



pilot



Annual Planning Playbook

A Framework For Your Planning Process



Dear Founder,

A formalized annual plan lays out the financial roadmap for the upcoming year based on learnings and outcomes from the current year. But more than that, the annual plan can be a rallying cry and a mechanism to force creativity. It's a powerful process that, when done right, will set you up with a plan that will inspire, set guardrails, and keep your growing company marching to the same drum.

Pilot's CFO Services team put this playbook together to define the annual planning process and break it into stages that have specific objectives, deliverables, and considerations to keep in mind. We have included templates that we use with our own CFO Services clients to help guide your thinking around annual planning.

The goal isn't to provide an exact template, but to provide a framework to find an annual planning process that works for your company at its current stage and size.

We hope you find this guide useful and as always, Pilot is here to help. For more information on how Pilot can help guide your annual planning process, visit pilot.com/cfo or email us at info@pilot.com



Best,
Hudson Bova
Head of Pilot CFO Services



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01

Approach and Considerations



Annual Planning Principles

These annual planning principles can be applied to every business.

Financial Planning Is A Company-Wide Effort

- The financial plan is meant to be a rally cry.
- All employees own it at both the corporate and department level.
- Debate it while it's being constructed and commit to it once it's locked.

Challenge the Business To Do More With Less

- Planning should push business leads to be creative and resourceful.
- Ultimately, the business should land on a plan that is aggressive, but achievable.

Set Guardrails

- It's just as critical to define what teams won't do, along with what teams will do.

Make Sustainable Decisions

- Index on making durable, long-term decisions, through a multi-year lens.

Uncertainty Is Not An Excuse

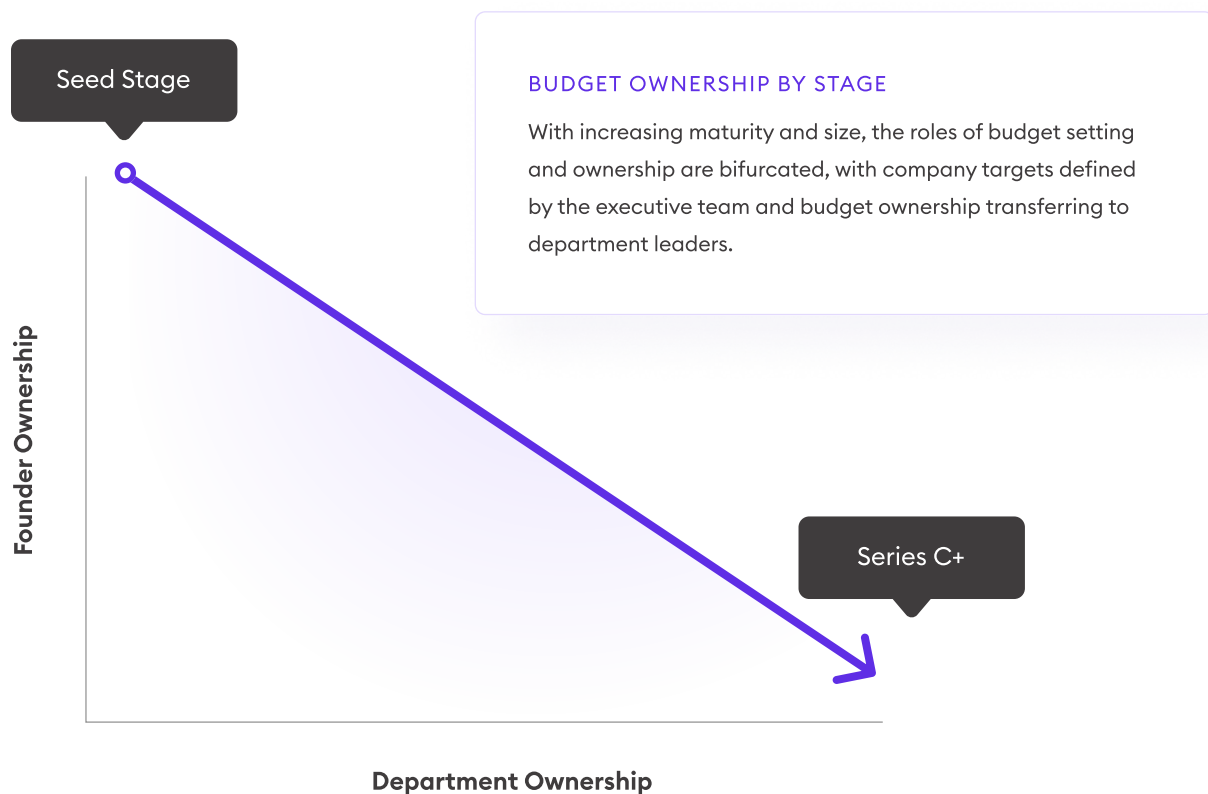
- Uncertainty is inherent. It doesn't relieve folks from accountability.
- Flag risks and provide mitigation plans.



