

Budgeting Mega Cheat Sheet

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- 1 Definition
- 2 Benefits
- 3 Downsides
- 4 Used when

HISTORICAL BUDGETING

Uses previous year's budget as a starting point for the current year's budget

- Simple to use
- Quick to prepare
- Used for all departments
- Used to track budget performance over time

- Budget complacency
- Inefficiencies
- Difficulty adjusting to changes

- Stable Environment
- Limited Resources
- Predictable Costs

ZERO-BASED BUDGETING

Justify each expense from scratch, potentially identifying areas for cost savings

- More accurate & realistic
- Forces managers to think critically about expenses
- Identify areas for improvement

- Time-consuming & complex
- Unsuitable for all businesses
- Difficult to implement

- Organizational Reset
- Cost Control
- Dynamic Environment

ANNUAL BUDGETING

Fixed timeframe and budget, not subject to change mid-year

- Provides a set of performance metrics for the year
- Allows for long-term planning

- Inflexible & may not allow for changes to be made mid-year
- Forecasting may not be accurate

- Stable Industries
- Strategic Alignment
- Financial Control

ROLLING FORECAST

Continuously updated & revised to reflect actual results & changes

- Dynamic and flexible
- Allows for mid-year changes
- Provides more accurate forecasting and information for decision-making

- Requires more frequent updates and revisions
- Time-consuming and resource-intensive

- Dynamic Markets
- Growth Phases
- Continuous improvement

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TOP-DOWN BUDGETING

Upper management setting financial goals (High-level planning)

- Financial goals' consistency
- Quick & efficient to implement
- High-level overview
- Linked to strategy

- Risk of not considering departmental needs
- Low buy-in and ownership from lower-level employees

- Overall organization KPIs
- Strategic decisions
- Change of management
- Crisis situation
- Lacks of budgeting experience
- Lack of planning tool

BOTTOM-UP BUDGETING

Departments / business units setting financial goals (Detailed planning)

- High buy-in from lower-level employees
- Considers operational needs
- Sense of ownership
- Detailed budgeting.

- Time & resource consumption
- Inconsistent financial goals
- Misalignment with company strategy

- Detailed metrics
- Historical track of positive financial results
- Effective budgeting process
- Utilization of appropriate planning tools

BUDGETING FOR STABILITY

Maintains operations, minimizes risk, prioritizes stability, requires less funding.

- Sense of security & predictability
- Reduces the risk of financial instability
- More appropriate in uncertain environments

May limit growth potential and competitive advantage, leading to missed opportunities

- Economic Uncertainty
- Mature Industries
- Cost Control Focus
- Predictable Revenue Streams

BUDGETING FOR GROWTH

Invests in new opportunities, more risk, prioritizes future potential, typically requires more funding.

- Can lead to long-term success and expansion
- Attract new investors
- Help companies stay ahead of the competition

- Additional risk
- May require higher levels of funding & short-term financial instability

- Expanding Markets
- Start-up & Scale-up Phases
- Technological Advancements
- Competitive Pressure

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ACTIVITY BASED BUDGETING

Top-down approach where you derive the activities needed (input) to achieve targets (output)

- Ideal for sales planning
- Enhanced Cost Visibility
- Improved Resource Allocation

- Requiring historical data to support assumptions
- Could be oversimplified for the company's business model

- Complex Operations
- Enhanced Cost Transparency

INCREMENTAL APPROACH

Take last year figures and add or subtract a percentage to calculate your budget

- Simple & quick
- Stability and predictability
- Reduced departmental conflict

- Perpetuates inefficiencies
- Creates budgetary slack
- Resource Misallocation

- Stable Environments
- Consistency & Continuity
- Short-Term Focus

10 SCENARIO ANALYSIS FRAMEWORKS

What if Variables affecting business: raw material, price, etc.

"What if limestone prices rise by 10%?"

Monte Carlo Simulate scenarios and calculate probabilities.

Understand business fluctuations

Storytelling Craft scenarios for stakeholders' foresight.

Company's Fate: Boom or Bust

Clustering Cluster Scenarios for Analysis Efficiency.

Cluster raw material & labor cost scenarios

Probabilistic Assign probabilities based on data/insights.

20% Chance of Major Supply Chain Disruption

Sensitivity Analyze input change impact on profits.

Assess the +5% energy cost's profit effect.

Stress testing Assess extreme risks & evaluate resilience.

Decrease in demand or material shortage.

Brainstorming Engage stakeholders in diverse scenarios.

Anticipate shifts in politics, economy, etc.

Simulation Simulate company performance with software.

Analyze 10% more cement demand effects

Matrix Create matrix with uncertainties & scenarios.

Energy price volatility vs. regulatory changes

