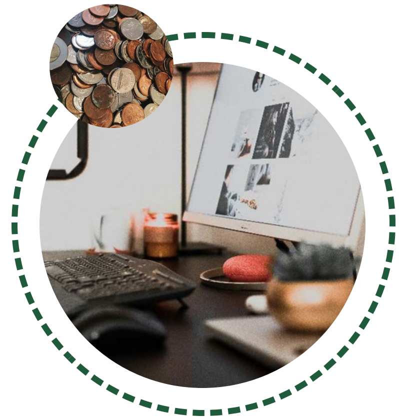
Everything You Need to Know About Business Budgeting

Take the financial health of your business from surviving to thriving as we outline different budgeting methods and how to get started.



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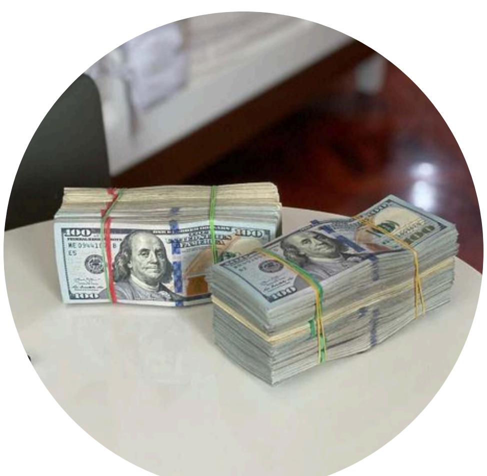
What is a Business Budget?

A budget outlines a spending plan based on your business income, expenses, and needs. A business budget is similar to a personal budget — taking your expected income and allocating funds toward different costs.

In fact, **82% of small businesses fail due to cash flow problems.** With a budget in hand, you can bolster profitability and pave the way to success, even during periods of rising prices and uncertainty.

In this eBook, we'll cover the basics of business budgeting, including the different types of budgets and the steps needed to create your own.

Even if your business doesn't have cash flow issues, a budget is a useful tool. Are you looking to hire another employee, or purchase new equipment? Expanding can be costly, so it pays to be prepared.



The Different Business Budget Methods

Business budgets can take a few different forms. Let's explore your options in more detail:

Incremental Budget

Uses your business's prior period performance as a base, then adjusts for cost increases — often using the rate of inflation. It's popular because it's relatively easy to calculate.

Zero-Based Budget

Starts from scratch and evaluates every dollar. If an expense isn't necessary — like an unused subscription — it doesn't get added to the budget. Takes more time, but can put more money back in your pocket.

Activity-Based Budget

Updates your budget based on activity levels. Beneficial if your sales fluctuate month to month, since you can adjust throughout the month as activity shifts.

Participative Budget

Common in growing businesses — lower management builds an initial budget, then upper management adjusts and approves. Keeps everyone motivated and on the same page.

Creating Your Business Budget

Once you determine which method works best, it's time to create your budget. Here are the four steps:

1. **Calculate Your Revenue**

   Include all applicable revenue streams. Use historical information and expectations of future market conditions to land on an accurate number.

2. **Add Fixed Costs**

   Fixed costs don't change with activity levels — think rent, insurance, salaries, and utilities. These should be easy to calculate and won't change often.

3. **Determine Variable Costs**

   Variable costs change with activity — direct labor and raw materials rise with sales. Use historical averages to project cost per unit.

4. **Project Net Income**

   Subtract costs from revenue. If net income isn't where you want it, revisit variable costs first — they're easier to adjust than fixed costs.

Expanding Your Insights

Are you ready to expand your insights with a business budget? Budgeting is a great resource to use throughout the month, aligning your financial goals with your actions. For help putting one together for the first time, or expert input on increasing profitability, reach out.

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