

BUDGETS AND PROJECTIONS---CRITICAL TO SUCCESS!

Your bottom line is the true measure of success. Sure, there are non-monetary aspects of success. But, if the bottom line is negative for a sustained period, your business will spiral into insolvency. And, if your bottom line is not sufficient to maintain your family's lifestyle or support your personal goals, you will have to make a change. Budgets and projections are the road map to get your business successfully to its destination.

7 Easy Steps

1. Project your current revenue and expense numbers to year end by taking the last completed month, dividing each by the number of months represented and multiplying by 12. (Or, if the year recently ended, use those numbers.)
2. Increase all line items by a reasonable percentage to represent inflation.
3. Increase (or decrease) revenue and all costs directly related to producing revenue by your anticipated percentage change in revenue for the coming year. (Direct costs would include purchases and materials, labor, subcontracted services, equipment, etc...)
4. Review other expenses to determine if a change in revenue will likely have an impact and adjust as necessary.
5. Adjust certain expenses that economists predict will change by more than the inflation rate. (Fuel, health care, property taxes, etc...)
6. Think about your situation and adjust for any predicted changes. (Rent increases, plant, property and equipment purchases, adding non-production staff, introducing a new product or service, paying off a loan or lease, etc...)
7. Look carefully at the bottom line and how you got there! This process will help you see and understand relationships between the various revenue and expense items.

Use the budgets and projections to guide your decisions

If the bottom line does not meet or exceed your expectations, develop strategies that will improve it.

You can easily replicate the process to develop different scenarios such as a 5% increase versus a 10% increase in revenue.

Refer back to the budget at the beginning of each month. How did you fare? Do you need to adjust it based on new information? Are your strategies having the desired impact?

Tip

If the bottom line is not where you want it to be, don't change revenue and expense numbers to make it work. Keep your first projection to stare you in the face! Develop strategies and use different scenarios to motivate and guide you.