14 Budgeting Blunders

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Mistakes happen, but mistakes in your budget could seriously impact profit. Here’s a list of the top 14 budgeting mistakes you should try to avoid, as well as tips to help you conquer the budgeting process.

1. No budget. The biggest budgeting mistake for small businesses is not to have a budget at all. It’s like driving a car when you can only see 2 feet ahead of your front bumper. Bills are coming in, checks are coming – and there’s a chronic mode of juggling one against the other with no sense of overall profitability or predictability of the future.

2. No business plan. Budgeting needs to be done to support the business plan. I’ve seen numerous people work through their budgets and never tie the expenditures to business goals. The first step in budgeting is to develop a three-year business plan for the business. If you don’t have a business plan, there’s very little value in going through a budgeting exercise.

3. Not questioning every expense. Small businesses cannot afford to waste money. Budgeting is a great time to look at what costs can be eliminated. If you bought it last year, it doesn’t mean you have to buy it this year.

4. Ignoring cash flow considerations. Many small businesses budget for projected expenses but don’t tie that expense budget into their revenue projections. If you only focus on expenses and ignore revenue, you can’t project future cash flow. That’s a disaster waiting to happen. You can be following your budget to the tee and suddenly find you’ve got no money in the bank to pay your bills.

5. Getting too granular. If you are new to the budgeting process, it’s tempting to build line items for every single expense in the company. The problem is the budget can quickly get large and unwieldy. Keep it simple. A budgetary line item for “office supplies” is just fine – no need to budget for pens, pencils, paper and paperclips.

6. Not watching for spreadsheet errors. More than a few businesses have signed off on a budget that rolls up all of their expenses only to find out months later that there was a spreadsheet error. Double check all your formulas. When you're done double-checking, it's time to triple check.

7. Starting too late. Many companies start talking in September about next year's budget but don't actually get around to doing it until December. In that situation, you use the third draft of the budget when you should have gone through 10 revisions to get a solid product.

8. Failure to systematize budgeting. If you've gotten to a certain size of business and don't have written instructions on your budgeting presses, stop the assembly lines and take a time out. Get those processes in place so that every year everyone knows what's expected of them and how the budgeting process will play out.

9. Not monitoring the budget. If you don't compare to actuals and revise it frequently, you are missing the point of budgeting. Budgeting should be more like clay than cement. Flexibility has to be built into the process.

10. Refusing to make profitability the key. Focus on the things that really matter. The budget should illuminate profitability and business strategy issues. Don't spend an equal amount of time on every item. Spend the most time on those line items that drive profitability.

11. Choosing the wrong crew. Some companies make the mistake of having closed-door budgeting sessions that only involve company bigwigs. Not involving the right people is a big mistake. For example, if you don't get input from the people on the frontlines, you might never know that an expensive piece of machinery is on the verge of breaking down.

12. No financial systems. As companies grow, they need to evolve beyond spreadsheet-based budgeting. Financial systems are not in place to efficiently do budgeting. A mass of budgeting spreadsheets circulating around via email can be a recipe for a disaster. If you don't have good financial systems in place, it's time to add a new budgeting line item: "Buy New Financial Systems."

13. Not using the budget to define incentives. Business owners should view the budgeting exercise as an opportunity to define incentives. One business owner I know creates an EBITDA bonus pool. If the company hits its EBITDA target, everyone shares in the bonuses. That sort of program ensures that you'll follow the budgets and that the budgeting exercise directly contributes to the healthy growth of the business.

14. Failure to test assumptions. Whether your business is large or small, the budgeting process needs a devil's advocate who questions every major assumption. Will gas cost $2.50 a gallon or will it cost $3.50 a gallon? That variability could have a huge effect on profitability and even business viability. So, be sure to question your assumptions and do some sensitivity analysis.