

Strategic Budgets: A More Calculated Approach for Your Business

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Insights and tools for financial decision-makers

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A more strategic, more useful budget

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Business strategy = budgeting strategy

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Int. ***A more strategic, more useful budget***

Your budget is more than a way to project and control expenses for the coming month, quarter, or year. If created as part of a deliberate process, it's also a strategic tool that can help align teams and resources with key business objectives.

According to Harvard Business Review,* “You need to understand the company strategy in order to create a useful budget.” But, no matter how strategic your budget, it's only useful if it actually gets used.

In this field guide, we present considerations for:

- *Balancing your business and budgeting strategies*
- *Taking a top-down versus bottom-up approach to budgeting*
- *Creating a “living” budget to guide daily decision-making and long-term planning*
- *Using technology to implement your budget*



*Finance Basics. Harvard Business Review Press, 2014.

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actually gets used.***

01 *Business strategy = budgeting strategy*

Deciding how and where to allocate resources isn't a math problem, it's a strategy problem. Before you can get into the line-by-line details, you need a clear sense of your company's main goal, as well as the teams, tools, or processes you'll need to achieve it.

For example, if your company's goal is to increase revenue, your strategic budget will prioritize sales over capital investments. Beyond revenue, other objectives that may drive your budgeting strategy include:

Growth. A growth-driven budget will allocate more for hiring, development, or new technology.

Performance. Increasing sales targets for specific products or services will require a corresponding increase in allocations for production or service delivery.

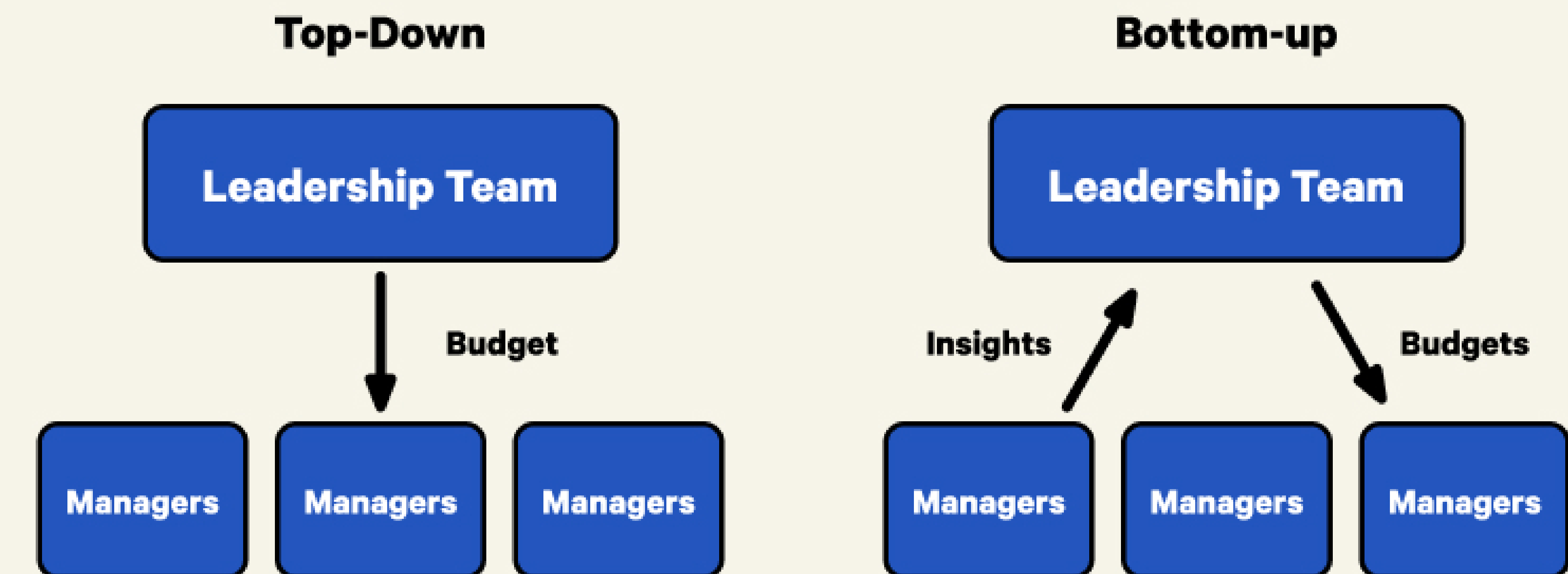
Cost control. A recession or downturn may lead to cost-cutting measures that supercede all other goals.

