5 Common Budgeting Mistakes

Ian Benoliel for Entrepreneur

Q: What are the most common mistakes new business owners make when budgeting, and how can I avoid them?

A: If the past five years have taught us anything, it's that flashy business and marketing plans mean nothing if they are unaccompanied by a sensible long-term financial strategy. Numbers can lie in the short-term, but the truth almost always comes out in the end. So as we prepare for the real New Economy, how can entrepreneurs learn from the mistakes of their predecessors? Avoiding these five common mistakes will help keep your million-dollar idea from becoming a million-dollar nightmare:

1. **Overstating projections.** Enron was not the first company to over-promise and under-deliver, and, unfortunately, it won't be the last. Investors are occasionally fooled by numbers in the short term, but in the end the funded company almost always gets hurt. Realistic budgets and projections may lengthen your search for funding, but when the money does arrive, it will be honest money, and you should then have a profitable plan to follow for several years to come.
2. **Ignoring your immediate budgetary needs.** On the other hand, if your plan shows that you need $50,000 to take a product to market, don't ask for only $30,000. Potential investors and bankers will only wonder why they should give you money for a project that will fail without additional funding. This was the sad lesson of the dotcom bubble. Companies burned through their initial seed money without coming close to profitability and then gave up. Investors have become more savvy and would rather spend $50,000 in a smart fashion than throw $30,000 out the window.
3. **Assuming that the existence of revenue is indicative of being cash-flow positive.** In virtually every transaction, there is a lag time between the finalization of the deal and the completed cash collection. This is a fact of business and should not be a problem, assuming you are prepared. Unfortunately, many businesses aren't and run into serious cash-flow problems because they spend money they don't yet have. Perhaps what's most troubling is many of these purchases could easily have been delayed for 30 days, when the available money is finally in the bank. A little wisdom, discretion and foresight can go a long way toward corporate survival.
4. **Forgetting about Uncle Sam. End-of-the-day balances can often appear larger than they really are.** Sales tax on revenues and employee withholdings may sit in your account temporarily but will ultimately be owed to the government. Your balance sheets should not count these finances as holdings, otherwise you run the risk of budgeting for future projects and costs that you will not be able to afford.
5. **Mismanaging the advertising timeline.** It seems so elementary: Advertising leads to sales. However, many budgets show advertising costs as a percentage of sales in the same period. To be truly effective, an advertising/marketing campaign will have to be initiated at least one period before sales can be expected. When the additional out-of-pocket costs are taken into account, a healthy advertising budget is needed before any revenue can be assumed. Failure to budget the appropriate items in a strategic time frame will under-utilize finances needed to achieve these sales goals and can lead to overspending in later months.

Formulating a vision is the hard part. Crunching the numbers is far more simple, yet it is where many dreams are shattered. Entrepreneurs who treat their budgets with the same meticulous care as their other components are the ones who survive.

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