mosaic

The Modern Financial Planning Blueprint

A Guide to More Collaborative and Agile Annual Planning Processes

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Introduction

The traditional annual planning process has been under fire for years as finance pushes to become more agile, strategic players in the business. As far back as 2011, Steve Player, Program Director for the Beyond Budgeting Roundtable, went as far as to say that “It makes no sense to use a 19th-century tool to manage a 21st-century company in a volatile global economy.”[1]

And yet, finance leaders at companies of all sizes continue to kick off annual planning processes when Q4 rolls around. It’s still the best way to set the tone for the year ahead because it benchmarks business performance and lays out a way to measure progress over the following 12 months.

“The value of an annual planning process is that it serves as a roadmap to align all functions of the organization to company goals. In early stage companies like Saltmine, the quarterly reforecast and continued iteration of the budget is crucial for roadmapping financing and other business decisions."

Ryan Koehler ◆ Director of Finance, Saltmine

But that doesn’t mean the traditional planning process couldn’t use a modern update. Finance doesn’t need to abandon annual financial planning. Instead, it’s time to embrace more agile and collaborative processes that start with annual plans and evolve throughout the year.

That may seem easier said than done, but this blueprint should help. As you head into Q4, use this timeline and breakdown of processes to ensure you build an effective annual plan that feeds into a more agile approach to budgeting and forecasting throughout the year.

[1] https://qtxasset.com/cfoinnovation/field/field_p_files/white_paper/NetSuite_WP_LetItRoll.pdf

The Blueprint for Planning Success

The blueprint for annual financial planning keeps finance ahead of the game.

As the year comes to an end, there's so much on your plate. You're working through year-end close to make sure everything is accounted for in the right calendar period, preparing board materials, trying to collaborate with the rest of the business as people leave for the holidays, and maybe even prepping for an audit — all at the same time.

Modernizing workflows and upgrading your tech stack can help free up time you'd otherwise waste on low-level manual tasks. But beyond that, it's crucial to establish a clear process and timeline for annual planning as early as possible.

"Annual planning is a forcing function for management to think about the big picture. Yes, it will be stale the moment it is printed, but it's the process, not the outcome, that is most valuable to a company."

Peter Nesbitt ◆ COO, Teampay

If you're still building your budget in the first week of Q1, you're already starting the new year off on the wrong foot. But the timeline and processes in this blueprint will keep you organized and help you get the annual plan out the door before the year-end stress sets in.

The specifics of your annual planning process will depend on the complexity of your business. But generally speaking, you should aim to start the process about a third of the way through your Q4 and finish over the course of 6 weeks (November 1 through December 15, if you operate on the calendar year). There are four main phases to cover.

The Blueprint

PHASE 1

Organize department-level data in the main financial model

2 Weeks

- Gather and organize historical data
- Scrub and clean data
- Identify consistent spend across the business
- Identify inconsistent spend across the business
- Start shaping questions you'll ask in department-level meetings

PHASE 2

Break Out to Department-Level Plans

2 Weeks

- Meet with sales
- Meet with marketing
- Meet with product
- Organize G&A budget

PHASE 3

Translate Department Budgets to the Main Model

1 Week

- Manage cash vs. accounting in the model
- Organize department-level data in main financial model

PHASE 4

Align with the CEO for Company and Board Approval

1 Week

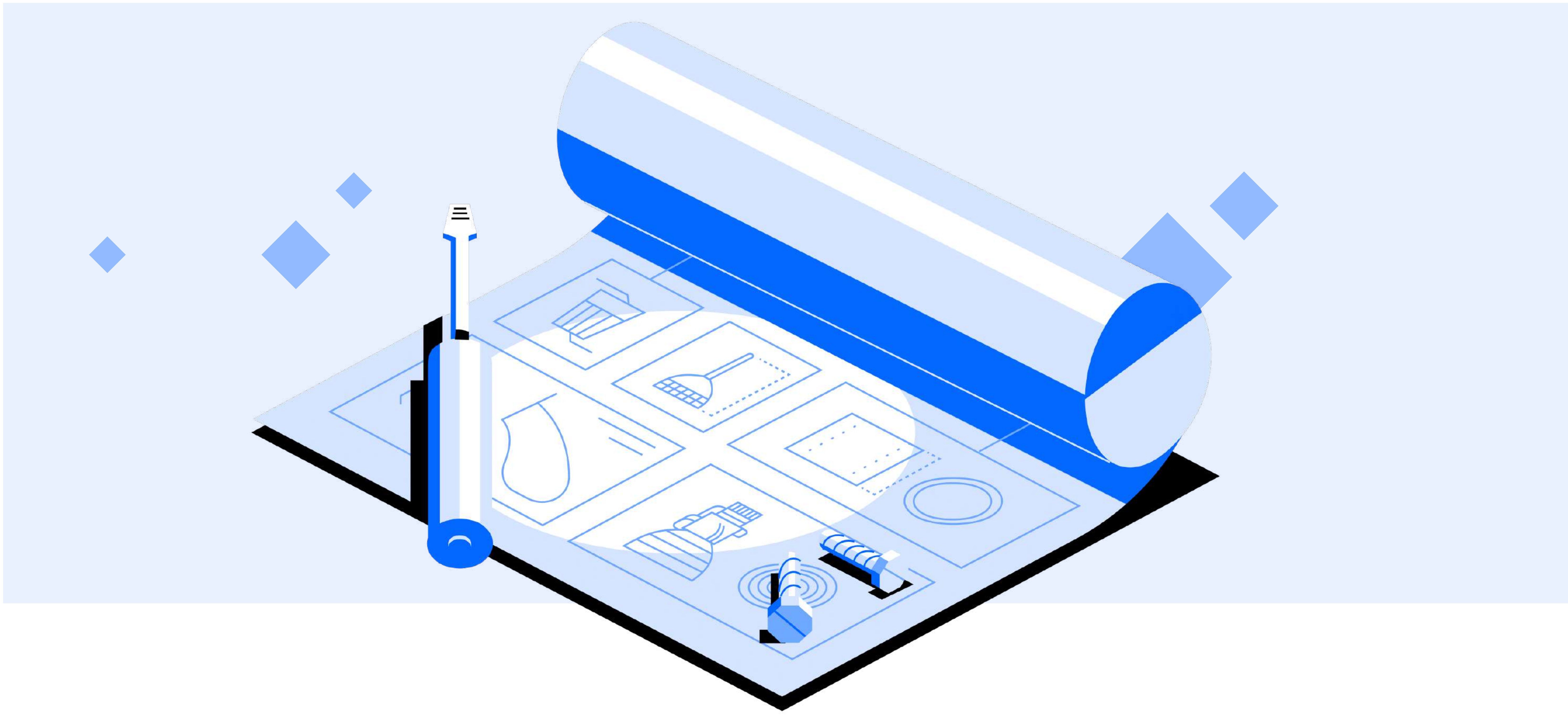
- Present full plan to CEO
- Address comments, changes, and additions
- Get sign off on the plan
- Prepare conservative scenario for board approval

