

# A worthwhile task

## Size isn't an excuse for not budgeting and forecasting

INTERVIEWED BY ADAM BURROUGHS

There are many excuses business owners concoct to avoid budgeting and forecasting. Some feel they're too small for budgeting and forecasting, thinking they have a handle on their finances so there's really no need. Busy business owners often avoid it, believing it's too time consuming. Others say they need a budget but they don't know how to create one.

"Budgeting is important for business growth, helping companies think strategically — not about the budget, but about their goals," says Dawn M. Gainer, CPA, managing director of Small Business Services at Skoda Minotti.

*Smart Business* spoke with Gainer about the uses of budgeting and forecasting, and the reasons not to skip them.

### How does forecasting compare to budgeting? How do the two interact?

Budgeting can be thought of as a static, annual process through which company goals are determined for the next year.

A forecast takes a budget as the starting point and incorporates real numbers. Using actual data, forecasts change monthly or quarterly as information is gathered. Results are compared to the budget, but the budget doesn't change — the strategic plan is adjusted as new information comes to light.

At the end of the year, real data accumulated through the forecasting process is compared to the budget and the variances are analyzed to see what worked, what didn't and what came up unexpectedly. That information is used to manage the business and make appropriate decisions.

*With each Insights, Skoda Minotti explores the most pressing problems that manufacturers, and other businesses, face throughout their life cycle.*

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### When a business is reactive — taking a day-to-day approach with its finances — what can be the results?

When a business is reactive, it's only looking at where it has been but not where it's going. That can lead to missed opportunities or making expenditures that it doesn't need or can't afford. In manufacturing for example, equipment purchasing should be built into an asset life cycle plan rather than reacting to a breakdown, which can disrupt the budget, extend downtime and lead to lost sales. It also could mean not having the finances to capture the momentum of a surging trend.

### For companies that don't budget, what advice can you offer to help them get started?

Start small and at a high level, thinking strategically and not financially. Analyze the business and its opportunities by examining trends in the current and past markets. Determine the direction of the business and then put numbers to those plans.

Once a goal is set, calculate the projected revenue and expenses that reaching that goal will incur. Pick the highest drivers of your expense structure and spend the most time forecasting those, don't spend a lot of time budgeting for static expenses — postage,



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for instance. This doesn't require special tools or knowledge. It can be done on the back of an envelope. What's important is the strategic thinking behind the budget, not the numbers.

### How can a budget be used to create a marketing plan?

A budget helps an owner think strategically about where to focus marketing initiatives and how much to spend. The process of budgeting encourages research to learn more about the market, find the target audience, set price points and pinpoint sources of demand while avoiding saturation.

### What unique challenges might manufacturers face if their budgeting and forecasting processes aren't solid and reliable?

Many manufacturers have multiple product lines, each of which must be analyzed and budgeted for. Without the latter, a line could seem like it is making money when it actually may not. Making future projections can help manufacturers plan for potential cost increases on materials, for example, which gives the company an opportunity to make moves preemptively — improve processes, or find new materials or a new provider. It's the same with machinery and equipment — upgrades and new technology are needed to stay competitive.

Manufacturers have people, equipment and materials to consider, which can be more complicated than what other businesses face. If they aren't looking forward, they risk being caught off-guard.

Don't let excuses get in the way of budgeting. Set aside some time each year to come up with a high level plan and monitor your progress against that plan. It's not as time consuming as it might seem. ●