



Participatory Management Budgeting Workshop

Leveraging Financial Empowerment to
Support Employee-Owned Businesses:
Tools for Cooperative Developers

Participatory Management Budgeting Workshop

Designed by the ICA Group

This workshop is designed for cooperative developers and managers to work with employees to better understand the business budget. The goal is to have members provide feedback on how to improve the business. In order to help members understand the concepts, we want them to actively engage in the exercises that produce these concepts, then give them the name of the concept after they understand what is behind the idea.

This is a much more effective way of teaching than lecturing or simply going through budget exercises, especially for those new to budgeting. In order for employees and members to feel they can participate in management, they need to feel that learning about business is 1) an ongoing process and 2) something they can master.

Outcomes

- Members and employees will understand how the business budget is connected to the real world.
- Members and employees will see how the changes they and the business make will affect the budget.
- Members and employees will understand how to compare their business to competitors.
- Members and employees will understand how they can provide feedback to management about ways the cooperative can improve the business.

Recommended Background Reading for Presenters

While a deep knowledge of finance and accounting is not required to present this workshop, presenters will want to familiarize themselves with some key concepts.

The following resources are recommended:

- **Key Accounting Terms and Financial Ratios:** An ICA Group Publication.
ica-group.org/wp-content/uploads/2015/04/Accounting-Glossary-and-Financial-Ratios.pdf
- **Business Model Canvas:** Business models and business plans are often written at the beginning of a venture and then forgotten. A model can help workers understand how the pieces of their business fit together. It can be particularly helpful when the business is thinking about adding new services or products. It can also help new members better understand how they fit into the success of the business.
businessmodelgeneration.com/canvas/bmc
- **Adult Learners:** While not all of these tips will apply, they get at the heart of the issue of presenting to adult audiences. We encourage presenters to build on our workshop materials and experiment with presentation techniques.
toolboxford.org/tips-conference-workshops/

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Presentation Materials

Supplies Needed:

- Small pieces of paper
- Pens or pencils for all attendees
- Two markers
- 30+ sheets of 8.5" x 11" paper
- Tape for paper (alternative: large Post-its).
- Sample budget for each attendee
- Easel paper or white board

Workshop Outline (120 minutes)

- Introductions (5 minutes)
- **Part I:** Goals of Workshop and Introduction to Budgets (15 minutes)
- **Part II:** Connecting the Budget to What You Do All Day (20 minutes)
- **Part III:** Other Costs that Help Your Company Make Money (20 minutes)
- **Part IV:** Revenue/Sales or How We Take in Money (15 minutes)
- BREAK (5 minutes)
- **Part V:** What Can We Learn from Our Budget? (35 minutes)
- Net Income
- Gross Profit
- Operating Income
- Wrap-up and Reflection (5 minutes)

Workshop Lesson Plan

Introductions (5 minutes)

Attendees introduce themselves and their role in the cooperative. Even if they know one another, this will help set the stage for the discussion about how their work relates to the business.

Part I: Goals of Workshop and Introduction to Budgets

(15 minutes)

- **DO NOT:** Put up a list of outcomes. Presenter should know these. Students should experience them.
- **DO:** Use plain language and an example to get at the major concept we want to communicate, which is that there is a link between the budget and what individuals do in their jobs.
- **DO:** Get people up and moving and participating within 10 minutes of the start of the workshop; otherwise, people will hesitate to engage if too much time is spent looking at slides or listening.

Goals of Workshop Notes and Exercises

Many workers may not be comfortable with budgets and may not know basic accounting terms. You are trying to communicate to workers that they can:

1. Learn new things
2. Use their knowledge and experience to understand what they need to learn

Exercise 1: What do you associate with a budget?

- After introducing everyone, turn to the idea of budgets.
- Ask people to take 1 minute and write down words they associate with the word “budget.” Tell them they can write anything and give some examples: boring, numbers, complicated, scary, money, boring, boring, boring, etc. Give them a wide range and be animated and humorous. For example, “There are no TV shows or movies about budgeting, there is a reason for that!”
- Collect the pieces of paper and then start reading from some of them. You want to establish that it is okay if they think budgets are scary, boring, dead, dry, etc.

Exercise 2: What do we all do to make this business run?

- What we want to do now is connect this boring document that seems dry and dead to their real lives, to things they do during their day, the work they do to make the cooperative function and make money.
- Ask everyone: What do you do during your workday? (If it is a large group, break it into smaller groups and then reconvene.)
- You want them to talk about the actual activities they do. Write these on pieces of paper big enough that when you put them up on a board/wall, people can read them from a distance (You’re going to use these to construct the budget, and you need to be able to move them, so use large Post-its or tape.)
- You don’t need everyone’s job, but rather the functions that go into running the business. Presenter should write down comments so they are in a form that is useful for the budget.

