

Budget for Profit

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Here's why paying yourself profit is as important and easy as paying the rent...

Profit to Date		Monthly Profit or Loss:						
\$0.00	JAN	FEB	MAR	1st QTR	APR	MAY	JUN	
	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Income:	\$0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Percent of Total:								
Expenses:	\$0.00							
TOTAL	JAN	FEB	MAR	1st QTR	APR	MAY	JUN	
Advertising	0.00			0.00				
Bad Debts	0.00			0.00				
Fees	0.00			0.00				
Depletion	0.00			0.00				
Benefits	0.00			0.00				
Insurance	0.00			0.00				
Interest	0.00			0.00				
Services	0.00			0.00				
Office Expenses	0.00			0.00				
Rent/Lease	0.00			0.00				
Repairs	0.00			0.00				
Supplies	0.00			0.00				
Taxes	0.00			0.00				
Travel/Ent.	0.00			0.00				
Meals	0.00			0.00				
Utilities	0.00			0.00				
Wages	0.00			0.00				
Other	0.00			0.00				

As small business owners, most of us are familiar with the term "Budget." According to wiki, a budget is 'a list of all planned expenses and revenues' that 'enables the actual financial operation of the business to be measured against the forecast.'" Yet where is the reference to "Profit?" Given the success of a business is measured in the amount of profit it makes, why does a business budget not focus on profit?

Interestingly enough, there are many businesses I have come across who are surviving in business, i.e., they are earning just enough revenue to cover their expenses and pay themselves a minimal salary, yet they are not profitable. I believe it is because most

small business owners consider profit in business a nice to have, not a have to have. Here's why I've come to this conclusion... many business owners can find a way to increase revenue to cover an increase in costs. This might include increasing prices, adding a surcharge, reducing other expenses or increasing volume just enough to support the increase in costs. Yet they do not choose to do the same things for the sole purpose of increasing profit. This is because we are programmed to survive, not to thrive. Here's how you can begin to thrive in business by applying our system for budgeting that focuses on budgeting for profit.

Begin by defining "Profit" as an expense item in your financial chart of accounts. To pay yourself profit like you pay your rent, you must give the commitment to paying profit the same amount of importance as you do any other expense required to operate your business. Set up a new and separate savings or money market account with your bank and title this "XYZ Profit Account." Now it's as simple as deciding how much profit you choose to pay yourself.

There are two methods you can adopt to create your Profit Budget. Both require you to set a monthly "profit expense."

The Bottom Up Method (Annual Profit Budget) requires you to set and achieve Revenue goals consistent with your expenses:

Net Income =	\$0 (net income should be \$0.00 if you are paying yourself profit)
Other Expense (Profit) =	-\$120,000 (\$10,000 per month of profit)
Net Operating Profit =	\$120,000 (net income + other expense)
Fixed Costs =	-\$420,000 (\$35,000 per month of overhead expenses)
Gross Profit =	\$540,000 (operating profit + fixed costs)
Gross Profit Margin =	50% (gross profit / total sales)
Revenue =	\$1,080,000 (goal revenue)

The Top Down Method (Annual Profit Budget) requires you to set and achieve Expense goals consistent with your revenue:

Revenue =	\$850,000 (anticipated revenue)
Gross Profit Margin =	50% (gross profit/total sales)
Gross Profit =	\$425,000 (revenue x gross profit margin)
Other Expense (Profit) =	\$120,000 (\$10,000 per month of profit)
Fixed Costs =	\$305,000 (goal overhead expenses)
Net Income =	\$0

Start by applying both of these methods to your historical numbers to come up with "Goal Revenue" using the Bottom Up Method, and "Goal Overhead Expenses" using the Top Down Method. Select the method and corresponding "Profit Budget" numbers for whichever method is easier to influence in your small business. If you apply each of these methods to your small business and the resulting "Goal Revenue" or "Goal Overhead Expenses" does not seem achievable, then your small business is not a model for profitability in which case, get out of it and do something else, or accept that this is as good as it's ever going to get. Or... contact us so we can show you how to find the hidden profit opportunities that you don't even know exist in your small business.