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Building a Yearly Budget During Economic Uncertainty

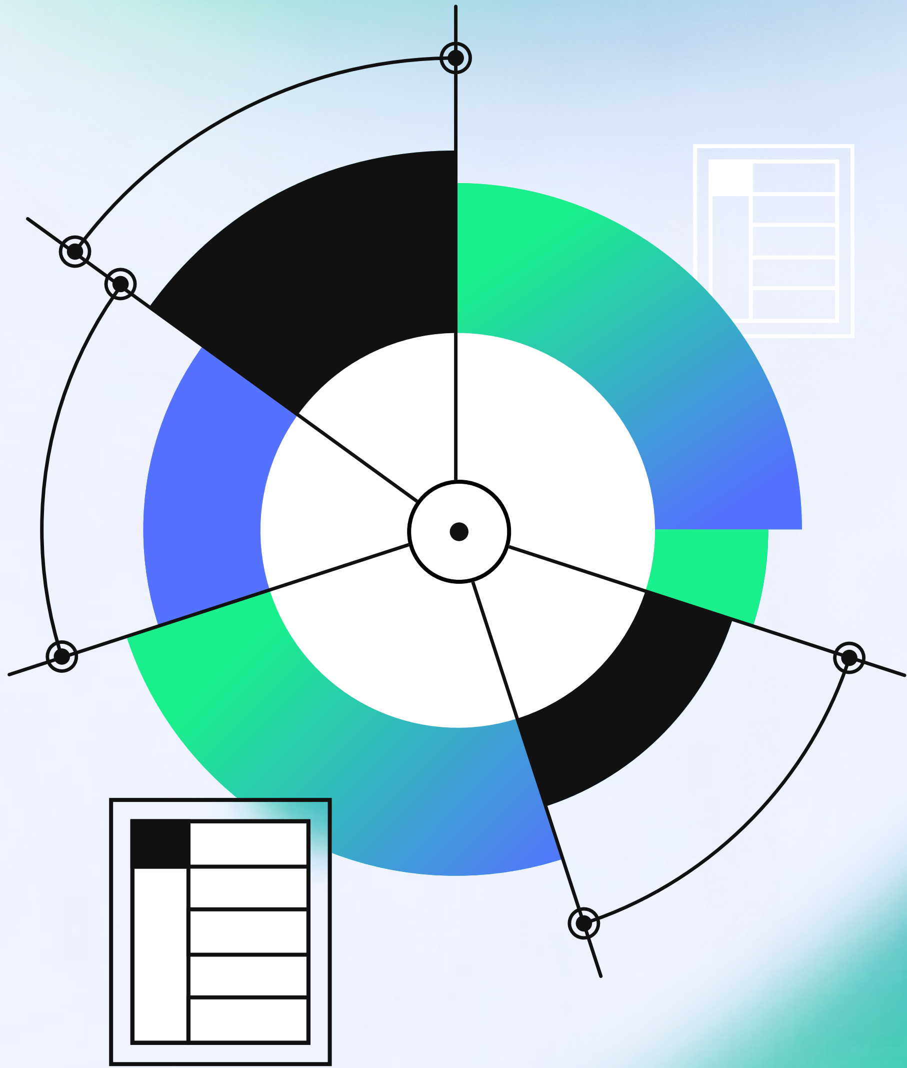
Expert tips for making the most of out your business's annual budget amidst a turbulent economy

Budgets Are More Important Than Ever

As we head into 2023, businesses are facing economic uncertainty with rising interest, continuing inflation and staffing issues caused by "The Great Resignation" — plus the lingering threat of a full-blown recession arriving in the next twelve months.

This means that priorities need to be shifted when it comes to spending for the upcoming year, and it's important to figure that into the annual budget.

So, while an annual budget may be par for the course, financially preparing for 2023 will likely be particularly crucial. Budget planning not only allows your finance team to review the past year, but to make better informed business decisions for the next year — and hopefully many more to come.



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STEP 1:

