



Other resources in step 1i:

- Video tutorial explains how to set a Profit and Loss budget (click on the video link)

What's your forecast profit this financial year?

by Geoff Mutton

Ask the CEO of a big corporation this question and they will give you their answer immediately. Ask 10 workshop owners and eight of them will give you a blank look. Why is this so? Why would CEOs of corporates turning over millions know the exact answer, while workshop owners have no idea?

There are two reasons. First: CEOs are liable and accountable to shareholders and investors and if they didn't know the figure, they would be marched out the door. Second: CEOs know they are more likely to achieve a higher profit if they set targets, than if they just adopted an attitude – 'it will be what it will be'.

If it's important enough for multimillion dollar companies to set profit goals, surely the same should apply to a workshop business. The attitude 'it will be what it will be' is really ignorant. Sorry to use such a harsh word but I can't think of a better word to describe apathy towards setting a profit goal. Not only does a profit goal give a workshop something to work towards, but it can be a great reality check. If perhaps things aren't going to be as rosy as the previous year, surely knowing this in advance would be highly beneficial.

A profit and loss budget can be broken down into two distinct sections. You need to forecast your revenues, and then you need to forecast your expenses. Subtract one from the other and you now have a forecast profit or loss for this financial year. Pretty simple.

Reading an article on how to set a P&L budget is one thing, but watching someone do it will give you a much greater understanding. Available at www.tatbiz.net.au/resources is a series of videos showing how to do this. I strongly suggest you watch the new video related to this subject. Just click on the video screen inside the web link *Ignition July 2019*.

Forecasting revenues

When setting a sales target, the easiest thing to do is just look at what you did last year and add some more. This is OK, but there is a better way to do it that involves forecasting revenues based on the team you have in place and the output that you think the workshop can achieve.

When forecasting sales targets based on the team you need to take into consideration the following:

- 1) How many labour hours do you think your technicians can sell, taking into consideration their qualification level, other tasks they do in the workshop and their historical output.
- 2) How many weeks on average do you think your team will work? There are 52 weeks in a year, but you will lose 10 days to public holidays, 20 days to annual leave and 5 days to sick leave.
- 3) What is your average labour rate for the coming financial year? Some workshops have different rates for trade customers, general repairs and diagnostics. If so, just choose an average rate.

Forecasting expenses

Forecasting expenses is relatively easy if you have last year's numbers in front of you. If you don't know how to access your P&L from last year, get your bookkeeper or accountant to provide one.

Simply work through each expense category and based on the information you have on hand forecast what you think the expenses will be this year. If the forecast expenses are not likely to be significantly different, just add 3%. The biggest two numbers will be rent and wages so take the time to accurately forecast them.

Every year there will be unexpected expenses or one-off purchases that are impossible to forecast. To cover for this, create a miscellaneous category and add an additional 5-10% to your total forecast expenses.

Net profit/loss target

If you subtract the forecast expenses from forecast revenues, you will be left with a forecast profit or loss. If you like the result it will now be abundantly clear what it's going to take to achieve it. If you don't like the result, the forecasts need to be reviewed to see where changes and improvements can be made.

It's now critically important that the P&L is reviewed every month to see how the workshop is tracking against its budget. TaT Biz described performing a monthly P&L in November 2016. Visit www.tat.net.au/resources to see the template and an explanation video.

Setting a P&L forecast will realistically take a couple of hours, but these hours have the potential to generate more money than if you spent the same hours on the tools fixing cars. Start thinking like a CEO and take the time to set a profit and loss forecast for your business. You will be glad you did.

The place to start is www.tatbiz.net.au/resources.

Just go for it!