WORK SMART: BUDGET FOR SUCCESS

Experts offer advice on finding a budgeting process that works for you and sticking with it. Use this blueprint, and the accompanying budget tips, to get you started.

By G. M. Filisko | January 2008, feature article, realtor magazine

If you think you're doing just fine without a budget — or maybe not earning enough to need one — consider this cautionary tale from Brian Buffini, CEO of Buffini & Co., a Carlsbad, Calif., coaching organization.

"One of the first sales associates I ever coached had been in the business for 20 years and was among the top 25 producers at a company with 1,200 sales associates," explains Buffini. "I asked what he spent on his business each month, and he said probably $4,000 to $5,000." But as Buffini peppered him with questions about specific expenses, the numbers weren't adding up. So they sorted through the salesperson's checkbook and listed his monthly costs.

"His average monthly expenses were $10, 400," explains Buffini. "He was off by half, and that's more common than not. It's only when markets slow down that true spending levels are exposed. Sales associates really need information on how to budget, and it's much more doable than they think."

There's no universal method of budgeting. Some practitioners do little more than look at what they made and spent last year and make adjustments for inflation and perhaps for changes in market conditions. Others base their budget on their sales goals for the year — determining what they'll need to spend to get there. Still others tie their budgets to what competitors are spending.

What's important is to find a process that works for you and stick with it. Use this budgeting blueprint, and the accompanying budget tips, to get you started.

1. Project Your Income

It's difficult to decide whether to start the budgeting process with income or expenses. Unless you have a trust fund, what you can spend depends on what you make. On the other hand, the more you spend on marketing yourself and your listings, the more clients you'll get and the more homes you'll sell — at least in principle.

For experienced associates trying to project income, "it's generally been safe to take what you did last year and increase it by 15 percent to 20 percent," says Joeann Fossland, a personal and business coach in Tucson, Ariz. With the market's peak come and gone in many areas, however, the best way to project income may be to look at historical trend lines — both yours and the
market's.

By analyzing your production for the past several quarters and tracking trends in your market, you can detect how much your sales have increased or decreased and determine what income goals to project.

For example, if your local economic forecast calls for home prices to fall by 2 percent in 2008, this should be reflected in your budgeting, either in lower income or by the need for more sales to realize the same income as last year. Even in a changing market, you can project income increases, as long as you also have a plan for producing more leads on a consistent basis that can be turned into the sales you need to meet your budget projections.

Another key budgeting point: Don't forget to include all sources of income in your budget — referral fees, broker price opinions, property management fees, and speaking engagements.

If you're a new associate, ask your broker and other salespeople for guidance on your market's average first-year income. There's not a generally accepted rule on how long it takes to make your first — or your second — sale, says Fossland.

2. Calculate Every Business Expense

"The single largest budgeting mistake sales associates make is having their home and business expenses coming out of the same account," says Buffini. "That's a real mess. Do one budget for home and one for business."

Begin by projecting every expense for each budget. To get started on the business side, Lorne Wallace, president of Lone Wolf Real Estate Technologies in Cambridge, Ontario, a maker of budgeting software for brokers, suggests compiling your expenses for the past 12 months and "throwing them down on paper as your next 12 months' numbers. It's not perfection; it's just getting started," he says. If you're new to the business, experts recommend that you ask your broker what expenses are reasonable in your market.

Once you have all your costs from last year on paper, divide them into categories. Begin with fixed expenses such as desk fees, MLS dues, and car payments. These expenses will be the same whether you sell 20 houses next year or two.

And don't forget to budget reserve funds for both your home and business, says Buffini. He suggests building up at least three months of living expenses and at least one month for your business. "The biggest feedback I've heard in the last year has been, 'Thank goodness I had reserves when the market adjusted,' " he says.

Then add variable expenses, those that change based on what sales goals you're trying to meet and how many listings you have to promote. Marketing and advertising are two biggies, but you can't simply throw in big dollar amounts for each. Break those categories down according to each type of expense, such as client gifts and drip mail

campaigns, and budget precisely for each.