Preparing for the Budget

Start Early

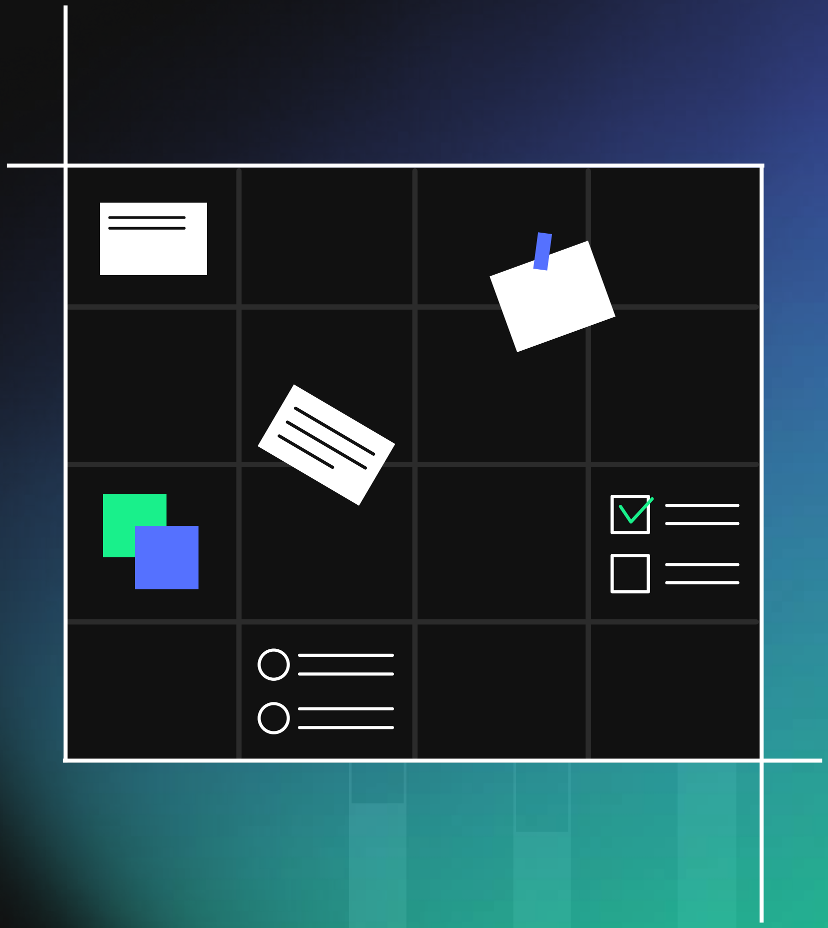
In order to act with enough time and the best accuracy possible, budget planning should begin at the start of Q4. Once you have closed nine months of the year, you can use data from the first three quarters of the year to assess the company's current financial health and forecast for the coming year.

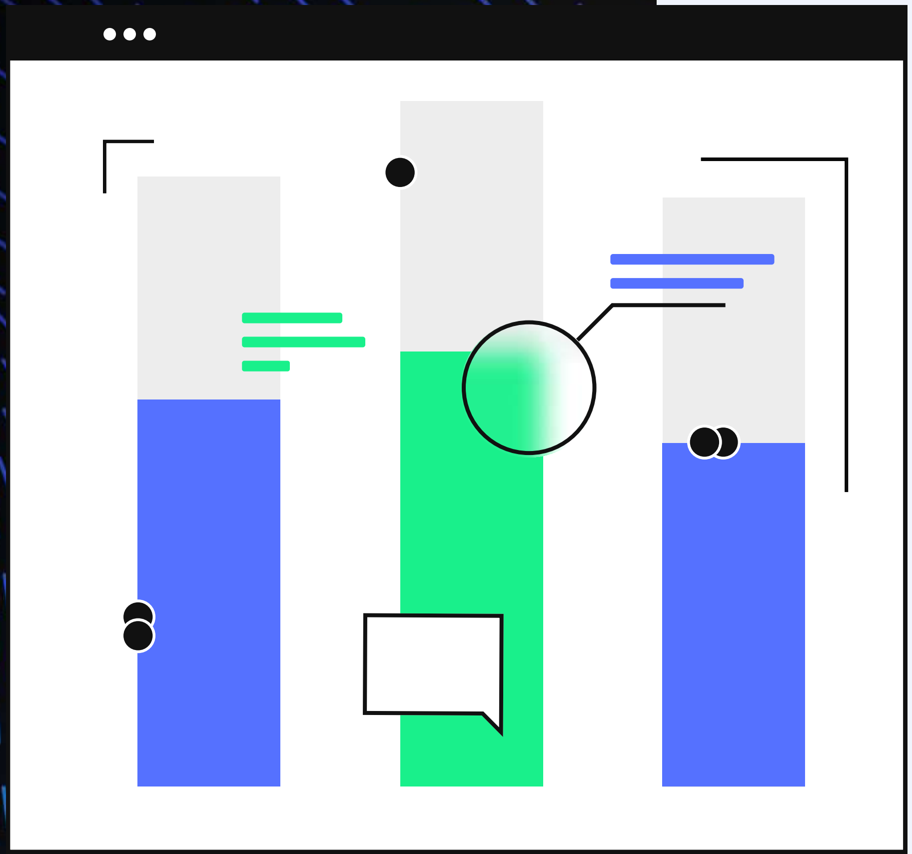
Analyze the Year

Take the first nine months of the year and extrapolate to estimate the necessary costs for the next year. You'll want to review statements from the previous three quarters, including the income statement, balance sheet and cash flow.

It's crucial that information from these statements is relayed to all budget owners across the company. While all departments probably keep their eye on expenses, it's important for everyone to see the balance sheet and cash flow as well to get the complete financial picture.

Update all departments on a monthly or quarterly basis, allowing them to see the relevant statements to them so they can better understand where the company is vulnerable and plan to react accordingly.





Divide and Conquer

To further break it down, you can divide the upcoming costs for the year into three separate budgets: revenues, headcount and operating expenses. Let's take a look at the different ways these are built by finance teams.