Defining Who Sets And Who Owns the Budget

In the early stages of a startup, the entire budgeting process is primarily founder-driven. As the company grows, founders start to rely on department leads to manage predetermined budgets. As a result, you'll need to defer more responsibility for planning to departments.

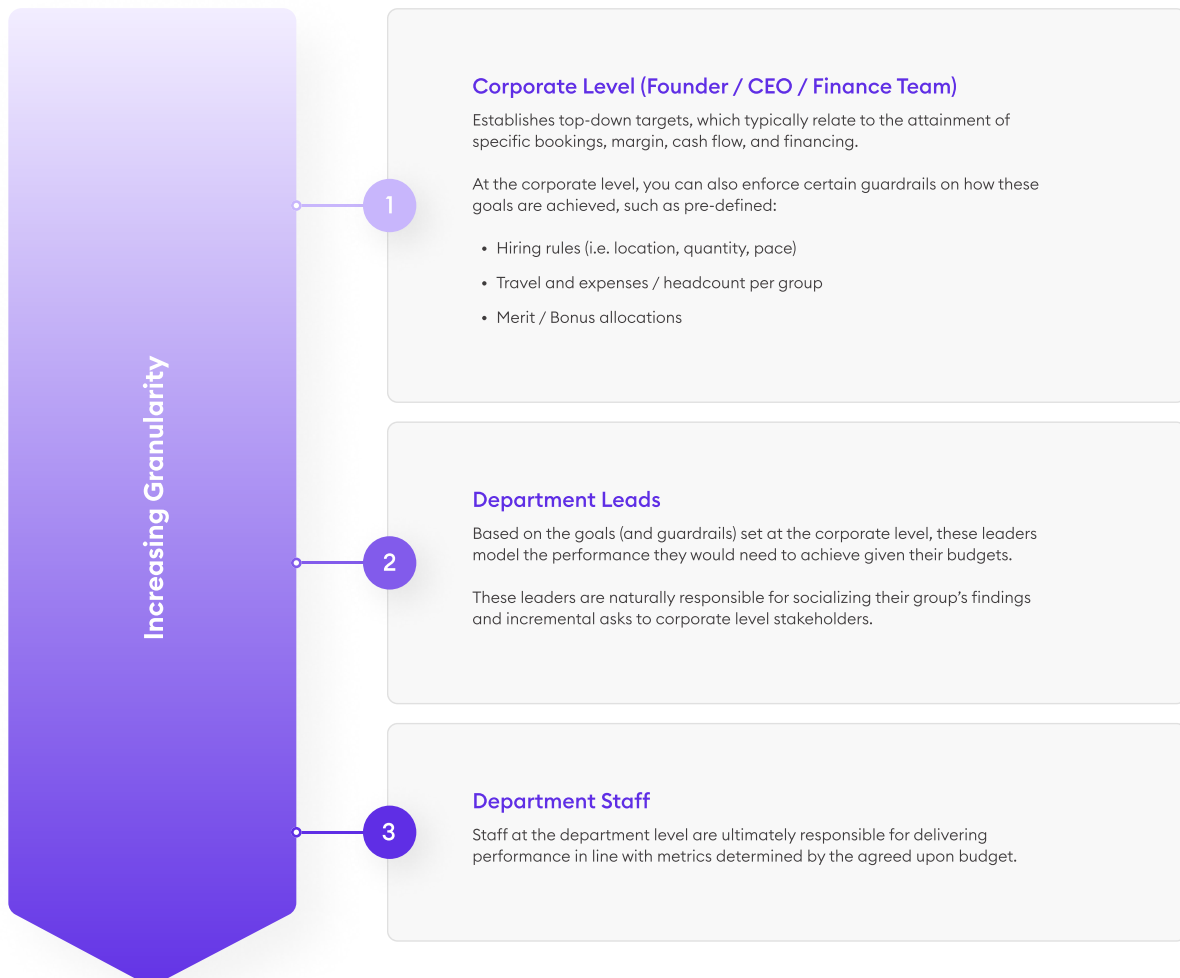
A good rule of thumb: when you hire “heads of” departments is when you can expect to start delegating more budgeting responsibility.