PHASE 5

Agile Planning and Reforecasting Throughout the Year

Ongoing

- Ongoing effort on a monthly and quarterly basis
- Update models with new context about the business
- Compare rolling forecasts to annual plan



Phase 1 | Gather, Organize, and Understand the Data

The first phase of the annual planning process involves dissecting and categorizing data from across the organization to understand the prior year's spending. Your goal is to get a clear understanding of the known-knowns and known-unknowns across the business.

Known-Knowns: Pull different sections of spend for each department from your general ledger. Look at each account's data to determine what teams are spending money on and where there's consistency. For example, a known-known might be LinkedIn ad spend if the marketing team used that as a primary channel throughout the year. You can reasonably expect that spend to grow in some way, shape, or form.

Known-Unknowns: Find the lumpy spending across GL accounts. What are some of the big, one-off expenses across departments for the year? Can you reasonably expect to see those expenses again in the upcoming year? An example might be an event that the marketing team ran. If it drove results, you might expect it to be a bigger spend next year.

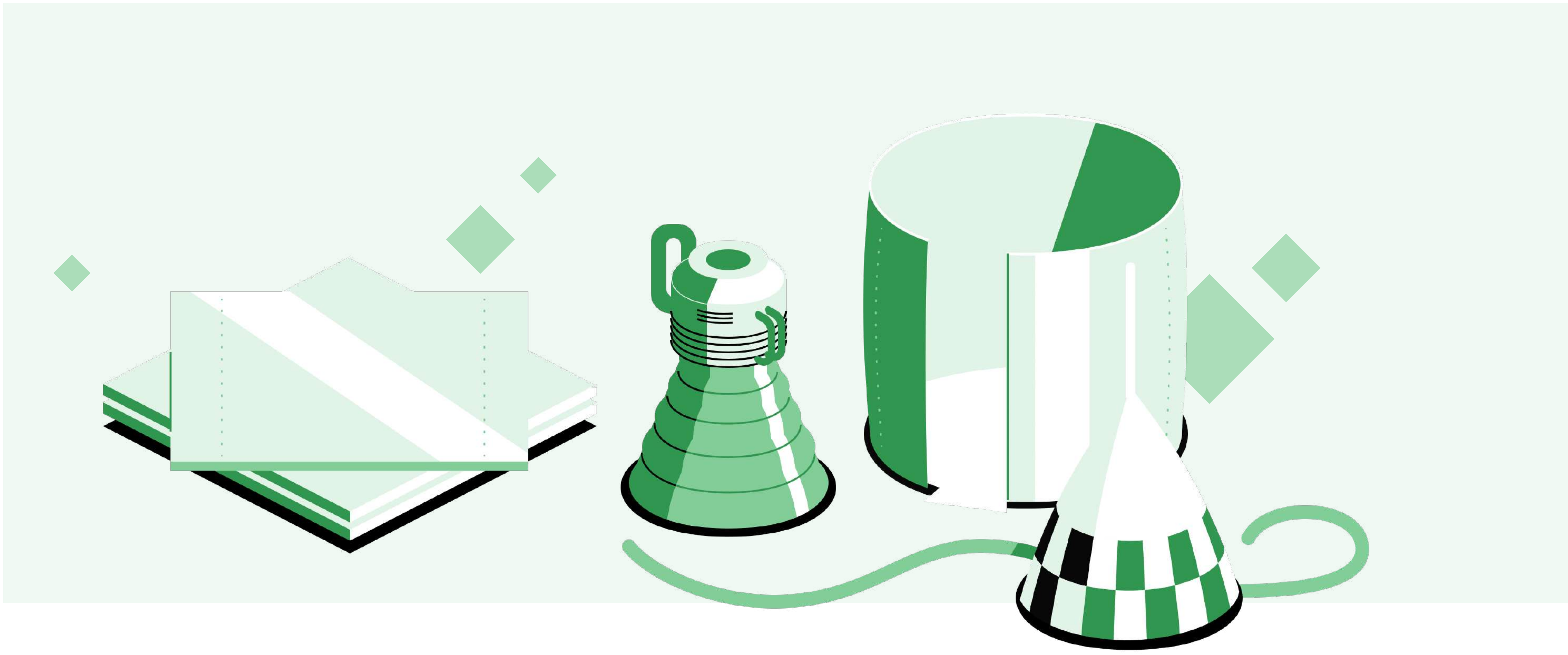
Identifying known-knowns and known-unknowns will give you a clear view of the business from the prior year. And with that understanding, you can start setting forecast drivers and assumptions for your new annual plan.

A driver-based approach to modeling is crucial to modern planning. It keeps your process outcome-oriented by drilling down to the per head, per month, or per vendor impact of costs. These value drivers improve the accuracy of your forecasts, keeping your finance function from working on gut feelings with assumptions alone.