Revenues

Revenue budgets are built based on customers, and as such, are easier to create for more established companies with consistent long-term customers. Nevertheless, any subscription-based company (like a SaaS provider) can easily extrapolate expected revenue based on existing contracts. This typically requires input from your sales team.

Headcount

Headcount is calculated by the number of employees, and can vary per department or per location. In addition to salaries and wages, this also accounts for employee costs — from onboarding and training to benefits and paid time off. The average cost per employee ranges from 1.25 to 1.4 times the base salary, though this may be lower or higher depending on the location, industry and position. This will require collaboration with your HR department.

Operating Expenses

Operating expenses can be calculated by department and by vendor. These typically include rent, equipment, inventory costs, marketing and insurance payments to name a few. This budget will require input from all stakeholders across the company.

STEP 2:

Planning the Budget

As noted, every element of the budget will require collaboration with stakeholders and decision makers throughout the company. Once you have done your initial research, it is time to start meeting with budget owners to understand their needs, while keeping them informed of the financial reality.

Ask each department about their plan for the upcoming year: Is marketing planning to double their presence at events? Is HR slowing new hires? Did R&D purchase new equipment last year and will that need to be replaced or is it a cost they can save next year?

Understand what goals each budget owner hopes to accomplish, and challenge them to come up with alternative ways of reaching those goals if one solution is not financially possible.

Think of this negotiation process as a game of ping pong — there will be a lot of back and forth until a final decision is reached, and this process may take place over the span of a number of months.

Once you have met with stakeholders and established their plans for the upcoming year, align those budget requests with your ERP. Then, once the year starts, you can compare actuals and add adjustments to ensure that you have the most accurate forecast.

STEP 3:

Presenting the Budget

Once you've met with budget owners, it's time to put everything together.

Zoom out and take a look at proposed costs by category rather than item-by-item. For example, you may have a list of each SaaS subscription used by the company, but what is your total SaaS spend? This exercise will help you see how your budget is divided and establish the big picture.

From there, create a rough draft that allows room for changes, and then you'll begin another final round of negotiations with budget owners.

Nothing is final until approved by the board, though. So, the final step will be winning approval by the board.

If possible, share the budget with the board in advance of the formal presentation so that there are no surprises, and anticipate any questions or concerns the board may have so you can address them with well-informed responses backed by data.

Better yet, address concerns before they arise by including detailed risk assessments and justifications for assumptions in your presentation.

Common Roadblocks in Budget Building
(And How to Overcome Them)

Politics

It can be difficult to navigate office politics, especially at times when departments are vying for resources. The finance team should remain neutral and document department asks while presenting them with unbiased financial data.

Growth/Scaling

There is always a fine line between hyper-growth and wasting money. Even with a large cash runway and the ability to hire more staff, provide perks and expand the business, it's important to remain vigilant with company spending.

Meeting Challenging Targets

Certain economic events can have massive impacts on whether a company reaches their annual targets. For instance, when budgets were created for 2020, no one could have predicted the effects that COVID-19 had a few months into the year. Smaller scale events (e.g. raise in office rent, employees taking leave) can also heavily impact a business. Set realistic goals that will motivate the team without setting them up for failure.

Getting Everything Covered

Pay careful attention to every company expense to ensure that nothing gets left behind. Make sure everyone is on the same page when it comes to who owns what so that nothing falls through the cracks. For gray areas like software or holiday parties that involve multiple departments, ensure that a clear budget owner is defined and communicated to everyone else.

Expert Advice for Building and Presenting Budgets

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💡 Be Clear

Clearly present and explain data to stakeholders, and then the board. Ensuring that they understand your accounting and the financial situation of the company can go a long way when it comes to the negotiation process. If you can back up why something is or isn't feasible with numbers, they are less likely to dispute it.

💡 Keep It Simple

What you present to stakeholders and the board shouldn't hide any vulnerabilities or concerns, but keep it short and easy-to-digest so you don't overwhelm them with irrelevant numbers. Present the numbers in a variety of ways — slice it up, zoom in, zoom out — to give stakeholders a better understanding of exactly what the company is working with.

💡 Use All Available Data

The amount of data that the finance department has access to varies depending on the stage of the business. Startups may not be able to forecast based on last year's actuals if they were just starting out and are now entering a period of growth. An established business with decades of financial statements, however, will be able to determine much more concrete trends over time. Use whatever is available to you.

💡 Grow Slow

We all know the phrase "Slow and steady wins the race" — and it's true. As glamorous as hyper-growth may look, growing at a slower pace will allow your team to reach targets before setting more ambitious goals. It also allows you to better react to sudden changes in the economy.

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Conclusion

As economic uncertainty becomes the norm for 2023, building a budget and sticking to it is crucial. A well-built budget will allow your company to navigate economic turbulence, while still working towards realistic business goals for the upcoming year.

Setting your business up for success with a strong budget in 2023 will continue to reap rewards and insight for years to come.

Want to learn how Mesh Payments can help your company manage corporate spend and adhere to your annual budget?

Schedule a demo with one of our team members.