Key Stakeholders: Introducing the Budget Ownership Waterfall

A typical structure will consist of three layers: Corporate Leaders, Department Leaders, and Department Staff. While high-level targets like revenue are set from the top down, metric granularity will increase as you move down the waterfall to department level staff.



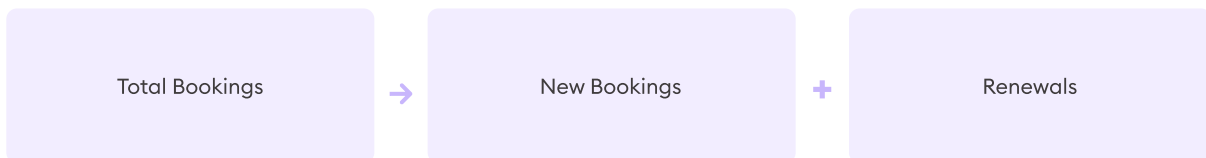


Budget Ownership Waterfall Examples

In this structure, you want the team closest to the metric setting the most granular targets. For example, topline company revenue should be set at the Corporate level, but channel marketers are likely best equipped to create channel-level goals.

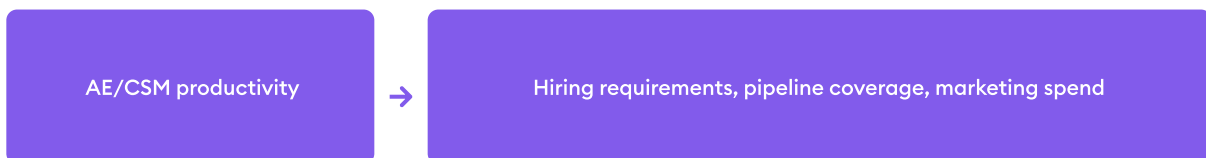
MIN. GRANULARITY

Corporate



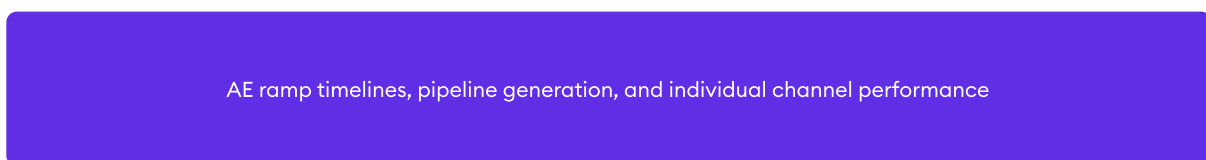
MID. GRANULARITY

Department Leaders



MAX. GRANULARITY

Department Staff





02

Executive Alignment and Goal Setting



Getting Started

Executive Alignment is the first step in creating an annual plan. You want your leadership team to be tightly aligned on the multi-year vision and the general shape of your profit and loss statement over the course of the next few years before creating an annual plan. This process is known as Long Range Planning and will act as the foundation for your annual plan.



Long Range Planning

We won't dive deeply into Long Range Planning (LRP) in this guide, but your annual plan is a distillation of your LRP translated into near-term milestones. For the purposes of this guide, we assume you have a 3–5 year vision for your company.

MULTI-YEAR FOCUS

Long Range Planning (LRP)

What to ask yourself

“What annual milestones do we need to hit for us to land at our ideal position 3-5 years from now?”



NEXT 12-MONTH FOCUS

Annual Planning

Once multi-year planning (LRP) is complete, leverage the LRP and refine the annual plan for the following year. One piece of the annual plan will be setting OKRs and goals through the strategic planning process.

