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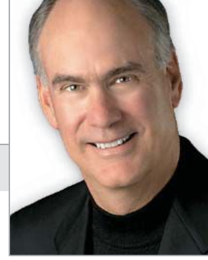

Voila! You have a budget

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.

- How much debt must you retire?
- What capital expenditures do you plan to make?
- What working capital do you require for operations?
- What's your tax exposure?

STEP 2: Plan each *overhead* expense in detail. This is the zero-based concept. Detail every overhead expense account as to what will be spent during the year and when. Just this simple awareness of how you spend money will give you new knowledge of what's happening around you and reap amazing cost savings.

Add steps 1 and 2 together to determine the minimum *gross margin* goal for the year.

STEP 3: Determine your capacity to perform work. You're in the service business, which means you sell labor. In this step you'll plan for the number of people you can effectively manage on your payroll with your existing supervisory structure. What raises do you anticipate? What benefits? How many hours will you pay your workers for billable activities versus those you do not bill for? How many of those hours will be paid at an overtime rate? This process will be the blueprint with which you'll manage the coming year's production labor force.

STEP 4: Determine what backlog you have by type of work for the coming year. Backlog is the work you've sold less that which you've performed. In installation, you should have estimates for the cost to complete this work along with the remaining gross margin to be earned. In maintenance, this will be your renewal jobs less an estimate for attrition. Either way, with this step you'll calculate how much of your margin goal (steps 1 & 2) you've already sold.

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.