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Examples:

- I see clients.
- I clean houses.
- I make sales calls.
- I balance the books.
- I do payroll.
- I order supplies.
- I work on the production line doing X, Y, Z.
- At the end of the exercise you should have a number of activities written down on the pieces of paper. Have someone tape them up on the wall as you're writing and talking. Make sure to check whether there are other functions that members perform that are not reflected in the feedback.

Recap

Step back from the work you all just did and state the goal of this workshop:

We're going to connect this boring budget (you'll have a sample budget) with the real things you do every day to make this company work (all the stuff listed on the pieces of paper).

Part II: Connecting the Budget to What You Do All Day

(15 minutes)

The goal is to get people to take what they produced in the last exercise and see how it becomes part of a budget. This will then fold into the idea that when you change something in the real world, the budget changes. It also allows you to look at the budget to think about what might need to be changed in the real world. People need to understand the connection between the budget and the real world before they can understand which changes will help the bottom line.

We now want to move to grouping the activities taped to the wall into two different groups:

- Activities that are directly related to how your company makes money.
- Do you provide a service, make a good, sell a good?
- Activities that are not directly related to how your company makes money but are important to it running as a business.
- These are sales, general and administration services, which include management, human resources, payroll, and ordering office supplies.

Move the pieces of paper so you have two lists. Now you can give them some concepts.

- Above the first group, place a piece of paper that says: “Cost of Goods/ Services Sold (COGS)” (Explain that this can include services; we’ll call it COGS to keep it simple.)
- Above the second group, place a piece of paper that says “Sales, General and Administration (SG&A).”

Part III: Other Costs that Help Your Company Make Money (10 mins)

This is the beginning of your budget. You need to understand how much you spend on these different areas. We talked about what each of you do to contribute to the business, now we have to add non-labor costs to these two categories.

- Ask people what else the company spends money on to make money. Goal is not to have a complete budget, but to get them to think about what goes into making their goods or delivering their services. For some items, it may not be clear which category they fall under. This division between COGS and SG&A is for internal use, so management decides. General question to ask: “Does this expense occur ONLY when services are sold?” If yes, then under COGS; if not, then under SG&A.
- Write these other costs (materials, gas, etc.) on pieces of paper and put them under COGS or SG&A.
- Under COGS, you may have cleaning supplies, raw materials if they produce something, machine maintenance, etc.
- Under SG&A: Include rent for offices, office supplies, etc.
- You can include depreciation—or leave out—depending on the level of the group.

Note: Equipment is not involved in this discussion because the equipment sits there whether or not you make or sell something. The way it is captured in the income statement would be in depreciation. Recommend leaving out equipment, but include this note in case someone asks.)

Recap

Step back from the wall. What you should have is a visual list of the business expenses. Note: We have labor costs and non-labor costs, and we have divided them into two groups: COGS and SG&A.

PART IV: Revenue/Sales or How We Take in Money

(5 minutes)

Now we need to know how you earn money for selling your goods or services. Have people list all the ways the company takes in revenue. Keep it simple and place these under a piece of paper that says “Revenue/Sales.”

Examples:

- Charge clients for cleaning services
- Sell baked goods
- Charge clients for moving services

Before break, step back from the wall and recap that you now have the makings of your budget: Money coming in, resources being spent to make that money.

Revenue and Expenses.

BREAK (5 minutes)

Part V: What Can We Learn from Our Budget? (30 minutes)

We can now see that we have a few key concepts. These are the labels at the top. We're now going to work with these large categories. Leave this work up and have a white board that you can now write on.

The large categories we'll focus on are:

- Revenue/Sales and Expenses
- Expenses are further broken down into COGS and SG&A
- We're going to add one more category under expenses: Taxes

What can we do with these numbers?

Net Income

Write on board: Net Income = Revenue - Expenses (COGS, SG&A and Taxes)

(Start on left side of board. You will need space for Gross Profit and Operating Income. You want to leave your work on the board for reference.)

This is how much is left over after you add up everything you earned and add up everything you spent to earn that money.

- If it's positive, it's profit; if it's negative, it's a loss.

Why does Net Income matter? What can we learn?

- Net Income is a common financial measure that you can compare to your competitors.
- If you are in an industry and your net income is much lower than your competitors, you want to ask why? What might be some reasons? Get attendees to generate ideas about their own company or others. We just want them to start thinking about what drives costs and revenue; ideas don't have to be specific.

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Examples:

- Competitors can buy supplies for less because they are larger.
- Competitors pay employees less.
- They pay less rent.
- They have more efficient machines so can make more products with fewer employees.
- They're selling the same good at a higher price.

All or none of these may be true. If we want to improve our business, we need to pinpoint where we can make changes. So Net Income is a good place to start asking questions, but we want to do more.

Tell attendees you're going to introduce a few more concepts to help them think about these issues. There is no right answer to how to interpret them, but the concepts will allow attendees to begin asking questions and comparing their business to others in their industry.

For these next exercises use a sample Income Statement for two bakeries.

