pilot

Annual Planning Guide

A Framework For Your Planning Process

Dear Owner,

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 guide together to define the annual budgeting and 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 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
Director of CFO Services, Pilot

Table of Contents

01

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 financial plan should be built to achieve your goals.
- The goals set in this process may be stretch, but should nonetheless be achievable.

Set Guardrails

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

Make Sustainable Decisions

Focus on making durable, long-term decisions.

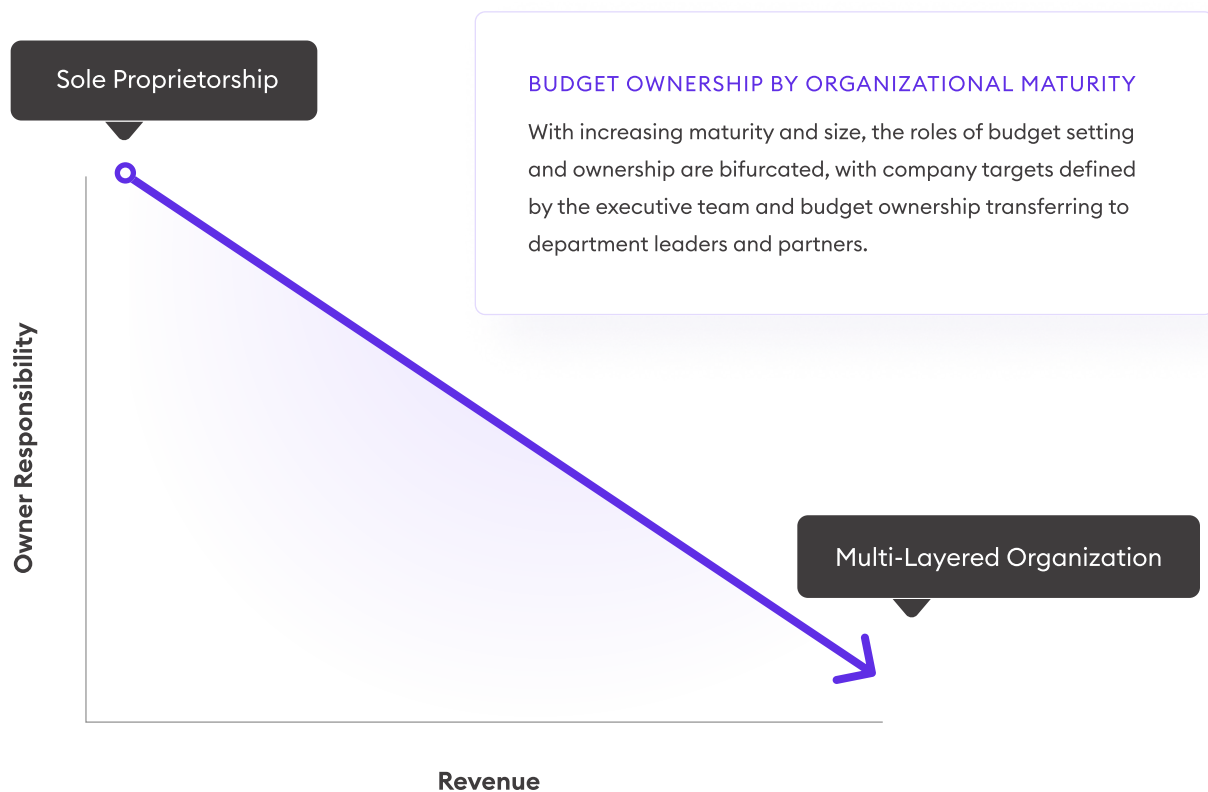### Uncertainty Is Not an Excuse

Risk is inherent. Flag uncertainties and provide mitigation plans.

Defining Who Sets And Who Owns the Budget

In the early stages of a business, the entire budgeting process is primarily owner driven. As the business grows, you'll start to rely on partners and department heads to manage predetermined budgets. As a result, you'll need to defer more responsibility for planning to those leaders.

