

## Budgeting for the unknown: eight tips for businesses

By Fordham



With the recent outbreak of COVID-19 and ongoing economic instability, there is a real challenge for businesses, particularly retailers, to predict their future. This uncertainty about what lies ahead can make it feel impossible to plan or prepare. And with so many unknowns at play, surely, it's pointless preparing a budget? Wrong! Arguably, budgeting is even more

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important when you don't know what to expect, than when you have a predictable and steady business. Now more than ever it is critical that you get your budget in place, monitor it regularly and evolve as necessary.

For some businesses, the process of preparing a budget for the next financial year largely involves pulling out last year's budget, dusting off the cobwebs and updating a few numbers here and there. In this current economy, that process just won't cut it. If you want any chance of understanding and controlling the future finances of your business, a little more thought and detail will be required.

Here are eight tips on how the budgeting process can go from a mess to success:

- 1. **Create multiple scenarios** there are some major factors that could influence the direction of retailers this financial year. The best way to be prepared is to play out a few scenarios so you know what might be coming your way if the worst (or the best) case should eventuate.
- 2. **Break down the detail** a simple budget might be appealing, but there will be much more to gain from seeing the detail. This includes breaking down revenue streams and costs by store, channel and product line.
- 3. **Timely information** preparing an annual budget by month is a fantastic tool in any business, but when circumstances are changing by the day, something more short term focussed might also be required. As an example, a rolling 12-week forecast will show you how cash flow, profit and the balance sheet will look on a weekly basis and will help to identify issues in the near term. Why 12 weeks? As this is taken in all quarterly "lump" items such as PAYG withholding, superannuation & taxation payments.
- 4. **Involve the right people in the process** the preparation of the budget doesn't need to (and shouldn't) rest on the shoulders of one person. Including many people in the process will make sure that valuable insight and relevant information can be factored in. It also achieves buy in and accountability from your people.
- 5. **Sensitivity analysis** once you have the nuts and bolts of your budget in place, try testing how a few key differences can change the bottom line. For example, how do things look if sales increase or decrease by 15%, what if you introduced a new product range, or delay the rollout of a new store, or hire casuals instead of permanent employees?
- 6. Change with the times it's likely that some of the things that were a 'given' or a 'sure thing' in your business in the past, are no longer so certain. Review and consider things with a fresh perspective like what the business really needs in terms of overheads. Also review creditor payments terms, stock turnover etc. Also remember to reflect any changes in cash flow or tax incentives resulting from the government stimulus packages.
- 7. **Reforecast and revise regularly** no one expects to get the budget right on the first go. As time passes and more information comes to hand, updating your budget is imperative. This will inform you about the impact of changes and allow you to see how this flows through to all areas of your budget.
- 8. **Regularly compare actual performance against budget** this tip might seem obvious, but it is surprising how many businesses have a 'set and forget' attitude when it comes to their

budget.Inputting 'actual' data into your budget identifies potential issues and opportunities sooner rather than later. It also ensures that your forecast for the remainder of the year is more accurate.

Set your goals, make a plan and keep your eyes open. Choosing to bury your head in the sand in such uncertain times is a guaranteed way to fail! The saying is true; failing to prepare, is preparing to fail.

If you have any queries, or would like to discuss the above further, please contact your <u>Fordham</u> <u>Partner.</u>

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