What to ask yourself

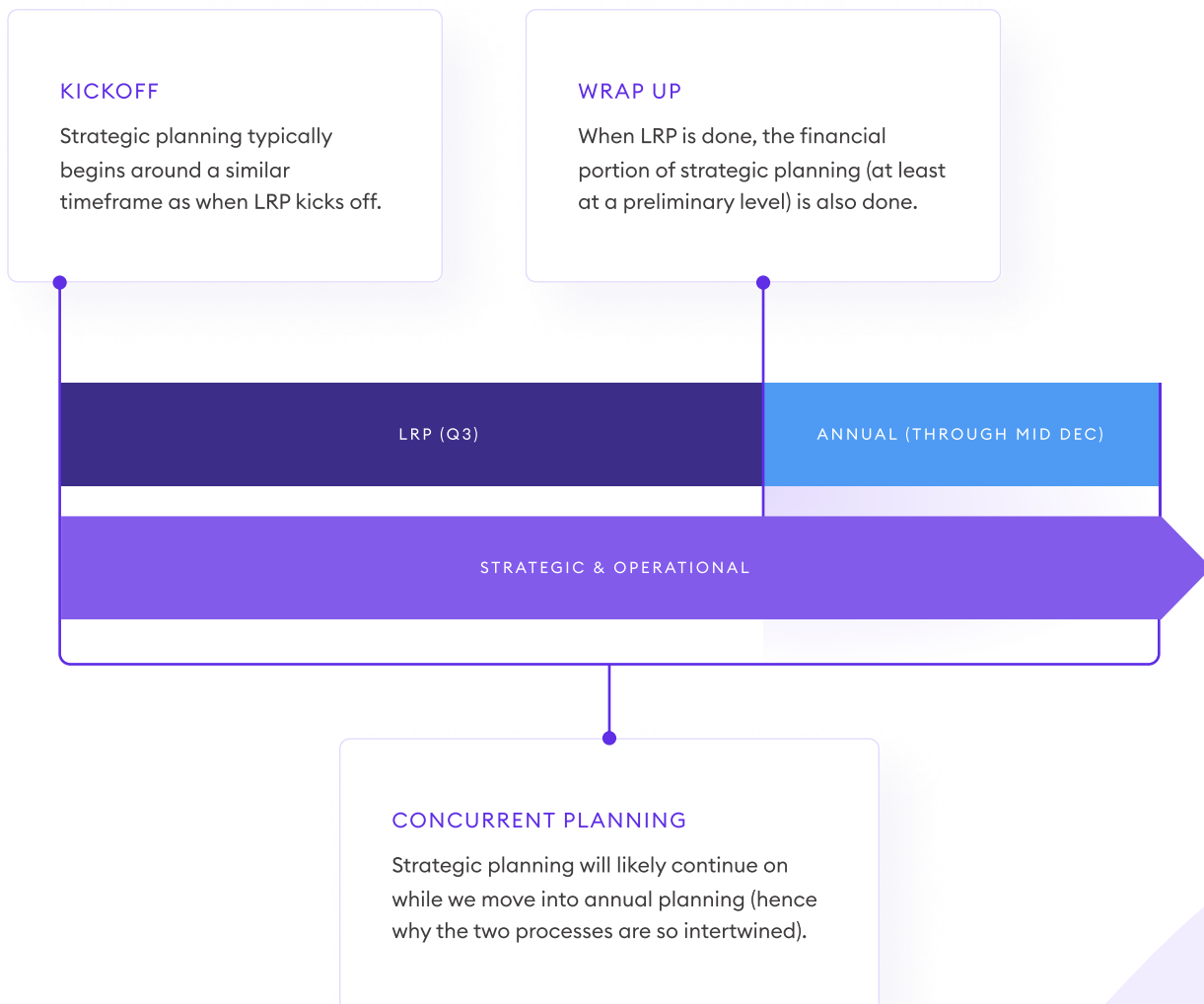
“What monthly/quarterly milestones must be achieved to hit the following year's targets?”

“Based on these monthly/quarterly milestones, what underlying assumptions do we need to make in order to achieve our goals? Do we believe these assumptions are realistic and achievable?”



Planning Timelines

- STRATEGIC & OPERATIONAL PLANNING
- LONG RANGE PLANNING
- ANNUAL PLANNING





Strategic vs Annual Planning

The annual plan is a distillation of your LRP into concrete goals you need to achieve in the next year. These goal are often set as part of the strategic planning process.

Pilot has also created a strategic planning guide and while heavily intertwined, annual planning and strategic planning are distinct processes. Strategic planning is often an early step in annual planning, whereby overarching company OKRs and their dependencies are established. Goal alignment through the strategic planning process then provides the foundation needed to develop a plan specifically as it relates to the financial aspects of the company.

For a more in depth explanation of strategic planning, see Pilot's [Strategic Planning Guide](#).