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02 *Top-down vs. bottom-up*

How you develop your strategic budget—through either a top-down or bottom-up approach—will depend on several factors, including the size of your company, the market constraints of your industry, and whether you need a big-picture plan or line-item precision. Here’s a comparison of the two approaches:



Top-down budgeting

With a top-down approach, the leadership team allocates resources to departments based on company goals and objectives.

Strategic advantages: Department managers get ready-made budgets aligned with company goals, and the budgeting process takes less time for the entire organization.

This approach is most effective for large enterprises with rigid market constraints imposed by suppliers, investors, governments, or other factors. For example, if a company sets a goal to capture a certain percentage of the market, their spending should reflect that goal in the context of their industry and market structures. C-suite executives are more in tune with those realities.

Additionally, because companies with large portfolios have the ability to balance one budget with numerous others, they aren’t as concerned about overspending within individual budgets.

Bottom-up budgeting

A bottom-up process begins with department managers submitting budget proposals to the leadership team for review, revision, and harmonization with proposals from other departments.

Strategic advantages: Targets are set by managers with direct knowledge of daily operations, making budgets more precise and giving managers greater ownership.

Small and medium-sized businesses (SMBs) are more likely to use a bottom-up build. While these companies typically face fewer market constraints, they also tend to have fewer resources and limited financial histories. Their top concern is how to maximize the resources they do have by controlling spend.

Relying on insights from department managers gives SMBs a granular view of projected expenses, as well as a more prescriptive budget to prevent overspending.

03

Creating a “living” budget

Your budget, whether optimized for revenue, growth, performance, cost control, or some other strategic goal, is only useful as a living document or plan. It should guide daily decisions about how and how much your people spend, as well as your company’s long-term strategy.

For a budget to be living, it has to be:

Executable. *The end of your budgeting process shouldn’t be the end of your budget. Your business needs an efficient way to distribute allocated resources and to categorize expenditures.*

Visible. *With great appropriation comes great responsibility. Every department manager or budget owner in your company needs a way to track spending and budget balances in real time.*

