

# *The Budgeting Process*



# The Budget Planning Process...

As a Technical Manager, you will be tasked with providing a budget to your boss about your program / division / product line.

Your colleagues are doing the same, with all the budgets rolling up to establish the corporate plan for the year.

Every year, companies prepare their annual budget forecasts for the next year, including...

...budgets for profit centers responsible for product sales....

...and cost centers, such as engineering and R&D organizations.



# Why do this anyway?

*It's all about planning...*

The Executive Office establishes financial goals for the year...

Goals are translated into plans...

Plans are translated into actions...

The “actuals” are then measured against the plan...

Remedies are taken if “actuals” and the “plan” are not in sync.



# The Budgeting Process...

## *How are budgets developed?*

### The Top-Down Approach

- The C-Suite tells everyone the corporate plan...
- This cascades down to everyone else...
- Managers work to see if the budget goal fits reality.

### The Zero-Based Approach

- Every year, managers start with a budget of zero...
- Then justify every dollar in their proposed budget...
- Which then rolls up to the C-Suite.



# The Budgeting Process...

*How are budgets developed?*

In reality, it is always some combination of approaches...

And always very iterative until everyone can live with the result...



A Happy CEO



A Happy CFO



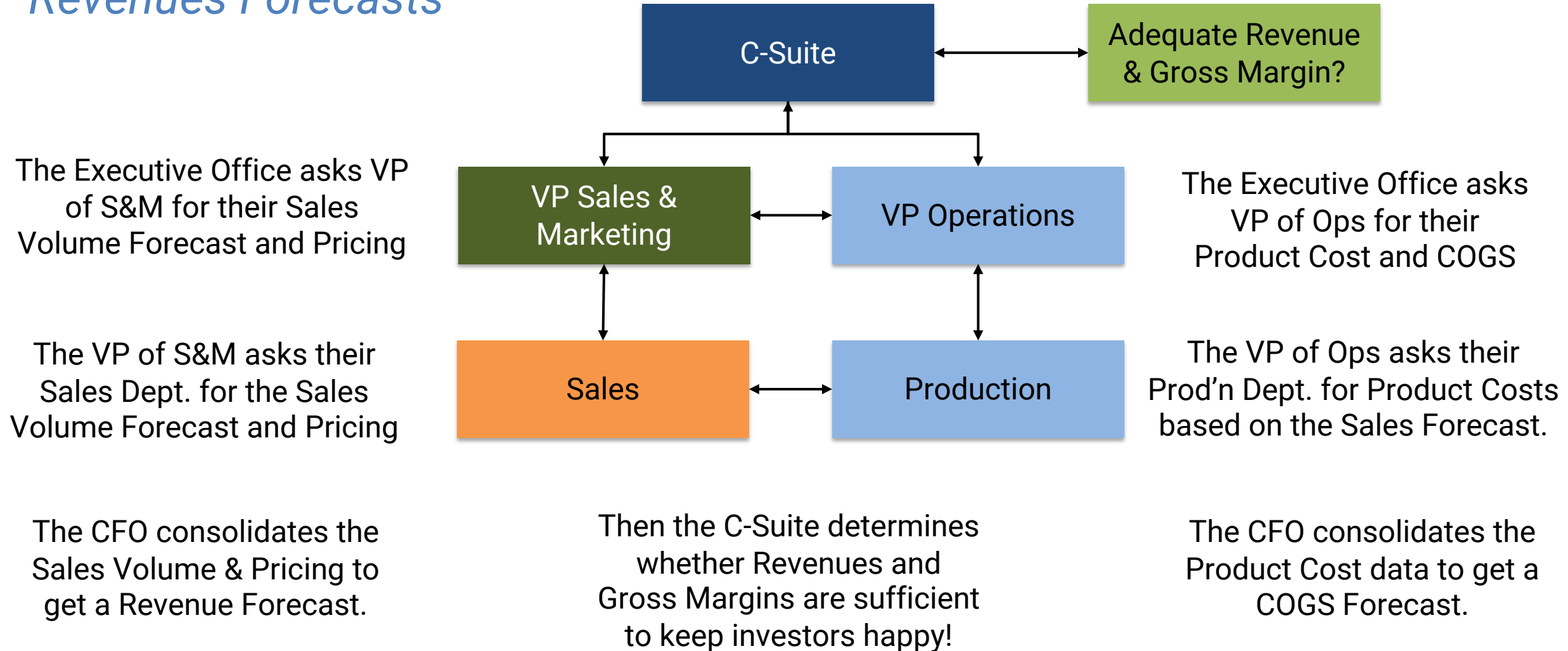
Happy Engineering Managers



Happy Field Engineers

# How are Budgets Developed...

## *Revenues Forecasts*

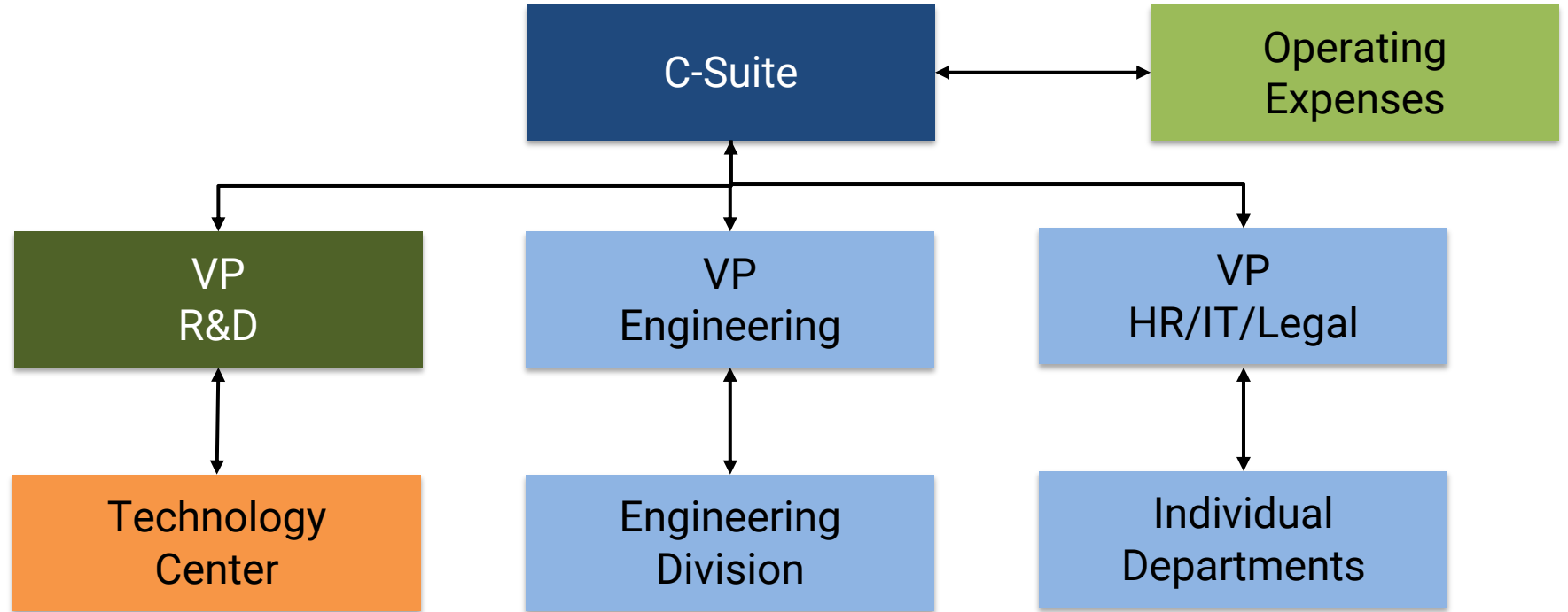


# How are Budgets Developed...

## *Operating Expense Forecasts*

The Executive Office asks VPs of Cost Centers for their Annual Cost Budgets

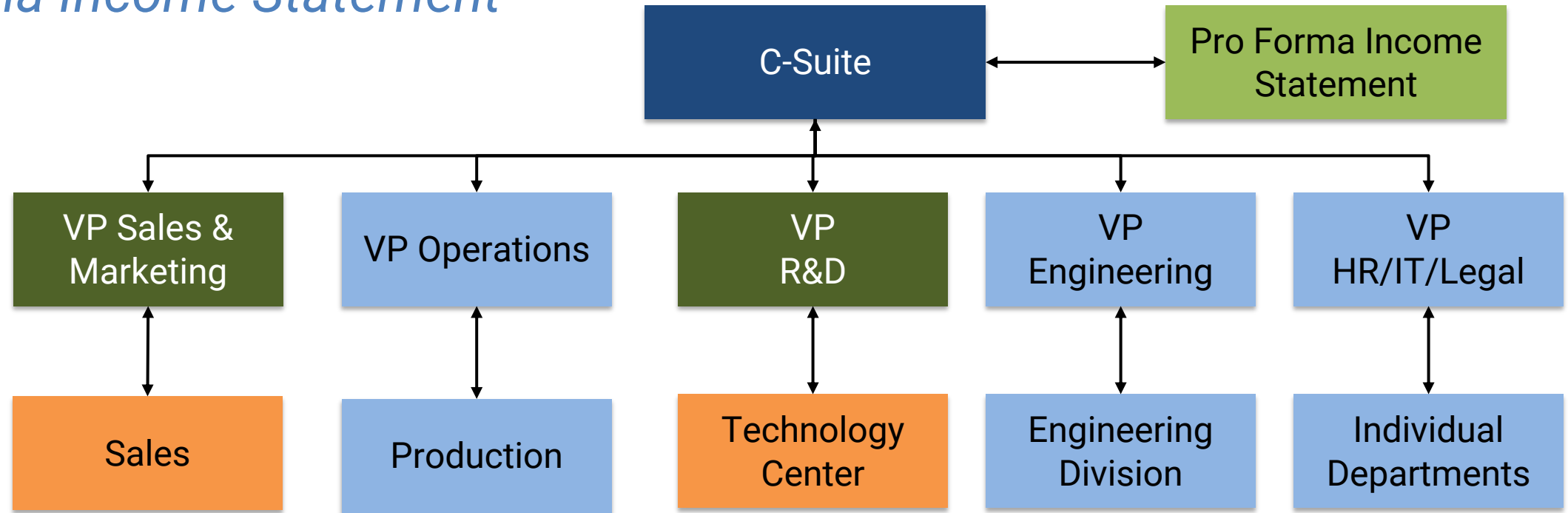
The VPs ask their Dept. Heads to prepare Annual Cost Budgets.



Then the C-Suite determines whether Operating Expenses are in line with Revenues.

# How are Budgets Developed...

## *Pro Forma Income Statement*



The C-Suite tells VP of Sales & Mktg their forecasts are too low...

The C-Suite then tells VP of Ops their production costs are too high...

The C-Suite then tells VPs of the Costs Centers their costs are exorbitant and unsustainable...

*The cycle repeats a few times until everyone is happy or can at least live with the result!*



# Next Time...

## *Budgeting for Profit Centers*



# Credits & References

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