

Towards a Better Budget



Towards a better budget

Budgeting is part of good management. No business can expect to succeed unless it has a plan for expenditures that is related to its revenue estimates. Companies that spend more than they earn won't be in business long.

But businesses generally have a number of budgets operating concurrently. There are budgets for categories like stationery and marketing that are not apparently interrelated, although collectively they become part of the organization's annual budget.

Each of these 'subsidiary' budgets needs to be set according to the same set of principles, and each should take projected revenues into account. Budgeting is an essential requirement for effective financial planning and those planning budgets at all levels have a lot to keep in mind.

Every budget needs objectives

Expense budgets must be framed within specific parameters and targeted to achieve objectives that are compatible with overall corporate goals. There's no point in massively overspending on entertainment when revenues are in free-fall. Objectives at times of decreasing income must be scaled back to reflect revenue expectations.

Capital expenditures must also be closely related to overall corporate objectives. Having excess manufacturing capacity is worse than having to subcontract manufacturing outside if an unexpected order arrives. It would be better to allocate funds toward gaining new business rather than have it tied up in unused facilities.

Identify all the costs involved Budgeting for a new item of equipment takes more than just finding out the cost of the machinery itself. New machinery requires operator training, installation and maintenance costs, as well as running costs including power or fuel. All these on-costs can add up to substantial sums and if they're not anticipated in the budget they can become huge problems on their own.

This can also affect areas such as marketing and sales where an increase in activity can involve greater expenses to handle enquiries or provide information. The costs of setting up a website as part of a consumer promotion are almost universally underestimated.

Going up – and further up?

Costs will increase, and the only question is 'by how much?'. Budgets that don't take into account the real rise in the costs of doing business will prove inadequate. Using Treasury forecasts, as some government departments have to do, is no way to ensure that the price rises are accurately predicted.

There are different rates of increase for different categories of expenses. Healthcare, for example, is rising faster than the cost of paper, and wages are increasing at a slower rate than the costs of electricity. It's a smart idea to contact at least all your major suppliers to get an idea of their expected increases when preparing a budget; simply applying the same percentage increase to all outgoings won't work.

One budget affects another

A major marketing campaign that generates a flood of enquiries and lots of new business will also mean an extra load on other departments, from complaints handling to deliveries and shipping. It's essential that the consequences of activities in one area are anticipated and provided for in the budgets of other areas.

Transference of expenses is another factor to consider. An increased maintenance budget may well be unnecessary if older equipment is replaced with new machinery. Similarly, an increase in personnel will also require an increase in other areas such as training and office facilities.

Anticipate the negative effects

One aspect of increases that's often overlooked is the negative impact of growth. An increase in sales will also result in an increase of product returns and bad debts. Growth in sales is usually accompanied by growth in expenses as well, and this needs to be considered when budgeting for bigger revenues.

There will also be costs that arise unexpectedly – whether they're caused by taking advantage of opportunities or by disasters that weren't forecast. Firms that install new hardware or software should also provide for their failure, or at least for some downtime while they're being settled in.

Flexibility is essential

Successful budgeting isn't about getting it 100% right from the start and then not making any changes over the term the budget operates. All good budgets are flexible enough to cope with change, handle problems and make

the most of good times as well as downturns.

Teamwork and cooperation between all those involved in planning an organization's budget will go a long way toward delivering the optimal outcomes. Monitor actual income and expenses against the projections and be ready to reallocate funds as necessary to meet overall corporate objectives.



Want to find out more? Need help with budgeting from the experts?

Call today on 01743 249992, or

Email: outsourcing@cb-solutions.co.uk

Visit: www.cb-solutions.co.uk for more free resources!

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

Terms Of Use

All rights to the content in this publication are reserved by RAN ONE Inc. Any use of the content outside of this format must acknowledge RAN ONE Inc. as the original source.