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SUCCESSFUL BUDGETING REQUIRES THESE 5 THINGS

Budgeting isn't the most exhilarating aspect of running a business, but it's essential to keeping your finances in check and your company on track. Whether your budget is already set or you're entering the new year with some planning left to do, here's a quick guide to setting and maintaining a successful company budget.

Clarity

First, you need to be clear about what your business plans are. Allocating funds without a specific plan in mind can lead you astray. Establish a set of key goals that will have the most significant impact on growth and profitability for the next year and then create a budget that helps those goals become achievable. For example, do you want to invest in new equipment, adopt and implement a new

internal technology platform, or focus on product development? Clarity is crucial so you can accurately plan out how much money goes into each bucket.

Communication

While clarity is crucial in budgeting, communication is also an essential part of the process. Review your progress against the planned budgets at least quarterly with your team and have the difficult conversations to ensure you are all on the same page. It may feel clunky at first, but it takes consistency and frequency for the whole team to understand both assumptions and expectations. Not only will this help keep everyone accountable for their spending, but it will also ensure that nothing slips through the cracks.

Roadmap

Budget roadmaps are an extremely useful tool to have in setting up your finances for the year. A roadmap will provide the framework for where you want to go, what you need to do to get there, and how much money it will cost. This roadmap includes not only units and pricing assumptions for sales but also other strategic initiatives to drive both sales growth and profitability.

If your goal is to increase sales by 20 percent for the year, a detailed roadmap will outline what needs to happen next, from allocating more resources to marketing to redesigning a key product. However, be sure to build in contingencies for unexpected circumstances and review at least quarterly as initiatives may need to be delayed or pulled forward depending on cash flow. A budget is not set in stone but rather will likely require adjustments along the way to align with what is happening at the company and in the market.

Metrics

As Peter Drucker famously said, "If you can't measure it, you can't manage it." To track your success with budgeting, you'll need to make sure that you measure the right metrics. This will allow you to assess your performance and see whether you

are on track to hit your goals. Defining what metrics to follow should focus on a handful of activities that drive sales and profitability. Too many businesses try to implement more than 10 key metrics, which can create more confusion than clarity.

For example, a leading indicator into sales performance will include better understanding your sales funnel, like the average number of qualified leads per week, or days to convert that lead to a sale and your conversion rate. Then, tracking average contract value (ACV) or average sales price (ASP) will help you better understand how your sales team is performing in negotiating deals. Defining and tracking these metrics will establish the proper benchmarks to understand how a company is trending over time and how it compares to your industry, in turn ensuring a more reliable budget is built.

Communication x2

Finally, don't forget to revisit and communicate your goals on a regular basis. While budgeting is certainly an important exercise at the beginning of the year, it's also vital that you keep an eye on things as the year progresses. Revisiting your plans can help ensure that you remain on track and allow for changes if needed.

At the end of the day, budgeting is key to having financial success in the new year. By setting up a plan, measuring the right metrics, and staying on top of communication, you'll be able to stay organized and maximize your resources.