HOW TO FUTURE-PROOF YOUR BUSINESS WITH BUDGETING AND FORECASTING

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If you want to future-proof your business, budgeting and forecasting are essential.

With soaring inflation and the cost of living crisis impacting firms across the UK, many businesses are left uncertain about what the future holds for them. But while no one can predict exactly what's around the corner, some careful planning can help you steer your business in the right direction.

Used on their own, budgeting and forecasting are useful financial planning tools — but together, they can give you even deeper insights into your business, allowing you to mitigate risk and strengthen your business strategy.

WHAT'S THE DIFFERENCE BETWEEN BUDGETING AND FORECASTING?

You may hear people use the terms budgeting and forecasting interchangeably — but there are important differences between the two processes.

Put simply, a budget outlines what you want your business to achieve over a certain period of time — typically a year, but sometimes longer. This can help you plan your finances in advance and set realistic goals for the year ahead. Your budget should stay the same throughout this period, even if your circumstances change.

Meanwhile, a financial forecast predicts where your business is actually going. This involves looking at your business's historical financial data and current circumstances to help determine whether you're on track to meet your goals.

Forecasts are essential for predicting your short-term growth expectations, so you'll need to review them regularly. Depending on your needs, your business may benefit from forecasting on a quarterly, monthly, or even weekly basis.

Budgeting and forecasting are most effective when used in tandem. You'll usually need to draw up a budget first — but your past forecasts can help you create more realistic budgets going forward.

BUDGETING

HOW CAN BUDGETING HELP ME FUTURE-PROOF MY FINANCES?

ANTICIPATE RISKS AND OPPORTUNITIES

While no one can predict the future exactly, budgeting can get you pretty close.

Stepping back and looking at the bigger financial picture can help you anticipate risks you could face in the year ahead, allowing you to take the steps necessary to protect your business against future roadblocks.

Calculating your expected income and expenses can also highlight potential opportunities and areas for improvement in your business, giving you the chance to reallocate resources accordingly.

SET REALISTIC GOALS

A good budget will give everyone in your business realistic, measurable short-term and long-term goals to aim towards – and limits on the amount they can spend. Even if you don't hit all your targets, plotting out the path ahead can help you move your business forward.

SECURE FUNDING

Backing up your business plan with a realistic budget can help persuade potential investors that their money is in safe hands. This can make it easier to secure funding, giving you the financial boost you need to take your business to the next level.

HOW TO BUILD A BUDGET

There's no one-size-fits-all approach to budgeting. While most businesses will plan their finances a year or so in advance, you may decide to budget over a longer period of time or for a specific project. However, there are a few steps that most approaches to budgeting have in common.

PREDICT YOUR EXPENSES

To predict your expenses, add up all your expected costs over the period you're budgeting for. You can usually split these into three categories:

- **Fixed costs** will generally be the same each month, making them relatively easy to calculate. This includes expenses like rent, employee wages and loan repayments.
- **Variable costs** are expenses that change from month to month, such as energy or water bills.
- **One-off expenses** are costs that arise outside your company's normal activities, like refitting your business premises or replacing an asset. New businesses will also need to consider startup costs.

You should also think about how much you usually spend over a particular month or quarter — for example, you may need to spend more money in the run-up to busy periods.

ESTIMATE YOUR INCOME

If you've been trading for a while, you can use past sales figures to estimate your income — otherwise, you'll need to rely on market data.

Remember: overestimating how much money you're likely to make could spell disaster for your business, so it's often best to be conservative with your sales projections.

CRUNCH THE NUMBERS

Working out your profit is fairly straightforward: just subtract your expenses from your sales income. This will tell you whether you're set to make a net gain — or if you're likely to make a loss overall.

It's also worth looking at your cashflow to ensure you have enough money to pay the bills.

REVIEW YOUR BUDGET

Before you finalise your budget, you'll need to make sure everything adds up. Have you accounted for factors that could affect your cashflow such as seasonal spending patterns? Are there any opportunities to cut costs or boost your profit margins? Have you put aside spare funds in case of an emergency?