BONUS RESOURCE

There are myriad ways to do this and to help guide your thinking here. This is a simple template we often share with CFO Services clients.

[View Template](#)



Stage-Based Finance Considerations

As you grow, the KPIs you set during strategic planning will likely change. While every business is different, these considerations are broadly applicable for most VC-backed startups.





Goal Setting Checklist

01

**Executive alignment
on the LRP**



02

**Create a short summary
of the strategic plan**



03

**Create between 3-5 themes
for your annual plan**



04

Land on 2-5 goals or objectives





03

Budgets



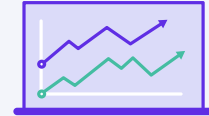
Translating Goals Into Budgets

Once company goals have been determined, finance will translate those goals into fiscal targets, which will inform operating budget needs by department. These budgets will be distributed to departments in the next phase.



Target Setting Methodology

Targets (KPIs) are informed by your annual goals and the stage of your business. These plans are pressure-tested with bottoms-up plans that are determined by budget owners.



CLOSER LOOK

Pressure testing refers to the process of department level teams modeling the performance they need to achieve to hit the fiscal targets you provide.

Example: One of your goals is to 2x revenue in the coming fiscal year. New sales will account for 75% of your revenue and the revenue organization (Sales and Marketing) is responsible for new sales. During the target setting phase, Finance has translated a doubling of revenue into specific metrics around sales and marketing efficiency and payback period that align with the P&L you landed on in your LRP. Sales and Marketing will pressure-test (or model) those metrics using assumptions about headcount, productivity, etc. to ensure that the new sales target can be reached.

Do their models suggest they can achieve their goals? How far off is their model from the plan? You'll address those deltas in the next phase of the annual planning process.



Target Setting: Revenue

Revenue targets are the backbone of the annual plan, and often, the most involved in terms of pressure-testing.



CLOSER LOOK

The objective is to ultimately determine what needs to be true in order to achieve the revenue targets that have been set out in the annual plan.

Continuing with our example from the previous section: If new sales account for 75% of forecasted revenue, the other 25% has to come from renewals, net of churn. Considerations for meeting those renewal targets are your net renewal rates which can be further broken down into your churn, downgrade and expansion rates (these together make up your renewal rate).

Here is a sample [revenue planning template](#) that we use with our SaaS CFO Services clients.



Target Setting: Headcount

Employee-related costs will likely be among your largest expenses and will consequently require the most time and attention. [Here](#) is the headcount planning template we use with CFO services clients. Different teams will require different pressure tests to identify headcount needs. For example:

SALES

Depends on booking targets and productivity

RECRUITING

Depends on the volume and pace of company hiring

ENGINEERING

Depends on product / feature roadmap

PRO TIP

Be mindful of the areas for cost savings

There are several levers to accomplish this, but often business leaders are given limitations on what and how much they can leverage each one of these:

- Hiring Rate and Pace: applicable to both backfills or just general planned hires; in essence, there are “savings” over the period where the role remains open, though it could be at the cost of other factors (i.e. generating sales, product development, etc.)
- Attrition: the rate at which employees leave
- Hiring Locations: lower cost geographical locations



Target Setting: Expense Budgets

Expense budgets socialized to business leaders are intended to be a starting point; these initial budgets are then refined based on investment priorities, informed by the department level models (or pressure-tests), to arrive at finalized targets.



OBJECTIVE

Create and share preliminary budgets with leaders as a starting point that will be pressure-tested at the department level.

Given the revenue targets, what are the actual dollars that departments will need to spend in order to hit the metrics established in revenue target setting? The expense budgets you provide to departments are fiscal guardrails. These guardrails can force departments to be creative in how they plan to hit revenue targets. If adjustments are required, those requests will be handled in the next phase.



Budget Phase Checklist

- Finance will translate company goals into fiscal targets
- Socialize preliminary targets & budgets
 - Revenue
 - Headcount allocations by department
 - Other expenses by department

PRO TIP

Leverage Corporate Contingency

What is it?

A pool of “hold back” dollars stripped out of the budget prior to socializing initial targets (i.e. initial targets should be net of corporate contingency); hold back dollars do not need to be equal across departments.

How is it used?

