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SMALL BUSINESS

A budget is key to small-business success

When employees, customers and investors know you have an idea about how your company could fare next year, they have more confidence in you and your business.

By Cyndia Zwahlen

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Next year's budget is just about wrapped up at C28 Inc., a small business in Corona that designs and sells edgy Christian-themed clothes and jewelry for teens.

C28's budget process isn't just an exercise in guessing sales and costs for 2010. It involves a hard look at what would happen if sales rose, fell or held steady.

"Nobody likes surprises in business," said Kevin Miller, chief financial officer at the retailer and wholesaler, which employs 85 people and does about \$12 million in annual sales.

There are other good reasons for creating a budget for your business. When employees, customers, vendors, bankers and investors know you have an idea about how your company could fare next year -- good or bad -- they have more confidence in you and your business, said Jim Bateman, a Long Beach-based partner at B2B CFO, which provides part-time chief financial officers to businesses.

"If you don't talk to your staff and don't talk to your customers and don't talk to your vendors about this stuff, they are going to fill in the blanks for themselves," Bateman said.

You don't have to spend days on the process, but it's important to get a plan in place, said Miller, who updates his company's budget each month.

Even a basic budget can offer a competitive edge in this tough economy because the process requires you to look ahead.

San Clemente Wine Co. owners Barney Doyle and Rachael Rapier Doyle have put together a budget in two- or three-month increments since their wine shop and tasting room opened four years ago.

Barney Doyle, a former controller at several manufacturers and printing companies, is working on November and December projections now. He believes consumer confidence is starting to mend but doesn't think the economy has hit bottom yet. So he's working more at the shop to keep labor costs down. And he's stocking the store, which specializes in wines under \$35 a bottle, with more \$10-to-\$15 bottles.

"People who used to give you their credit card and say, 'Fill it up with the best' are buying smaller bottles," said Doyle, who has three part-time employees.

Though some of those customers have begun to favor slightly more expensive bottles in recent weeks, he said, others, who thought their jobs were secure, have been laid off.

In such an environment, putting together a budget is essential, Bateman said.

"So many uncontrollable forces will be there going forward next year with government policies and the global economy," he said. "More than ever you have to think through different scenarios that could happen so you do have that safety cushion."

Here are half a dozen steps you can take to create a budget for your small business:

Determine what your business will spend. This is the easier part of the process because you have a bit more control over costs than you do revenue. Use current- and past-year financial information to build a month-by-month list of fixed and variable costs expected in 2010.

Companies with multiple divisions, such as C28 with its 11-store retail operation, e-commerce site and wholesale operation, involve department heads and managers to project costs.

It's important to talk with your suppliers to get an idea of what pricing will be throughout the year. Will printing cost more? Are raw-material costs headed up or down? Remember that you'll be revising these projections each month, so you'll be changing the numbers as you have more information about actual costs.

Spreadsheets or specialized software can help with the job of compiling the data.

Estimate monthly revenue. San Clemente Wine Co. keeps track of local events such as art festivals that might boost demand for certain products -- say, bottled water or wine openers. Then it can include the higher numbers in its budgets.

When setting up monthly projections for 2010 revenue, small-business owners can start with current- and prior-year numbers. But talking with customers about how their businesses are faring and what they expect to need from you next year is even more important now because of the volatility of the economy.

At C28, Miller said the company looks at which new accounts are being courted and where the company is in the process as one of the steps to help it estimate the timing of future revenue.

The entire effort begins early in the year, reaches a preliminary stage in the second quarter and is finalized in the summer.

The final package is eventually presented to the board of directors, then shared with lenders.

Compare costs and income; plan to fill any gaps. When revenue won't cover the costs estimated during a particular month, find ways to cut costs and increase revenue.

With the early warning provided by a budget, you should have time to fix the gap before you fall into it.

Create budget variations that cover a handful of situations. Miller advised tweaking the basic budget to show how the numbers would change if sales grew or fell by specific percentages. Show what would have to be done to cut costs or boost revenue if sales fell 15% to 20%. What if sales grew by that amount? What if you lost your biggest customer?

Deciding ahead of time what it will take to gear up to handle more sales is important because many companies have cut back, Bateman said.

Planning for different outcomes will help you decide where to focus your efforts. It will also make your lenders happy, Bateman said.

Don't forget to map out your cash flow. Your budget may show a profit in a particular month -- maybe a customer is scheduled to place a big order -- but that doesn't mean your business will have enough cash that month to cover expenses. Cash flow, as many small-business owners learn too late, doesn't rise in step with sales.

Cash falls when sales do, but it can also decline when sales go up, at least for a while, as a business has to shell out for raw materials, labor or inventory to fill an order before payment arrives, Bateman said.

Tracking cash flow by the week, based on when expenses are due and when cash is expected in, is important.

Update the budget each month. Don't stick your completed budget on a shelf. Revise it monthly as you get closer to the start of the year and as you work your way through 2010. You can enter actual costs and revenue and compare them with the budgeted numbers.

Even before the year begins, you can look at the budgeted numbers each month and revise them as you get a clearer picture of where costs and revenue are headed.

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