A good rule of thumb: when you hire "heads of" departments and partners to oversee parts of your business is when you can expect to start delegating more budgeting responsibility. However, some firms may never expand their leadership ranks and thus the owners will retain total responsibility of the budgeting process.

Sole Proprietorship

BUDGET OWNERSHIP BY ORGANIZATIONAL MATURITY

With increasing maturity and size, the roles of budget setting and ownership are bifurcated, with company targets defined by the executive team and budget ownership transferring to department leaders and partners.

Owner Responsibility

Multi-Layered Organization

Revenue

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.

Increasing Granularity

1

Executive and Partner Level (Founder / CEO / Finance Team)

Establishes top-down targets, which typically relate to the attainment of specific revenue, margin, cash flow, and financing.

At the corporate level, you can also enforce certain guardrails on how these goals are achieved, such as pre-defined:

- Hiring rules (i.e. location, quantity, pace)
- Travel and expenses / headcount per group
- Merit / Bonus allocations

2

Department Leads

Based on the goals (and guardrails) set at the corporate level, these leaders model the performance they would need to achieve given their budgets.

These leaders are naturally responsible for socializing their group's findings and incremental asks to corporate level stakeholders.

3

Department Staff

Staff at the department level are ultimately responsible for delivering performance in line with metrics determined by the agreed upon budget.

Budget Ownership Waterfall Examples

In this structure, you want the team closest to the metric setting the most granular targets. For example, company revenue targets should be set at the Executive level, but project owners are likely best equipped to create project level goals.
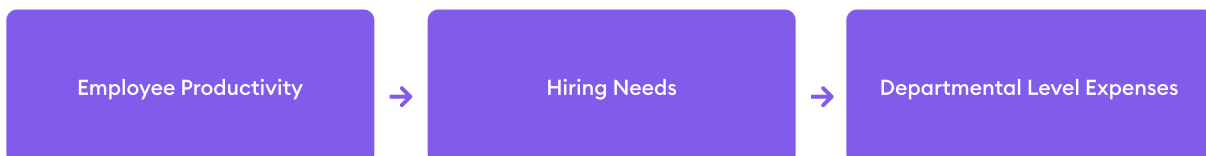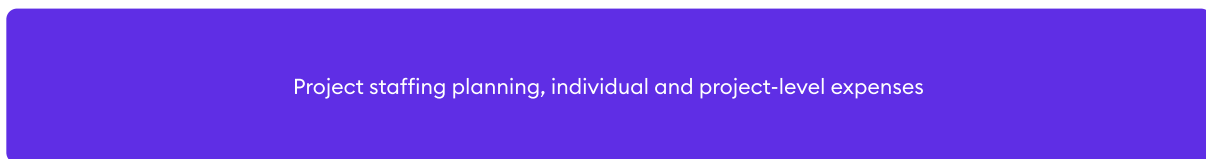
MIN GRANULARITY

Executive

Revenue	→	Company Wide Expenses	+	Renewals

MID GRANULARITY

Department Leaders

Employee Productivity	→	Hiring Needs	→	Departmental Level Expenses

MAX GRANULARITY

Department Staff

Project staffing planning, individual and project-level expenses

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 yearly vision and the profit you expect to generate in the coming year.

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 purpose of this guide, we assumed you have a 3-5 year vision for your company.

