The Ultimate Guide to Budgeting for Marketing Firms

8 min read

Having a budget is essential for the operation of any business, including service-based businesses like marketing firms.

Key Takeaways

- **What Is a Budget:** A budget is a document that outlines a business's estimated income and estimated expenditures over a specified period of time, such as an annual, quarterly, or monthly budget...

- **How to Estimate Revenue:** You can incrementally increase your estimate based on previous years' growth or you can take a close look at each of your revenue channels, clients, and customer accounts to assess…

- **The Tools, Team, and Technology to Power Your SMB From the Back Office:** A reputable outsourced provider, however, is available at a fraction of the cost and is here to help you establish and use budget best practices like…

A budget is a financial plan for your business's upcoming year, and it acts as a roadmap in addition to a strategic tool that outlines a real plan for the revenue that will be generated and expenses that will be incurred.

Instead of operating with a vague sense of wanting to bring in money and knowing that you need to spend money to make money, creating a budget requires that you understand exactly how you plan to generate revenue, how much that revenue is going to cost, and how you will deal with any budgetary deficits or surpluses.

What Is a Budget?

A budget is a document that outlines a business's estimated income and estimated expenditures over a specified period of time, such as an annual, quarterly, or monthly budget.

What Is a Budget Deficit and What Is a Budget Surplus?

- A budget deficit occurs when anticipated spending exceeds revenue, resulting in a negative balance that must be offset with cash reserves, cash investment, or a loan.

- A budget surplus occurs when anticipated revenue exceeds spending, resulting in excess free cash that can be put into savings, paid out to investors, or reinvested in the company.

11 Budgeting Best Practices for Marketing Firms

1. Understand How to Create a Budget

Since budgeting is essential in business, understanding how to create a budget is also crucial. It's best to take a systematic, documented, and deliberate approach to budgeting so that you can repeat the process and improve upon your budgeting methods for years to come.

2. Establish a Sound and Accurate Bookkeeping and Accounting System

To begin, budgeting (or at least accurate budgeting) requires that a business has a sound bookkeeping and accounting system established. Your marketing firm's back office should operate smoothly, efficiently, and accurately with as many automated processes as possible. This ensures that your financial data is accurate, thorough, up to date, and readily available for you to draw on while you're making your firm's budget.

You will use the financial data gathered in your back office not only to estimate your next year's revenue and expenses but also to identify trends in these categories that will help you make adjustments for the new budget.

Read More: 10 Reasons Why Your Marketing Agency Should Outsource Your Accounting

3. Choose the Budgeting Method That Makes Sense for Your Marketing Firm

Before you start the process of making a budget, you'll need to choose a budgeting method. There are countless different methods to choose from, and the one you select will depend largely on your marketing agency's business model, needs, goals, and your own preferences.

The following are some of the most popular business budgeting methods.

- Zero-Based Budgeting - This method starts from scratch each year. It requires that you scrutinize each line item on your previous year's budget before adding it to the budget for the upcoming year. While it can be a more taxing method, it's the best one for cutting unnecessary costs while taking a granular approach to estimating your revenue.

- Incremental Budgeting - Incremental budgeting takes the previous year's budget and increases or decreases it by an increment. Typically, this increment (to increase or decrease revenue and expenses) is based on trends that are demonstrated by your previous years. For example, if you've steadily grown revenue by 5%, then you can incrementally adjust revenue for the new budget by the historically demonstrated 5% growth.
- Activity-Based Budgeting - Activity-based budgeting divides the budget into categories based on the activities that are essential to running your marketing firm such as sales, services, and administration. This form of budgeting can be a bit more challenging to tackle, but it does help to ensure that you're investing your company's cash into essential activities in your business that drive revenue and growth.
- Value Proposition Budgeting - Similar to activity-based budgeting, value proposition budgeting is also based on specific activities. Instead of taking an organization-wide approach, however, value proposition budgeting earmarks specific tasks or goals within the budget for investment, and these investments are justified by the ROI they are expected to deliver. These kinds of budgeting items could include research and development, market research and marketing campaigns, and expansions.
- Flexible Budget - A flexible budget is an overarching budget that is created by combining any number of smaller, departmental, activity, or project budgets. A flexible budget is complex and has several moving parts. These budgets can be useful because they can help you quickly identify budgetary issues, as they arise, and pinpoint the source. They can also be easier to adjust. The main pitfall with this kind of flexible budget is that the overarching, big-picture goals of a business can get overlooked if you're paying too much attention to the more minute details and departmental goals.

