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ReaganView

The Beginning Point of the Budget

To our friends and clients,

The story is told that Brown & Brown's founder Hyatt Brown once asked management consultant Roger Sitkins how his company could generate a 40% profit margin. Without missing a beat, Roger replied: "just spend sixty cents out of every dollar of revenue you generate." Profound.

This reminds me of a lesson I learned 30 years ago when I first read *The Wealthy Barber*, a classic money management text. In it, the author encourages a novel personal budgeting approach. Instead of figuring out what percentage of income to spend each month on food, dry cleaning, gasoline, etc., figure out in January what percentages of income you intend to save and give to charitable causes that year. Then, every month, save and give the appropriate percentage on the front-end and then feel free to spend the remainder however you choose, on whatever you choose. But ... if you run out of money before you run out of month, too bad. You're done spending for the month.

When developing your agency's budget, likewise begin with the end in mind. If you intend to generate an 18% profit, build a budget with an expense load that totals 82% of the budgeted revenue. Want to drive a 25% bottom line? Budget to a 75% expense load. And then live with it.

This amazingly simple (and remarkably uncommon) budgeting principal will do for your agency what the budget should do in the first place: it will create a healthy competition for available expense dollars, while at the same time ensuring that your Shareholders will generate an acceptable investment return. It will require you and your leadership team to allocate scarce resources among competing alternatives strategically. It will require you, many times, to say "no." It will require you to stop spending money when the available dollars are no longer there to spend.

In a world with an almost unending cry for more and more resources and more and more hiring, this discipline of beginning with the required bottom line in mind may be more important than ever.

Then, do the hard work of leading to ensure the result is achieved. Meet monthly to track progress and set course correction if necessary. Five years later, your business will have been fundamentally transformed.

Begin with the end in mind.

Tom Doran

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ReaganView is Reagan Consulting's forum for providing an occasional perspective on issues and opportunities relevant to the insurance distribution system

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