Long term goals can include:

- Selling your company
- Growing organically or acquiring other firms
- Achieving sustainable and consistent operations

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 Timeline

● LONG RANGE PLANNING   ● ANNUAL PLANNING

LONG RANGE PLANNING

| Q1 | Q2 | Q3 | Q4 |
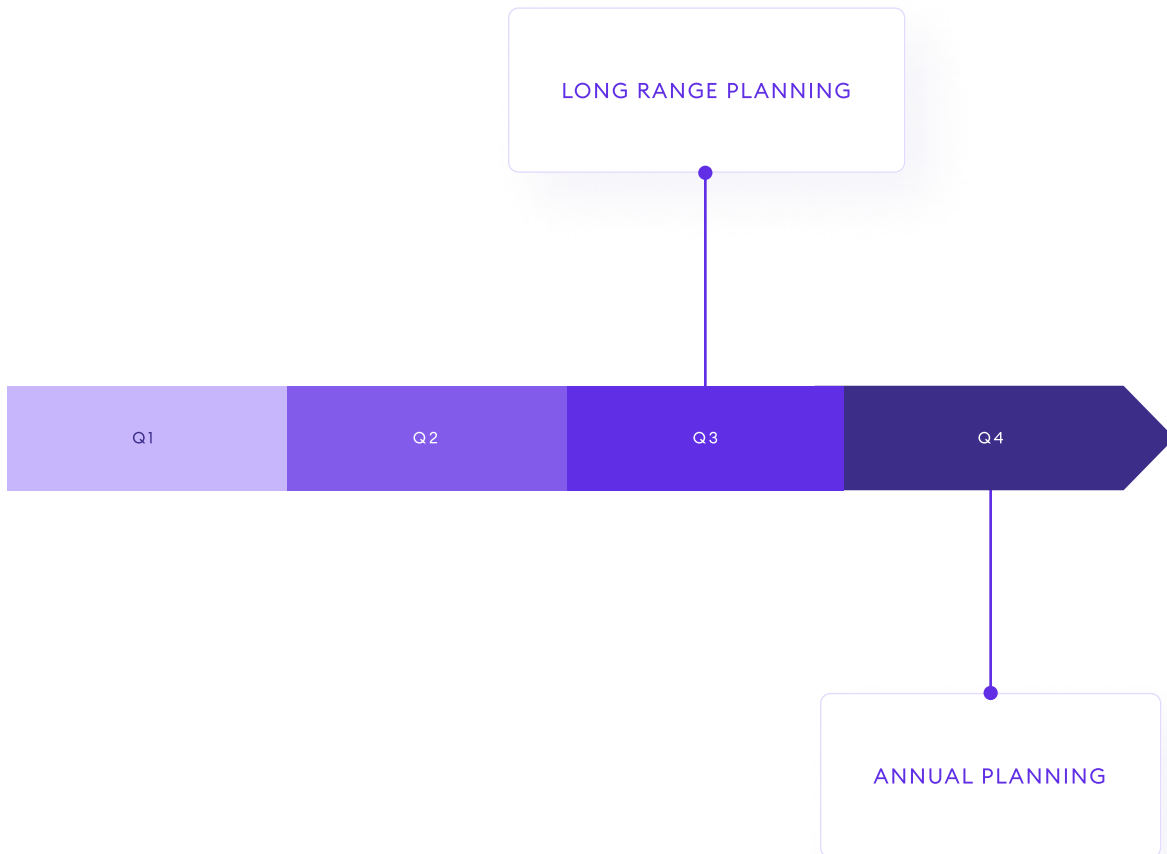
ANNUAL PLANNING

Size-Based Finance Considerations

As you grow, the KPIs you set during annual planning will likely change. While every business is different, these considerations are broadly applicable for companies of a certain scale.

1-5 EMPLOYEES

Is there demand for our service?

- Pricing and Revenue Plan
- Target Setting
- Hiring Plan
- Initial Capital (if needed)

6-50 EMPLOYEES

Will you be the market winner?

- Preliminary Long Range Planning
- Employee Productivity
- Growth Strategy
- KPI Tracking and Benchmarking
- Service and Pricing Standardization
- Quarterly Budget vs Actuals

50+ EMPLOYEES

Are the unit economics improving?

- Monthly Budget vs Actuals
- Formalized Long Range Planning
- Acquisition Planning
- Departmental Level Annual Planning
- Profit Sharing and Employee Bonus Programs

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: Revenue

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

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.

