Voila! You have a budget

OK, it’s January. You should have your budget completed for this 2014.
You do, don’t you?
Uh-oh, you don’t, do you? Why is this budgeting thing always such a struggle? Would you ever go on a long trip without a road map? Would you ever contract a large job without an estimate? Of course not. And, it follows that you should never embark upon a year’s worth of work without a business plan—i.e., a budget.

I’ve heard all the excuses not to make a budget: “Frank, there are just too many variables. We don’t know what jobs we’re going to get. We don’t know what the weather is going to be like. Heck, all our work could be with some !#?*?! general contractor, owner or architect. What about your dear budget then?!”

Another reason we don’t plan is that preparing a budget is hard work. First of all, you have to get your head around the concept that a budget has nothing to do with prior year trends. Now, that statement is almost blasphemy. How can you possibly budget next year without knowing what we did last year? OK, I’ll concede the point that some historical data is useful, but only if you’ll concede that for most of us there’s no year in our recent past that we’d ever want to repeat.

Thus, I give you zero-based budgeting. Actually, Jimmy Carter brought the term “zero-based” into vogue when he was running for president in the 1970s. It didn’t work so well for President Carter, but it can work amazingly well for us.

So, where do we start? What’s the most important line item on your income statement? Profit, of course! That’s where you start—at the bottom and work your way up. Don’t start with, “How much revenue will I do this year?” We simply don’t know the answer to that question. The real question is, “How much revenue must I do to meet or surpass my profit goals?” So, I give you this process:

STEP 1: Determine how much profit you must make to cash flow the coming year.

STEP 2: Plan each overhead expense in detail.

STEP 3: Determine your capacity to perform work.

STEP 4: Determine what backlog you have by type of work for the coming year.

STEP 5: Determine what new revenue you must generate to cover your remaining margin.

Based upon how you price your work, you’ll now calculate how much additional work you must sell to cover your net profit requirement and your budgeted overhead expenses. Add this work program to your backlog and voila!, you have a budget.

It’s simple, really. Our focus is to determine how much work we have to sell—not what we will sell. It’s a completely different mindset.