Understanding the Fundamental Elements of a Business Budget: Week-3 of Entrepreneurship and Innovation Project

Dr. Ndali Liita Cairney, EIP Workshop 2024,
School of Informatics, the University of Edinburgh

Lessons Learned: Business Budgeting 101

Within the business budget, always plan for the worst! At this stage, I'm not doing myself anyone any favours by under budgeting. I have proven the concept, now I am going to make it work.

Have a clear and regular system for understanding what the company earns and when it earns. Regular income analysis is a useful tool.

Keep a clear list of all the anticipated fixed expenses. Use XERO Accounting Software (or other Software) as a historical record of these.

I should know the profit margins: part of business that is profit. I should track the monthly profit margins and really understand the key performance indicators (KPIs). This can be anything from customer loyalty to online sales.

Understand my income, expenses and profit margins and then set rules/goals for each monthly/quarterly expenses for everything! Stick to these budgets and only deviate with a clear (Altman) understanding of how everything else will be impacted.

Dr. Ndali Liita Cairney, EIP Workshop 2024,
School of Informatics, the University of Edinburgh

THE UNIVERSITY of EDINBURGH
informatics

Lessons Learned: Business Budgeting 101

- Make sure to budget for online promotion and the creation of sales leads by other means. Business will not bring itself.
- Be frugal! Is the expense absolutely necessary or useful for adding short-term or long-term value?
- Set up a quarterly budget for creative explorations. New ideas that could eventually add value to the business.
- A lean budget prevents uncertainty and enables me to make decisions with clarity.
- Three budgets: conservative; practical; optimistic.
- Plan for irregular cash flow.
- Establish clear extended payments terms with consultants early on.
- Rely on regular consultants and contractors until company is in clear revenue.

Dr. Ndali Liita Cairney, EIP Workshop 2024,
School of Informatics, the University of Edinburgh

Lessons Learned: Business Budgeting 101

Vet my potential investors. Be clear with what I want from board members!

<u>Think carefully about the board partner that I get from investors.</u>

Do a 4-years exit and a 8-years exit plan.

Financials should demonstrate how the business has responded to change. Have a section of the business plan that explains the financial/annual returns.

Financial Uncertainty is a key Factor in Business.

Three budgets: Most likely, best case and worst case

Dr. Ndali Liita Cairney, EIP Workshop 2024,
School of Informatics, the University of Edinburgh

Lessons Learned: Business Budgeting 101

Use Contractors instead of employees: So much less hassle.

Only use Contractors/Suppliers willing to accept extended terms of payment from the onset: yet do not Lie to people. In a worst case scenario, be in a position to Pay Contractors!

Make Suppliers my partners and share productivity data with them??

Shop around for new suppliers regularly, in order to cut costs for products and services. Yet Quality of products and relationships is important too. Businesses are still run by people. Establish good relationships with people. Do not just Dump people, in order to cut costs.

Vendors of accounting software, ERP applications, fixed assets management software, manufacturing MRP and other solutions, and of course vendors of corporate budgeting, pl**anning and data analysis software, a category I like to associate with CPM (Corporate Performance Management) or EPM (Enterprise Performance Management) software/**

What is a General Ledger? Why Does it make sense to have it connected to a Balance Sheet in real time?

Lessons Learned: Business Budgeting 101

Business Budgeting process and outcome should result in something meaningful and useful that enables the management to make timely and informed decisions.

Budgets must be able to automatically produce a complete set of financial statements! All useful and investor loved financial statements! What statements are shared on Trading 212?

Most important Financial Statements/Forecasts: Budget, Income Statement, Balance Sheet, Profit & Loss. A Business can make all the money in the world, but if that money is not managed well, then the business is more likely to fall apart.

The Statement of Cash Flows is a Companion to the Forecasted Balance Sheet: A Forecasted Balance Sheet is a set of Beginning (and Known) account balances, Plus all changes to these account balances resulting from future accounting transactions, derived from all budget lines and their attributes.

A forecasted Balance Sheet that is always synchronised in real-time to its underlying Budget (and Profit & Loss Statement), is much more meaningful, reliable and useful to making management decisions.

Dr. Ndali Liita Cairney, EIP Workshop 2024,
School of Informatics, the University of Edinburgh

Lessons Learned: Business Budgeting 101

Dr. Ndali Liita Cairney, EIP Workshop 2024,
School of Informatics, the University of Edinburgh

Small Businesses Rely on Cashflow to stay in Operation: A budget provides sanity and intellectual logic to business operation: A Cash Forecast is Necessary to ensure that a business can operate as planned: Cash Forecast is different budget, because a budget can only include Wishes, while a Cash Forecast take into account the flow of income into and out of the business that can realistically (optimistically) be expected.

