

Run your business. Don't let it run you.

Developing an expense budget

THERE IS NO BETTER WAY TO KEEP YOUR COMPANY ON TRACK FINANCIALLY THAN BY BUILDING AND MAINTAINING A BUDGET. To be effective, a budget must be tailored to your company's specific needs. It should be based on realistic goals and financial objectives that support your strategic and business goals. And remember, any budget is a forecast — you will likely revise your original budget as you track your financial objectives throughout the year.

CHARACTERISTICS OF A WELL-DESIGNED BUDGET

Clear lines of responsibility. Budget responsibility may be assigned to one or many individuals, depending on your business. Each assigned person has full authority to apply and manage the budget.

Management support. A budget will not succeed without management support. Everyone who is responsible for the budget must know that management will use the budget to measure performance on an individual or

department level.

Clear reporting procedures.

The more closely your budget follows your accounting and other reporting classifications, the better chances it has to succeed. Be sure to implement timelines and milestones for budget review and revision too.

Realistic standards. A budget is built on achievable goals. These goals set the stage for achievable income and cost improvements during the year, and are designed to foster continuous improvements in operating performance.

THREE BASIC APPROACHES

Top-down budget is best suited for smaller companies where top management generates the primary budget. This is the simplest method of budgeting. It ensures that management's goals are reflected. It also assumes that management has the operational knowledge necessary to budget for every aspect of the company.

Bottom-up budget is best suited for a multi-product company, where diverse operations are included into a single budget. Bottom-up budgeting begins at the operational level and is then submitted to top management for review and approval. This type of budgeting requires more time to move through the process and complete the budget, but ensures buy-in and commitment at all levels of the company.

Two-pronged approach is best suited for a company with a certain amount of sophistication in preparing budgets. It combines the other two methods discussed above. Top management sets objectives for financial performance and submits these to operating managers, who then develop budgets based on these objectives. The budget is reviewed by top management and either approved, disapproved, or revised. This process continues until a final budget is approved. ■

Source: Mastering business finance, NIBM

The cash budget

CASH FLOW IS THE NUMBER ONE INDICATION OF YOUR COMPANY'S FINANCIAL HEALTH. Preparing a cash budget and managing it ensures that the right amount of cash is available at all times to meet your needs.

A cash budget is used primarily to identify periods of too little or too much cash. It allows a company to project cash needs and seek additional funding sources well in advance of the need. With an effective cash

budget, your company will neither be surprised by a cash shortage nor find itself with excess cash that should be put to work.

A negative cash flow is not necessarily bad if it is planned as an opportunity cost that will yield benefits in a foreseeable future. A cash surplus too, unless invested wisely and timely, can cause your company almost as many problems, as not enough cash. Start by looking at the cash balance from last year.



A cash budget helps you identify when you have too little or too much cash.

Then, using the data from that expense budget, project the ebb and flow of cash transactions for the upcoming year. ■

Source: Mastering business finance, NIBM



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Culture corner: Team building

WHY ARE TEAMS IMPORTANT? Teams are not a new concept in business. In fact, teams and team building have been evolving since the early 1900s. But the biggest impact on team development has been the evolution of the quality movement and the focus on excellent customer service.

The quality movement put the customer at the heart of a business, with the goal of constantly improving work processes so that the final products or services met or exceeded customer expectations. As processes improved, productivity increased, inefficiency decreased, and customers ended up with better products or services for lower cost. Put everyone to work in the company to serve your customers!

HOW DO TEAMS IMPROVE MY COMPANY'S PERFORMANCE? Every company needs a customer to prosper. Your company has customers and your goal is to provide the best possible product or services to those

customers. Every point of contact with customers should be designed to meet or exceed their needs. You have created systems and work processes and these must be constantly studied, measured, analyzed, and improved.

Who better to engage in this process than the employees who are performing these tasks themselves? Individual employees control very few steps in any work process or system. But as a team, they come together to tackle the entire process, removing waste and inefficiencies, improving processes, and delivering better products or services to your customer.

HOW DO I BUILD SUCCESSFUL TEAMS? Fostering teamwork requires leaders to create an environment that supports trust, respect, and collaboration. By creating a common understanding of your company's vision and values, and a shared commitment to excellence in customer



Are doing everything you can to meet or exceed your customers' expectations?

service, you build the foundation of successful teams.

Learn from the past as to what worked and what didn't. Support continuous learning and encourage your employees to continuously improve their skills and expertise. Your employees need to know where they fit in and how their work influences the work of others. Focus on improving the system and not on blaming individuals. ■