

Business Plan Budgeting



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Phillip Blackerby helps organizations transform into high-performance enterprises. He coaches executives to set “big picture” goals and take action to achieve them. He helps CEOs see a more successful future and develop strategies to accomplish it. He helps the organization plan its transformation, and then organizes resources to make it happen.

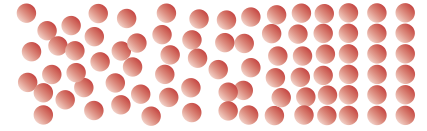
Mr. Blackerby was lead project manager in Arizona, and managed the *Lean Enterprise* and *Professional Business Advisor* product lines at the Manufacturing Extension Partnership, National Institute of Standards and Technology. His team won the coveted Uriano Award for writing manufacturing enterprise transformation standards. He developed the *FastTrac Manufacturing* business planning training program, published four volumes of manufacturing transformation and improvement case studies and evaluated enterprise assessment systems and advanced technology grant applications.



Mr. Blackerby co-owned a management consultancy specializing in assessment and strategic planning. He trained hundreds of managers in strategic planning and related topics, facilitated dozens of strategic planning processes and published several articles. His wide-ranging experiences include negotiating banking relationships, managing an e-business, legislative lobbying, analyzing financial markets, improving cost-accounting and managing a \$96 million budget.

Mr. Blackerby was Associate Deputy Treasurer of Texas, budget director for the Texas Comptroller and management auditor for the U.S. General Accounting Office. He is a certified executive coach and trainer (CCUI) and *FastTrac* business plan instructor. Mr. Blackerby earned a master’s degree from The University of Texas at Austin, and a bachelor’s degree (honors) from Brown University, Providence. He has three daughters and dotes on his two grandchildren.

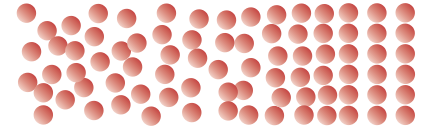
What Is a Budget?



● A Budget is a Plan in numbers ●
● A Plan is a Budget in words ●

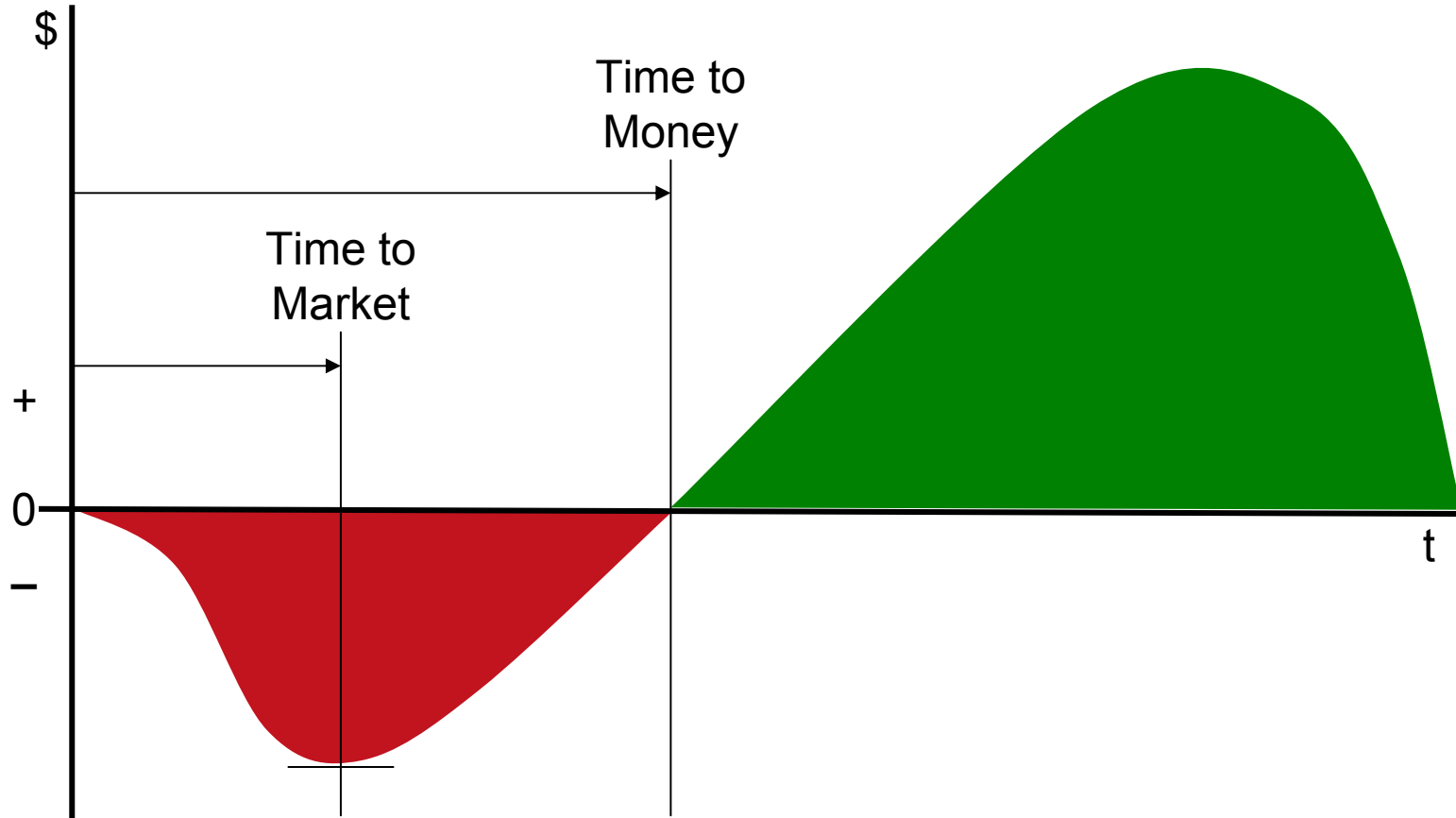
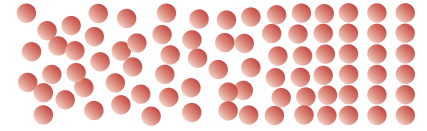
A 2000 US quarter coin is centered within the circular text. The coin is copper-colored and features the profile of George Washington. The text "ELIZABETH II REGINA" and "2000" is visible on the coin's edge.