Think about software spend as an example. As you budget for next year, you know software will be a major source of spending. If you can determine the per head software cost from the prior year, you can build an accurate driver into your model that grows software spend relative to the headcount growth in your annual plan.

The best finance teams create 80% of the annual plan in this phase alone. They lean on existing data integrity and a deep understanding of the business to lay the foundation.

Your goal in this first exercise is to identify each team's baseline of recurring spend. Once you know the baseline, you can grow those costs in line with growth expectations for the business and show up for Phase 2 with value-add conversation starters.



Phase 2 | Break Out to Department-Level Plans and Budgets

If Phase 1 is about zooming out and getting a clear view of the entire business, Phase 2 is where you zoom in and start refining the details of the plan. This phase is the most collaborative portion of the annual planning process as you meet with each department to create more granular plans and budgets.

Your goal here should be to create a common language with each business partner. Leaders in sales, marketing, and product don't speak the same language of finance. So, instead of handing over dense spreadsheets and expecting them to get up to speed on the financials, it's your job to communicate with them in terms they care about most.

That means focusing on outcomes and working backward from there. You'll need to do that in two different ways:

Bottom-Up Approach

With this approach, you can focus conversations around past performance to plans. For example, if you're working with sales to set a new business bookings target, you can work backward from rep quotas and win rates to build your pipeline goals progressively.

Top-Down Approach

You need this approach when you're implementing significant strategic changes in the business. These are cases where you don't have any historical data, so you need to set a high-level budget and establish goals from there. For example, if you're going to start selling to enterprise customers for the first time, you need to determine how that will change the sales plan.

If you want to double sales, how do you do that? If you want to double site traffic, how can you get there? Start with outcomes in mind and continuously focus on creating base, high, and low scenarios for each plan to set your department-level planning down the right path.

Collaborating with Sales on Annual Planning

A few of the key questions you'll want to discuss with sales during the annual planning process include:

How many new reps and SDRs do they plan to bring in next year?

Are they planning to change quotas for the existing team of reps and SDRs?

What is the team doing to increase quota attainment?

If quota attainment is already strong, how can they increase headcount plans to drive more revenue growth?

What’s the right percentage to forecast around net retention and upsells of existing customers?

How is the commission plan going to change for the coming year?

If you have a strong understanding of the business from Phase 1, you can come to these conversations with a strategic perspective. Maybe you see that certain reps consistently blew away their quotas in the prior year. You can surface that information to the head of sales and recommend increases to quotas.

Quick tip:
While planning for sales, be sure to consider customer success and support ratios. As your business grows, you’ll likely need additional support staff to onboard and support customers.

Collaborating with Marketing on Annual Planning

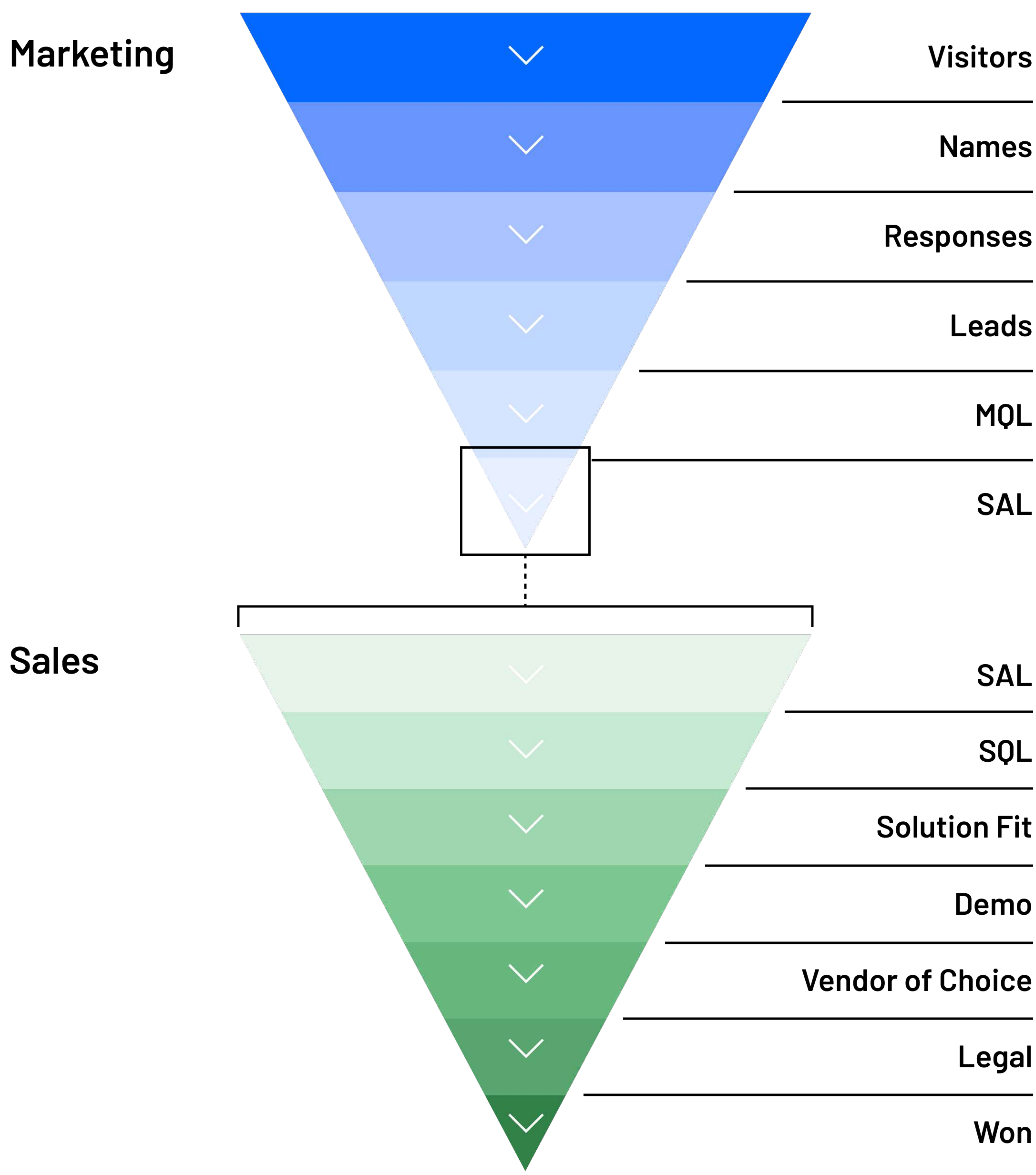
Finance’s job when collaborating with marketing on annual planning is adding context to help tie the department’s tactics and strategies to revenue metrics.

