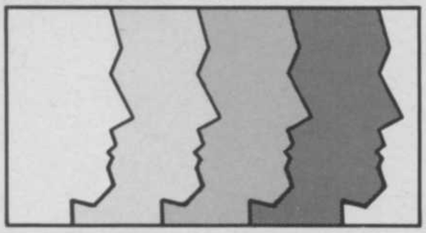
HOW WILL YOU DO THIS YEAR?

The first step in reaching your 1989 goals is to put together a zero-based budget.

by Dr. Rudd McGary

MANAGEMENT



IN BUSINESS

Too many companies in the green industry underestimate the value of a well-conducted business forecast. Yet the most successful companies use forecasting as an important management tool and are more likely to succeed in the long term because they have a plan to assess performance throughout the year.

Without this notion of accountability, management cannot have a complete grip on the company.

While some companies in the green industry still operate on a day-to-day basis, the competitive nature of the industry today dictates that a forecast be done. The path the company is to follow needs to be projected into the future if it is to succeed.

Generally, there are two ways green industry companies should go about forecasting this year's business. Most have a tendency to forecast judging by last year's figures. In addition to this method, a zero-based budgeting system should be implemented.

Management information

In order to forecast by using last year's information, it's important that the information be in workable form. Too often companies compile mounds of data and forget to turn it into usable information. Some of the key parts of information you need to note are:

1. Your source of leads. Was it referral, direct mail, yellow pages, television, newspaper, radio, teleselling, outdoor or advertising in this magazine?

2. Leads by type. How many leads did you get from each of these advertising vehicles?

3. What was your closing ratio by source of lead? Did certain types of leads result in better sales closings? Referral leads almost always have the best closing ratio for a service company.

4.What was your cost per lead? This figure is the total cost of attraction divided by the number of leads it generates.

5. What was your cost per sale? Simply divide your total advertising cost by the number of closes.

6. Who is selling? Identify the salesperson who gave you the best closing ratio and note the type of leads that were utilized.

7. When did your leads occur? Using this type of information will help us get to a zero-based budget. This simply means that you start with information on last year's performance and base your forecast on assumptions not linked to the previous year, but rather to actions you intend to take this year.

To make this a little clearer, many companies take last year's sales and add 10 percent, using this number as the new goal in a sales area. This may work for some companies, but it doesn't indicate how the company is going to reach these new goals.

If you use a zero-based budgeting approach you will use information from last year and interpolate your management time and skills into the forecast. Basically you're saying, "Last year we closed 80 percent of all leads we got through referrals. We had 80 referrals and 64 closes to get that number. This year we are going to be more aggressive in seeking out referrals and expect to get more than 150. If we do that and continue to close at 80 percent, we will close at least 120 new sales this year as a result of actions we take to increase referrals."

You then need to plug this number into the sales line for 1989, with the appropriate times and sequencing for referral leads that you know from last year's information. This is only a part of the total sales figure, but it will give you a start on your sales numbers.

At the same time you put this number in place in the forecast, you must make sure that you have made someone in the organization responsible for getting and closing these leads. It's one thing to say you're going to get leads, it's another to get them and to make sure someone closes them. In other words, you need to make an action plan for this particular part of your sales.

Segmenting targets

Even before the process of forecasting begins, you need to consider the segments of the target you want to forecast. In order to forecast correctly you need to look at last year's information, this time with a different view than that above. The key parts of information are:

1. What characteristics of last year's customers are the same? For example, do your customers live in the same area in the same type of house? Do they make the same income? Are they the same age? These types of questions will help give you a profile of your past customers.

2. Can you reach the profile you construct with some action by the company and how much will it cost?

3. Who will be in charge of reaching these people?

If you take these simple questions seriously when you are doing your forecasting, you will be able to assign responsibility to the sales staff and determine who your most likely customers are going to be. Remember, consumers that are similar to your current customers are most likely to buy what you are offering.

You must take both sets of questions seriously if you wish to prepare a forecast. You need to know who your current customers are and understand the numbers behind how they became your customers. By putting this information together in a zero-based budget, you will be able to forecast the upcoming year and gain control from a management point of view. **LM**

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