Projecting costs as specific line items is critical if you want to be able to review the effectiveness of all expenditures later. If you know that you spent 25 percent of your advertising budget on print advertising, for example, but only got 10 percent of your calls from that source, you can calculate your return on expenditures and adjust accordingly.

One variable expense many sales associates forget is repair and replacement costs for technology, says Fossland. One option is to determine how frequently you need to replace each major tech tool. Then divide the cost (plus a factor for inflation and an add-on for repairs or warranty programs) by that number. Once you have a figure, put aside a portion of the needed amount every month. In this way, you'll have the money to stay current with technology even if you're having a slow year.

Also include insurance and retirement savings, says Fossland. These expenses are critical for independent contractors and should not be cut, even in slow times.

Another variable cost that often gets overlooked in budgeting is education.

Education includes tuition for courses needed for continuing education requirements as well as funds to attend association conventions and hire a personal coach. Education is another cost that's tempting to cut when the market is slow. However, when the going gets tough is not the time to go it alone.

Tip: Think outside the box. One budget method that can help you evaluate your projections more objectively is a technique called zero-based budgeting. Using this method, you begin your budget from scratch each year rather than taking last year's expenses and just adjusting them. Advocates believe zero-based budgeting forces you to think through every expense rather than assuming that all of last year's costs were, and are still, needed. By forcing yourself to rejustify every expense, you may find both savings and areas where spending more will produce the greatest return on your money.

3. Review and Adjust Your Budget.

Once you've got numbers in place, "take the 10,000-foot view," says Wallace. "Step back and ask if the budget makes sense."

Have you over- or underestimated some costs? Did you remember to adjust for annual cost increases? Is your budget realistic? For example, if your income budget is, say, $100,000, but you've never earned more than $75,000 in gross commission income, you either have to reassess your estimate or have a concrete business plan that sets out clear strategies for increasing your net.

If your projected income won't cover your projected expenses, you may decide to cut costs. If so, rank every budget item as an A, B, or C expense, recommends Buffini. A expenses are needs, or things you can do nothing about—like desk costs, he says. B

expenses are needs you have choices about. If you say you need coffee, does it have to be Starbucks? C expenses are wants. You'd like to buy a new car this year, but the one you have is working fine so it could last one more year.

"The first expenses to cut are the C's; then move on to B's as necessary," he says.

When there's a need to cut, Buffini also recommends raiding your home budget first so you can invest in your business. **"Your business is the golden goose. Too often, the golden goose isn't getting fed because somebody just bought something at the mall and that means you can't afford to hold a client party,**" he says.

Tip: Prepare for the unexpected opportunity. In addition to creating a reserve in your budget so that you'll have funds to cover essential business costs, consider adding some opportunity funds. Such undesignated funds give you a chance to try a newly discovered idea or act on a business opportunity without waiting until your next year's budget. "I often see associates who discover new ways to market themselves but don't have the funds to experiment," says Fossland. "It's important to have some undesignated funds. If you don't need them, you'll just end up with reserves."

4. Monitor Your Budget Regularly.

A budget is a work in progress. Once you've created it, you need to check your actual expenses against budgeted expenses regularly to see where you're spending too little or too much. "At the end of each month and quarter, ask, 'Are we on or off track?' " explains Fossland. "If you counted on money coming in from a niche marketing campaign and it's not working, what course corrections do you need to make?"

Though some people say it's OK to review your budget annually, Buffini also advocates a monthly review. "You can really get yourself into trouble quickly," he says, "so if you let it go for three to six months, you can get way off track." Monitoring shouldn't take more than 15 minutes each month, he says. Expect to spend several hours creating your initial budget, however.

One mistake many associates make when they do their regular checkup, says Fossland, is that they compare their budgeted expenses only against their actual expenses. You also have to evaluate what's working to bring in sales and leads.

"Analyze which of the media or prospecting tools are giving you the best return, and then adjust your numbers to leverage what's already working," she says.

For example, if you're getting better-than-expected results from a quarterly ad but mediocre results from a monthly postcard, consider sending the postcard every other month and using the money you save to run the ad monthly, rather than quarterly.