



## Tips for Setting Effective Budgets

Whether you're mapping a path to profitability or simply determining how much to spend on marketing, setting effective budgets can help your company manage money optimally. Budgeting is a crucial aspect of financial planning. It forces you to ask questions about the business decisions you make, which in turn helps you anticipate the resources you'll need to reach your goals.

Use these tips to design budgets that keep your day-to-day operations focused on success.

### KEY ITEMS:

- **Set goals**
- **Get the big picture**
- **Build in increases**
- **Account for the domino effect**
- **Consider losses**
- **Look at industry norms**
- **Prepare for the unexpected**
- **Share it**
- **Be ready to revise**

### Set goals

Your spending priorities will be easier to identify if you begin the budgeting process with a clear set of goals and expectations. For example, you can streamline the development of a marketing budget if you're clear about what you want to achieve and what outreach tactics you expect to deploy. Similarly, if you're setting a budget for technology, it will be easier to pinpoint the amount you need to spend on staff training and tech support if you know your desired return on investment (ROI).

### Get the big picture

It can be easy to underestimate the amount of money you'll need in different areas of your budget simply because you don't anticipate all the costs related to planned purchases. For example, if you're setting a budget for technology, include obvious expenses such as hardware and software, but also take into account "hidden" costs such as training, maintenance, and technical support. Many budgets are quickly thrown out of whack when these unanticipated expenses pop up.

### Build in increases

Some costs of doing business — such as salaries and health insurance — are likely to rise steadily over time. To make budgets as accurate as possible, these line items should reflect expected annual changes. You can estimate the amount of these increases by reviewing cost of living forecasts, inflation rates, as well as your own historical spending trends.

## **Account for the domino effect**

Spending changes in one area of business often impact others. For example, if you increase advertising spending, revenues may increase, but so will the amount you need to spend on customer service and fulfillment. As you hone your spending plans, be sure to reflect the impact of changes throughout each area of your budget.

## **Consider losses**

Every business will need to grapple with product returns, shrinkage, unpaid invoices, and other cash flow drains. Be sure to account for these losses in your budget. To gather information about the amount of returns or unpaid invoices to reflect, contact trade associations and industry organizations, or speak with established companies in your field about past trends.

## **Look at industry norms**

You can use standard spending practices in your industry as a barometer for your budget. For example, if most businesses in your field spend 6 to 10 percent of revenues on advertising, this range is probably a good one for you to target. It's okay to vary from industry norms, but only with an understanding of how spending more or less than average will enable you to reach your goals. If you plan to double ad spending in your first year, document how the extra money will be spent and what the expected payback is.

## **Prepare for the unexpected**

Every business has unanticipated costs — items like last minute opportunities to sponsor community events or unexpected technology glitches that need to be resolved. Put a line item in your budget to cover these expenses.

## **Share it**

Review your budget with an accountant or financial advisor. He or she can verify that you've effectively covered the budgeting basics, and serve as a sounding board for spending decisions.

## **Be ready to revise**

Chances are the initial budgets you set won't be perfect. Update your forecast quarterly or when new information or events impact your company. Compare initial plans to what actually occurred, and adjust figures accordingly. For example, if you discover you're not meeting profitability, look for areas of the budget that can be cut. If sales are increasing, note which areas of your business will need to be enhanced to meet demand, and allocate more money to these areas.

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