

Budgeting...an important pathway to profit

Too often business owners neglect one of the most important Management 101 basics: developing and using a budget for forecasting, controlling and assessing ongoing business operations.

Many small business owners operate their respective businesses just like they manage their personal accounts. They think if their business bank accounts have positive balances then the business must be doing OK. This assessment often leads them to make decisions to spend money when they really shouldn't. The money, in the bank, may already be encumbered because accounts payable are higher than they think or new orders are already on the way or perhaps they forgot about the current tax payment that is due.

Most people fear budgeting because they have never had to do one. Computers and POS systems make budget management easy to set up and use.

Typical business budget set up:

- Sales
- Cost of Sales
- Operating Expenses
- Net Profit
- Debt
- Cash Flow

The least understood part of budgeting and one of the most critical to running a profitable business is being able to understand real cash flow. The cash you actually have that is over and above the needs of operating the business.

Never spend money you don't have. To order merchandise, food and beverage supplies, new equipment, remodel or commit to an advertising campaign without having an idea of how you are going to pay the bills is unethical. Estimate what your income will be each month, and know what your cash reserves are in advance. Then budget expenditures based on these two factors. If there won't be enough cash to cover your needs, you will have to choose between cutting back on purchases and expenses, or finding additional outside funding and increasing the businesses debt.

Most computer bookkeeping programs allow you to enter budget figures, as well as any previous year's figures, and print out variance reports comparing actual results to previous and budgeted amounts. These reports can help you see where you need to make adjustments throughout the year to bring you closer to reaching your goals.

I believe in sound fiscal management and responsibility. If you do

not have a budget you are missing an important tool needed to meet your obligations as a business owner or manager.

10 good reasons to work from a budget:

1. You will put yourself in a much better position to control your own destiny when you understand the importance of budgeting in operating a business.

2. Readily available financial information will enable you to forecast, plan and control your business.

3. You will uncover problem issues *when they occur*; not months after the fact when they have damaged your business and depleted cash flow.

4. You will always know your true cash flow. Money in the bank is not a true indicator of financial condition. Knowing what the accrued payables are will influence decisions you make regarding expenditures and purchases.

5. When minimum wage or cost of goods sold goes up you will be in position to predict the impact and react proactively immediately to absorb the hit to your bottom line.

6. Using a budget will motivate you to implement inventory procedures to control shrink, waste and theft.

7. The budget will sensitize you to cycles in the business that may adversely affect your operation certain times of the year (e.g., back to school time).

8. Being able to constantly monitor gross profit margins will help you stay on track to meet or exceed your profit goals.

9. Establishing benchmarks for operational profitability that are easy to identify and track. When you notice expenses like payroll going higher than budgeted, you can correct it when it starts happening.

10. Sharing budget information with key personnel will always lead to better performance and awareness of issues that affect the budget. It will also help employees more readily assimilate into the culture of your business and understand you are in business to make a profit. Instead of assuming how much money the business makes (wrongly 99.9% of the time) they will know and understand the difficulty in keeping it profitable.

Manage for profitability every day:

Each day must be looked at as being 1/365th part of the whole. Managing for profit every day will help you

HOT TRENDS

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achieve ultimate profitability.

Yesterday is in the past, today is the present and the time everyone can immediately affect the most. You can accomplish much today and get ready for tomorrow to do it all over again. If you're smart and use the skills you have, you will fair better each day because you are in position to nurture and make the people around you better performers.

Being able to get everyone working for profit everyday is a daunting task. It only takes a change in the way you see things and the willingness for you to accept change and go for it.

True business entrepreneurs do not buy businesses to have a job; they have a vision of creating financial and personal freedom. Managing for profit-

ability daily will help you realize the meaning of freedom.

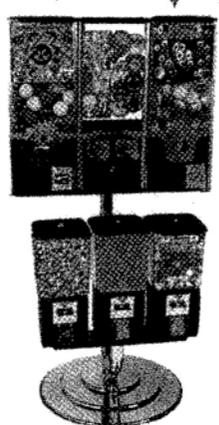
Of course, a profit is a good thing to have. Being profitable provides a sense of security, and when you don't have to worry constantly about your business, you have freedom to experiment with new ideas, products and services. Being profitable allows you to do more for your community and your employees, and it allows your business to grow. But profitability is only one measure of the pulse of a successful business. Don't ever lose focus on why you are in business.

"To accomplish great things, we must not only act, but also dream, not only plan, but also believe."

- Anatole France

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