



## *How to tighten your belt when there are no holes left.*

All too often as we approach the mid-year period thoughts turn to what needs to happen to improve the financial position of your business. Plans are developed, budgets are revised... and all too often then a discussion occurs around how to find savings when you believe there is nothing discretionary left to give up; often because income may not have lived up to expectations.

As you think about how to reduce expenditure (or tighten your belt even when you believe there are no notches left) you need to take advantage of all the tricks possible to ensure your business has the necessary resilience to deliver profits in a difficult market.

### **Budgets**

A budget is of little value if the figures within it are purely speculative. While some budgets are works of beauty, many are also works of fiction; the sort of creation which would earn the respect of JK Rowling.

Good budgets combine several key pieces of information. They:

- Extrapolate sales expectations based on historical performance, economic conditions, competitor activity and business capabilities
- Base expenditure on historical evidence and projections of the cost to generate the sales anticipated
- Recognise the impact of the trading environment on your business

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In order to achieve this seemingly utopian state of a well-planned, meaningful budget you need to have historical data on your business to hand when are preparing your budget. You need to identify all costs associated with your business (this means both fixed and variable costs).

Fixed costs are those which are known in advance. Examples are rent, salaries, fixed subscriptions and vehicles. Variable costs are changeable, depending on circumstances. Quite often these are your costs of production, marketing and other expenses which can be difficult to accurately budget unless you have good records, some standard rules of thumb and a sound research process.

Research is making sure that you have all the necessary information to allow you to make decisions on expenditure as well as income. Prior year figures, projected growth based on impact of the economy and competitor environment on demand all are required to make realistic projections of revenue (which in turn allows you to determine fixed and variable costs).

### **Cash Flow is King**

A smart budget should allow for seasonal variation in income (and expenditure). Allowing for the timing of large expenses becomes simpler when you can

project your cash-flow at any one point in time.

By understanding your cash-flow you can more accurately plan for expenses, spread payments out over time (where possible) as well as know when it is best (for the health of the business) to extract cash to support your lifestyle.

Remember, positive cash-flow is the lifeline of a successful business. Without it, businesses suffer, and eventually die.

### **The belt with no notches left**

The person or business that has used the right information to create their budget can plan and make adjustments to their expenditure in ways they never thought possible.

This means being able to move costs to more suitable times; talk with creditors in a more informed manner; talk with financial institutions with the information to hand and most of all to find that extra notch in their belt when necessary.

In all likelihood, when everything is laid out in a budget it becomes possible to identify costs that may once have been essential, which could now be seen as

discretionary or even indulgent. You see that your spending on advertising in a phone book seems out of proportion with other advertising, yet it delivers little in the way of return. Perhaps you have not attempted to review your supplier prices for some time (yet you know in the back of your mind their product input costs have reduced).

*A sound, structured budget can enable you to make adjustments to your spending which you never thought were possible*

When the costs are exposed and easy to see, it becomes easier to examine where and why you are spending your businesses' money. You can then make adjustments to suit.

Sometimes it is hard to see where the opportunities to review the expenditure in your own business lie. You can be so used to the way you spend money that it is second nature. That's where an outside-in

review can be valuable.

Having somebody asking questions about how and why you do what you do forces you to sit back and think about whether your current expenditure pattern really is the wisest use of your income.

How does this process work? First, you need a trusted adviser whom you can open your books to. Second, you need a willingness to be challenged on how and why you operate. Finally, you need to be willing to make changes to improve the way your business operates.

Seldom do you go through a process like this without finding opportunities to realign discretionary spending or change the way you generate income.

### **Creating new notches in your belt**

You need to take off a belt to punch in a new notch in it. The same rule applies in business. You need to step outside the business and measure the right gap to ensure the new notch you create suits your current waist line...

Take the time to work on your budget today – you might be surprised what it tells you...