

SUCCESS AT A GLANCE: BUDGETING AND TRACKING

By Marilyn J. Holt, CMC

Budgeting is the hope and tracking is the fact.

Scorecards and dashboards are popular measurement tools for businesses, as they should be, because they reveal the budget issues within a company. Smart, successful companies recognize that planning through budgeting and tracking give them control over their profits.

BUDGETING ISN'T JUST FOR BEGINNERS

While budgeting isn't just for beginners, most people are beginners at budgeting. The easiest and most efficient way to make a budget is by tracking the cost of doing business over several recent months. Note seasonal changes in costs and revenues, and build these into your budget. If there are no seasonal changes, average your costs over a year. To forecast costs, add a standard rate of inflation (this will be one of your documented assumptions) for each year.

A harder and equally important budget item to track is income. Figure out how much income you need to breakeven, and then to be profitable. If you own your company,

include paying yourself. Work backward to how many units of your product or hours of your service you must sell to breakeven and then be profitable.

If budgeting and tracking is tough for you to do, or you think that it is a waste of time, find an advisor who can help.

TAX ACCOUNTING IS NOT ENOUGH

Too often, bookkeepers and accountants focus solely on tax issues, and provide your business information in broad strokes. It is the fine detail that will make or break your deal. Customer acquisition, customer retention, buying cycles for your component parts, and selling cycles for your specific products must be included in your financial information. This information also provides you with more meaningful information for running your business. The new scorecard and dashboard software provides the cash accounting and business flow information that makes the difference between a successful deal and a dead one. That is why investors, lenders, and buyers want

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your financial records to show more than revenues, expenses, and net profits.

TRACK TO SHOW TRENDS

Track your budget daily, monthly, and year-to-date. The daily budget tracking allows you to spot problems and fix them quickly. For example, if the cost of energy or transportation has jumped beyond what was budgeted for with inflation, you may have to realign not only your budget, but also the price of your product to compensate. For a second example, you may also find out if sales employees are not performing and sales are down, or if someone is buying champagne items on your beer budget.

If you plan to raise or borrow money, or sell your business, make sure that your financial accounting software will allow you to easily extract month-to-month financial information. Month-to-month financials allow investors, lenders, and buyers to see and understand the trends of your business. If you are providing both historical and forward-looking financials, provide the month-to-month information for two years back and two years forward. Quarterly statements are best for the next three years in each direction. Forget annual statements, because you will be asked for more defined information.

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USE IT AS AN EARLY WARNING SYSTEM

Daily budget watching is really an early warning system. Unless some element is outrageously out of line, you are best advised to keep an eye on the problem, and see what develops. The monthly budget smoothes those daily fluctuations, and allows comparison of the amount actually spent or earned with the amount budgeted. The year-to-date comparison allows you to track the accumulated monthly expenses as they relate to the total amount budgeted for the year. This analysis provides a second way to track costs that smoothes seasonal fluctuation.

As you compare the budgeted and actual amounts, you will see if the actual figures are out of line with the budgeted amounts. If the actual figures are consistently out of line, this signals that you need to investigate why the actual amount spent is higher or lower than the amount budgeted. If you find extraordinary costs or savings in only one month, it is best not to modify the budget. If the variance is persistent, you need to amend the budget and possibly go through the budgeting process for that line item again.

Your aim should be to sell more product than budgeted, and keep costs contained. Using your budget as a scorecard or a dashboard puts you in control of your money.