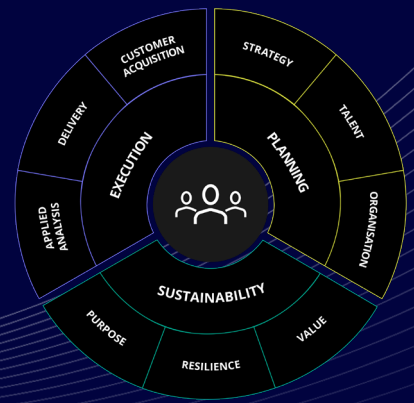


## Effective Strategy and Budget Integration toolkit

### This toolkit includes:

- Rumelt's three phases of effective Strategy creation
- The key steps to setting the strategic scene for the budget process
- The ten phases of practical budget setting
- A downloadable budget process template

# 01 Introduction



According to the excellent Richard Rumelt book; Good strategy/Bad Strategy, A “good strategy” is not about vision, goals or objectives, all useful in their own right. Instead, it is a carefully researched and well-thought-out action plan designed to meet a challenge. It requires research and analysis, hard choices, decisive planning, and action.

In this toolkit we outline the importance of using the budget process to effectively execute your strategy, and set out the key steps to follow, including a draft template you can download and take action.

In our experience a good strategy needs to consider the salient internal and external issues over the short, medium and long-term time frames and, for purpose-led enterprises, consider competitive as well as collaborative advantage.

That analysis leads to Rumelt’s **three phases**:

- 1** A diagnostic statement of the challenges or opportunities the strategy needs to address.
- 2** A strategic solution; a piece of clear thinking and the development of a guiding policy as to how we will focus our resources and technology in a way that will credibly deal with the issues identified in the diagnostic statement. This may involve challenging current assumptions or changing mindset in order to make a breakthrough.
- 3** If the strategic solution in the guiding policy is clear it should automatically identify the key actions that need to become the priorities in the business plan (and therefore the budget) that follows.



## About the author Steven Dunne, Frog Senior Partner

Steven is a Senior Partner, CFO and Head of Portfolio of Frog Capital, with over 20 years of PE experience gained both within PE firms, and as a senior executive of PE backed companies.

Steven spent eight years as a CFO in two VC/PE backed businesses, both successfully exited. In addition to his operational experience, Steven spent four years as a portfolio director at Livingbridge.



## About the co-author John Sutherland Frog Operating Partner

After finishing three degrees in various aspects of psychology, John started his career with ten years in the UK health service as a clinical psychologist.

For the last 30+ years, John’s focus has been on assessing and developing senior teams, having the privilege of working with a wide range of teams across a range of sectors, and at differing stages of business maturity, from start-up to IPO. At Frog Capital, he has continued to develop senior teams in his role as Operating Partner, a key part of scaling up a business.

An example of this comes from **EVOTIX**, the leading health and safety software provider that we successfully exited in 2023 with a return in excess of 3 times.

The strategy session diagnosis was that US growth was weaker than desired, despite good product market fit, due to poor branding, whilst a smaller operation in ANZ (Australia and New Zealand) was distracting senior management resource with little value creation upside. The strategic solution was to put ANZ into maintenance mode and refocus resources (money and people) on US growth, starting with a rebranding exercise and US leadership team investment.

