



## It's Time to Start a Budget!

We're into the first quarter and by now, most of you, have closed the books for January and are able to see your progress to date for the beginning of this business year. Are you happy about the results thus far? Have you figured out a better way for the remainder of this year?

Good points that deserve some serious thought and consideration on your part but what about this year? It's that time again, and you must start planning, so developing a better budget for the remainder of the year should be your top priority.

To get you started, let's review some important aspects of developing a realistic budget that's painless and practical.

Setting up a budget has been compared to by many, as having a root canal without anesthesia, in short, one big pain in the butt. However, setting up the budget for your business can often prove to be the most accurate barometer of your business's long term overall health.

Happily, however, you've got the tools that will help you put an effective budget in place with little discomfort. The benefits you get from having a budget and working it far outweigh the discomfort of preparing one. Therefore, follow these eight power points in developing your budget:

- 1. Treat your budget as an estimate.** In its most basic form, your budget is no different than an estimate. It is your "best shot" at projecting what will come into and go out of your company for the next year using good business logic based on historical or reliable projections.
- 2. Understand your budget must be bendable.** I'm not suggesting that you don't want it to be exacting. However, getting to the most accurate estimate of expenses and earning takes time, so be prepared to adjust your budget along the way. To get started, track your costs and income in detail over a certain period of time. This will give you a more complete sense of income and expenses.
- 3. Be conservative your projected numbers.** Not a fun guy, but Ebenezer Scrooge had the right idea: Always assume the worst. It makes good sense to forecast lower incomes and higher expenses. Don't be overly optimistic, just realistic.





4. **Identify static costs from unpredictable costs.** Start by identifying those costs that always remain the same and separate them from those that fluctuate. This will give you a good idea of what changes and what doesn't and that leads you to developing strategies for understanding, controlling and reducing the unpredictable expenses.
5. **Track your budget against the real numbers.** Close your books every single month and compare your progress. If necessary, adjust your numbers accordingly. Practicing this regularly gives you a timely sense of just how accurate your projections were and serves as a reminder that any part of your budget that requires tinkering, requires better projections next time around in order to keep in step with reality.
6. **Use your budget for fiscal discipline.** One of the biggest advantages of a well-crafted, closely monitored budget is the perspective it offers. Instead of stumbling through your year, you've got an accurate view of your big picture and how to correct it. Your budget allows you to establish cash flow parameters and uncovers problems in expenses and income before they rear their ugly heads. The longer the budget stays in place, the better you'll know the ebbs and flows or your earning and expenses. Your budget enables you to avoid the costly mistakes of working without one.
7. **Use your budget for detail planning.** Long-term planning requires a working knowledge of understanding when business is good or bad. By just doing a budgeting, you come to terms with the ups and downs of your business and how to plan for them. Overtime, your forecasting abilities will improve and become more accurate. For instance, a budget that underestimates cash flow and income can be adjusted and turned around to a positive flow. Without the budget process, you're lost.
8. **Most important, do something!** Whatever your decision about budgeting, doing one far outweighs not doing one. Flying by the seat of your pants and hoping for the best serves only as an epitaph on your business' gravestone.

## **Don't Procrastinate**

Perseverance is as important to achieving success with your budget as gasoline is to your car. There will be times that you'll feel as if you're spinning your wheels, but perseverance will always get you up and going.

The opposite of perseverance is procrastination. Perseverance means you never give up. Procrastination means you never get started, even though the inability to finish something is also a form of procrastination.

Stop finding excuses for not doing it and start hanging your hat on the right reasons for doing it. The basics of procrastination are fear ... fear of failure. Stop being afraid of being something less and start making yourself something better.





To get past procrastination use the following principles:

**Principle Number One: Break it down.**

No matter what you're trying to do, break it down into its basic components. You can't move a mountain in one big shovel full it takes a series of the small manageable shovel full's to accomplish the task. With that in mind, break your budget down into manageable tasks and complete them one at a time.

Principle Number Two. Write it down. Make it real.

**Break it down and write it down.**

These two techniques are very straightforward and productive. Don't let the simplicity of it fool you; they're very powerful in helping you accomplish your goals. This is how you end procrastination, and this is how you get it done.

## **How to make your budget work**

If you're going to put the time and effort into building your budget --- follow it! If you don't, you'll lose the benefits that you planned for when you developed the budget.

To get started, let's not think of the developing or the monitoring of the budget as a monster or a nightmare. It is your master blueprint for reaching the goals you've determined YOU want to achieve for next year. Think of it as your material list required to build your bottom-line, a set of guidelines developed to control your spending and saving habits. The following is some of the common problems, along with some solutions that can help you stay on course.

- 1. Accept the learning curve.** Establishing and living within a budget is an ongoing experience. Trimming expenses, controlling cash reserves, meeting sales ... working these skills takes time. Eventually, over time your accuracy with work and application, will improve and your projections will become more predictable.
- 2. Be prepared to miss your budget projections and act accordingly.** Rule number 1 in developing a budget: budget projections are best guess estimates and will require adjustment. Missing your projections doesn't mean your stupid or a poor business planner. It was a best guess to begin with, and now it requires correction, nothing more, nothing less. For instance, if your revenue





doesn't match what you projected --- and there's a good chance that might be the case --- trim back on expenses to compensate.

- 3. Watch your cash flow.** If you want to stick to your budget, make sure that your inflow of cash more than compensates the outflow. Monitor your income closely to make certain that you'll have adequate funds to pay your bills, particularly if you have long time periods between draws. Keep checking to make sure that your revenues match expenses.
- 4. Nurture a cash position.** The uncertainty of budgeting, both in terms of income and expenses, requires a positive cash position to offset the threats of survival or failure. Therefore, it is important to set aside adequate cash whenever possible. If you can afford it (determine this by doing cash flow projections) sock away some cash in an interest-bearing account. That set aside may come in handy if your projections turn against you and, even more importantly, it will give you the cushion you might need to get by until your corrections take hold. Even if you never have to "tap" into this cash set apart, you're still building cash equity in your business. In virtually every transaction, there is a lag time between the finalization of the deal and the completed cash collection. When collection is delayed, trouble erupts in your cash position until the money is in your bank account. A little wisdom, foresight, and discretion can help you go a long way towards corporate survival.

## **Profits are better than wages**

One big problem that I see with many budgets is the contractor's failure to input a wage for him or herself. Too many contractors assume that the "profit" at the end of the year will be theirs to keep, but this raises the question of "what if there is only a small profit or, even worse, no profit!" What makes this notwithstanding worsened is their failure to build into their budget, an Owner's draw or reasonable salary. By not incorporating this into your budget, you're short changing yourself and utilizing insufficient numbers in realizing a profitable year.

Profits change your whole attitude. How empowering would it be to know that you're not only going to work to make a living, but also to work on building your fortune? You must build into your budget a reasonable salary for yourself, one you would expect to pay an individual to do your job if you weren't able to do it yourself. Don't short-change your efforts by failing to include yourself in your own budget.

At this present moment in time, it is now it's up to you. Make the remainder of this year a great year and start your budget NOW!

