***Habit 6 – Ask the right questions***

In habit 5 we talked about the connection between what happens, and the financial implications. We only make sales, and only spend money because we do things. Money doesn’t spend itself!

So when our sales or costs are different to the budget (whether they’re better or worse), we need to understand what’s happened, and what we’re going to do about it. If things are better than budget we need to understand what’s happened so we can make sure it keeps happening. If they’re worse than budget we need to understand what’s happened so we can stop it happening.

Here’s 3 questions that will help you think about your variances against your budget. (A variance is the difference between the budget and the actual position.)

**What’s happened to cause the variance?**

Something will have happened to stop us hitting the budget. We need to understand what’s happened before we can do anything about putting it right.

Maybe the budget predictions were just inaccurate. Perhaps something has slipped from one month into another. Maybe we’ve run into unexpected difficulties somewhere. Or staff are sick. Supplier costs have risen unexpectedly. A customer has changed their specification.

Make sure you understand the real cause, though, and don’t get fobbed off with a symptom.

**What are we doing about it?**

Once we know the cause, we can develop a plan to deal with it. Remember, we don’t just want to deal with the problems, we also want to make sure we will continue to do better than expected.

So what are we doing about the cause of the variance? How effective will that be? Who do we need to communicate with to ensure our solution works?

If the variance is an overspend or lost income that we can’t recover, what’s our plan for still hitting our budgeted profit at the end of the year despite this knock?

**What are the wider implications?**

We always need to think beyond the obvious issue. What’s the implication on our customers, our suppliers, our team, and other teams & departments in the company? What are the implications for staff numbers, training, resources, equipment, etc?

Importantly, what’s the implication on our end of year financial position? Does this event mean we now expect to be over or under budget by the end of the year?

**A word of warning!**

Your manager or director will look at your financial report and identify the variances. They will then ask you these questions. Make sure you’ve got some good answers before they ask you…