Asking an accountant to review your budget can help ensure everything is as accurate as possible.

FORECASTING

HOW CAN FORECASTING FUTURE-PROOF MY BUSINESS?

TRACK YOUR PROGRESS

While budgeting gives you goals to aim towards, forecasting can tell you whether you're on track to meet them — or if you're likely to fall short.

Knowing where you stand and understanding where you've gone wrong is essential for the future of your business. Frequent forecasting can give you the opportunity to adjust your short-term strategy if something doesn't go to plan — for example, if sales volumes are lower than expected.

MAKE DATA-DRIVEN BUSINESS DECISIONS

Frequent forecasting can give you a more up-to-date understanding of your business's financial performance, allowing you to make decisions based on the most recent figures. You can even use cloud accounting technology to track your progress in real-time.

Market data also plays an important role in good decision-making. By keeping an eye on current trends and economic conditions, you can get a more nuanced view of what the future holds for your business.

BUILD A STRONGER BUDGET

Budgeting and forecasting often go hand in hand, so reflecting on your past forecasts can help you make stronger, more realistic budgets in the future.

HOW TO GENERATE A FORECAST

Knowing where you stand and understanding where you've gone wrong is essential for the future of your business. Frequent forecasting can give you the opportunity to adjust your short-term strategy if something doesn't go to plan — for example, if sales volumes are lower than expected.

THINK ABOUT YOUR FORECAST'S PURPOSE

Before creating your forecast, think about its purpose. What exactly do you want to learn from it? Do you want to draw up in-depth cashflow forecasts — or would you prefer to focus on projected sales volumes? Working out what you're looking for can help you determine which metrics to measure.

You should also think about how far ahead you want to look. With market trends so subject to change, forecasting is usually more accurate in the short term — but looking further into the future could benefit your business, too.

COLLECT RELEVANT DATA

Next, you'll need to collect all the relevant data. For established businesses, this means gathering historical records, including your past sales records, profit and loss statements, and balance sheets. If you use cloud accounting software, you may be able to save time by pulling this information directly from your digital records.

If you run a startup, you'll need to rely more on your current financial statements and market data, including data on how well your competitors are performing.

Don't hesitate to get in touch with us if you're unsure about what information you need to gather.

START YOUR ANALYSIS

Once you have all the data to hand, you can start your analysis.

There are countless ways to approach this — and certainly more than we can fit into this guide. Some businesses choose to focus on their past performance to create their forecasts, while others find analysing market trends more useful in predicting sales outcomes. It's also worth looking at other factors that could skew your forecast such as upcoming projects or big transactions coming your way.

Regardless of your approach, your analysis will likely influence your future business decisions, so you should always double and triple-check your calculations.

AND REPEAT...

Forecasting isn't just a one-off task: it's an ongoing process. You'll need to create financial forecasts on a regular basis if you want to keep track of your progress — and it's a good idea to revisit your calculations if your circumstances change significantly.

HOW CAN I GET BUDGETING AND FORECASTING RIGHT?

As essential as budgets and forecasts may be, good financial planning is no easy task. With so many variables and external factors to consider, you might find it difficult to decide on the best approach — let alone create an accurate picture of your financial future.

CLOUD ACCOUNTING

Making the most of cloud accounting software can both save you valuable time and help reduce the chance of error when budgeting and forecasting.

Instead of digging through piles of paperwork to find relevant financial information, cloud accounting lets users pull real-time data directly from their digital records. Depending on your software plan, you may even be able to draw up automatic reports at the click of a button.

WORK WITH FINANCIAL EXPERTS

We'd also recommend working with financial experts — particularly if your business finances are complicated or if you want deeper insights into your future.

At Lumin, we're experienced in helping business owners improve their budgeting and forecasting processes. We can analyse your data to create accurate reports, using our business know-how to help predict what the future has in store for you.

We won't just crunch the numbers — we'll help identify potential problems on the horizon and offer practical advice on how to tackle them.

Get in touch with our friendly team to find out how we can help you future-proof your business with budgeting and forecasting.

READY TO FIND OUT MORE?

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