- This reserve prevents business leaders from sandbagging needs and pushes folks to be more creative/resourceful (doing more with less).
- As teams solve for initial targets, naturally some targets may be too aggressive or there may be incremental investment asks for new initiatives—dollars can then be “released” from this reserve and allocated to the team.
- If no additional dollars are needed, these savings can be carried through the year to cover for any greater than expected expenses or ultimately moved over to the next year.



04

Solve



Pressure Testing & Analysis

During the Solve phase of annual planning, you're involving every department. Socialize the company level goals, budgets, and targets that you established during the goal setting and budgeting phases. Each department is staffed with experts in their fields and therefore are best equipped to solve within their budgets and identify risks and opportunities. Department leaders and staff should be building bottoms-up models to pressure-test their allocated budgets to reveal any risks and opportunities.

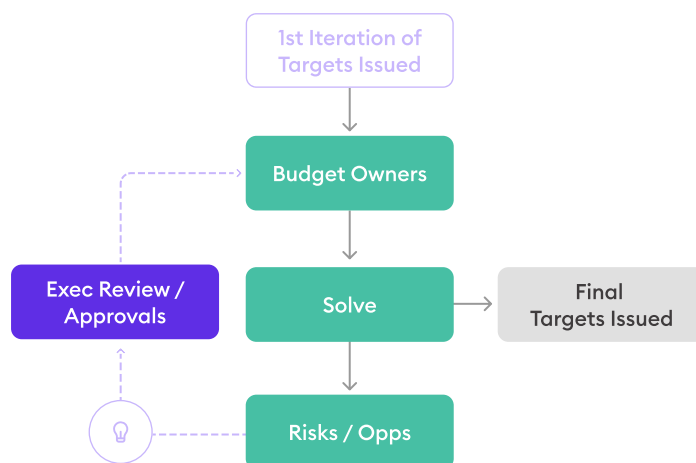
At this stage, departments should be given the opportunity to request budget adjustments, through an established process. The corporate level stakeholders in coordination with finance should review, prioritize and accept or reject requests as necessary.

Solve

Refers to the process by which budget owners pressure-test corporate targets by building bottoms-up analysis that solve to the current iteration of targets



Note: 1 – 2 rounds of iterating on the budget may be needed before arriving at final targets.





Pressure Testing & Analysis

(Continued)



CLOSER LOOK

Returning to our sample revenue department to illustrate this phase...

Sales and marketing have determined that they can likely hit the revenue goal, but only if sales headcount is increased from the initial plan. Unfortunately, the additional headcount will put overall sales and marketing expenses above the initial budget they were allotted. The sales and marketing team needs to go back to the corporate team to communicate the ask. This conversation can either end in one of two ways: (1) new budget is approved, or (2) the sales and marketing team needs to go back to the drawing board because their ask was denied.