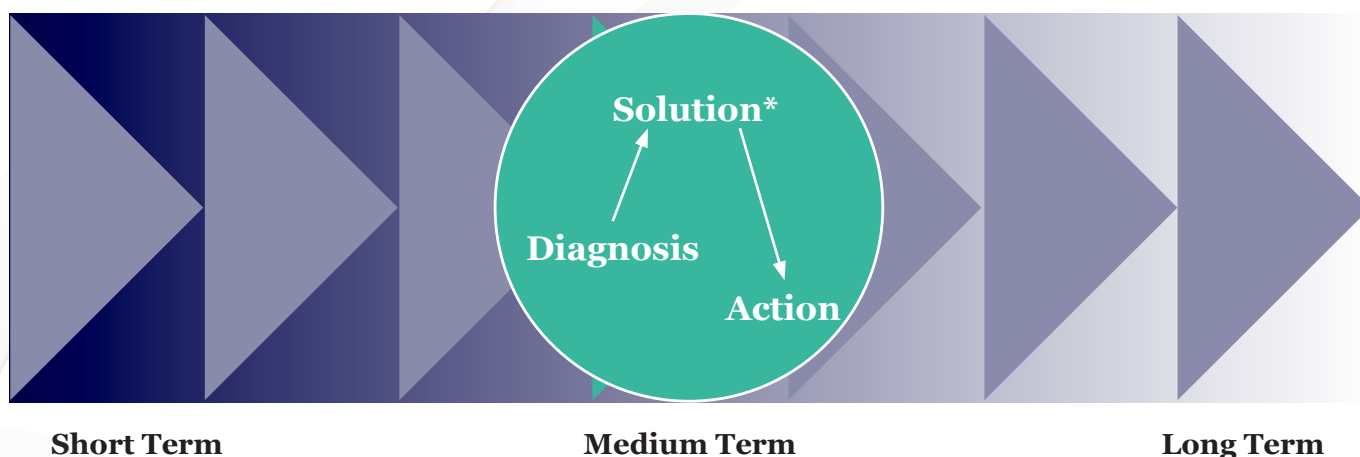
Key budget actions then followed with rightsizing the ANZ cost base, finding budget for a top class rebrand launch and marketing follow up, and investing in sales training to exploit the brand marketing investment.

An illustration of the suggested strategic process is shown below:

## Good Strategy Summary

**External focus** - The market, customer trend, investors, competitors, partners, regulators.

**\* May require a mind-set shift**



**Internal focus** - Our technology, people, resources, competence, differentiators, funding.

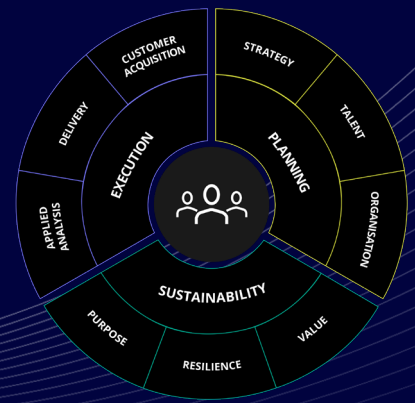
This is a combination of Richard Rumelt's work on 'Good Strategy' and the research on Strategic Road Mapping, which was an innovation from Motorola which has subsequently been the subject of field research, led by Rob Phaal and others from the Engineering school at Cambridge University.



**“Strategy is not:** Objective setting. An extrapolation from last year’s business plan. A five year rolling financial plan. A Mission, Vision or Values Statement. **All of these are useful business tools, but are not strategy.”**

**Richard Rumelt,  
Good Strategy Bad Strategy**

# Setting the strategic scene for budgeting



An essential part of putting a strategy into action is therefore the annual budget process. Implementing a strategy effectively through your budget process is crucial for business success.

To help the process we have created a **Budget Process downloadable template** for you to use in parallel to this toolkit.

Designed to be used alongside this toolkit, the Budget Process template is a practical tool that aids the alignment of strategy with budget creation.

Download a copy of the working template of the Budget Process.

Month	Activity	Responsibility	Example tasks
3 months before year-end	<ul style="list-style-type: none"> <li>Deliver proposals for high level projects e.g. IT or business - peer reviewed</li> <li>Calling objectives with key areas heads to align on opportunities and threats. Operational bottom up comparison on sales reduction and outsource</li> <li>Sales to provide their bottom up resource management and sales plan for peer review and challenge early</li> <li>Deliver sales growth operational options and priorities</li> <li>Strategic sales initiatives discussed with operational resources and potential with peer reviewed</li> <li>Challenge and create on aspirational range and degree to board for review</li> <li>Re-prioritise projects based on cost benefit analysis</li> </ul>	<ul style="list-style-type: none"> <li>Senior Management</li> <li>CFO/Finance head</li> <li>Senior Management</li> <li>Senior Management</li> <li>Senior Management</li> <li>CFO</li> <li>CFO/Finance mgmt</li> <li>CFO</li> </ul>	
2 months before year-end	<ul style="list-style-type: none"> <li>Final budget submitted to board including base case, objectives and upside cases based on strategy and execution risk</li> <li>Board meeting budget review. Board direction on desired investment mix balancing ambition with credibility</li> <li>Further work with management teams to fine tune budget and agree the P10 version for sign off</li> </ul>	<ul style="list-style-type: none"> <li>Board</li> <li>Senior Management</li> <li>Board</li> </ul>	
1 month before year-end	December board meeting budget sign off	Board	