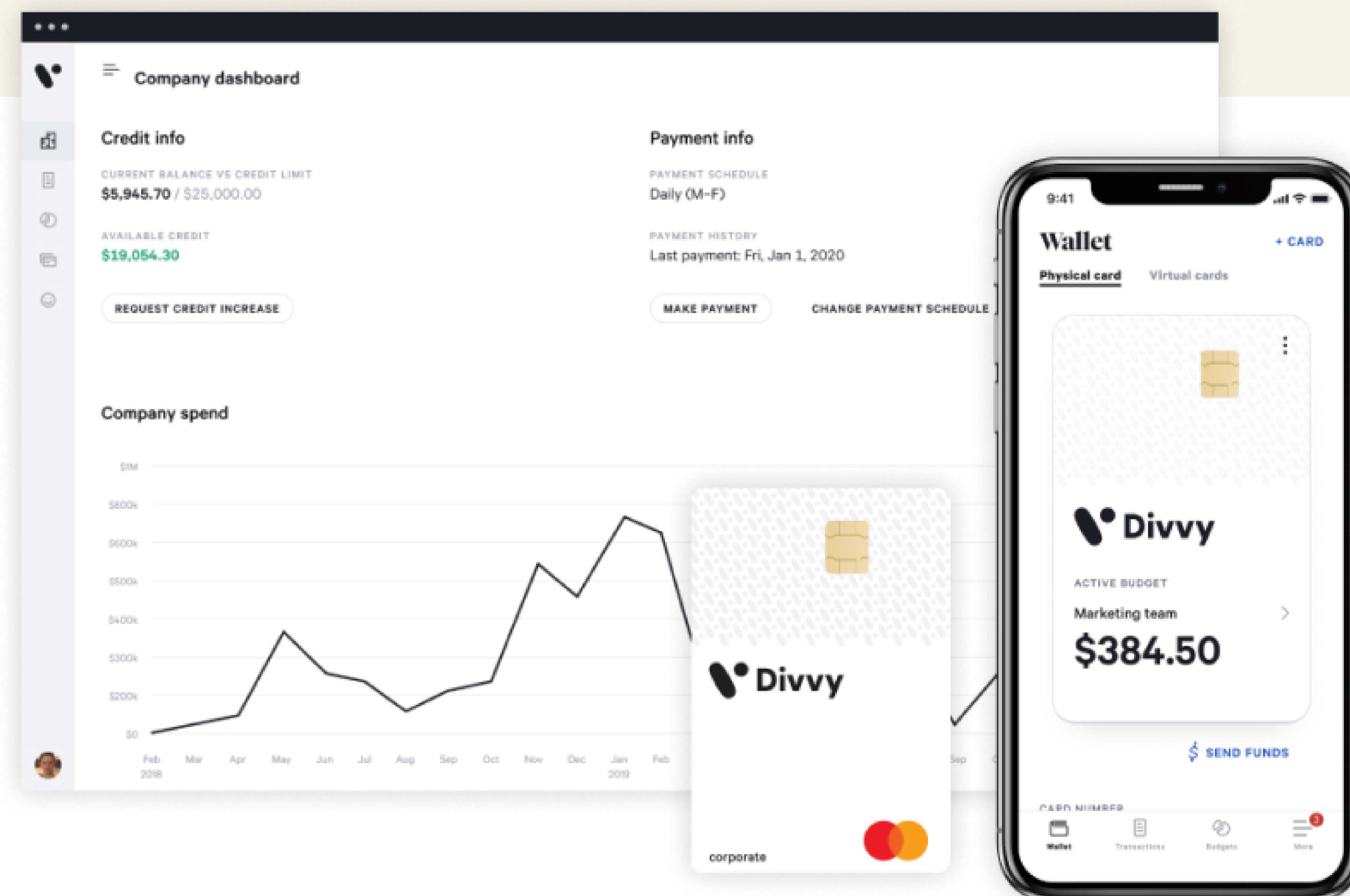
Adaptable. *Budgeting isn’t a one-and-done process. Your company needs a way to analyze monthly or quarterly spending so you can continuously optimize your budget to achieve your main business goal.*

Bottom line: Don’t kill your strategic budget by overlooking the processes and data your people need to assume ownership of resources under their control.

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04 *The role of technology*

One component of a unified business and budgeting strategy is a modern financial tech stack, or the combination of financial software used by finance teams. This includes tools and data for implementing your budget by making it executable, visible, adaptable—and living.