Why Do a Budget?

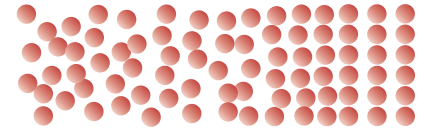


- Fail to plan; plan to fail
- Discipline: track against budget benchmark
- Proof of concept
 - New business startup
 - Current business
- Contingency: sensitivity analysis
- Get cash cycle right
 - Growth → Cash flow crisis
- Get product life-cycle right

Proof of Concept: Product Life-Cycle

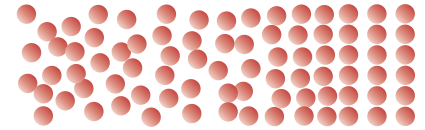


How Do You Do It?



- Idea #1: Budget is *Fiction*; you make it up
 - “*Figures don’t lie, liars figure.*” (Mark Twain)
 - “*There are lies, damned lies, and statistics.*” (Benjamin Disraeli)
 - Extrapolate current trends
 - Control your own Plan & Budget
 - Benchmark for actual performance
- Idea #2: *Build* your Budget from ground up
- Idea #3: Foundation is *Assumptions*
- Idea #4: Key assumption is *Magic Number*
- Idea #5: Allocate *Overhead* on some basis

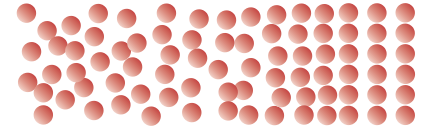
Extrapolating Current Trends



- *“If we don't change our course, we'll get where we're going” (Chinese adage)*
- *“If you don't know where you're going, any road will take you there.”*
- *“If you don't know where you're going, you'll end up somewhere else.” (Mark Twain)*
- *“If you don't know where you're going, you're never lost.”*

Seize control of your own Plan & Budget!

Key Decisions



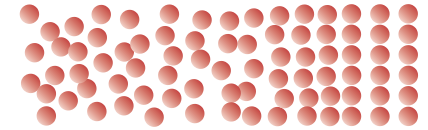
- Make vs. buy
- Own vs. lease
- In-house or outsource (core competency)
- Infrastructure build-out rate
- Ramp-up rate
- Exit strategy

Remember:

Products *don't* compete...

- ...businesses compete.
- ...supply chains compete.
- ...business models compete.

Structure Like P&L



- + Gross sales - returns & refunds = Net Sales
- Cost of goods sold – materials
- Cost of goods sold – labor

= Gross profit

$$\Pi_{\gamma} = \frac{NS - COGS}{NS} \times 100 \geq 40\%$$

- Selling & marketing expenses
- General expenses
- Administrative expenses

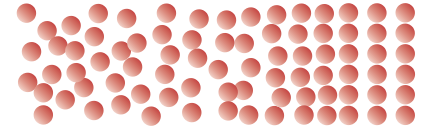
= Operating earnings (EBITDA)

$$\Pi_o = \frac{EBITDA}{NS} \times 100 \geq 10\%$$

- Depreciation & amortization
- Interest & taxes

= Net profit

Structure



- Assumptions
- Projected P&L
- Projected Balance Sheet
- Projected Cash Flow Statement
- Detail of personnel
- Detail of capital outlay
- Optional: Summary of key projected ratios