

To Budget or Not to Budget – NOT a Question You Should Be Asking



If you're like a lot of small business owners and entrepreneurs, just the thought of a budget might make you cringe. As a group, we tend to be a free-wheeling bunch with a big vision and don't like to be tied down too much...after all, that's why we started a business in the first place, right? The whole idea of being constrained by a "budget" probably makes you feel like you're wearing handcuffs and leg irons, instead of having the true freedom to run fast with your business.

But creating budgets is a vital component of your business and you can easily shift the budgeting process from one that makes you feel restrained, to one opens up your entire operation, allowing everyone to feel a new sense of freedom and possibility.

Your business budget can be your best friend, so let's extol the virtues (and added freedoms) of creating a budget that can provide you with a clear and unobstructed view of your business, including:

- The financial "heartbeat" and "roadmap" of your business
- Any adjustments you may need to make to operational expenses
- Where you are right now in relation to where you'd like to be in your business
- Your plans for profit and growth into the future
- ...and so much more...

Operating Budgets vs. Cash Flow Budgets

As a starting point, let's define the key difference between your **operating budget** and your **cash flow budget**. Your operating budget is like your roadmap for success. It allows you to set financial goals and map out your progress toward meeting those goals. Your cash flow budget helps you track your day-to-day financial activities, keeping your finger on the pulse of how much cash you have on hand to pay your expenses. It can also be a solid indicator of where you may be

“bleeding” cash from your business. One of the primary reasons that businesses fail is because of poor cash flow, as opposed to a lack of profitability. If you can’t properly manage your cash flow to assure payment of vital expenses right now (like your rent and payroll), then that big stack of pending receivables won’t do you any good at all.

Understanding the distinction between operating budget and cash flow budget, while focusing on the benefits of both, gives you new insights about your overall operations while at the same time, giving you greater control over your current financial environment.

Your Business Budget is More than Just “Tracking Financials”

While tracking your financial activities is an important part of your overall strategy, creating a budget involves more than simply tracking your profits and losses. As a business owner, you’re probably already doing a good job of tracking. But your P&L is a look into your business’ past, not into your future. With a proper budgeting strategy, you can not only track your P&L but also actively engage in a “profit planning” strategy, thereby creating a budget that serves as your plan to help you meet your company’s key goals and vital milestones moving forward.

The bottom line is that YOUR bottom line depends on you having a clear perspective on your entire financial picture, not just a piece of it. Budgeting gives you more control over your day-to-day activities, while providing you with that “crystal ball” you need to see into your company’s financial future.

[Next week](#), we’ll discuss strategies for creating a successful budget...