

# Building a foolproof operating budget

*A comprehensive guide for  
FP&A leaders*



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# Introduction

While strategic planning outlines where your company is headed, operational planning represents the roadmap for getting there—and building a budget is a key part of this process.

There's just one problem: your business is growing, and what worked for you before isn't cutting it anymore. So, how can you be sure you're creating an effective operating budget at all stages of business growth?

We've got you covered. In this guide, we'll dive deeper into operational planning and explore how to create an operating budget that's guaranteed to help your company reach its goals.

*Ready to take your budgeting skills to the next level?  
Let's get started!*

## You'll learn:

- Tips for setting a comprehensive top-down and bottoms-up plan
- Step-by-step instructions for creating an effective operating budget for your business
- Best practices for fine-tuning your budgeting process as your business grows over time

*...and so much more.*

## CHAPTER 1

# Keeping up with the increasing complexity of operational planning

Operational planning becomes much more complex as an organization grows and expands. For example, it may become necessary to incorporate additional departments, regions, or product lines into the planning process over time.

Since the FP&A team plays a vital role in the operational planning process, FP&A leaders are faced with their own set of challenges. These challenges may relate to:

## Strategic alignment

As your business grows, it becomes even more essential for FP&A leaders to ensure operational plans are directly aligned with broader strategic objectives.

For example, let's say a small software development company experiences rapid business growth. Initially, its primary goal may have been to deliver high-quality software solutions to a limited client base. However, as the company grew, its goals shifted to expanding market share, entering new markets, and diversifying its service offerings.

Strategic alignment became crucial in ensuring the company's strategic direction was flexible enough to adapt to evolving goals. This may have involved continuous monitoring of the external environment, conducting [scenario planning](#), and regularly reassessing and adjusting strategic priorities.



## Optimal resource allocation

Effectively managing resource allocation allows FP&A leaders to ensure financial, human, and other resources are allocated to the areas that drive the most value for the business. Balancing resources across multiple products, markets, or business units becomes more intricate as your business grows.

For example, let's say the previously mentioned software development company is expanding its product portfolio. Each product may have its own research and development, marketing, and operational requirements. Balancing resources across the product portfolio becomes more intricate because the company needs to allocate resources based on factors such as market demand, growth potential, competitive landscape, and strategic priorities.

## Risk management

Business growth introduces new **operational risks** and challenges. FP&A leaders must be actively involved in operational planning to identify and mitigate these risks effectively.

For example, let's say the software development company used to have a streamlined production process with limited suppliers when it was first starting out. Now that it has grown, it relies on multiple suppliers and has a more intricate supply chain. This increases the potential for disruptions, such as supplier failures, logistical challenges, or quality control issues.

Factoring these challenges into the operating budget not only means fine-tuning current budgeting techniques, but also adjusting various steps in the budgeting process to account for these new factors.



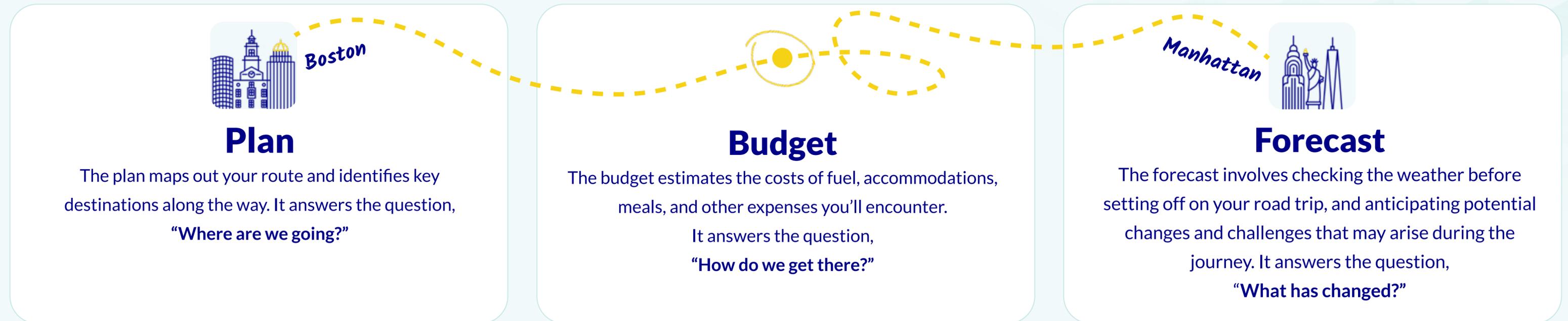
## CHAPTER 2

# Key components of the operational planning process

The operational planning process is made up of three main steps: [planning, budgeting, and forecasting](#).