You should come to the conversation with insight into cost per lead, cost per click, average time from lead to customer, and conversion rates at each stage of the funnel. And you need to get a clear understanding of the department’s headcount plans for the year.

But effective annual planning for marketing requires more than metrics alignment and headcount plans.

> **"We can build this awesome model...I love these models. But don't ever forget reality—which is that's not how people buy enterprise software."** [2]
>
> Dave Kellogg ◆ Principal, Dave Kellogg Consulting

A combination of top-down and bottom-up planning is especially important in marketing as you build out the funnel and align it with the sales funnel.



[2] https://kellblog.com/2021/10/07/video-of-my-presentation-at-saastr-2021-a-ceos-guide-to-marketing/

You can start the planning process with the top-down approach, working backward from revenue goals to establish funnel metric benchmarks for the year. But the bottom-up approach is where you start to work through the granular details with your marketing team. You can come to the discussion with conversation starters like:

If we double the spend on our campaigns, should we expect double the top-of-funnel leads? How does the answer change depending on the type of campaign?

What new channels will you invest in to reach our target audience next year?

How many new people will you add to the team to execute next year's campaign ideas?

What are some of the blind spots in marketing measurement that could impact next year's plans?

The model for marketing plans should be directionally correct, not something to expect leaders to meet with 100% accuracy. But by asking questions like these, you can learn enough about the marketing operation to work backward to overall lead gen goals for various campaigns and initiatives the team planned out for the upcoming year.

Collaborating with Product on Annual Planning

The product team's plan is typically the most people-focused out of all departments. There will likely be some lumpy spend for things like security compliance audits, penetration tests, and maybe a new database in addition to per head software tools. But other than that, headcount is the major focus for your product conversations.

> **Ask questions about the engineering department's current resources and specific goals. Learn how many more engineers they will need to meet their goals. Will the new hires be entry-level or more senior? What month might they start?"**
>
> Colin Anderson ◆ Former CFO, Palantir

There are a few easy expenses you'll need to build into the plan. You know everything is hosted in the cloud, so hosting, storage, and data scale will be constants.

But the biggest variable in this aspect of the planning process is whether or not the business is releasing a new product in the upcoming year. If it is, you'll need much more specific insight into the effort required to get that product out into the world. Ask questions like:

How many new engineers will it take to release each new feature on time?

How many new folks on QA will be required to test the new product?

What are you thinking about as an ideal ratio of team leads to engineers?

Will you need to bring on additional support on the product management side?

Are there any major new technologies you'll need to invest in to build the new product?

Are there any investments needed in infrastructure to help the team scale with the growing customer base?

Quick tip:
Giving product, engineering, and QA insight into sales and marketing plans for growth can help R&D teams better prepare and make them feel more connected to the rest of the organization.

The more context you can get, the easier it will be to determine how many engineers the team will need to add (and when) to get the job done.

You don't need to be a technical product expert to get this portion of the annual plan done. However, the best finance teams have deep insight into product roadmaps.

The more you know about the roadmap, the easier it will be to explain your annual plan to your CEO and board. Being able to provide that context will make the final approval process much smoother.

Align on Any Changes in G&A Spend

The remaining departments in your business—finance, legal, HR, etc.—can roll up into a G&A portion of your annual plan.

You need to align on G&A headcount plans first and foremost. But the toughest part about G&A annual planning is accounting for legal expenses.

If you don't have a strong grasp of what legal expenses should look like in your forecast, spending can quickly get out of hand. Maybe you need to negotiate legal terms for every customer contract. Maybe you need to go through a trademark process. Or maybe you're expecting to deal with H1B visa issues. Align with legal on these expenses so there are no surprises in your model.

Beyond tricky forecasting for legal, there are a few other questions you should consider for G&A annual planning:

Is your business due for an audit in the upcoming year?

Are you changing your pricing and billing model? If so, what new tools will help the team scale with transaction volume and complexity?

Where is legal support needed? Does legal review every sales and vendor contract? Are there upcoming lawsuits, settlements, fundraises?

Are there any new tools that the G&A function needs?

Once you finish planning out these variables and the known-known expenses in G&A, you should be ready to move to Phase 3 of the annual planning process.

Phase 3 | Translate Department Budgets to the Main Model

The third phase of annual planning is essentially an exercise in organization. In Phase 1, you took a high-level view of the business, and in Phase 2, you zoomed in to get a department-level understanding. And now, in Phase 3, you need to zoom back out and organize all the individual plans into a unified model.

As you bring all that data together from each department, your biggest challenge will be translating everything into GAAP terms. There are two sides to this process:

Cash: Department-level plans come to you in cash terms. Sales says they need Salesforce licenses on January 1 that cost $120,000 for the year. The cash impact is $120,000, but you need to amortize that expense in your model.

Accrual: The financial model for your company has to follow GAAP. And that means turning the cash impact terms from department-level plans into flat expenses for the year. In the case of the Salesforce license example, your model would show a $10,000 monthly expense.

Throughout Phase 2, you should have accounted for base, low, and high cases in each departmental plan. Once you've unified all the data, you should be left with three scenarios to present to the CEO.