[DOWNLOAD](#)

## Key steps to set the strategic scene for the budget process

### 1 Communication and Alignment

Clear communication of purpose and strategy is essential across all organisation levels. This is critical as the business grows beyond senior management's direct oversight and helps to align activities and objectives, without micro-management.

Also important is awareness of the corporate guiding policy of the organisation; setting out the values and behaviours that are expected in delivering the required actions effectively and integrating with the operational processes and reporting to monitor progress.

CONTINUED OVERLEAF

## 2

### Strategy Days and Awaydays

- **Strategy Days:** Organise these to align the team and set clear objectives. Refer to the Toolkit on how to run a successful strategy day.
- **Strategy Awaydays:** Prepare thoroughly for these sessions to ensure they are impactful. Check relevant articles on preparation and effectiveness.

Download the toolkit on **Successful Strategy Workshops**

DOWNLOAD



It may not be possible or necessary to have a full strategy away day every year but as a minimum there should be a check-in with a broad management group to ensure the strategy is still directionally valid and to set high level objectives for the year. This should be four months before the year end to give time to influence the budget process and give time for a structured process.

If you do have a strategy day, make it effective. The quality of strategy you come up with is dependent on:



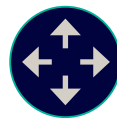
**i**

The quality of people taking part



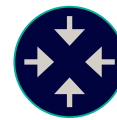
**ii**

Their ability to collaborate on strategic ideas



**iii**

your external perspective; knowledge of the market and competitors



**iv**

the internal perspective; data you have available to inform decision making

Ideally you will get someone to moderate a strategy day who has credibility and has run a successful one before. The aim is to have assessed the company both from internal and external perspectives, diagnosed issues and come out of the day with concrete actionable decisions without compromising on strategic principles. Agreed solutions are the product of strong debate between the different perspectives in the leadership team, and typically find a solution that no one team member had before the dialogue.

CONTINUED OVERLEAF

### 3

## Talent and Team Building

The strategy needs to have a long-term plan on building out the leadership team as well as the quality of people in the organisation and addressing resource constraints before they arise. The budget therefore also needs to consider what steps are required in the next year to address the following issues:

- **Hiring:** Invest in hiring senior people who are capable of challenging the incumbents. This can be uncomfortable but is necessary for market success.
- **Culture and Organisation:** Systematically invest in culture, organisation, and people to nurture and assess talent at all levels.
- **Diverse Senior Team:** Build a diverse senior team to share the burden of responsibility for delivering the vision.
- **Tough Decisions:** Be prepared to make difficult personnel decisions, as necessary.



### 4

## Operational Expertise

Operational expertise to realise your business's potential needs to be built year by year. Resources will be limited so the budget process needs to identify core areas for investment that otherwise might become growth limiting bottlenecks.

Senior management should provide detailed proposals for high-level projects such as IT or product upgrades, new products, and new markets. These proposals should be peer-reviewed to agree on priorities and understand interconnectedness and structure: The process helps the company understand how different parts are connected and provides a structure to assess variances, avoiding ad hoc explanations that don't inform future decisions or ensure accountability.

CONTINUED OVERLEAF

# 5

## Continuous Assessment and Adaptation

Ensure that the budget process takes account of all the data available to inform what needs to change in the next year such as:

- Top level objectives linked to strategy set by the board
- Bottom-up capacity assessments by department heads
- Performance Assessment: Adopt an intentional approach to assessing performance, addressing competence gaps, and anticipating the need for changes.
- Product, market and competitor analysis should be top-down and sense checked bottom-up from frontline sales and customer success experience. Budgets should not be prepared assuming no one else is looking to grow or improve their proposition
- Learning and Improvement: The budget process should improve each year with more information, provided it is done properly from the start with enough operational detail to create a basis for learning.