Depending on your stage of business growth, what's included in each of these steps—and how these steps influence one another—changes.

*For example, imagine you're going on a road trip from Boston to Manhattan.*



Since it's a short ride, the planning, budgeting, and forecasting processes are quick and simple. Your current methods work just fine, and your trip goes smoothly.

However, for next year's road trip, you have your heart set on traveling from Boston to Los Angeles. This is a much longer ride—one that takes many days to complete. You'll need to adjust your route, budget for additional expenses like lodging and fuel, and then rely on this budget to determine which part of the country you'll be traveling through on each day to account for the weather.

While the structure (i.e., plan, budget, forecast) remains the same, each step of the process is much more complex. The same is true for your business.

Understanding how each of these steps influence each other at different stages of business growth is crucial to reaching your destination and setting your business up for success.

# How to set a comprehensive top-down and bottoms-up plan

Now that you have an idea of what to look out for, let's start setting an operational plan. There are two approaches to consider: [top-down and bottoms-up](#). Simply put, top-down means setting targets first, and bottoms-up means building a model and using the targets as the output.

### Top-down planning

The top-down approach ensures alignment with the strategic goals of the organization, provides a clear vision, and sets the overall direction. It helps establish priorities, allocate resources, and guide decision-making based on the larger organizational context.

This approach identifies the high-level metrics the company needs to hit. Targets should be discussed with the board and leadership team based on where a company of your stage should be. Key topics of discussion may include YoY growth rate and [cash runway](#).

### Bottoms-up planning

The bottoms-up approach brings valuable insights from individuals and teams who possess detailed knowledge and expertise in their specific areas. It helps identify operational opportunities, potential risks, and provides a more realistic assessment of resource requirements and constraints.

Based on a series of key inputs, the business can determine the impact on its top-line targets. Topics of discussion may include hiring plans, key ratios, spending by department, and pipeline targets (MQLs). Once the high-level targets are agreed to, [budgeting](#) kicks into full gear.

There's a final step where you will need to reconcile the top-down and bottoms-up. The process of reconciliation can involve several iterations and adjustments to ensure the overall budget is strategically focused (as per the top-down approach) while also being realistic and accommodating of ground-level operational realities (as per the bottoms-up approach).

By combining both approaches, you can develop an operational plan that's aligned with strategic objectives. This ensures your plan is realistic, actionable, and reflective of the organization's broader goals.

## CHAPTER 4

# Creating an operating budget

So, you've set your operational plan. Now you're ready to create an operating budget. This is where you can either set your business up for success—or position it for failure.

## Key components of an operating budget

Let's walk through the key components of an operating budget and the steps you should take to ensure the budgeting process stays effective over time (and key stakeholders remain happy).

### Revenue

Revenue is typically the biggest driver of an operating budget, as it forms the basis for determining the financial resources available to your company. Revenue projections provide a realistic framework for aligning resources, setting goals, and driving financial success.

### Variable costs

Including variable costs in the budget allows you to estimate and plan for expenses that will vary based on business volume. By understanding and accounting for these variable costs, you can assess their impact on profitability, analyze cost drivers, make informed pricing decisions, and effectively manage operational expenses.

### Fixed costs

Including fixed costs in the budget allows you to forecast and allocate resources necessary to cover essential expenses such as rent, salaries, insurance, and utilities. Fixed costs provide a baseline for financial planning, as they need to be covered even during periods of low or no sales.

One of the most important fixed costs to consider is “people costs.” People costs are vital as they represent a foundational expense for your organization and play a key role in maintaining day-to-day operations, irrespective of fluctuations in sales or production volume.



