

1. **"Decide how much money you want to make"** – as with every plan you need to set the outcome that you want to achieve. For each business these outcomes are different but an easy way to look at this is by asking yourself "What am I wanting to do with the money?" it may be to pay off debt, to cover salary levels you want to pay yourself, to invest into the business. The key is to set a realistic goal and the easiest way to test this is to reflect back on past performance to see what you have achieved over the last 12 months. You should also look forward and ask experts or peers what their thoughts are on where the local economy is heading in the next year.
2. **"Work out the Income & Outgoings needed to achieve this goal"** – as part of this process you need to consider if you can achieve this goal with the resources that you currently have – things to ask yourself are - Do you have the right number of employees? Will your equipment be capable of producing the results that you want? Do you possess the skill/knowledge required to maintain a competitive advantage or will you need to invest in this? If changes need to be made then these must be factored into your budget process.
Next step is to work out what your outgoings will be – The easiest way to make a first estimate of your outgoings is again to look back over the last 12 months and use these as a basis. Then consider any factors identified above, also decide if you can negotiate better rates with suppliers, if payments on loans will change, whether there will be pay increases to employees etc.
Now that you know these things you can add the Financial goal + Outgoings together and this will let you know what income you need to earn to achieve this goal. The acid test as to whether it is a realistic budget is to compare the Income budget to the actual income achieved in the last 12 months. If the budget is coming up that it is not realistic, then you review your goals and outgoings to adjust them until they fit in with something that is realistic and achievable.
3. **"Break the budget into Monthly, Weekly, and yes sometimes even Daily bites"** – once you have finalised the budget ensure that it is broken down by Month, the best budgets will set out Profit, Cashflow and Balance Sheet positions for you. Breaking income targets down into weekly and daily targets also helps you measure your budget much closer and can assist you in communicating these goals to your team.
4. **"Keep track of what you are doing"** – ensure that you load your budget into your accounting system and at least each month prepare reports on Actual results versus Budgeted results. Celebrate the successes and take quick action when results show that you are below where you need to be to achieve your goals.
5. **"Take Action when you are not achieving your budget"** – the definition of insanity is "to do the same thing over and over and expect a different result", as soon as you see that you are not achieving your required results make changes to the way you are doing things. These changes could be identifying something that is wasting time or has the wrong pricing on it, but they could also be bigger things that show you are under or over resourced. Successful businesses are those that are constantly looking for how they can do things better and are adaptable to changes in their environment.

These tips should hopefully offer you another way of looking at the budgeting process. Over the years these have helped many of my clients have control and clarity in their business – Kath Dorrans

5 TIPS TO SETTING A BUDGET THAT WORKS

"A goal without a plan is just a wish"

- Antoine de Saint-Exupery
writer, poet

Setting a budget provides you with a plan on how you can achieve the financial goals that you set yourself. If used properly it can help you see when you are "cruising" towards your goal, veering off course or about to crash into a tree.

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