

Strategic Budgeting

Transform your budget into an innovation engine

IT'S ALMOST BUDGET TIME AGAIN.

Time to make plans for how you want to spend your money next year. And, if you don't already operate from a budget, you're likely feeling guilty because you know that you should.

But what if I told you that the typical approach to budgeting is inherently flawed? What if I could show you a method of budgeting that would make

your business more forward-looking, more innovative, and more resilient?

Well, I can. And here's how.

FOCUS ON YOUR STRATEGY

For most companies, strategy boils down to three or four things that, together, give them differentiation and competitive advantage. If you're thinking that you now have to come up with three or four

things that nobody has ever thought of before, stop worrying. That's not really how strategy works. It is a rare thing to come up with an entirely new idea. Strategic elements can be made up of:

- What you sell and how you sell it
- The experiences you provide
- The services you offer
- The specific and unique things you do that make what you sell more

TABLE 1

	We sell gold jewelry	We produce private collections our partners can brand	We create specific brand attributes for each client	We produce just-in-time inventory for our clients
In what ways are we excelling at...	We have a great selection of gold jewelry styles.	Our sales process—from intro to post-sales—does a good job of explaining the private labeling process.	We have two of the best designers around.	We have a terrific production manager.
In what ways could we be much better at...	We don't offer Fairmined gold. We don't offer recycled gold.	We could do a better job of marketing this aspect of our company. Not enough people know about it. We need to create a "Private Label Brand Guide" for our retail partners to use. They aren't always clear on what needs to be done to have a private label line.	We could really use another strong designer. We need a better process for understanding the customer's brand—there's a lot of back-and-forth before we get it right.	Our production system has lots of blind spots—we need a production system that lets us know exactly where we are in production all the time. We need better forecasting tools so we can do a better job of anticipating needs.
Are there any external factors that we could take of advantage of when...	Consumers want more "responsible" solutions. If we can help our retail partners offer economical "responsible" gold lines, they could really be successful with that.	There's a lot more interest in "small" or "boutique" brands today. Helping retail prospects understand this could help us close more sales.		The typical retailer has less and less money for inventory. Promoting JIT as a private label strategy could really help with closing sales.

affordable, accessible, or memorable.

An example of a set of strategic elements is:

1. We sell gold jewelry.
2. We produce private collections that retail partners can brand as their own.
3. We create specific brand attributes for each of our clients.
4. We produce just-in-time inventory so our clients don't have to take significant inventory risks.

As you can see, none of those elements is brand new, but when you combine them together, they tell a story that is compelling and unique in its construction. This is how you achieve differentiation. Even if other companies have one or even two of those elements in their sales or service offering, they are probably not focused on being the absolute best at them the way you are, and this will give you competitive advantage.

Before you start creating your budgeting spreadsheets, you need to consider your strategic elements. I like to do it by asking three questions of each element:

Question #1: In what ways are we excelling at {insert element here}?

Question #2: In what ways could we be much better at {insert element here}?

Question #3: Are there any external factors that we could take of advantage of when {insert element here}?

You may end up with a table that looks like Table 1.

TURN YOUR STRATEGY INTO ACTION

Now that you've brainstormed a list of ways you could improve your performance relative to your strategic elements,

TABLE 2

IDEA	PRICE
Add Fairmined and recycled gold to our offering.	We can source these with an internal resource. No additional expense to the budget.
Create a landing page for our website that is just about private labeling.	One-time price of \$500
Schedule five blog posts over the next year that look at different aspects of private labeling.	Each blog \$130
Create private label brand guide as a sales tool.	Est. \$1,800 - \$2,400 for copywriter, design, layout. No cost for printing—this could be distributed as a PDF.
Hire additional designer.	Recruiting: \$800/one time Salary: \$72,000/year Benefits: \$21,000/year
Create process for assessing customer brands.	Need some assistance to do this; we've tried but don't have the internal knowledge. Hire a consultant. Est. cost \$3,000.
Add "production scheduling" module to our current operating system.	\$5,000 one-time licensing cost. After that, \$1,200/year.
Add "forecasting" module to our current operating system.	\$3,000 one-time licensing cost. After that, \$800/year.
Get some training in forecasting and planning.	There's a class on forecasting and planning at the local technical college. \$500 per person, and we'll send two people for \$1,000.

convert that table into a list of meaningful activities, tasks, projects, or processes. For each item on the list, consider how much that item will cost to accomplish. The list could look like Table 2.

NOW DO THE BUDGET

Once you complete your strategic evaluation, it's time to pull out the budgeting spreadsheets. You'll do all the usual work, such as showing rent increases, salaries,

travel expenses for planned trade shows, and monthly utility rates. But by analyzing your strategy first, you have come up with a list of relevant and meaningful projects and expenses.

Once you start budgeting this way, you'll never want to budget the old way again. After all—why do a process that looks backward for inspiration when you can do a process that propels you into the future? ♦