’ll begin the process for the coming year around August and it’s a monthly scrub for the next 16 months (August of this year through December of next year).

In the fall, we’ll initiate the plan for the coming year with a “pricing budget.” Every fall we’ll set our pricing strategies for the coming year. If we’re in maintenance, our commercial customers are setting their budgets for next year in the fall; if we’re in installation, many of the projects we’re proposing in the fall will not be installed until the spring. The point is to make sure we can effectively estimate and price the work.

To that end, we’ll want to know how we’ll be spending money in our company next year. That requires a preliminary budget to set what growth we anticipate, what capital expenditures for vehicles and equipment we’ll need, what are the labor wages and benefits we anticipate, will there be changes in material unit costs, what changes in overhead spending might we experience, etc. This preliminary forecast will tell us if and how much of a price adjustment we’ll require for the coming year to achieve our net profit goals.

Preparing the “detailed budget” for next year will likely span a time frame of mid-October to mid-January. Count on it being a fairly involved process. I encourage involving our key people in this project. The more they know of our plans, the more ownership and accountability we will create among them. This tactic creates buy-in and does nothing but heighten our chances of surpassing our goals. An effective budget is a team effort.

Once the budget for the year is set, spread the results by month to create a “rolling budget.” With each month that passes, replace the budgeted figures for the month with the actuals for that month and re-total the year—actuals plus the remaining budgeted months. Do we like what we see?

Now comes the real strength of the process: Every month, we’ll look forward 90 days at all of the budgeted assumptions and challenge our abilities to achieve them—sales, labor control, overhead spending—the entire gamut. If there’s an area where we feel we’ll either exceed or fall short of goal, change the budget! Yep, change it. Then repeat this process monthly.

Sure, I’m a budget freak and proud of it. But, more importantly, I am a profit freak—budgeting is just one way I do it.