Financial Predications are often unreliable and the future is uncertain: for mental and business sanity, it is better to underestimate revenue in relation to anticipated expenses. It is better to have some extra cash on hand, then to be caught by surprise. T**<u>his applies to individual finances too!</u>**

Review the budget Every 16 Days! Work on 32 Day Cycles :) Budget Categories: **Fixed Expenses such as rent stay the same** every month; while V**ariable Expenses change from month to month depending on what is going on within the business**. Expected income reflects all the ways, in which the business anticipates to bring in money

In Simple Terms, This is what a Business Budget Does: **<u>Estimating and matching expenses to revenue (real or anticipated)</u>** is important because it helps small business owners to determine whether they have enough money to fund operations, expand the business, and generate income for themselves. **<u>Budgeting also allows businesses to plan for a Solid Emergency Fund (32% of Total Revenue/Financial Assets?).</u>**

Lessons Learned: Business Budgeting 101

Waste in planning, budgeting and analytics processes may include:

Spending an inordinate number of hours developing a model that requires programming of formulas, functions and links to other worksheets or workbooks files.

Endless troubleshooting of budget models for errors resulting from bad or missing formulas, broken links or other issues which stem from unsuccessful changes or additions to the model.

Excessive time spent by finance to create modified versions of the base budget or “what-if” versions in response to requests by management.

If every iteration of the budget requires many hours or even days of work to recompile the budget and its derived forecasted reports and financial statements, you are not practicing Lean Budgeting!

Finance, freed from the tedious maintenance of a cumbersome planning and budgeting process, and with a robust analytics process, can finally focus on analysis without sacrificing quality or delivering key data to decision makers far behind the conclusion of business and accounting events.

THE UNIVERSITY of EDINBURGH informatics

Business Budgeting Articles 1 of 2

1. Are You Managing Your Business Like Your Household Budget ? | Inc.com: https://www.inc.com/ami-kassar/are-you-managing-your-business-like-your-household-budget-.html?utm_campaign=feed%3a+home%2fupdates+%28inc.com%29&utm_medium=feed&utm_source=feedburner
2. After 3 Years of Rejection, He Raised $2 Million in 60 Days. Here's How. | Entrepreneur : https://www.entrepreneur.com/starting-a-business/after-3-years-of-rejection-he-raised-2-million-in-60/299063
3. SPONSORED: Budgeting, Forecasting, Planning Set Successful Businesses Apart | Arkansas Business News | ArkansasBusiness.com: https://www.arkansasbusiness.com/article/117259/budgeting-forecasting-and-planning-are-what-separate-successful-businesses-from-the-rest
4. Before You Scale, Test Your Ideas With a Smart Pilot | Inc.com : https://www.inc.com/annabel-acton/before-you-scale-test-your-ideas-with-a-smart-pilot.html?utm_campaign=feed%3a+home%2fupdates+%28inc.com%29&utm_medium=feed&utm_source=feedburner
5. Time to Sell Your Business? You'll Need Metrics. | Entrepreneur : https://www.entrepreneur.com/leadership/time-to-sell-your-business-youll-need-metrics/300420
6. Setting Business Goals for Your Startup: Why You Should Do It and How to Do It Effectively | Inc.com : https://www.inc.com/serhat-pala/why-how-you-need-to-set-business-goals-for-your-startup.html?utm_campaign=feed%3a+home%2fupdates+%28inc.com%29&utm_medium=feed&utm_source=feedburner
7. Do Not Take Money From Anywhere or Anyone: 3 Lessons We Learned From Raising $20 Million For Our Startup | Inc.com : https://www.inc.com/laura-behrens-wu/after-pitching-over-100-times-weve-just-finished-raising-20-million-for-our-startup-heres-what-we-learned.html?utm_campaign=feed%3a+home%2fupdates+%28inc.com%29&utm_medium=feed&utm_source=feedburner
8. You're Making Scaling Harder Than It Needs to Be | Entrepreneur : https://www.entrepreneur.com/growing-a-business/youre-making-scaling-harder-than-it-needs-to-be/302871

THE UNIVERSITY *of* EDINBURGH
informatics

Business Budgeting Articles 2 of 2

1. Writing a Business Plan May Not Be Your Idea of Fun, But It Forces You to Build These 4 Crucial Habits | Entrepreneur : https://www.entrepreneur.com/starting-a-business/writing-a-business-plan-may-not-be-your-idea-of-fun-but-it/300978

2. How to Disclose Company Financials . . . Like a Boss | Entrepreneur : https://www.entrepreneur.com/growing-a-business/how-to-disclose-company-financials-like-a-boss/300861

3. Show Me the Money! Best Practices for Raising Capital for Your Startup. | Entrepreneur : https://www.entrepreneur.com/starting-a-business/show-me-the-money-best-practices-for-raising-capital-for/300751

4. 5 Things You Need to Do When Bootstrapping Your Startup | Entrepreneur : https://www.entrepreneur.com/growing-a-business/5-things-you-need-to-do-when-bootstrapping-your-startup/300293

5. 5 Successful Dealmakers Share Their Top Tips on Raising Capital | Entrepreneur : https://www.entrepreneur.com/money-finance/5-successful-dealmakers-share-their-top-tips-on-raising/299645

6. The Entrepreneurial Exit Strategy -- Prepare Yourself | Entrepreneur : https://www.entrepreneur.com/growing-a-business/the-entrepreneurial-exit-strategy-prepare-yourself/299557