

Two Critical Budget Mistakes

For most residential contracting firms in the U.S., March 31 marks the end of the first quarter of the 2015 fiscal year. This means that, sometime in April, you're likely to review the company budget and compare actual results with what you had forecast. And that's when you might discover that you made two big mistakes several months before.

THE FIRST MISTAKE

Typically most prevalent among younger companies, this mistake centers on unrealistic or dangerous assumptions. Unrealistic increases in volume combined with unrealistic decreases in job costs produce great numbers on paper, but are difficult to put into practice without specific, measurable tactics implemented by seasoned management. Such budgets tend to be disregarded—and round-filed at the first

plan for cash requirements during growth; and regularly monitor results to test your assumptions.

THE SECOND MISTAKE

Growing companies of any size or maturity make this error, which centers on having insufficient processes and practices for the current level of volume. As they grow, companies pass through up to five predictable stages:

1. Owner does it all
2. Owner begins to delegate
3. Owner delegates everything except sales
4. Owner delegates everything
5. Owner works only on strategy

The mistake is taking on more work before investing in processes and practices to manage it. Chaos, loss of employee and customer satisfaction, and reduced profits predictably follow.

Solutions: Forward-thinking companies invest in infrastructure—including tools, equipment, education, and training—that is appropriate to the future. Therefore, investment precedes and controls growth. Of course, you also need to budget for the increased expenses, devise metrics for success, and monitor the results.

Be as reasonable in your assumptions regarding your processes and practices as you are in creating the budget; most major change initiatives require a minimum of three to four months to complete implementation and another six to eight months to determine effectiveness. Don't rush this component of successful growth. Plan for it, implement it, measure it, and then reap the rewards.

Developing effective standardized processes is vital to generating sustainable profits. Focus on only one component of company success at a time—if you impose two or three changes simultaneously, you'll rapidly lose control. So, for example, initiate production efficiencies before making a big marketing change, or introduce financial controls before sales reforms. That way, every member of the team can concentrate on the opportunity with the greatest impact, and they can all work together to attain the expected outcome.

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opportunity. As a result, the opportunity to repair as well as review is wasted.

Solutions: Build the company budget in the same way you build a job estimate—combine accurate historic information with an informed understanding of the short-term future to predict a desired outcome. Do the following:

- Hold your company's annual growth rate to no more than 15% to control processes and therefore profits.
- Budget job-cost savings at no greater than 5% annually.
- Learn about fixed and semi-variable overhead costs so you can budget a reasonable overhead that correlates with the projected revenue goals.
- Remember that overhead tends to increase as a percent of sales as the company grows.

Learning how to make reasonable assumptions at every level of your company's development is critical to budgeting success, especially during periods of growth or contraction. You need to control growth to protect profits;