

# Cooperative Funeral Fund Inc.

Making Effective Use of Budgets

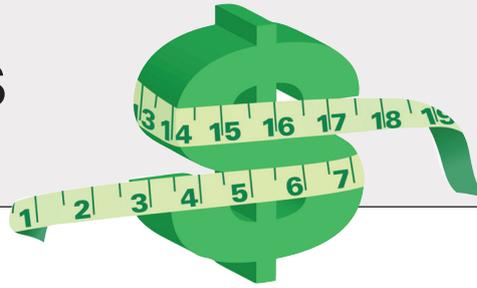
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# Financial Fitness

[financial management for your business]



## Making Effective Use of Budgets

*By Todd D. Mannix, vice president of sales and marketing at Cooperative Funeral Fund Inc.*

**For anyone who has worked at a large corporation, the word “budget” can invoke interesting responses, many of them not good. In many large organizations, the budgeting process for the following year starts as early as the third quarter of the current year.**

Each department has to determine what it will spend in the coming year, but oftentimes department heads do not have the insight as to management decisions that far in advance. They do not know what is in the works, nor what projects they may be working on in the coming year. This starts the process of ambiguity whereby the manager uses a guestimate as to what the department could end up doing the next year.

To further the confusion, since no manager is fully aware of what their department may be working on, they usually add more to the budget by padding their figures. Part of the reason they do this is because most companies like to make their department managers work hard to keep costs down and will usually ask them to revise their initial submission.

The funny thing is that the department managers account for this when they initially prepare their numbers, so when the expected challenge to do it cheaper comes down from above, all they do is cut out some of the padding they put in there in the first place. This process rolls all the way up from departments to divisions, to

districts, to regions, to the executive officers, to the CFO and CEO. By the time these budgets get all the way to the top, there is so much extra cost hidden in there it makes you wonder if any CFO actually knows what it costs to really run the business.

Nevertheless, this is the game that is played in many corporate environments, making budgets a nasty word that really equates to not much other than corporate executives fighting over precious corporate resources to justify their existence by exaggerating what they think they may need.

For smaller- and medium-sized businesses, however, a budget can be an effective management tool that can help organizations not only survive in difficult times, but thrive. Many small-business owners think, “I know what things cost. I have been doing this for years.” While this might be absolutely true, a budget can help identify small movements in costs and cost structures before they become big trouble to your bottom line.

In smaller businesses, several factors add to the effectiveness of using budgets. First, in most cases,

you can predict with reasonable confidence what it will cost you to run the business over the next year. In this industry, while certainly subject to fluctuations, a funeral director can understand what the costs should be or, at a very minimum, use last year’s costs as a baseline. Since there are very few layers, if any, in smaller- and medium-sized organizations, there is no need to add cushion or “fluff” to your numbers for two reasons. First, if you are reporting up to someone else, the organization is small enough that chances are the person you are creating the budget for knows the business well enough to call out numbers that look overly inflated. Second, in a flatter organization, all padding means is that you are lying to yourself.

Chances are, in smaller companies no one is adding costs to what is expected, so the budget can really be used as an effective tool as the year goes on to see how you are performing against the budget. This is where a slight overage can begin to erode company profits. By categorizing expenses into buckets of costs (utilities, maintenance, automobile, marketing, salaries, rent,

mortgage, taxes, etc.), you can see how increases can be creeping into your bottom line, but more importantly, where they are coming from. A business owner may not be able to control all the costs by researching other vendors or negotiating costs down, but knowing what specifically is dragging on the business' profits is a start to understanding how to preserve profitability.

You can also use a budget to help manage cash flows. If you have a hard and fast number in your expenses that you vowed not to go over and you find that the costs have gone up in one area and it was completely unavoidable, you can re-evaluate the importance of money you have yet to spend from other buckets. In this example, the budget allows the owner to make intelligent business decisions on the fly as to how to effectively manage the business and not go over the budget.

Oftentimes, when there is no budget and a particular cost is higher than expected, the business will either just go over what it had expected to pay or make impulse cuts to something else that has to be paid at the same time. With a budget in place, the owner can instead be strategic about where it makes most sense for the business to save by cutting in other areas.

Another great use of a budget is in delegating responsibility. A budget can be used as a guideline so a manager doesn't have to micromanage every decision an assistant makes. The assistant will not only have a budget of what was spent last year as a guide but be enabled to make decisions so long as the budget is not exceeded. A budget

## BUDGET TIP

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can be a great management and teaching tool to help others gain perspective as to how to manage costs and how to make tough financial decisions that impact the business. This method can also be an empowering tool that can ignite or reignite someone's passion for the job. People love having responsibility for what they do. If they are being told what to do 100 percent of the time, they never get to spread their wings, and that can stifle morale. Giving an employee control over some portion of the budget (even if it's something as seemingly insignificant as office supplies), allows him or her to own the responsibility and take initiative.

Creating a detailed budget can also help a business owner to define and even redefine the profit and cost structure of their business. By knowing the costs on a detailed and categorized level, a business owner can identify trends from watching the budget categories year over year. Once an owner knows these costs, it's possible to restructure the costs to understand common business measures, like cost of a sale. (That

is, what it costs to bring in a sale. Since it's hard to allocate this dollar for dollar, it is usually defined as the number of sales divided by the cost of sales and marketing). Another benefit is breaking down all of your sales and service items and identifying items with the highest profit margin. Most funeral directors have a very good understanding of this, but combined with the understanding of how costs are rising in each category, it can help the funeral director manage sales away from areas with shrinking profit margins and toward products with more stable cost structures.

A budget is an effective financial business tool when used correctly. With the changes going on in our industry, those who use budgets should be looking at the data they have already collected to see how things are changing for their specific business. For those who do not use budgets, it might be something to look into in order to manage the future of the business or prepare the next generation to understand the financial dynamics of running the company. •