

# 8 Key Budgeting Tips for First Timers

Most companies with sales under \$10 million, and some much larger, don't use budgets to help them meet profit goals. CEOs and operating owners reason, we are often told, that the effort to learn how to build, and then use, workable budgets is just too much. They seem to feel that planning a budget is more frustrating than just hoping the numbers will all work out, if they only sell enough widgets or services or whatever.

I won't quote business failure rates among companies in this size range, nor the steady stream of survey findings that say lack of good business management practices is usually to blame when a company falls short of its potential. Instead, I thought it would be more productive to provide some concepts that will make that first budget, and therefore the first step in financial planning, easier.

***Our premise:*** Profit planning, or budgeting, is the most effective single tool to consistently meet profit targets and avoid costly surprises.

***Our target reader:*** The CEO who has at last decided it's time to begin controlling the bottom line with some of the same tools they use to control the top line.

Here are my 8 tips for your consideration, taken from my seminar "The Numbers Made Easy":

1. A budget is not the forecast you put together on the weekend to impress your banker. It must be the result of coordinated input and effort by you and your top management team – and that doesn't just mean the finance department.
2. Regardless of how tough it may be to forecast, you will get closer, and be better able to control the results if you actively use a budget.
3. Any business can be budgeted. The only question is how much practice it takes to strike a balance between time invested and forecasting accuracy.
4. Use a Gantt chart to track deliverable dates for budget completion. As with any project management tool, it will tell you if you've scheduled too much to be completed in too short a time, given other business activities that also require your team's participation.
5. Accurately predicting actual results is not the objective. Giving your company a direction to use for course corrections, at the level where it matters, is what it's all about.
6. You have a set amount of resources available to you. If you must spend money for something you didn't budget, then decide what budgeted expense can be removed to "finance" the new item. Without that discipline, you will almost always overspend, because there are always good

reasons to spend money. They don't always produce more profit, however.

7. Every budget should have profit targets and cash flow targets, because they're different and they require different kinds of attention to prevent unpleasant surprises.
8. With budget comparisons in hand, ask your team these questions every month:
  - How are we doing compared to budget?
  - What must we do to have a better result next month?
  - What are we learning that will help us better plan next year's budget?

Now you have taken the first steps to making your budget goals a reality. Have a great year!

Best wishes,

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