4. Research and Gather Information

When gathering information for your budget, do not work alone. Instead, gather all of your department heads and/or team leaders and ask them for their input. Have them submit their own budgets and line items so that you have as much information as possible for building your budget.

5. How to Estimate Revenue

When estimating revenue, there are a variety of approaches that can be taken. You can incrementally increase your estimate based on previous years' growth or you can take a close look at each of your revenue channels, clients, and customer accounts to assess how much you anticipate bringing in in the upcoming year. Be sure to include all sources of revenue including sales, investments, interest, fees, and any other income sources.

6. How to Estimate Costs

Again, there are several approaches to estimating costs. You could increase costs incrementally based on previous years' trends. You could use an effective multiplier to determine costs based on anticipated revenue (i.e. determining direct costs and allocated indirect costs based on the money those costs would generate). You can also comb through your individual expenses, line by line, making adjustments individually, as necessary.

Marketing Firms have specific needs: Build an accounting package that helps your firm meet profit goals.

	Essentials	Advanced	Complete
Advisory Services			
KPIs	✓	✓	✓
Management Reporting		✓	✓
Cash Flow Forecasting			✓
Job Costing			✓
Project Services			
Budgeting		✓	✓
Systems Integration		✓	✓
Training			✓
Audit/Tax Support			✓
Data Clean Up & Catch Up			✓

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7. Remember to Consider New Revenue Channels, New Costs, and Potential One-Time Expenses

While looking through recurring and past expenses and revenue, remember to consider any new revenue channels you plan to explore this year. You should also consider whether your firm might incur any large one-time costs, such as replacing equipment, updating software, or moving offices. Be sure to budget accordingly for these individual items, as well.

Additionally, if you had any one-time expenses or one-off revenue sources the previous year, be sure to reallocate the money on this year's budget accordingly.

8. Create Multiple Budget Scenarios

Budgeting isn't a perfect art. No matter how thorough and accurate your financial records are, it's impossible to know exactly what's going to happen in the future. We recommend creating a normal budget in addition to best and worst-case scenario budgets. This helps you plan ahead for lean times and know what you'll do in the event you end up with a surplus.

Read More: How Much Do Bookkeeping Services for Small Businesses Cost?

9. Account for Inflation

With inflation still on the rise, the value of our dollars is in steady decline. Be sure you account for the reduced buying power in your upcoming budget. Anticipate that prices will continue to increase, as the value of the dollar continues to decrease.

10. Budget for a Surplus

A balanced budget is ideal, but a slight surplus is even better – especially if you need money to build up a cash reserve or to reinvest in your business. Plan not to spend all of your company's revenue so that your budget has some breathing room and you hopefully have options at the end of the year.

"It's extremely efficient and it's value-ridden for us because for the money that we pay GrowthForce and what we get, is just ... it far exceeds anything we could expect out of hiring a staff of people to do the same thing. "

-Andy Cauthen

President, PlanNet Marketing

The secret to this Marketing Agency's growth and ability to rapidly scale? Read the full case study to find out here.

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11. Use, Evaluate, and Adjust Your Budget Throughout the Year

Each month, take the time to compare the forecasted expenses and revenue in your budget to your actual numbers. You should be paying attention to whether or not you're on track. If you've generated more or less revenue or incurred more or fewer costs than anticipated, you should be making note of the results and adjusting your budget to reflect these differences.

The Tools, Team, and Technology to Power Your SMB From the Back Office

Setting up a powerful back office in a small or medium-sized business can be a big undertaking. It's expensive to bring on the in-house help you need for a sound, secure, and high-functioning bookkeeping and accounting department. A reputable outsourced provider, however, is available at a fraction of the cost and is here to help you establish and use budget best practices like those listed above in addition to a variety of strategies that are designed for your business and its unique operations and goals.