Solve Checklist

01

Socialize department level budgets



02

Provide department level guardrails



03

Have departments pressure-test the budgets



04

Establish a process by which departments can request budget adjustments



05

Approve and reject budget requests





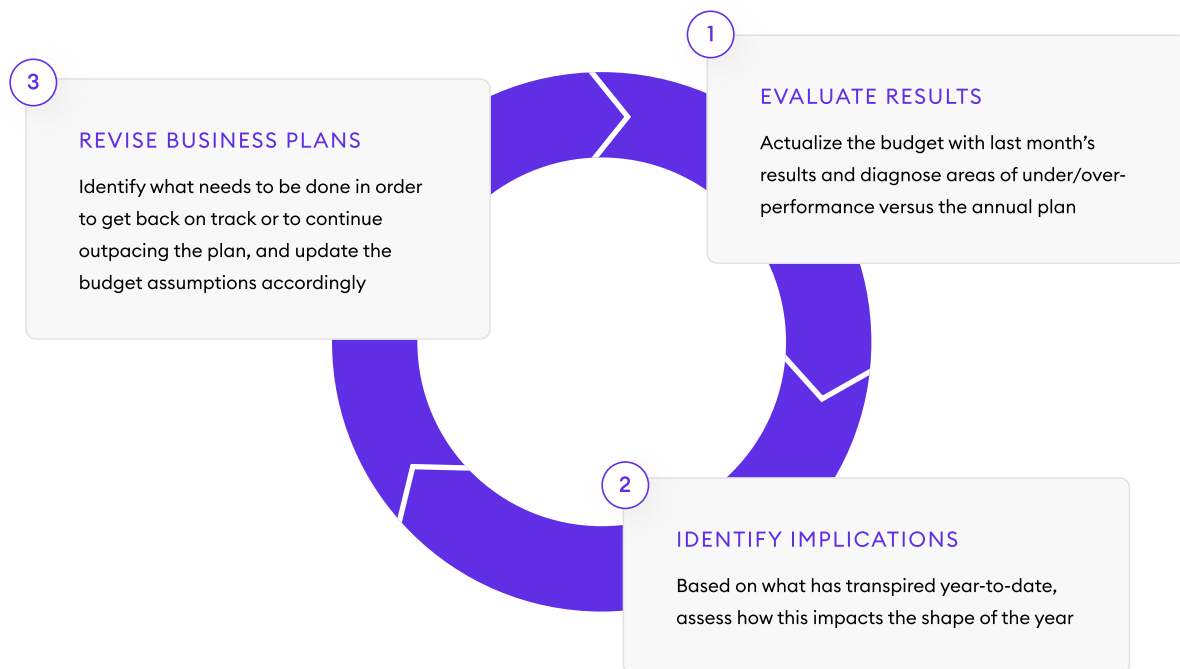
05

Living Within The Plan



Holding Accountability Through the Year

Though an annual plan has been defined and locked through the annual planning process, results are never guaranteed. It's vital that you have a rolling budget and a business plan that's updated for the latest actual performance. Implement a monthly cadence of re-evaluating your budget and plan with actual performance.



What does this achieve?

- Supports a proactive approach to navigating uncertainty
- Keeps expectations tied to reality
- Holds business leaders accountable
- Equips management with the necessary responses going into board / investor meetings
- Provide an opportunity for department leaders to vocalize any concerns, incremental asks, etc.



Holding Accountability Through the Year Example

BUDGET VS ACTUALS
XYZ Inc.

Income Statement
Month Ending June 30, 2024

| (\$) | 1 | 2 | Actuals | Actuals vs Plan | |
|-------------------------------------|------------------|------------------|------------------|-----------------|--------------|
| | Plan | Outlook | | (\$) | (%) |
| P&L | | | | | |
| Revenue | 840,102 | 760,383 | 763,444 | 76,658 | 10.0% |
| COGS | 90,232 | 85,393 | 86,475 | 3,757 | 4.3% |
| Gross Profit | 749,870 | 674,990 | 679,969 | 72,901 | 10.8% |
| % Margin | 89.26% | 88.77% | 88.67% | n.a. | (0.1%) |
| General & Administrative | | | | | |
| Payroll | 232,020 | 210,282 | 209,191 | 22,829 | 10.9% |
| Office Rent | 50,000 | 50,000 | 50,000 | - | 0.0% |
| ... | | | | | |
| Sales & Marketing | | | | | |
| Payroll | 383,021 | 294,202 | 302,994 | 80,027 | 26.4% |
| Branding | 30,238 | 58,023 | 60,004 | (29,766) | (49.6%) |
| ... | | | | | |
| Research & Development | | | | | |
| Payroll | 430,291 | 499,243 | 479,201 | (48,910) | (10.2%) |
| Software & Web Services | 90,329 | 91,320 | 92,023 | 306 | 0.3% |
| ... | | | | | |
| Operating Expenses | 1,217,899 | 1,203,070 | 1,193,403 | 24,486 | 2.1% |
| Operating Income | (468,029) | (528,080) | (516,444) | 48,415 | 49.4% |

1

Plan is “locked” and is held unchanged through the year

2

Outlook differs from Plan as forecasts are revised on a rolling monthly basis as results become actualized

3

Illustration shows variance analysis of actuals against Outlook, but a similar exercise should be done to benchmark:

- Plan vs. Outlook
- Plan vs. Actuals



06

How Pilot Can Help



Pilot CFO Services

Pilot's CFO Services team can effectively drive the annual planning process for you. Leveraging prior experience with annual planning and expertise in navigating complex processes, our team can remove any ambiguity that may arise. They can ensure the project stays on schedule and will guide you through potentially unfamiliar territory. By doing so, the CFO Services team relieves clients of additional work and ensures optimal time utilization.

