



HOW TO SET A  
**BUDGET**  
IN **5** *SIMPLE*  
**STEPS**

*BROUGHT TO YOU BY*

**F** **ORTIVITI**

RELIEVING THE BURDEN OF BUSINESS

# INTRODUCTION

Setting a budget is important to the long-term success of any business. This can be intimidating, especially if budgeting is new to you or outside of your natural skill set.

Our team has created How to Set a Budget In 5 Simple Steps to help you proactively manage the money in your business.



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## SET A BUDGET IN 5 SIMPLE STEPS

**1 ANALYZE CURRENT-YEAR FINANCIALS**

**2 SET A BUDGET FOR REVENUE**

**3 SET A BUDGET FOR EXPENSES**

**4 SET STRETCH GOALS**

**5 MAINTAIN & MONITOR YOUR BUDGET**



THE MOST  
IMPORTANT THING  
ABOUT YOUR  
BUDGET IS NOT HOW  
FANCY OR COMPLEX  
IT IS, BUT THAT IT  
ACTUALLY EXISTS,  
AND YOU  
ACTUALLY *USE* IT.



# STEP 1:

## ANALYZE CURRENT YEAR FINANCIALS

If you are completing this process near year-end, run your most recent year-to-date P&L (preferably through October or November). Otherwise, run a rolling 12-month P&L so you have enough data to analyze.

If you are set up in an accounting system, such as QuickBooks, run the report and export to Excel. Set the report up with monthly totals. After you have your YTD P&L, with columns by month, review for past performance. Make sure you have a clean set of books, so you are starting your budget process on the right foot.

Once you feel you have a clean Excel report with 12 months of historical data, create a template for next year's budget. You should have a column for each month, with a row for each revenue and expense item you want to track.

### TAKE A CLOSER LOOK:

#### **REVIEW FOR TRENDS.**

Is your revenue higher in the summer? Do your expenses escalate at the beginning of the year?

#### **ANALYZE YOUR SPENDING.**

Take a look at any recurring charges and make sure that you are still using the service. Cancel any that are no longer being used.

#### **REVIEW ACCOUNTS.**

Clean up any old, duplicative, or unnecessary accounts. For example, if you are adding a new service offering, set up a new revenue account to track the performance.

#### **EVALUATE YOUR CODING.**

Are you putting expenses into the right categories?



# STEP 2: SET A BUDGET FOR REVENUE

Now, it's time to set your budget for revenue. In addition to your newly scrubbed financials, you'll want to pull some historical revenue figures (over the past 2 to 3 years) to assist.

As you set your revenue budget, you will input your revenue figures by month, by line item (if you track multiple revenue categories).

If you plan to set a budget based on a % increase, you can set up the formulas to do so. If you estimate sales will grow by a specific dollar amount per month, you can set up a formula for that, too.

The most important aspect of setting your revenue budget is to make sure that you are realistic in your estimates. Just because you want to grow by 50% does not mean that you have the means to do so.

Once you have your total sales budget set, make sure you have it spread out throughout each month in the manner you expect to see the results.



## TAKE A CLOSER LOOK:

### **REVIEW AVERAGE GROWTH.**

If you've averaged a 10% increase in sales for 4 years, you can likely budget the same growth for the next year. However, if your growth has been inconsistent, determine what has caused the inconsistency and what makes sense for the current state of your business.

### **EVALUATE YOUR PRICING STRATEGY.**

Are you charging enough? Are you charging too much? Review each client or service-line to determine if you're charging appropriately and put a plan in place to make any necessary adjustments. Add any impact of these adjustments to your budgeted figures.

# STEP 3: SET A BUDGET FOR EXPENSES

To set your budget for expenses, review your monthly P&L from Step One and split your expenses into two categories:

## **FIXED EXPENSE:**

Any expense that will be the same every month regardless of change in season, revenue growth or any other factors. Such as: rent, service contracts, phone. etc.

## **VARIABLE EXPENSE:**

Expense that will fluctuate with changes in season, growth in revenue or other usage.

Set your fixed expenses first. Rent will likely be the same for each month of the budget (unless you have an increase at a mid-point during the year). Enter any monthly retainers (marketing, IT, etc.).

After you have set the budget for your fixed expenses, review your variable expenses. Determine what factors cause them to vary and set accordingly. Make sure to consider the impact of sales growth as well as the change in the time of year or cyclical nature of your business.



## **TIPS & TRICKS:**

- Some expenses will be set based on average expenses from prior year.
- Set other expenses based on strategic planning. Are you implementing a new IT system? Are you increasing your marketing efforts in the next year?
- Labor is typically the largest line item on the P&L. Review staffing levels to determine if you are under or overstaffed and budget accordingly.
- If you have sales or incentive programs that are based on sales, make sure the budgeted expenses are set in line with revenue growth.

# STEP 4: SET STRETCH GOALS

You should now have a completed budget for the year. Take a minute to review your bottom line. Are you going to need to make some adjustments to see the profitability you want? Do the results seem reasonable?

Perform an overall review of your budget and consider any adjustments you need to make. Make sure your final budget is a true reflection of how you see the next year playing out.

Once you have your final budget, it's time to set some stretch goals! Your budget should be realistic with results you expect to hit. However, it is always good to have stretch goals.

Create a duplicate budget for your stretch goals. Update the numbers you think will be affected if you hit your stretch figures. Save this document to refer back to throughout the year as you strive to achieve these goals.



## QUESTIONS TO CONSIDER:

Where could your business be next year if you hit 15% sales increase instead of 10%? If you do see such an increase, do you need to hire additional staff?

Can you find efficiencies to cut costs by 10%? Or, will you spend more if you hit your stretch revenue goals to achieve even greater results?

# STEP 5: MAINTAIN & MONITOR YOUR BUDGET

After your budget has been set, put a monthly meeting on your calendar to review financial performance compared to budget.

## **AT EACH MEETING YOU WILL:**

- Review your year-to-date P&L statement
- Review for performance
- Review for reasonableness – make sure you understand the numbers

## **REVIEW YOUR ACTUALS TO YOUR BUDGET:**

- Are sales keeping up with budget?
- Are you overspending in certain areas?
- Do you need to make any adjustments to your budget based on changes in performance?

Make updates to your budget as deemed necessary. Don't just update your budget to actual performance, however if an update is needed to get a more accurate budget, make the changes.



## **TIP: SHARE KEY RESULTS**

Your team has a significant impact on your company's ability to meet budget and goals. Share your budget and results with key team members for best results.

# CONCLUSION

Budget does not have to be a 4-Letter word. Having a budget can empower you, help you get a handle on your finances and allow you to manage your business through your numbers. You'll be amazed at what your budget tells you about how you run your business.

The numbers don't lie. If you've budgeted \$1,000 per month for marketing and you consistently overspend by \$700, you need to make a decision: Do you update your budget to \$1,700? Or, do you reduce the spending?

Either option could be the right answer. Take the time to understand why you are spending \$1,700 per month. Determine if the money is needed to achieve the results you want to see and adjust your budget accordingly.

A budget is not something to do once per year just to check it off your list. Prepare it strategically, evaluate it often, and manage your business around and toward it.

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## Fortiviti {Four – ti – vi – tee}

Originates from the combination of fortitude and productivity.

Fortitude is essential to enduring the roller coaster ride of entrepreneurship. Our company was built to help entrepreneurs increase productivity to result in greater success.

Fortiviti provides integrated accounting and back office solutions for a variety of industries including: software, creative, IT and professional service firms. Our team understands the finances of small and mid-sized businesses. We become our client's back office, and work together in support of their growing business.

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