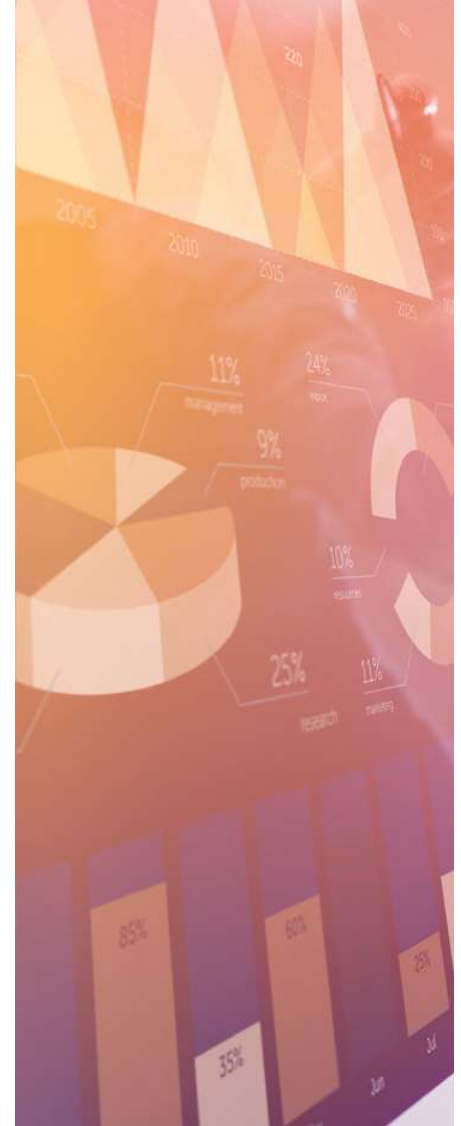


Budgeting and reforecasting in changing times

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Technology is changing, products are changing, customers are changing, banks are changing, but is your business changing to keep up?



You may think there is little you can do, but how do you take back control? How do you prepare a budget in an ever-changing business climate and economy?

From start-up businesses to businesses that have been operating for 20-30 years, we should all budget. In addition, we need to constantly monitor our budget against our actuals and reforecast on a regular basis as internal and external forces change.

How many times have you prepared a budget with the best of intentions or because the bank asked you to, but it is filed away in the

top drawer and not looked at until next year due to other demands of the business?

Without a budget, it will be hard to have a successful action plan. It will be harder to look at what changes you need to make to the fundamentals of your business or even identify the key drivers of your business.

Once a budget is set, it is important to not set it in concrete. Businesses need to move away from a “once a year” traditional budget and use their budget as a basis to make more accurate predictions and reforecast it regularly.



Why Budget?

- Helps with the planning and control of your finances.
- Gives you the ability to monitor the performance of your business.
- Makes you think about the important drivers of your business.
- You can look at the growth of the business and set sales targets. It makes you consider whether the targets are achievable and whether you have the product or staff to reach them.
- Gives you the opportunity to look at your operating costs in depth and decide if the costs are necessary or whether you are getting the best deals for the business.
- Allows you to revisit the goals of the business. Is the business heading in the direction that you want it to be?
- All business owners have different reasons for going into business. By completing a budget, you can measure whether the business and your own goals are aligned.
- It provides you with early warnings of any problems the business may face and whether you need funding for capital purchases, expansion or changes in the business.
- Key performance indicators, which can also be non-financial, are an important part of your budgeting process. Set these at the same time as the financial budget.

THE KEY POINTS FOR BUDGETING:

- **Plan early**
- **Update it regularly**
- **Budget for contingencies**
- **Make sure you monitor it**
- **Be able to explain variances between budget and actual**
- **Keep everyone informed and accountable**

Why Reforecast?

- Provides up to date measures for the business. Any aspect of the business can change at any time, and one change will usually have a knock-on effect on other aspects of the business. e.g. Increased sales could mean increases in raw materials required, and therefore the cash to fund those materials.
- A reforecast keeps you in line with current business operations. It helps you analyse the decisions you made in the original budget.
- You should set your budget knowing that a reforecast will happen. With the current rate of change your business cannot be without one. It helps you keep your eye on the bigger picture.
- It gets the team involved in thinking about the expenses of the business and not spending for the sake of spending if they have a fixed budget.
- A business can introduce new income streams, and there can be changes in product demands, so this enables you to identify what is important and how to manage these changes.
- Staff productivity may alter or, if you are a service business, there may be changes in the ability to bill all your staff's time. What figures do you need to adjust to get the results you need out of the reforecast?

Never throw your original budget away; it is as important as you reforecast. Things may change, but it reminds you where you want your organisation to be. You may not have achieved your goals this year due to factors that may or may not have been out of your control. This budget can be the basis for the new year forecast, with business and financial changes incorporated.

Remember a reforecast is still a projection based on the best information available at one time, so you don't need to update it for every little change.

It doesn't all have to be bad. You need to plan for the good, the bad and the ugly. The year may start off rough, but it may end better than anticipated.

A budget or reforecast is only as good as the drivers used to create it. Make sure you build it based on the business as it is, the environment the business operates in, and the business owners' goals.

If you can budget and reforecast successfully, you will have more oversight and control of your business, and better quality information to enable you to succeed.

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