### PRO TIP

Budget season is stressful enough without encountering unknowns. Accurate workforce planning can help you create on-target budgets and properly account for salary and compensation as your organization grows. To help you plan for new initiatives, download this free Headcount Planning Template for Excel today for a more consolidated view of your HR, finance, and operating data.

[Get your free template](#)

## Non-operating expenses

Non-operating expenses include interest expenses, gains or losses from the sale of assets, or expenses related to discontinued operations.

Including these expenses allows you to assess the overall impact these activities have on financial results and make informed decisions regarding resource allocation, profitability, and [strategic planning](#).

## Non-cash expenses

Non-cash expenses commonly include [depreciation](#), amortization, and non-cash provisions. Including these expenses in the operating budget helps provide a more accurate picture of the company's profitability, [cash flow](#), and financial performance.

This allows you to assess the true economic costs of operations, make informed financial decisions, and ensure compliance with accounting standards and reporting requirements.

## Capital costs

Capital costs represent the expenses associated with acquiring or maintaining the long-term assets needed for business operations. These costs typically include investments in property, plant, and equipment (PP&E), as well as major infrastructure projects.

By incorporating capital costs into the operating budget, you can accurately assess the financial resources required for asset acquisition, upgrades, or replacements. This makes it easier to plan for depreciation, loan repayments, lease obligations, and other capital expenses.

## How to create an effective operating budget

Your operating budget serves as your financial roadmap, outlining projected revenues, expenses, and profit expectations for the year ahead (or another specified period).

By following a series of key steps, you can create a strong operating budget that's guaranteed to help you gain better control over your company's finances and make intelligent, data-driven decisions.

Let's explore the key steps in the budgeting process to help you achieve your financial goals.

### 1. Estimate the coming year's revenue

Creating an effective operating budget begins with estimating the coming year's revenue.

Start by reviewing historical data, sales figures, and market trends. This will help you gain valuable insights into your business's revenue patterns and allow you to make informed projections.

Next, consider market variables that could affect the following year's sales, such as:

- Changing patterns in economy / market demand
- Estimated marketing spend and conversion rates
- Sales rep model based on % quota attainment
- Supply based model based on inventory availability

### 2. Identify monthly expenses

The next step is to identify monthly expenses. Start by reviewing past [financial statements](#), expense trends, and budget reports to identify recurring monthly expenses. Be sure to look for patterns, seasonality, and any significant fluctuations in expenditure.

Once all expenses have been identified, you can sort them into categories such as people costs, utilities, rent, supplies, marketing, and travel. This categorization helps create a structured framework for budgeting and facilitates better expense management.

### 3. Outline your income sources

Analyze [financial statements](#), sales reports, and revenue data from previous periods to identify the various sources of income. This includes sales revenue, service fees, subscription fees, licensing fees, royalties, or any other revenue streams specific to your business.

Next, classify the income sources into relevant categories, such as product sales, service revenue, recurring revenue, one-time sales, etc. This provides a structured overview of the different sources contributing to your overall income.

You also want to consider collaborating with sales teams, marketing teams, and other relevant stakeholders to gather insights on existing income sources and potential new revenue streams. These interactions can provide valuable information about customer behavior, market trends, and emerging opportunities that can be incorporated into the income source outline.

### 4. Calculate fixed costs and overhead

To calculate fixed costs, start by identifying expenses that remain constant regardless of production or sales volume, such as rent, insurance, utilities, salaries, and depreciation.

Then, gather financial records and invoices to determine the specific amounts associated with each fixed cost item. Sum up these expenses to calculate the total fixed costs.

To calculate overhead, consider indirect costs that support the business operations, including administrative expenses, marketing costs, and general utilities. Determine the proportion of these costs to allocate as overhead by analyzing historical data or using allocation methods based on business drivers. Summing up these overhead expenses provides the total overhead cost.



#### PRO TIP

Wish collecting data from department leaders to budget by department was simpler? Download this template to easily plan and monitor each department's budget and operating expenses.