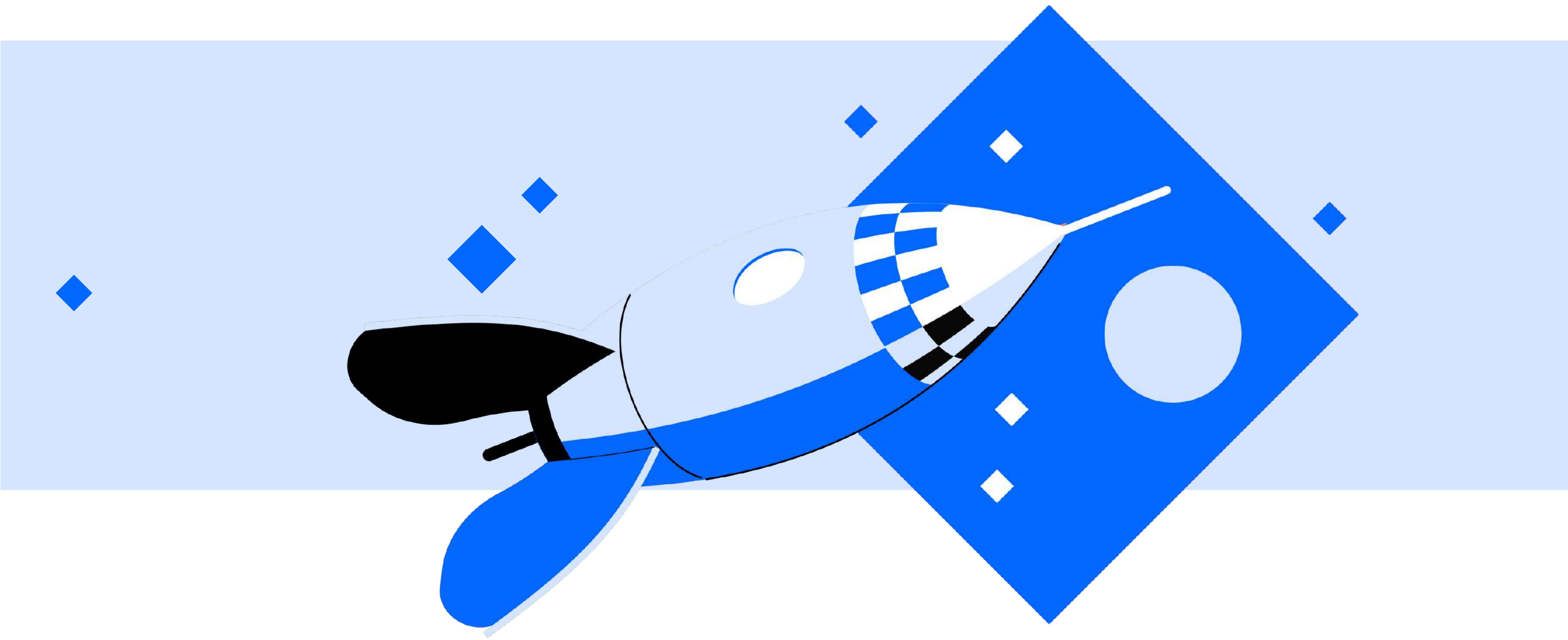
Phase 4 | Align with the CEO for Company and Board Approval

Great finance leaders help ensure their CEOs don't have to get in the weeds of each department's planning processes. Instead, they present the fully-fleshed-out plans from Phase 3 to work together to finalize things for the board.

"Open communication between C-suite expectations and management expectations is key. There's nothing worse than building a plan that gets blown up the minute it hits the CEO's desk. In a small company, the CEO should be an active participant providing feedback during the planning process."

Ryan Koehler ◆ Director of Finance, Saltmine

Make sure you present the plan to your CEO at least a week before the December 15 deadline. That way, you'll have plenty of time to make changes based on their comments and recommendations. Then, the CEO can sign off on the plan and approve the conservative budget that you'll present to the board so you can focus on year-end close.



Phase 5 | Maintain Agile Planning and Reforecasting

The key to modernizing planning processes is to supplement the annual plan with an agile approach to reforecasting that extends throughout the year.

We have to think about how it positively affects decisions made by team leads if they have access to on-demand financial information. What it means is that they'll have the data to make better, more informed decisions. It will save them time and change their view of finance's role."

Temi Vasco ◆ Controller, Gem

The biggest criticism of the traditional annual plan is that it becomes stale almost immediately after you make it. Businesses grow and evolve far too quickly for the annual plan to stay relevant even through January, let alone throughout an entire year. That's why there's been a big push for finance teams to shift over to rolling forecasts in recent years.

But this isn't an either/or situation. The modern blueprint for financial planning requires both annual plans and rolling forecasts.

Rolling forecasts make planning and budgeting processes more dynamic because finance teams can reforecast their plans monthly or quarterly with the most up-to-date actuals. Rather than taking a full 6-week cycle to complete, finance teams can quickly roll their plans forward alongside the monthly close.

There are a few advantages that come with the rolling forecast method.

Driving Dynamic Scenario Planning. Rolling forecasts forward monthly or quarterly allows finance teams to map out scenarios in a more agile way. As updated actuals come in, you can break the new baseline forecast into multiple scenarios for headcount, top line, and expenses, accounting for best-case and worst-case scenarios immediately relevant to the business.

