

An Expert's Take: Conquering Your Fear of Creating a Budget – 6 Steps

SuperiorOps spoke with Jo-Ann Robotti, Executive Director of Sylvester Manor

Sylvester Manor is a non-profit organization whose activities include farming, education, arts, and preservation.

A note before we begin: we are going to look at budgeting through the lens of a non-profit. Jo-Ann, however, has worked in both the for-profit and non-profit sectors and has created budgets in both – these steps apply whether you are running either type of organization.

The goal of the budget is to plan how your organization will fare financially in the coming year. Budgets are full of assumptions and guesses – making budgeting seem like a daunting task. Here we break the process down into manageable steps.

1. Past 3 Years = Trends

The first step in your budgeting process is to look at your historical data. The past 3 years usually give you enough history and are recent enough to make reasonable assumptions about your organization's trends. Analyze this history for both your revenues and expenses. Have you seen 6% then 4% then 5% growth in donations (or sales) over the past 3 years? Then working with a 5% increase is a good start. Have your various operating costs grown from 28% to 29% to 30% of revenue/donations over the past 3 years? Then the going in figure can be a 1% increase. Find these trends – it's relatively easy – a few quick formulas in Excel should reveal them.



Then, look at last year's changes (i.e. 2014 to 2015) in isolation. Do this because you'll be able to recall your organization's activities clearly over the last 12 months.

So you've got your trends, just extend them into the next year, right? Not quite...

2. ANOMALIES!! What looks weird?

Why did our heating costs increase 50% per year? We increased the budget for our Managing Director but why did that cost **decrease** by 75% this year?

After you've calculated your trends, look at them. What looks weird? And why? Take the heating costs – we had two brutal winters and the price of oil increased dramatically. But is that going to continue? *Maybe* this winter's going to be bad again but the price of oil has dropped significantly so you will surely pay less for heat this year.

And what about the Managing Director's salary? Oh right, she resigned in April. And we've hired someone starting in January, so that trend won't continue (hopefully). Note these anomalies and go forward.

3. *Story Time!*

OK, you have a good idea of what happened over the past 3 years and you understand why some of the numbers look strange. Time to move on to the coming year. Again, your budget is full of assumptions and guesses – this is the point when you rationalize what's behind them. You need to construct a story behind each of your assumptions for the coming year.



So, back to our examples. Your heating costs – you want to be conservative so you'll assume another bad winter and that oil prices won't stay at the very low current levels. So, you think you're heating costs will be 50% less than last year. *THAT'S YOUR STORY.* Very quick and easy – “Another bad winter paired with 50% lower oil prices.” Even easier, your Managing Director – she accepted an offer for \$100,000 salary – there's your assumption and story for that expense.

Let's think about a revenue example. Donations have been stagnant over the past 3 years – they've basically stayed the same. But you just hired a new Outreach Director; she has an amazing network and a record of bringing in big donors. You look at her network and record and see what she's done in the past and think, conservatively, that she can increase donations 35%. *THAT'S YOUR STORY.*

Now let's step back. Think about the overall story of your organization – what is your vision for the next year? That's tough to think about so let's break it down:

- Competition – What are they doing? Say a similar type of organization in your neighborhood is going to be closed for part of next year. How will this affect you? Do you have an opportunity to rent them space? Do you have a chance to do more programming while they are on hiatus? Will they suck donor dollars because they are marketing their need to pay for their big renovation?
- Regulatory changes – What laws are changing? Is Congress increasing or decreasing your tax breaks? Is Congress increasing or decreasing the tax breaks for your big donors? What about new minimum wage levels and changes in health insurance coverage?
- Overall macroeconomic factors – How is the economy doing? Budgeting from 2008 going into 2009 is much, much different than budgeting from 2015 going into 2016.

As you think about your assumptions and stories, factor in your overall vision for your organization.

4. DOCUMENT, DOCUMENT, DOCUMENT

This step is easy – document every assumption and story that you determine. That way, if something unexpected happens, if your budget is questioned, or if you simply need to make some changes, you will have your documentation to turn to – whether it’s understanding where you went wrong or explaining to someone else.

5. Putting it all together

Now you’ve got the numbers, assumptions, and stories behind them. So put it all together and have a look. Some things will definitely not look right at the first pass – the budget never comes together right away. What looks wrong and why? Revise those assumptions; change those stories. Let’s go all the way back to the staff cost. That 1% increase as a percent of donations each year –incorporating another 1% increase isn’t reasonable. Why? Because donations are growing so much with the new Outreach Director!! Look at the numbers and fine tune.

Rigorously scrutinize your budget. You need a fresh set of eyes, ideally from your finance committee. Outside input is extremely helpful – you’ve been in the weeds with this budget for a couple weeks – getting someone fresh will help enormously. Review with them, get feedback, and revise if necessary.

After all this, finalize your budget! You’re done!

These steps will enable you to create a great budget and will relieve a lot of your stress. It’s very hard to tackle the whole thing without a plan but, after breaking it down into clear pieces, budgeting isn’t that bad.

How SuperiorOps Can Help: Active Listening

SuperiorOps can help your organization by Actively Listening. We will not attempt to push a budget template – there is no “one-size-fits-all” budgeting method. Every organization is unique and we will collaborate with you to create a tailored budget.

Active Listening is defined by listening to you attentively and asking plenty of questions to clarify and understand your perception of how your organization will fare in the upcoming year. It includes reviewing our interpretation of your projections to ensure that we are on the same page (and to ensure we understand your business plan).

From there, we will collaborate with you as well as bring our expertise to address your needs. Our consultants have strong budgeting and finance experience: they have created robust budgets for multiple clients. We will drive the budgeting process and, by teaming with you, will deliver a budget that you will use for entire upcoming year.

An Expert's Take Biography: Jo-Ann Robotti



Jo-Ann Robotti, a professional development and marketing coach, is the Sylvester Manor's Executive Director. She brings 30 years of experience advancing the management and marketing strategies of companies on Wall Street, around the world and on Shelter Island, where she serves as President of the Shelter Island Public Library Board of Directors.

About SuperiorOps Consulting

SuperiorOps Consulting was founded in 2015 – our firm seeks to provide small and medium businesses with tools and advice to maximize growth and profitability. Our consultants have worked at top tier firms including Goldman Sachs, Merrill Lynch, Bank of America, Plante Moran, AlixPartners, and Bed Bath & Beyond. They also have start-up and international business experience. Our consultants have extensive experience in finance, accounting, operations, and sales.

We'd be excited to hear from you!

Web: www.superioropsconsulting.com

LinkedIn: www.linkedin.com/company/superiorops-consulting

E-mail: rbutton@superioropsconsulting.com

Phone: (312) 259-8205