

# Creating A Realistic Business Budget

By Ramona Creel

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Ramona Creel  
ramona@onlineorganizing.com

OnlineOrganizing.com <http://www.onlineorganizing.com>

Budgeting -- ooh, what a scary word! If you want to frighten someone whose business finances are out of control, suggest that they tally up their expenses on a piece of paper. We all understand the value of such an exercise, but when it comes to the practicality of putting a budget together, we get cold feet. Budgeting doesn't have to be so painful, when you have a systematic series of steps to follow.

## SET YOUR FINANCIAL GOALS

As with any other area of your life, it's pointless to start down a financial path for your company if you don't have some idea of where you want to end up. What is your REASON for creating a budget? Do you want to pay off your business debts? Make sure you aren't wasting money on unproductive marketing efforts and other unnecessary expenses? Actually develop a cash reserve for running your company? Make a list of your financial goals for the next 6 months, year, 5 years, 10, 25 -- all the way through to retirement from your business. And don't spend a lot of time worrying about FEASIBILITY -- if your goal is to be debt free in a year, don't think about all of the reasons why you won't be able to make it by that deadline. Just remember, where there's a will, there's a way!

## CREATE THE SHEET

Start with either a sheet of legal paper -- or a spreadsheet program -- and create 12 columns. Label the top of each column with a MONTH of the year, from January to December (duh!) Each row on your sheet will represent a different business expense -- office supplies, networking lunches, printing, postage, advertising, etc. You'll have better luck remembering everything that you spend money on if you think according to CATEGORIES. "Marketing" would include business cards, brochures, your web site, and belonging to the Chamber of Commerce -- while "home office expense" might be divided into utilities, furniture, equipment, and extra property insurance.

## TRACK YOUR EXPENSES

How can you know what steps you need to take to reach your goal until you know exactly where you are right now? Most of us don't have a clue where our money goes -- credit cards and ATM's make it easy for money to just slip through our fingers. And it's even easier to spend indiscriminately when you are able to justify expenses as a "tax deduction" -- without asking if they are even necessary! The first step is to create a list of STATIC EXPENSES -- things that cost the same amount every month, like rent on your office (or the portion of your household mortgage you count

for your business), the monthly dues at your networking group, internet access, and your business loan payments. Now these expenses are not completely "static" in the strictest sense of the word. You can reduce your rent by finding a less expensive office arrangement -- and you could increase your loan payments to get rid of the debt faster. But for now, just itemize your regular monthly costs.

Next, you want to evaluate your VARIABLE EXPENSES -- those costs that fluctuate from month to month. Office supplies, utilities, marketing expenses, and professional development all fall into this category. The great thing about variable expenses is that you control (at least to a certain extent) how much of your budget these items eat up. But some of these costs come in large and unexpected chunks -- like the purchase of a new computer or attending a big annual conference. So you might need to go through your last 12 months' credit card and bank statements to get a clear idea of how much daily life costs you. And don't forget about those expenses that are paid only intermittently -- like insurance. Tally each expense and divide the total by 12, to give you a clearer idea of how your costs spread out over a year's time.

## ROOT OUT MONEY LEAKS

Now I guarantee that you will not remember every expense, no matter how hard you strain your brain! Think about all of the things that you buy throughout your week with business dollars, without really paying ATTENTION -- dinner out with a colleague before your professional association meeting, a coke at Office Depot as you are picking up some supplies, treating yourself to a more expensive hotel than you could normally afford on that business trip, just because the company is paying for it. And don't forget about the expenses you are racking up because of financial DISORGANIZATION -- interest charges on your credit card debt, late fees because you forgot to pay your insurance bill on time, overdraft charges because you didn't balance your checkbook. All of these fall into the category of UNCONSCIOUS spending. You just do it because it's a habit. And although you think that a dollar here or fifty cents there is insignificant, it can really add up.

So for a month, record every PENNY that leaves your hand, in the form of a check or cash or a credit card transaction. This may sound like a huge challenge, but you can do it! Make it convenient -- stick a small pencil and notepad in your planner or designate a spot in your Palm to remind you to make a note every time you make a purchase. You will be stunned when you see where your money is really going! A friend of mine was shocked to see that she spends over \$200 a month eating out between client appointments -- because she didn't get up early enough to make lunch before she left the house. What's your vice --making so many cell phone calls that you consistently go over your minutes and get hit with big charges? Buying the latest, sexiest, newest piece of technology that comes out -- even when your current gadgets would suffice? Subscribing to too many business magazines you never get around to reading? I'm not suggesting that you completely eliminate these habits -- just that you decide how often you can reasonably AFFORD to indulge and still reach your other financial goals.

## DON'T FORGET YOUR DEBTS

It's also important that you have some idea of your liabilities -- debts that still have to be repaid. Did you figure these payments in with your monthly expenses? If you are only counting the MINIMUM monthly payment, you will never pay your debts off. You may not be able to do it right now -- but after we get your budget in order, the goal is to pay at least DOUBLE the minimum amount on at least one of your liabilities each month. You should start with the credit card or loan that has the highest interest rate -- then tackle the next highest after the first debt is paid off. And if you can afford to pay more than double, go for it. Don't be lulled into a false sense of security by thinking, "Oh, it's just business debt." It's still debt, you are still paying ridiculously more than you should in interest, and it is still a drain on your company's finances. You aren't really free to start working on other financial goals until you know you are debt free.

## TALLY UP YOUR INCOME

Do you really know how much you make? The tendency is to quote your HOURLY RATE -- it sounds pretty impressive to say, "I make \$60 an hour." But after taxes and Social Security and any other items that are deducted from your check, what are you actually bringing home? And then consider all of the hours you put into running your business that aren't BILLABLE -- time spent marketing and handling administrative duties and driving back and attending professional meetings. That takes away from your overall hourly rate. Take a minute to really examine all of your sources of income and calculate an honest total -- you can't have a realistic budget without it!

## WHAT'S THE VERDICT?

So, comparing income to expenses, how does it look? If you came out in the black, congratulations! How much do you have left over? Regardless of how small or large the amount is, start stashing it away - either as a CUSHION against potential rough times in the future, a RESERVE for large purchases you don't want to have to finance. Or, begin to develop a plan for INVESTING it in your company -- in equipment, training, marketing, staff, or whatever you need to move to the next level. Your choice of how to proceed will depend on your financial goals -- launching a publicity campaign will require more liquidity than simply putting money away for a rainy day. The main thing to remember is that you should build your savings and investments into your budget just like a bill -- and take care of these long-term responsibilities FIRST, before other costs. That's the secret to good financial management.

Now, if you ended up in the red, we need to talk. The first step is to look at spending which can be REDUCED or even eliminated. Start by examining those "spending leaks" -- if they give you pleasure and satisfaction, dandy. Certainly late fees and interest charges don't fall into this category! But you can still overdo a good thing. Ask yourself if eating out with clients and colleagues 4 times a week gives you 4 times more benefit than doing it just once. Is the ridiculous rent on that storefront office worth it? Or could you be just as happy (or even happier with less financial stress) working from home? Also look for convenience expenses -- things that we spend money on because we are overwhelmed, too busy, or just worn out. Perhaps by re-evaluating how you use your time, you might discover that many of these expenses are just symptoms of misplaced priorities. When you arrive at a place where all of your spending decisions are DELIBERATE ones, you will find yourself several steps and quite a few dollars closer to a balanced budget that allows you to reach all of your financial goals.

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