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CHANGING WHAT'S POSSIBLE™

SMALL BUSINESS

BUDGETING AND FORECASTING

A financial plan is an essential element that contributes to your business success. The plan outlines your financial goals, lays out costs and can help you manage your cash flow. While all financial plans are unique, like all businesses, they do share some common elements. Two of those elements are budgeting and forecasting.

Working together, your budget and forecast can be great tools to help improve your business efficiency, profitability, and future growth. But while having a budget for your business is important, surveys show that nearly two-thirds of small businesses don't have one.[1] Learn some helpful tips to get you started on your budgeting and forecasting plans.

Help create a roadmap for the financial future of your business

Your financial plan helps clarify your short- and long-term financial goals. It can help you understand your current financial picture as well as your future vision for your company. Accurate planning can also help you reduce risk, control spending, and help you make better business decisions.

A complete financial plan for your business contains several important documents, including a balance sheet, cash flow projection and income statements. When putting your financial plan together, keep in mind that it should be (1) specific to your business strategy and goals, (2) well-organized and detailed, and (3) flexible enough to allow for any unexpected changes.

Things to consider before your initial planning

The first step is to start with (or establish) your business goals – things you can potentially control. How much income, profit, or market share do you want to achieve, for example? Start with documenting the basics - your current and projected income and expenses. This could help you start to set realistic goals and decide how much of your resources (if any) to put toward new opportunities to fuel business growth

Also consider external forces beyond your control. These could be things like consumer preferences, shopping trends, the economy, and the political climate. While these kinds of external factors are hard to predict, it's important to consider how they could impact your plan.

Get started with your budgeting and forecasting plans

Budgeting and forecasting are similar but different, and are important parts of your financial plan. Together, they help you clarify your goals, develop strategies, and plan for the future. But while budgeting and forecasting are similar, there are some key differences between them.

Budgeting and forecasting work well together to help drive a cohesive and robust business plan.

Budgeting

A budget is your *detailed financial operating plan* for the coming year. It identifies cash flow and expected results, helps allocate resources, and lays out a plan to help make sure everyone in your organization is working toward the same financial goals.

How important is a budget? Very. According to one study, 82% of small businesses that failed considered cash flow problems to be a factor.[2] Simply said: a budget can help your business manage its money and keep its finances on track.

A budget typically shows estimated revenues, expenses, and cash flow. It establishes a framework for how bills will be paid, as well as how hiring, savings, borrowing, and capital allocation (if applicable) will be handled.
A detailed budget can also be helpful to measure future financial growth.

To start creating your budget, organize your balance sheets, cash flow statements and any applicable employee compensation information. The good news is when you start this process, you don't have to start from scratch. Many popular small business accounting software programs have tools to help you build your budget.

Some companies, especially those that are larger, may use separate budgets for each department. So, in addition to your overall operating budget, you might have a standalone marketing/advertising budget, an add-on/warranty services budget, and so on.

Accurate budgeting could lead to better business performance

Besides providing a useful financial framework, your budget could also help improve your financial performance. Here's how:

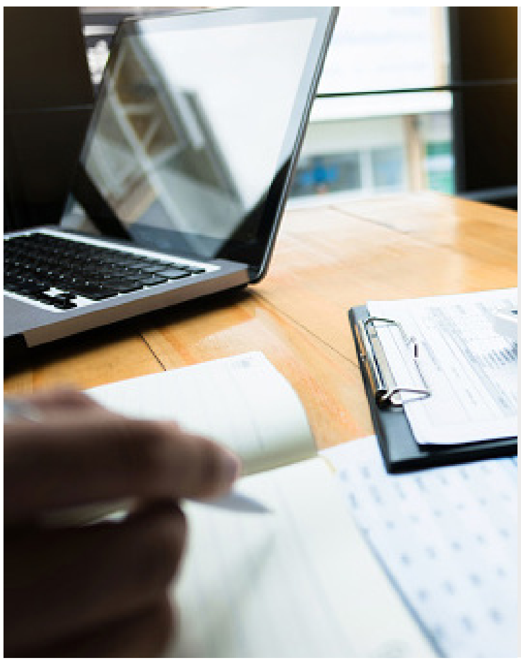
- **Better forecasting:** Budgeting could help you anticipate and plan for financial risks and opportunities.
- **Better allocation:** Budgeting could help you effectively distribute funds to improve profitability and help drive growth.
- **Better measurements:** Budgeting can help give you a framework for evaluating business performance.
- **Better employee performance:** Budgeting could help motivate managers and employees to reach goals and earn incentives.

Your financial plan is a decision-making tool that enables you to assess business results and set targets for future growth.

Forecasting

Forecasting, on the other hand, is *a projection of how you think your business will do* financially in the coming year. A forecast typically focuses on major expenses and revenue line items. When creating your business forecast, consider performance and results over the past year, and then compare to your current business plan and goals. If you believe you have already or will surpass last year's results, determine by how much (and why.) If performance is down versus last year, investigate why, as well. This information can help you determine specific, realistic annual goals based on past business performance and incorporate your vision for the coming year.

Unlike budgets, forecasts are dynamic, which means they can be affected by market conditions and external factors during the year. For example, consider energy costs. If the price of gasoline goes up significantly during the year, and you have a fleet of delivery drivers, this could impact your bottom line. By frequently updating your forecast based on these fluid conditions and factors, your company could get a more accurate picture of future performance. This lets you, your managers, and your team members make adjustments that could help meet your business goals. In fact, many businesses revisit and adjust their forecast on a quarterly basis.



The benefits of forecasting

When done effectively, forecasting could provide powerful insights that help you allocate and reallocate financial resources, and make key business decisions throughout the year. Forecasting could also help you:

- **Recognize customer and market trends.** The forecasting process can help you uncover consumer preference and marketplace trends, and help you decide if you need to change course.
- **Manage your cash flow more easily.** The more accurately you can predict your future expenses and busines performance, the easier it could be to manage your cash flow.
- **Identify and secure financing.** An accurate business forecast could help identify funding needs and push you to start the process to secure outside financing.
- **Jumpstart your next budget.** Apply what you entered in your forecast to help inform and build your next budget.

While budgeting and forecasting offer different benefits and follow different processes, they can work best when they work together. Leveraging both planning tools can help lead to a more accurate and complete financial picture and help you create a robust and effective overall financial plan for your business.

For more information or to connect with an expert, contact us at synchronyconnect@synchrony.com.

[1] https://clutch.co/accounting/resources/why-small-businesses-need-budgets
[2] https://www.smallbizgenius.net/by-the-numbers/small-business-statistics/#gref