EXPERTS YOU CAN RELY ON

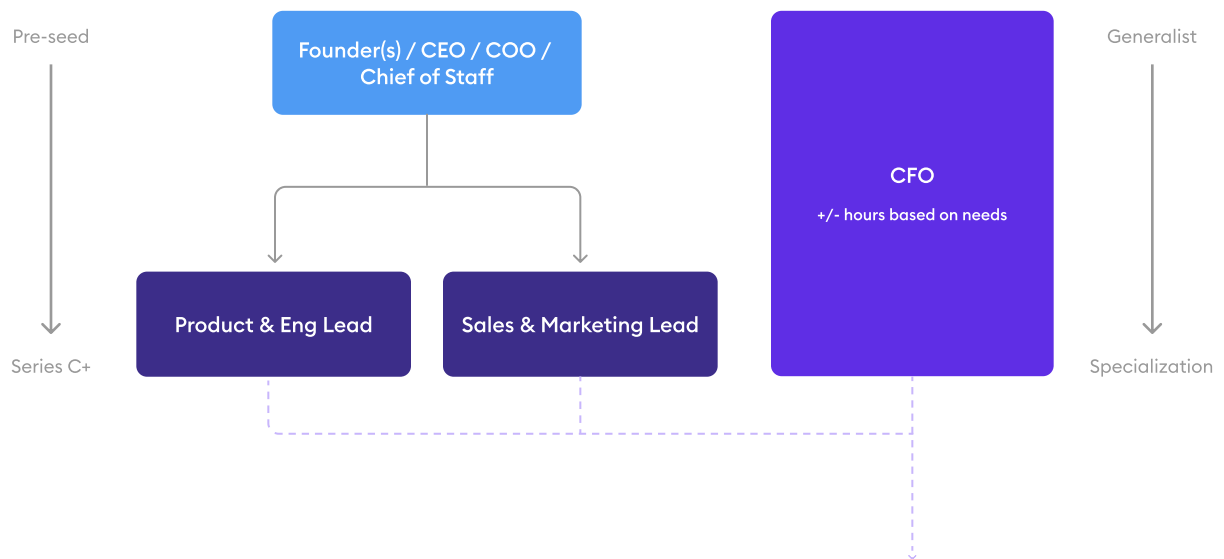
With Pilot CFO Services, you can trust that your target-setting process is guided by best practices, thorough analysis, thoughtful guidance, and a proactive mindset.

As a result, we will establish targets that drive your business forward and empower you to achieve sustainable growth and profitability.



How Pilot CFO Services Streamlines the Process

Pilot CFO can quarterback the annual planning process, seeking input from the Founder/COO for company-wide goals, while considering operational risks and opportunities presented at a department level.



EXEC/INTERNAL FINANCE-LED DISCUSSIONS

The Pilot CFO can take a background role, partnering with the executive team or finance team, if applicable, but discussions with business leaders are ultimately led by internal stakeholders

ALTERNATIVE: PILOT CFO-LED DISCUSSION

The Pilot CFO can directly liaise with business leaders, given that they have consent from the client



How Pilot CFO Services Helps Make Sure You're On Track

Streamlined Monthly Budgeting

We take charge of the recurring monthly budgeting process, working autonomously to refresh the budget based on actuals. By closely monitoring budget versus actuals through the course of the year, we can provide valuable insights into areas where you have overperformed or underperformed.

Comprehensive Variance Analysis

We determine the implications of year-to-date variances on the remainder of the year. This analysis helps us assess where you are pacing against the plan and if certain targets may need to be revised. Understanding these implications allows you to make informed decisions, grounded in reality, as you progress through the year.

Expert Collaboration and Actionable Planning

Leveraging our expertise and collaborating closely with your team, we identify what the revised business plan and budget might entail for the remainder of the year. We formalize actionable next steps and ensure that departments are held accountable for their performance. This proactive approach keeps everyone aligned and focused on achieving the desired outcomes.



Bonus Resources

Easily access Pilot's planning resources shared throughout this guide.

GUIDE

Annual Strategic Planning

[View Guide](#)

TEMPLATE

Simple Strategic Planning

[View Doc](#)

TEMPLATE

Revenue Planning

[View Sheet](#)

TEMPLATE

Headcount Planning

[View Sheet](#)



Thousands of startups and founders trust Pilot with their accounting.

Pilot specializes in bookkeeping, tax prep, and CFO services for high-growth startups, ranging from pre-seed to Series C. When you work with Pilot, you get the expertise of a finance team that takes the work off your plate—so you can focus on your business.

Pilot is not a public accounting firm and does not provide services that would require a license to practice public accountancy.

[→ Learn more at Pilot.com](https://pilot.com)