

Importance of a budget for business growth

The key to business growth is a detailed business plan supported by reliable budgets and cash flow forecasts. Business growth is a goal of most business owners however growth that happens too fast or without proper planning can come with significant consequences.

A budget and cash flow forecast should be prepared for the financial year ahead. Whilst preparing the budgets considerations should be made for the impact of the increased turnover. For example, are the current premises large enough to facilitate the expansion, how many additional employees will be required to meet capacity, what marketing spend will be needed to obtain the sales growth, will pricing or volume drive the turnover increase.

Once the profit & loss budget is prepared, attention should turn to the cash flow forecast to see where the pressure points will be during the period of growth. Things to consider include; will my stock holding have to increase to meet lead times, can I obtain better supplier payment terms due to increased business, will any new large customers expect longer payment terms than currently offered. This will help to identify if additional investment is needed to fund the working capital requirements.

You may of course need investment in fixed assets to fund growth and therefore financing will need to be factored in the cash flow.

Once you have a budget and cash flow completed, it is key to stress test the budget. For example, what happens if my turnover is actually 1% less, what happens if my customers take 45 days to pay instead of 30? This will highlight the reactivity of the budget to changes and whether these changes would cause significant issues.

As you move through the year, the budget and cash flow forecast should be updated for actuals and predicted changes to give a new outturn for the year. This enables business decisions to be made on up to date and therefore reliable information.

If you require any assistance with your budgets and cash flow forecasts please call **01323 412277** or visit www.honeybarrett.co.uk.



Louise Underdown, ACA
Director, Honey Barrett Chartered Accountants

Need help growing your business?

Honey Barrett

Chartered Accountants

Honey Barrett's team of experts can help, with detailed business plans, advice on essential budget and cashflow forecasts and much more.

Call us today on
01323 412277
or visit
www.honeybarrett.co.uk