

# 5 important budgeting tactics for SMEs

During uncertain times, businesses will inevitably experience unforeseen setbacks and expenses. But a well-considered budget can make all the difference when it comes to taking these challenges in their stride.



Dov Girnun | image supplied

Dov Girnun, CEO of capital lender, Merchant Capital, provides five budgeting strategies that will help keep your business afloat during uncertain times.

## 1. Evaluate expenses

The nature of business is that in the early stages, expenses will outweigh revenue. In the early days it will also be easier to evaluate your expenses rather than your profits. So consider splitting your expenses into two parts, namely 'fixed' and 'variable' costs.

At this point, Girnun says you need to add up your marketing and advertising expenses, as well as your insurance and legal expenses. "These expenses may even be double if not, triple what you estimated and will need a lot of budget allocated to them. So, if you are using a business credit card to cover any expenses for your business, ensure it's only used for the purchases that have been planned, and set a limit to control your expenses."

## 2. Estimate revenue

This is an incredibly difficult task and may even require professional assistance. But Girnun believes you can't afford to skip this step! "You need to be putting time and effort into creating a realistic estimate of what your estimated revenue will be. This will allow you to plan your expenses and manage your cash flow more effectively. "A business' estimate revenue needs a conservative and aggressive projection. The former will motivate staff to work harder and the latter will ensure you make safe financial decisions along the way.

Work out your gross profit margin

This refers to how much money your business is actually bringing in. Your gross profit margin needs to be calculated on a regular basis in order to track progress and maintain a realistic understanding of your business' growth.

"To calculate your gross profit margin you need to subtract your total costs from your total revenue. You then divide this amount by your net sales to deduce your margin percentage. If this number is creeping upwards every month, you are on the right track. If not, it's possibly time to reduce your expenses," advises Girnun.

#### **4. Plan carefully for cash flow**

Cash flow is like air for business. Many factors can influence your cash flow from expansion to trends to socio-economic conditions to fluctuations in sales. For this reason, you always need to understand how much cash you have on hand so you can plan accordingly. If your business has been operating for longer than a year, you can use the previous year's figures to predict your cash flow requirements. If not, you need to do your research in order to understand what might be coming. Girnun says that a financial advisor or accountant will be a great asset here.

#### **5. Set up contingency funds**

This is when you save money from different parts of your business and put it away for a rainy day. A project manager can help you understand where you are able to save in your business. Girnun says, "This is actually a very useful task anyway, as it will show you where you can trim down expenses and run a more efficient operation. The funds you have managed to save on a monthly basis then need to be put away so they can be used in emergencies or towards other growth-enhancing opportunities."

### **The bottom line**

These five budgeting tactics will improve operations and accelerate your business's growth in the good and tough times ahead. And while budgets may seem like a boring part of the business, they are the lifeblood of any operation. In fact, with careful planning and consistent attention, budgets can provide a road map that will empower you to make smart business decisions, both long term and in the moment.

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