

Build a Successful Business Through the Art of Budgeting



Statistics show that only 43% of small businesses that have employees prepare a budget that projects revenues, expenses and profit. If you include sole proprietor type businesses then that number is closer to 80%. There are many reasons for this staggering statistic. Many owners simply believe their business is too small to need to budget. Others feel they don't have enough money to worry about budgeting. Probably the biggest reason small business owners don't manage their business with a budget is that they don't like to do it and they don't know how to do it.

What is a budget? A budget is a plan that establishes goals for how you will manage the financial resources and expenditures for your business. It is a simple equation of revenues (sales) minus expenses (costs) to determine profit. An annual budget, commonly referred to as an operating plan, broken down into monthly projections allows you to capture infrequent expenditures as well as see trends and the seasonality of your business.

A budget creates the plan that allows you to determine if you are making progress toward your goals. It gives you the information you need to make informed, intelligent decisions about how to run your business successfully. Budgeting is important because it helps you determine if you have enough money to fund operations, expand the business and create profit and long-term wealth for the owner. Every small business owner should budget, no matter the size of the business.

In 84% of small businesses, the owner or a partner prepares the budget. This can be done in conjunction with your accountant or CPA. There is nothing difficult about this task, however, most small business owners are not familiar with the process and therefore avoid it.

Business budgets do not need to be a monster. You can create simple and effective business forecasts using a simple set of guidelines. If you are still unsure of how to approach it, ask your CPA or a trusted business peer. There are also many great resources from books to on-line programs to seminars on the subject. Accept the fact that there will be a learning curve in both how to create a budget as well as how to use it to manage the business decisions.

Here are some guidelines to follow in creating an operating plan and using it to build a strong company that provides a great return for you.

Review Your Financial History or Industry Standards

If you have been in business for a few years, pull out your records from the past 2 or 3 years and build a spreadsheet of the revenues and expenses. Break the expenses into fixed

costs and variable costs and by easily identifiable categories. If your business is new, research industry standards to determine your starting point. Not all businesses are alike, but there are similarities. You can also check the IRS Website to get an idea of what percentage of revenue goes to various cost groupings. Once you have this information, you will be ready to build your forecast.

Build a Spreadsheet with Your Expected Results

Construct a spreadsheet to estimate the dollar amount to budget for each revenue category and expense category. Review your history and / or research to determine how much to budget for each category. As your revenues increase, your expenditure for materials and other variable costs will also increase. Be sure to consider this as you create your spreadsheet. Factor in any seasonality to your estimates. Don't just decide what your annual expense is and divide it by twelve unless your business has not seasonality or you are not expecting growth. Don't forget to budget for marketing and promotion to build your business.

Look for Ways to Reduce Costs

Now that you have your revenues and expenses plugged into the spreadsheet, take a look at the difference between the two. This is your profit. Is it as large as you want it to be? Fine-tune your numbers by looking for ways to cut cost. Where can you get a better deal from suppliers or make adjustments that will add to your bottom line? Or you can reallocate to give you more money for marketing that will improve results. Every penny saved in expenses will boost the bottom line. Small changes can add up quickly.

Err on the Side of Conservative

Watching expenses and cutting wherever possible is important however, you still need to be conservative in your estimates. Be realistic in your revenue expectations and build in some cushion for expenses, as there will always be surprises along the way.

Review Your Results Against the Plan Regularly

After each month, compare your actual result to your budget. Look for any variances and make sure you can explain them. By understanding why you missed the budget you will be able to better manage the results. If costs increased then maybe you need to review pricing or service providers. Are lower revenues a result of ineffective marketing, pricing or some other factor? If necessary, make some minor adjustments to the plan to improve your forecast for upcoming periods. By actively reviewing your results, you will quickly get a clear picture of your business and be in a position to manage it effectively.

Use Your Budget as a Form of Restraint

The budget is not intended to constrain your business but to help you restrain from making poor decisions. Sticking to a solid plan is the most effective teacher of fiscal restraint and teaches discipline. However, don't let the plan keep you from busting the budget on occasion should something exceptional occur. As an example, if you have discovered a marketing program that drives exceptional results, invest more in it even if it

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exceeds the budget. Take advantage of opportunities that arise to grow your business and adjust your plan accordingly.

Budgeting is an easy but essential process that all business owners should use to forecast results. The goal is to provide enough fiscal discipline to keep your business running smoothly and growing to ensure success. In addition to the operating budget, it is critical to develop a cash flow budget to monitor cash levels. This is a separate but critical budget for business owners. Learning to apply the fiscal discipline of budgeting to your business will keep the business healthy.

To your success,
Dennis