

## Budgeting

As an entrepreneur, understanding the various types of budgeting strategies is crucial to creating a comprehensive budget that meets your business's specific needs. In our discussion, we will cover six types of budgeting with real-world scenarios to help you choose the best approach for your business.

- The **easiest** for a running business, **Incremental Budgeting**: This approach involves starting with the previous year's **actuals**, and making small adjustments based on factors such as inflation and revenue growth potential, prices. This approach is simple and easy to implement but may not be suitable for rapidly growing businesses, or adding new products, that need more flexibility.
- **Zero-Based Budgeting**: This method involves starting from **scratch** and building a budget based on each department's needs and priorities, ensuring that every expense is justified and approved. This approach is suitable for businesses that want to eliminate unnecessary spending and prioritize their resources efficiently.
- **Activity-Based Budgeting**: This method involves identifying specific **activities** that drive costs in the business, such as manufacturing or marketing, and creating a budget based on those activities. This approach is suitable for businesses that want to track their expenses accurately and make data-driven decisions.
- **Rolling Budgeting**: This approach involves creating a budget for a **set period** (could be a quarter, 12 or 18 months window), and updating it regularly to stay responsive to market changes. This approach is suitable for businesses that need flexibility and want to adjust their spending as market conditions change. This requires robust budgeting methodology, so it's seamlessly updated with least possible time by teams. Using automated tool is essential, or even automated spreadsheets.
- **Cash Flow Budgeting**: This approach involves focusing on managing **cash flow** and ensuring there's enough cash on hand to cover expenses during periods of low revenue. This approach is suitable for businesses that want to maintain healthy cash flow and avoid running into financial difficulties. Honestly all businesses must develop cash flow budget following their operational and P&L budget completion to define times of needed cash inflow.

- **Capital Budgeting:** This approach involves making **investment** decisions, such as purchasing new equipment or expanding a facility, to allocate resources to long-term projects that will generate future revenue and increase profitability. This approach is suitable for businesses that want to invest in their future and plan for long-term growth.

It's worth noting that different entrepreneurs have their unique approaches to budgeting. In summary, each budgeting approach has its strengths and weaknesses, you can apply more than one approach based on nature of business, product, or expansion plans. As an entrepreneur, you should choose the best approach for your business based on its specific needs and goals. Remember, creating a comprehensive budget that aligns with your business's priorities is essential for achieving long-term success.