[Get your free template](#)

## 5. Estimate variable costs

Estimating variable costs is crucial for building an accurate operating budget. To estimate variable costs, you should:

### 1. Identify cost drivers

**Identify the key factors** that directly influence variable costs in your business. These may include factors like production volume, sales volume, or service delivery.

### 2. Gather historical data

Review past financial records, invoices, and expense reports to identify the relationship between cost drivers and variable costs. Look for patterns or trends that indicate how costs fluctuate as your business grows.

### 3. Analyze industry benchmarks

Compare your business's performance to industry benchmarks and averages. This can provide insights into typical variable cost percentages or ratios relative to revenue or production volume.

### 4. Consider sensitivity analysis

Perform **sensitivity analysis** by varying cost driver assumptions within a range. This helps assess the potential impact of different scenarios on variable costs.

## 6. Identify one-time expenditures

You'll then want to identify one-time expenditures. This ensures unique costs are properly accounted for in the budgeting process, enabling your business to effectively manage financial resources and pursue strategic initiatives while maintaining financial stability.

Examine any ongoing or upcoming projects, initiatives, or **capital expenditures** that may incur one-time expenses. These may include expenses for equipment purchases, facility renovations, software implementations, or marketing campaigns with a fixed duration.

Next, collaborate with department heads, project managers, and key stakeholders to gather insights into any planned one-time expenditures. Discuss upcoming projects, initiatives, or events that may require additional funding beyond regular operating expenses.

Lastly, be sure to conduct a thorough needs assessment. Evaluate any future requirements and plans to identify unique expenses that may arise. This may include one-time investments in research and development, expansion into new markets, or major organizational changes.

## 7. Calculate vendor costs

A thorough evaluation of vendor pricing and terms will help you make informed decisions, allocate resources appropriately, and maintain financial stability as your business continues to expand.

*This process involves the following steps:*

### 1. Identify vendor needs

Begin by identifying the specific goods or services your business requires from vendors. Determine which vendors are essential to your operations and growth. Consider factors such as quality, reliability, and value for money when assessing vendor needs.

### 2. Request quotes

Reach out to potential vendors and request detailed quotes for the goods or services you need. Ask for comprehensive pricing information, including any upfront costs, recurring fees, volume discounts, and any additional charges such as shipping or maintenance fees.

### 3. Analyze pricing structures

Review the vendor quotes and analyze the pricing structures. Identify any variable costs, such as usage-based fees or price tiers based on volume. Understand the terms and conditions associated with the pricing, including contract durations, payment terms, and potential price escalations over time.

### 4. Consider total cost of ownership

It's important to evaluate the total cost of ownership beyond the initial vendor costs. Take into account factors like ongoing maintenance, training, support, and potential future upgrades. This will give you a more accurate picture of the long-term costs associated with each vendor.

### 5. Compare and negotiate

Compare the vendor quotes and consider the value each vendor offers in relation to their costs. Negotiate with vendors to secure favorable pricing terms or discounts based on your business's needs and expected growth. Be prepared to discuss long-term partnerships or increased volume in exchange for more competitive pricing.

# Top 5 benefits of a strong operating budget

## 1. Increased savings and enhanced profitability

An iron-clad operating budget enables a proactive approach to cost control and expense management by setting spending limits, evaluating cost efficiency, and identifying opportunities for optimization.

This promotes a culture of financial discipline, where expenses are monitored and wasteful spending is minimized. With additional savings, businesses can enhance profitability, build financial resilience, and allocate freed-up resources toward strategic initiatives or future investments.

## 2. Financial discipline and strategic resource allocation

A well-defined operating budget sets clear spending limits and financial targets, which promotes accountability and discipline in managing expenses throughout the budget period.

**Budget adherence** ensures that resources are allocated efficiently, helping to prevent overspending and unnecessary costs. It provides a framework for monitoring and controlling expenditures, allowing your business to stay on track and make informed decisions.

## 3. Stronger, data-driven decision-making

A robust budgeting process provides organizations with a comprehensive understanding of their financial position, revenue targets, and expense projections.

A clear overview of available resources and financial constraints empowers decision-makers to make informed choices regarding investments, cost control measures, and resource allocation to guide the business in the right direction.