Create budgets, track expenses

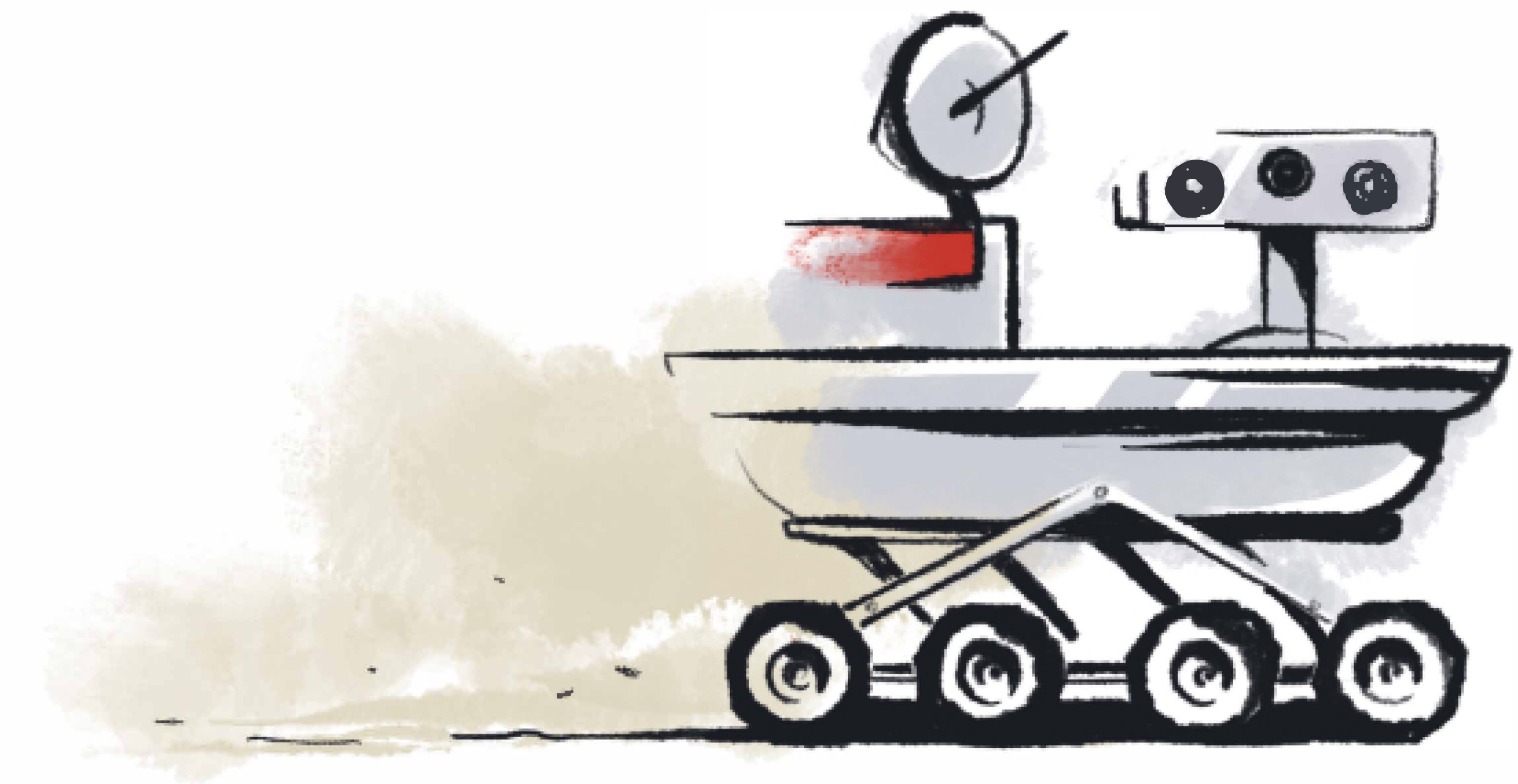
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Why Divvy?

Every transaction—including credit card and non-credit-card spend—is visible through the Divvy platform for real-time tracking of expenses and budget balances. Budget owners can increase, reduce, or freeze budgets at any time, but no one can exceed set spending limits.

Additionally, expenses can be categorized at the point of sale on the mobile app, which streamlines financial record-keeping and eliminates the need for expense reporting and reimbursements.

Divvy is a platform for spending, expense management, and more—all rolled into one streamlined process that gives you strategic control of your budget and your business.



**Ready to implement a more
strategic and useful budget?**

Get a demo and we'll reach out shortly to show you how.

GET A DEMO