Gross Profit

Write on board: Gross Profit = Revenue – COGS

Recap: What went into COGS? Go back to the wall where attendees did the work to come up with these. This reinforces that they can and are doing the work. You're in the part of the class where people may start to get lost or feel discouraged.

- Materials and Labor costs directly related to production or services that brings in your revenue
- Example: If you're a bakery, the cost of the yeast, wheat, etc. and cost of those who bake and package the bread.
- Remember: COGS doesn't account for all of the costs of doing business. We'll get there.

Why might you want to know your Gross Profit?

Looking at the example, we can see the Gross Profit is \$300 for Bakers Dozen. To sell \$1,000 worth of bread, they put out \$700 that is DIRECTLY related to those sales. For Crispy Rolls, they took in more Revenue, but they actually have a lower Gross Profit.

Why? Ask the group.

- Because they spend more on supplies and salaries.
- Does this mean they pay their workers more? Not necessarily; they could have less efficient machines and need more workers. The budget is a starting point to ask questions, but doesn't provide all the information you need to make changes to your business.

Optional: Gross Profit Margin

This may be too advanced. Please skip this section if you think it would be too confusing to introduce at this point. It is MUCH MORE IMPORTANT that attendees remain engaged and follow the basic concepts of the budget than that they understand how to do industry comparisons at this point.)

- $\text{Gross Profit Margin} = \text{Gross profit} / \text{Revenue}$
- In the example: 30% for Bakers Dozen and 45% for Crispy Roll
- Why is it helpful? You can compare this to others in your industry.
- If your margin was much lower than competitors, you would want to ask why.
- In the example, why is Crispy Roll's Gross Profit Margin so much higher than Bakers Dozen? Crispy Roll spends less on Baker Salaries. You would want to know if they are paying lower wages or if they are more efficient.
- The Gross Profit Margin allows you to begin asking these questions.

Operating Income

We're going to look at another measure that is helpful to begin asking questions about how you can improve your business.

Write on board: Operating Income = Gross Profit – SG&A Expenses

Note: Normally you would also add depreciation. This would likely be too confusing at this level, so it's been left out.

Recap: What went into the SG&A? Point to the list on the wall, again connecting attendees back to their own learning.)

- Materials and Labor costs NOT directly related to production or services that brings in your revenue.
- In example: If you're a bakery, the administrator, the office she sits in (rent), are SG&A.
- So now you have Operating Income. Remember: Operating Income does NOT account for all of the costs of doing business. We still have to pay taxes.
- Why would you want to know Operating Income?
- This is the amount of income your company earns before the company pays taxes. How much a company pays in taxes depends on many things that are unrelated to the day-to-day activities of running the business.
- Therefore, operating income really helps you see how well you're using your resources to produce revenue.
- In bakery example: We see that the Operating Income for Bakers Dozen is \$200. For Crispy Roll it is \$150. Why the difference? Ask the group.
- Crispy Roll spends \$350 on SG&A, while Bakers Dozen only spends \$100. Since these are indirect costs, they don't contribute directly to the revenue earned. Crispy Roll would probably want to ask why these costs are so much higher.
- Notice: Net Income and Operating Income are higher for Bakers Dozen, but their Gross Profit was lower. Why is this? Ask the group.

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- Depending on time and the interest of the group, talk more about the differences in these numbers to get attendees thinking about how they can use these numbers. Always connect back to real life: What could be causing these numbers to be higher or lower?

Recap

Net Income = Operating Income – Taxes

In the bakery example, we are now at the bottom line—Net Income—which is where we started. You can now point back to the first calculation on the far left of the board:

- Net Income = Revenue - Expenses (COGS, SG&A and Taxes)
- Point to each step you've outlined on the board and remind attendees that they did this work:
- Start with Revenue, all the money you took in.
- To get Gross Profit, we subtracted COGS.
- To get Operating Income, we then subtracted SG&A.
- To get Net Income, we finally subtracted taxes.

Wrap-up and reflection (5 minutes)

Leave at least five minutes at the end for attendees to reflect on their learning.

Ask them to write down and hand into the presenter:

- What is one thing that you learned this session?
- What is one issue that is not clear to you?

BE ENCOURAGING: Remind them that this is just the beginning of a conversation and that they can keep learning about budgets and business.

Income Statement for Two Bakeries

Baker's Dozen and Crispy Rolls

Revenue	Bakers Dozen	Crispy Rolls
Bread Sales	\$1,000	\$1,100
Total Revenue	\$1,000	\$1,100
COGS		
Bread Supplies	\$500	\$500
Baker Salaries	\$200	\$100
Total COGS	\$700	\$600
Gross Profit		
Gross Profit = Revenue – COGS	\$300	\$500
SG&A		
Admin Salary	\$50	\$200
Office Rent	\$50	\$150
Total SG&A	\$100	\$350
Operating Income		
Operating Income = Gross Profit – SG&A	\$200	\$150
Taxes		
	\$50	\$75
Net Income	\$150	\$75
Net Income = Operating Income - Taxes		