## 4. Greater transparency amongst stakeholders

A strong operating budget provides visibility into the financial plans, objectives, and resource allocation strategies of the organization. This fosters open communication and shared understanding among stakeholders, including management, employees, investors, and other relevant parties.

Transparency in the budgeting process enhances trust, promotes accountability, and encourages informed decision-making, allowing stakeholders to better understand the allocation of resources, assess the financial health of the business, and evaluate the progress toward financial goals.

## 5. Performance monitoring and timely corrective action

By establishing clear financial targets, goals, and key performance indicators (KPIs) within the operating budget, you can monitor and evaluate business performance against predefined benchmarks.

A strong operating budget provides a basis for measuring actual results and comparing them to the budgeted figures. This allows for early identification of performance gaps and enables timely corrective actions to be taken.



### PRO TIP

Financial and operational KPIs can help companies measure their performance and improve their numbers. For a hassle-free way to keep overarching goals top of mind, download this free Financial KPIs Dashboard template today.

[Get your free template](#)

# Best practices for building an operating budget

To reap these benefits, it's not enough just to follow the steps included in this guide. You must also adhere to a series of best practices to optimize the budgeting process, enhance accuracy, and align financial plans with organizational objectives.

Here are a few best practices you should consider:

## Prepare a clear timeline for the budgeting process

A timeline provides a structured framework and clear roadmap for the budgeting process, ensuring efficiency, accountability, and effective resource allocation.

By outlining key milestones, deadlines, and dependencies, the timeline enables you to organize your activities, collaborate with stakeholders, and track progress more effectively.

*In its simplest form, an operating budget timeline\* may look something like this:*



*\*Please note this timeline will vary depending on the size of your organization.*

## Prioritize scenario planning

As a reminder, scenario planning involves creating alternative projections based on different possible outcomes. By considering various scenarios, you can assess the financial impact of different market conditions, industry trends, or internal changes.

Scenario planning is crucial for anticipating and responding to uncertainties, risks, and opportunities—especially for growing businesses. By exploring **“what-if” scenarios**, you can identify potential risks, develop contingency plans, and make informed decisions to mitigate negative impacts or capitalize on positive outcomes.

*Here are some examples of scenario planning you may want to explore:*



### Expansion opportunities

Explore scenarios related to expansion opportunities, such as entering new markets, launching new products, or acquiring competitors. Assess the financial implications, resource requirements, and potential risks associated with each.



### Market disruption

Create scenarios that explore the impact of potential market disruptions, such as the entry of new competitors or changing consumer preferences. Assess how these scenarios could affect your operations, sales, and market positioning.



### Supply chain disruptions

Consider scenarios that involve supply chain disruptions, such as natural disasters, geopolitical events, or material shortages. Evaluate the potential impact on your production capacity, delivery timelines, and alternative sourcing options.



### Best case, worst case, most likely

Simulate the best case, worst case, and most likely scenarios. Analyze the potential impacts of each scenario on your organization's key metrics and overall strategic goals to gauge what will happen if you go above or below the plan.



### Technological advancements

Consider scenarios that involve technological advancements and innovations relevant to your industry. Evaluate how these could impact your operations, customer expectations, business models, and the need for technological investments.



