

6 steps to creating a budget for your small business

Creating a business budget isn't as daunting as you might think...



Your quick guide to creating a small business budget

We're happy to see you here, digging into another educational resource developed to offer you valuable tips on how to create a small business budget.

The prospect of creating a budget can seem intimidating at first glance. But with a little preparation, you'll be surprised at how easily you can put together a working budget. That's why we created this helpful guide, which outlines six basic steps to help you build a budget for your small business.

We're here to help, so if you have questions or would like to consult with a member of our team, please reach out to our firm today.



Why your small business needs a budget

Some small business statistics for you, courtesy of B2B research and ratings site Clutch.co's 2018 survey of 302 small business owners/managers:

- 61 percent of respondents didn't create an official, formally documented budget.
- 37 percent of the businesses spent more than they budgeted in Q1 and Q2 of 2018.
- Smaller businesses are more likely to skip making a budget.
- 74 percent of small businesses with one to 10 employees didn't create a budget, compared to just 21 percent of small businesses with 10 or more employees.

And one last statistic, courtesy of the Bureau of Labor Statistics:

- About 20 percent of small businesses fail in the first year, while approximately 50 percent fail around year five.

While the first four statistics aren't necessarily the reason for the last one, it isn't hard to see how losing control of your company's cash flow can spiral into a failed business. A thoughtful and realistic budget is one of your best tools for staying on a healthy financial path because it:

- Creates a financial roadmap for the future of your business.
- Helps you make smart financial decisions by providing a structure and plan for spending money in the right places and at the right time to keep you out of debt and grow revenue.
- Helps you estimate what you need in order to get through slow periods.
- Alerts you when expenses trend upward.
- Keeps you in control of your business.

The good news is that creating a budget for your small business doesn't have to be complicated. Yes, you'll have to collect past income and expenses or conduct a bit of research into typical costs for similar businesses in your area (if your business is brand new).

Once this initial legwork is done, however, you'll find that creating a budget isn't as hard as you thought. Follow this guide to step you through the process of building a budget that works for you.

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6 steps to a small business budget

Step 1: Add up your total revenue sources

The first step is to know how much revenue (income, not profit) flows into your business. It's ideal to have data for at least the previous 12 months (if you've been in business that long) so you can see how your monthly revenue has changed and identify patterns. For example, if your business experienced a slump during a particular season and higher revenue during others. It's important to include a financial cushion during leaner months.

If you're just starting out, this is where research and projections will come into play. You've probably done a lot of research prior to opening your business, but if you need more information, the U.S. Small Business Administration (SBA.gov) has a wealth of resources. Most states also have a range of small business resources available.

Don't forget to include all types of revenue. As an example, let's say you own a retail store that sells women's clothing. You'll include your sales, of course, but you may also earn money other ways, such as:

- Teaching community education classes on how to put together a wardrobe.
- Offering personal shopping services.
- Coordinating and offering shopping bus tours.

If you reinvest your earnings from these activities back into the business, they should be counted as part of your income.

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Step 2: Add up your fixed costs

Once you've calculated your total income, it's time to add up your fixed costs. These are any ongoing/recurring expenses necessary to operate the business, and don't change much from payment to payment, except for situations like seasonal fluctuations. Examples of fixed costs include:

- Rent
- Payroll
- Property taxes
- Insurance
- Equipment leases or depreciation
- Fixed utility payments (e.g., phone or internet)
- Loan payments

Make sure you know the frequency of each cost (weekly, monthly or yearly) so you can allot the correct amount for each item. Once you have the total of your fixed costs, subtract them from your income.

Fixed costs...

- Stay the same regardless of your production output.
- May include lease, rental, insurance and interest payments.

Variable costs...

- Vary based on the output you produce.
- May include labor, commissions and raw materials.



Step 3: Add up your variable costs

Now it's time to add up your variable costs. These are the expenses that change in proportion to your sales or output, such as:

- Sales commission
- Production materials (e.g., for a bakery, the cost of ingredients go up as the volume of goods sold increases)
- Shipping and delivery charges
- Marketing, advertising and publicity
- Credit card fees
- Variable utility payments (e.g., electricity, which can increase or decrease with usage levels)
- Replacement of equipment

Expenses that are considered discretionary or "nice to have" (e.g., education for your employees or an upgraded point-of-sale system) fall under this category as well. For those estimating costs, keep in mind that you'll need to lower your variable expenses during the slow months. Also consider increasing those expenses when there's extra income available.

Step 4: Create an emergency fund

Just as you would do for yourself and your family, your business also needs an emergency fund. Plan to set funds aside for unanticipated expenses and keep adding to it on a regular basis. Unexpected costs have sunk many businesses, both small and large.

One of the most important reminders we can give on this step is DO NOT use this account for impulse buys. Consider your emergency fund to be just that: A fund to be accessed only in the case of a true emergency, such as a broken piece of equipment, a dead furnace (if you own your space) or extensive weather damage. It's highly recommended that a business have enough cash on hand to cover at least three to six months of operating expenses.

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Step 5: Discover the moment of truth

Once you've collected and calculated all the information in the first four steps, the hard work is done. Now, you'll:

- Add up all of your income for the month.
- Add up all of your expenses for the month.
- Subtract all of your fixed and variable expenses for the month.


If you get a positive number, congratulations! You're showing a profit. If it's in the negative, don't panic. Small businesses don't necessarily show a profit every month, let alone in the first year of operation. But having this data gives you the information required to make smart, informed financial decisions.

Step 6: Maintain, review and fine-tune your budget

A budget isn't a set-it-and-forget-it kind of thing; it's a living document that should be course-corrected as often as necessary—especially if you're a new business and built your budget on projections.

Make yourself a standing, unbreakable appointment to review your budget at the end of each month. Now that it's all set up, it won't take long to do quick individual tallies of your Big Three: income, fixed expenses and variable expenses for the month (hint: budgeting software can help make this task easier). Subtract the expenses from your income to get the amount of profit or loss.

As you do this each month, you'll start to see patterns in your income and expenses—excess funds or shortfalls that you can start tying to real-world factors like seasonal trends, good and bad weather, economic uncertainty, or even road construction in front of your business. You'll discover things you should avoid repeating, like an ill-advised purchase. Or you'll recognize actions you should repeat, like a particularly good investment. This will help you make more accurate projections for the future and allow you to budget accordingly.



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We hope our guide has eased your anxiety about creating a budget for your small business. Now that you have this basic blueprint, take the time to build a budget that will help you create the business of your dreams.

Would you like help with your small business budget?

Contact us today! Simply click the **GET IN TOUCH** button and complete the brief form or give us a call. Remember, we're here to help.