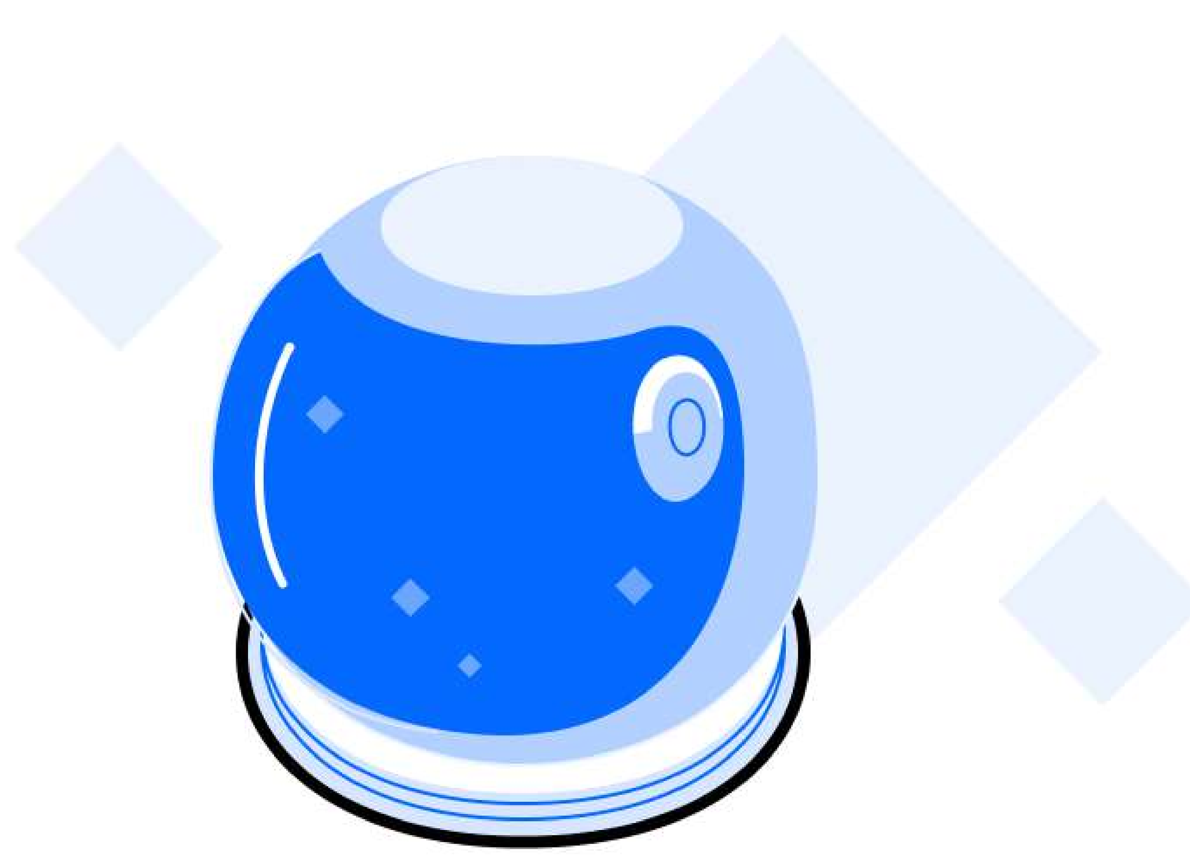
Making Collaboration an Ongoing Priority. The best finance teams collaborate with business partners consistently. When you're continuously planning throughout the year, you build a rapport with department leaders as you work together to update budgets. If you have the data integrity necessary to maintain rolling forecasts, you can spend more time collaborating with the business than collecting and cleaning data.

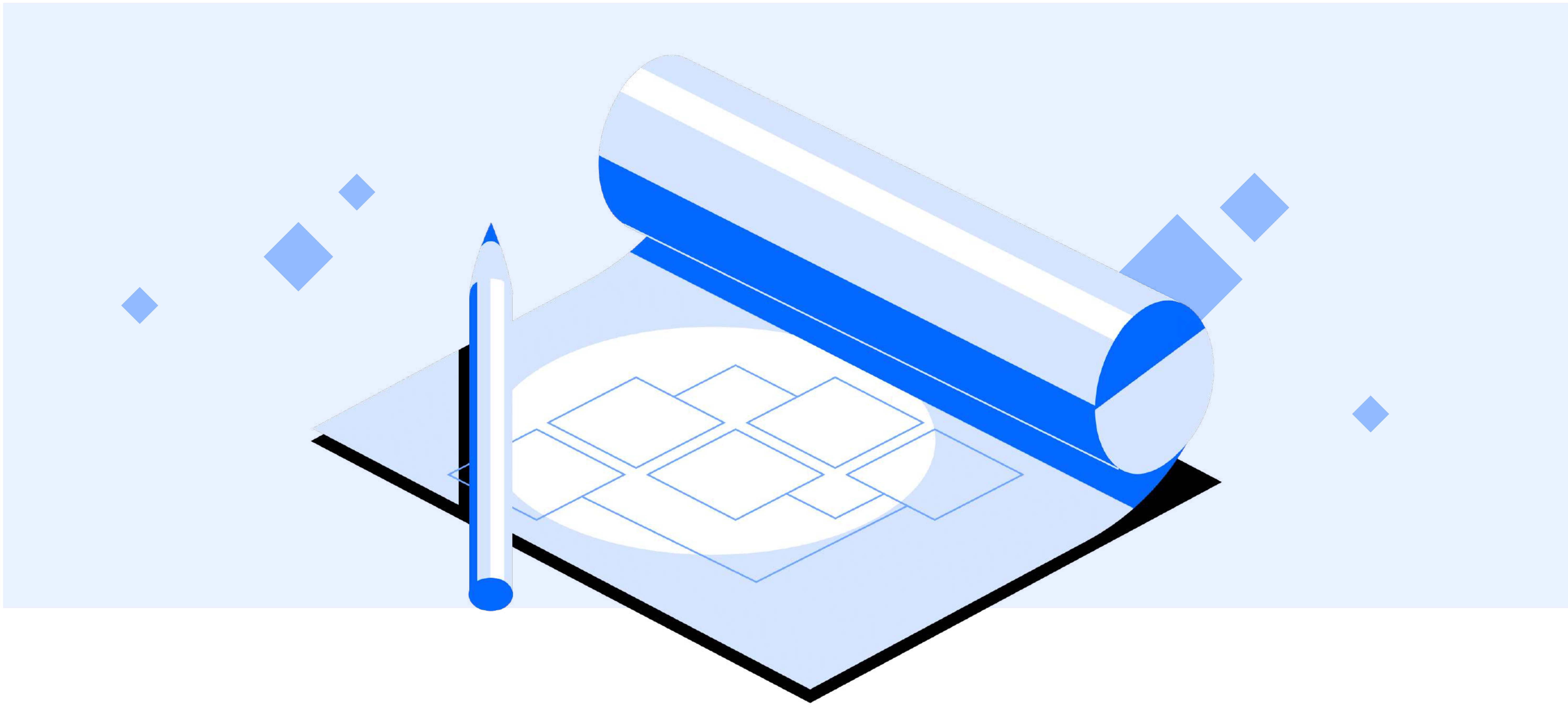
Enabling Outcome-Based Spending Reviews. Rolling forecasts provide a more actionable foundation for budget variance analysis. Getting more up-to-date insight into where your business is on target and where it's missing on financial outcomes helps you align with department leads more effectively. Instead of reporting on how accurate your annual plan is, you can have more granular conversations about how changes in spending could improve performance.