### Regulatory changes

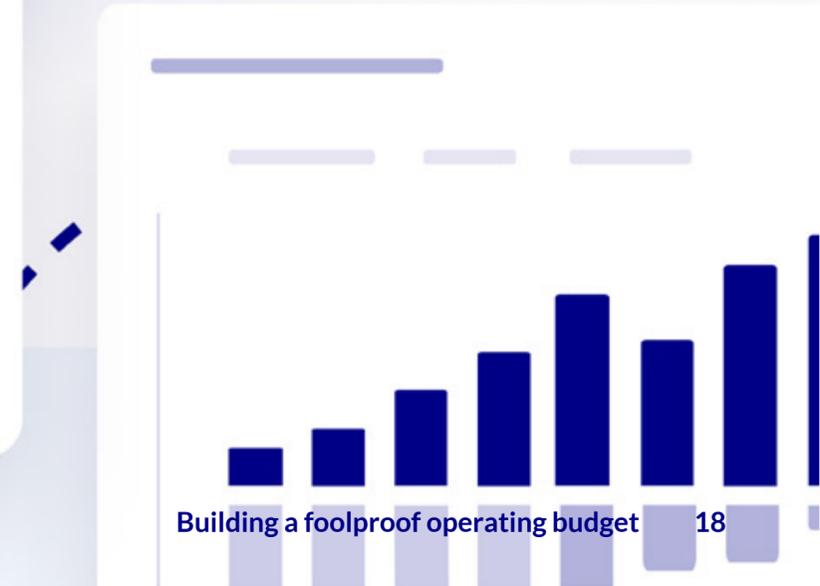
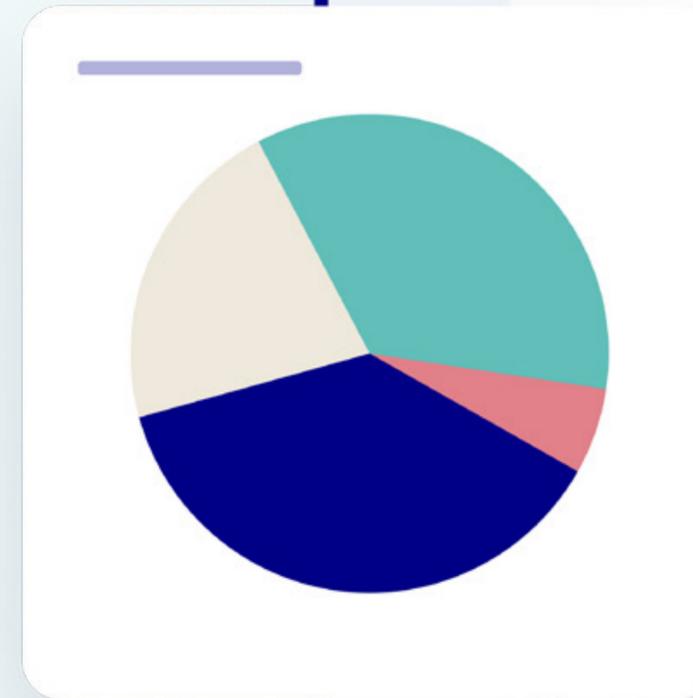
Create scenarios that examine potential regulatory changes or shifts in policies that could impact your industry or operational aspects. Assess the compliance requirements, potential costs, and adjustments needed to adapt.

## Effectively lead and collaborate up and across the org

Managing up to key decision-makers while managing down to operational teams, department heads, and individual contributors is often the toughest part of the budgeting process—but it’s also one of the most important.

Effective management up and down facilitates a collaborative and inclusive approach to budgeting. It ensures that financial considerations are incorporated into operational decision-making, while also providing operational teams with the necessary financial guidance and support.

This best practice fosters a culture of transparency, accountability, and shared responsibility, leading to a more accurate, realistic, and actionable operating budget. It allows you to realistically answer questions like, “Can we do X?” and “Do we have the resources to do X?”



# Work smarter, not harder



Building an effective operating budget plays a pivotal role in driving financial success and strategic alignment within organizations.

By following these best practices and embracing a mindset of agility, you're arming yourself with the tools needed to create robust and impactful operating budgets as your business grows and becomes more complex over time.

However, while creating an operating budget can certainly be done manually, it's always best to work smarter—not harder. Implementing a solution like Cube can help you do just that.

Cube helps you cut your planning time in half. It gives you the power to easily collaborate with stakeholders, build reports and dashboards with greater flexibility, and keep everyone on the same page during the budgeting process.



*Learn how Cube can help  
you level up your FP&A*

**Request a free demo today**



Cube is the first spreadsheet-native FP&A platform that focuses on meeting strategic finance teams where they already live and enhancing the workflows they use every day. By pairing the ease and familiarity of Excel & Google Sheets with the power and control of a purpose-built FP&A platform, Cube helps companies of all sizes plan and analyze for the unexpected and stay one step ahead.

To learn more, visit [cubesoftware.com](https://cubesoftware.com) and connect with us on LinkedIn and Twitter.

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