Example: One of your goals is to 2x your billable hours revenue in the coming fiscal year. During the target setting phase, finance has translated a doubling of revenue into specific metrics around employee productivity and the additional hiring requirements to hit that revenue goal. Your department heads and partners will pressure-test (or model) those hiring plans and metrics using assumptions about productivity, onboarding time, etc to ensure that the new revenue targets can be reached.

Target Setting: Headcount

Employee-related costs will likely be among your largest expenses and will consequently require the most time and attention. Different teams will require different assumptions to identify headcount needs. For example:

SERVICE DELIVERY

Depends on revenue targets and productivity

ADMINISTRATION

Depends on the complexity in your billing, operations and internal company management

SALES & MARKETING

Depends on your sales and business development strategy

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 revenue and other factors (i.e. internal operations)

- 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 assumptions), to arrive at finalized targets.

Expenses that should be considered:

INTERNAL OPERATIONS
Team Meals, Company Events, IT Expenses, etc.

SALES DEVELOPMENT
Conferences, Sales Meals, Sponsorships

CLIENT RELATED
Travel, Reimbursable & Non Reimbursable Expenses

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 Executive 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 or employee retention- dollars can then be "released" from this reserve and allocated to the team for investments in headcount, bonuses, sales development or other needs.

- If no additional dollars are needed, these savings, can be carried through the year to cover for any greater than expected expenses, lower than expected revenues, or ultimately held to increase profit for the 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.

1st Iteration of Targets Issued

Budget Owners

Exec Review / Approvals

Solve

Final Targets Issued

Risks / Opps
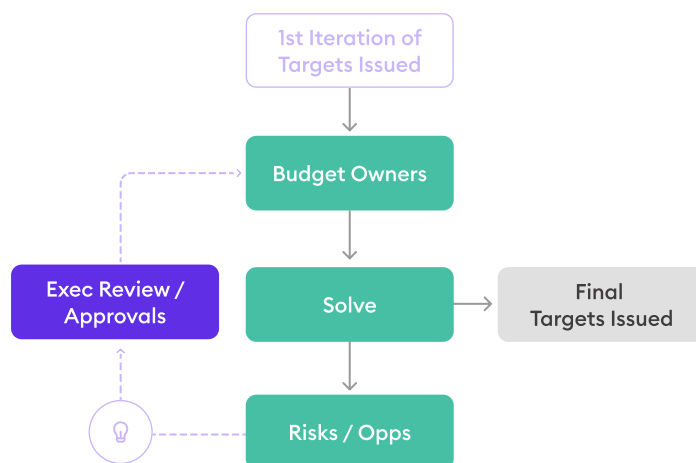
Pressure Testing & Analysis

(Continued)

CLOSER LOOK

Returning to our revenue example to illustrate this phase...

Your operations team has determined that they can likely hit the revenue goal, but only if your consulting team's headcount is increased from the initial plan. Unfortunately, the additional headcount will put your overall expenses above the initial budget allocated. The operations team needs to go back to the executive team to communicate the ask. This conversation can either end in one of two ways: (1) new budget is approved, or (2) the operations team needs to go back to the drawing board to meet their target 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**   ✓