Rolling forecasts and annual plans are better together because they provide a perfect balance between short-term flexibility and long-term goal setting.

The annual plan remains the cornerstone of the budgeting process—the guidepost for where you want the business to go. Rolling forecasts give finance teams real-time insights to provide actionable, strategic guidance for the business. And continuous accountability to initial assumptions in the annual plan helps build trust with business stakeholders and investors during board meetings.

Together, they help you paint a better picture of the "why" behind your financial data instead of just reporting on the numbers. Without that complete picture of short-term accuracy and long-term strategic vision, you risk turning your budgeting process into the traditional kind of process that causes frustration for finance teams and department leaders alike.





Modern Financial Planning Requires an Intentional Data Architecture

This blueprint for modern financial planning assumes one thing—that you have a level of data integrity that makes it easy to align with business partners and build budgets quickly.

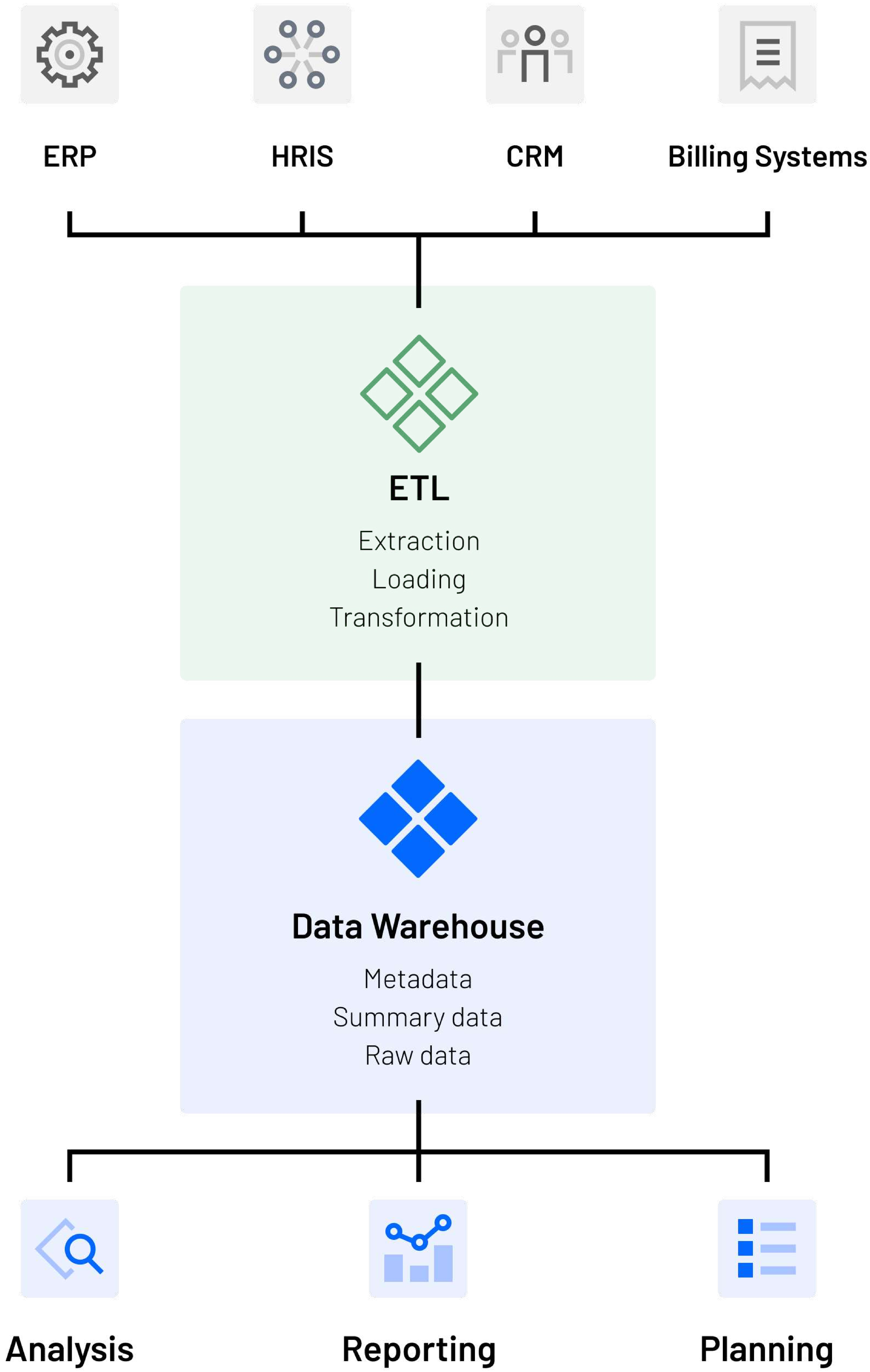
But getting to a point where you have real-time visibility into actuals is easier said than done when financial data lives across so many source systems. To create a foundation for modern financial planning, start by establishing an intentional data architecture.

