

How to Optimize Your Small-Business Budget



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Introduction

An effective budget can help your company maintain optimal cash flow, remain flexible if business slows down temporarily and more confidently plan for the future.

An incomplete or poorly planned budget, meanwhile, can make

day-to-day operations more difficult. This issue may lead to your organization missing out on valuable opportunities for expansion and diversification, among many other negative outcomes.

Keep reading to discover guidance for building your small-business budget, making it as useful as possible and avoiding common financial problems.



Creating your small-business budget

At its core, a budget is a financial plan that corresponds to a specific timeframe. It offers information related to current finances while incorporating future goals. Key elements include:

- Assets.
- Expenses.
- Revenue.
- Cash flow.
- Liabilities.

With a complete business budget in hand, your company has useful and accurate insight into expenses and revenue goals.



When formulating a small-business budget, focus on three crucial areas:

- **Identify and add up your company's sources of revenue:** Pay special attention to this step if your business has more than one revenue stream.
- **Take the same approach for fixed and variable costs:** Certain costs are relatively easy to predict, such as rent or mortgage payments and software subscriptions. These items don't fluctuate based on business performance and may be secured by a contract. Variable costs, meanwhile, change based on business circumstances. An increase in sales will increase revenue while also necessitating the purchase or production of more inventory, driving up that cost.
- **Track your profits:** With an accurate accounting of both revenue and costs, it is possible to determine profit. With a reasonable and informed prediction, your business can more confidently make decisions about how to use its financial surplus.

There are many ways to create your budget from scratch.

Pencil and paper can still be effective, especially when creating drafts of the document. General spreadsheet software automates many functions, making it easier to update a relevant figure without manually making changes throughout the budget. There are also paid options, which can provide more features, services and support related to budgeting in exchange for the investment made.



Leveraging and optimizing your business budget

With revenue, costs and profit accounted for, you can make more accurate and specific decisions related to your company's future.

A better handle on cash flow

Better insight into **cash flow** is one especially important benefit. Cash flow and profit are similar concepts in broad terms, but have key differences between them. Profit represents the money remaining after addressing all financial debts and obligations. Cash flow, meanwhile, **tracks the receipt and payment of funds**.

It is far easier to identify potential cash flow issues before they create significant problems for your business if you can track the cash coming in and out of

the organization. With a properly structured business budget, you have the power to do exactly that.

Depending on the circumstances, businesses can realize strong profits while also facing potentially serious cash flow issues. If your company sells its inventory to another business on a consignment basis — only receiving payment when a customer makes a purchase — it can create delays in accounts receivable and an inability to address your short-term financial

obligations, for example. That issue can persist even if your company has dependable long-term profits.

With an accurate and current budget, you can better identify potential pitfalls related to cash flow and take steps to address them. A business with a consignment sales model could cut back on non-essential expenses to build up a cash reserve, using the budget to help establish a dollar goal for that emergency fund.



Differentiating CAPEX and OPEX

Operational expenses (OPEX) represent the costs of normal operations for a business, like the raw materials needed for the production of inventory, utilities and office supplies. Capital expenses (CAPEX) indicate an asset acquired with the intent of a long-term benefit, whether purchased directly or through the assumption of debt or use of collateral. New facilities or machinery are examples of CAPEX.

A CAPEX asset is used beyond the range of a standard, year-long budget, while the return offered through OPEX spending is contained within that time period.

Differentiating CAPEX and OPEX accurately is vital to accounting, taxes, compliance and financial planning. Eligible OPEX spending can be fully deducted from taxes in the year in which it is spent. CAPEX expenditures, meanwhile, are generally deducted over several years, through a process called depreciation.

Every business is different, and certain situations exist where it may be more beneficial to have an asset categorized as either CAPEX or OPEX. If your goal is to reduce expenses and maximize yearly tax deductions, you could choose to lease a piece of equipment

instead of purchasing it. If you want to add to the value of your business and enjoy the longer-term benefits of depreciation, purchasing that equipment could be a more effective decision.

Your budget can provide critical context to inform this choice. While the particulars will differ in each case, a strong understanding of your financial position empowers effective decision-making.



A dependable business banking partner

A truly effective budget requires a reliable mechanism for accepting and disbursing payments.

Comerica Bank offers small businesses the foundational tools for acting on the needs outlined in their budgets: checking and savings accounts, along with a variety of loans and lines of credit to support business stability and growth. View [your small-business banking and financing options](#) and get in touch with the team at Comerica Bank to learn more.



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