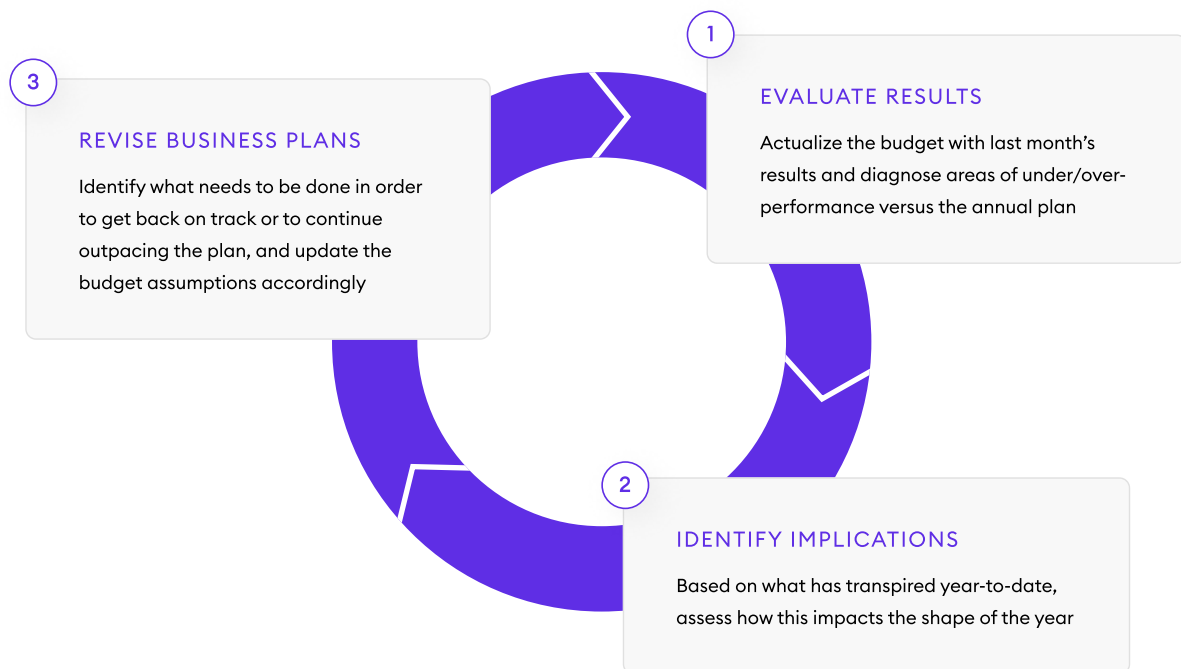**05**   **Approve and reject budget requests**   ✓

05

Living Within
The Plan

Holding Accountability Through the Year

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

1

EVALUATE RESULTS

Actualize the budget with last month's results and diagnose areas of under/over-performance versus the annual plan

2

IDENTIFY IMPLICATIONS

Based on what has transpired year-to-date, assess how this impacts the shape of the year

3

REVISE BUSINESS PLANS

Identify what needs to be done in order to get back on track or to continue outpacing the plan, and update the budget assumptions accordingly

What does this achieve?

- Holds business leaders accountable

- Establishes cadence to review financial metrics regularly

- Encourages leaders to make changes if results are different than expectations

- 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

($)	Plan	Outlook	Actuals	Actuals Vs Outlook ($)	Actuals Vs Outlook (%)
P&L					
Revenue	840,102	760,383	781,532	21,148	2.8%
COGS	90,232	85,393	86,475	1,082	1.3%
Gross Profit	**749,870**	**674,990**	**695,057**	**20,067**	**3.0%**
% Margin	89.3%	88.8%	88.9%	n.a.	(0.2%)
General & Administrative					
Payroll	232,020	210,282	209,191	(1,091)	(0.5%)
Office Rent	50,250	47,750	47,750	–	–
Meals, Travel, and Events	30,128	25,782	21,387	(4,395)	(17.0%)
...					
Sales & Marketing					
Payroll	383,021	294,202	302,994	8,792	3.0%
Branding	30,238	58,023	60,004	1,981	3.4%
...					
Operating Expenses	**725,657**	**636,039**	**641,326**	**5,287**	**0.8%**
Operating Income	**24,213**	**38,951**	**53,731**	**14,780**	**37.9%**

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 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.

pilot

Hundreds of small businesses trust Pilot with their accounting.

Pilot specializes in bookkeeping, tax prep, and CFO services for professional services and small businesses, ranging from single operators to developed agencies and law firms. When you work with Pilot, you get the expertise of a finance team that takes the work off of 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**