An intentional data architecture ties together all of your disconnected business systems to integrate data as the company scales. It's more than just pulling and visualizing data with a business intelligence tool. Instead, it's an overarching framework for centralizing, processing, and analyzing financial data.

Think of it as a golden framework for financial planning and analysis.

Your golden framework should pull all financial information from across the business and map it into a common ontology. It's a way to keep financial analysts from spending so much time pulling and cleaning data from individual systems of record. Instead, you build pipelines that funnel financial exhaust into a central data repository.

The golden framework is more of an engineering concept than a financial one. It should look something like the image below:



Mosaic delivers this framework out of the box for finance so that teams don't have to rely on engineers to create the data architecture. The Strategic Finance Platform acts as the connective tissue for modern financial planning by automating financial data integration, freeing up teams to focus on adding strategic value to the planning process by:

Updating financial models to answer strategic questions in minutes instead of days

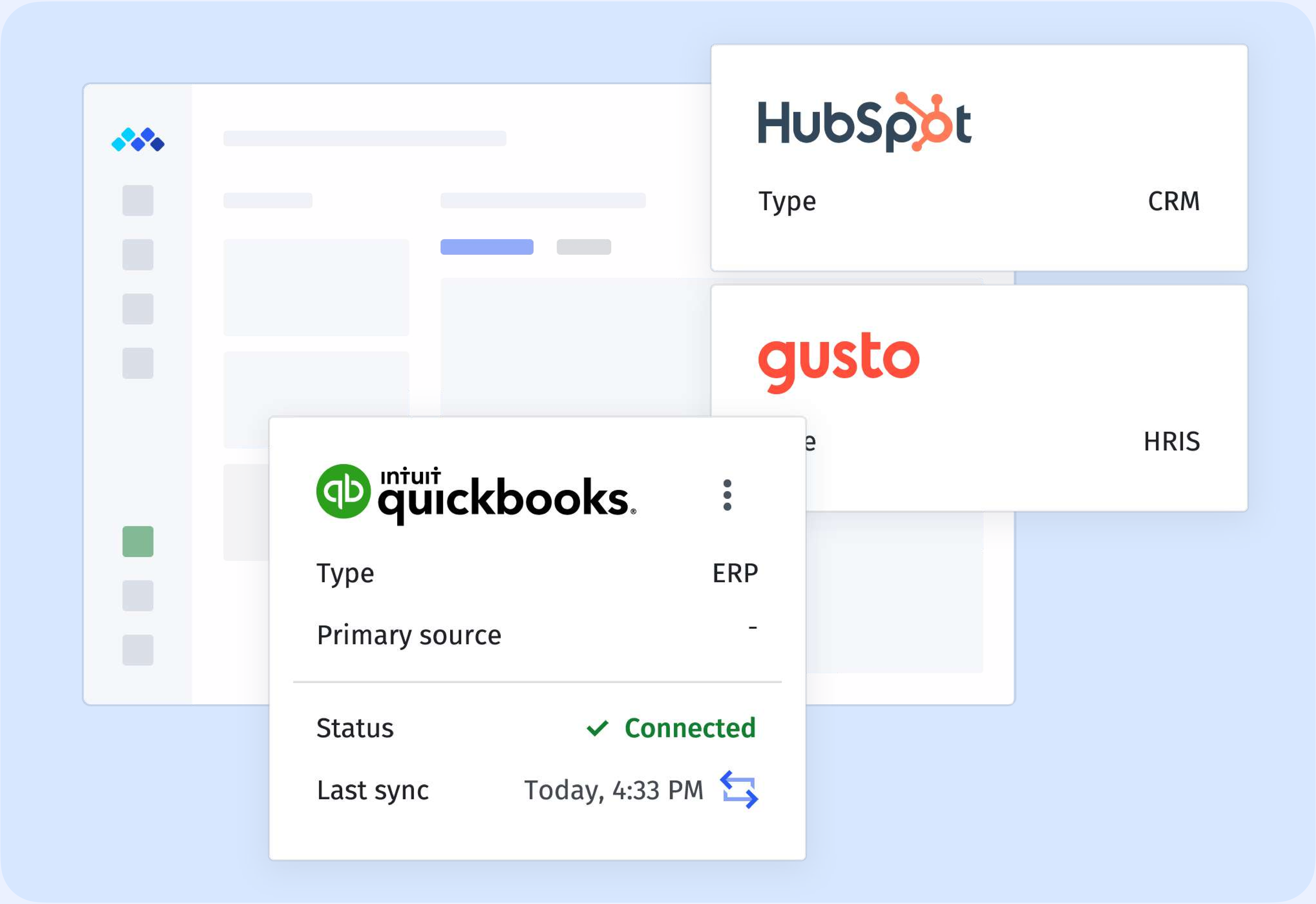
Providing real-time insight into financial performance

Communicating with business partners in a common language that they can understand

Making it easy for business users to work with the numbers and plan more efficiently

The blueprint for modern financial planning isn't just about nailing down the 6-week process to build the annual budget. It goes beyond that to set your finance team (and your business) up for planning success on a monthly, quarterly, and annual basis.

Reaching that level of efficiency isn't easy. But having a golden framework that maximizes data integrity will make all the difference in your ability to get there. And as you start your annual planning process, there's no better time to get that foundation of data integrity in place.



About Mosaic

Mosaic was founded in 2019 by three finance leaders who knew the office of the CFO needed an overhaul. Tasked with supporting business decisions for several companies in hyper-growth, they were frustrated by the slow speed, high complexity, and inefficiencies existing tools in the market offered. With this challenge in mind, they set out to build a platform that would address the technical challenges modern day finance and business teams face.

Today, Mosaic is deployed by some of the fastest-growing companies, helping them align, collaborate, and plan for the future.

To learn more, visit **www.mosaic.tech** and follow us on **LinkedIn** or join the conversation on **Twitter**.

Request a Demo