At the same time recognising that reality will differ from the budget so the benefit of a quality budget will be better variance analysis and qualitative comparison to understand why outcomes are different from expected. Only with this insight can continuous improvement occur and the route to deliver on strategy be course corrected where necessary.

Download the How to Scale toolkit on **Performance Management**

[DOWNLOAD](#)



Download the How to Scale toolkit on **Assessing Team Performance**

[DOWNLOAD](#)



CONTINUED OVERLEAF

## 6

### Structure follows Strategy

Once you have set your strategy and translated this into your budget it is useful to check that the organisational structure and operating system is still capable of supporting the delivery of your business plan. For example, if the strategy calls for more cross-functional team work than previously, or more awareness of customer trends, does the current structure and operating system support this development or does it act to have the organisation work in more siloed projects?

The way you are organised is likely to need to evolve as your business scales and the Budget process is an excellent milestone for checking that strategy and structure remain aligned.

Download the **Does an organisation require hierarchy or just purpose?** toolkit

[DOWNLOAD](#)



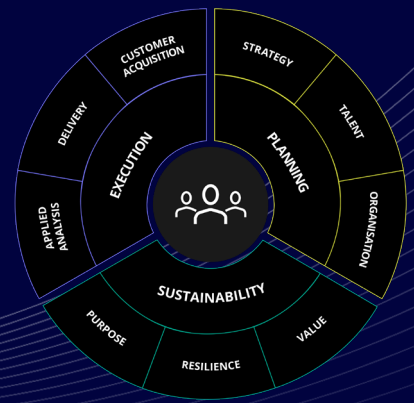
Download the **Proactively design your organisation structure** toolkit

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# Budget Setting Phases



With this background work the practical budget setting will then work through the following phases:

## 1. Understand the participants

The budget implementation process is quite different from the strategy setting process and needs to engage a wider range of people. The robust contending of the strategy session is therefore replaced with a more sympathetic approach to agreeing actions and achievable targets without compromising the stated strategic goals.

## 2. Focused meetings

Conduct a series of focused departmental meetings to get quality input at the right time, evolving the budget and business thinking. Avoid large meetings; the finance department should project manage the process with contributors, involving the CEO when discussions are nearing a conclusion.

## 3. Iterate and Compromise

Give the process enough time to iterate to reach an agreed approach on sales resources and outcomes that all parties agree is achievable. For example, sales teams should provide their bottom-up account management and sales plans for peer review and challenge. Challenge and iterate on assumptions made and emphasize the degree of personal accountability.

## 4. Discuss and Prioritise

Discuss sales growth investment options and prioritize potential upside opportunities. Projects and sales initiatives should be discussed with operational functional heads to assess limitations with current resources and new resource requirements.

## 5. Headroom

Budgets should include appropriate headroom at all levels, never assuming everything will go exactly as planned. For example, sales numbers might be set 10% below the sales department target, with individual targets aggregating to 10% above the department target to account for underperformance.

## 6. Avoid over-optimism

There is often initial over-optimism in estimating the speed and risk of acquiring new resources and their impact. This requires sensible challenge and debate based on past experience.

## 7. Proactive cash management

Budgets should include P&L, balance sheet, and cash flow, along with variance analysis for all three. This provides early visibility of potential issues, allowing proactive cash management to maintain headroom.

## 8. Managing Expectations

A budget should highlight risks and opportunities, anticipating required reactions. An effective budgeting model outlines triggers for action, driving better scenario planning and reducing the likelihood of rushed, reactive decisions.

## 9. Continuous Improvement

The outcome should be clarity on what the business aims to achieve in the year and a detailed framework to assess variances as part of continuous improvement in both operations and forecasting.

**Final Sign-off:** Fine-tune the budget with the management team and agree on the final version for sign-off at the December board meeting (for a calendar financial year).

## 10. Avoid common mistakes

The most common mistake across all business is that the budget feels to employees like a finance spreadsheet exercise unconnected to the operations of the company and for which they have no responsibility. Following the previous points will help avoid this but the biggest factor to address the issue is good communication and understanding between the finance department and other departments throughout the year.

In VC backed businesses specifically, I often see the mistaken assumption that because it is very hard to predict what might happen in a fast growth business then a high level budget is sufficient as any detail analysis is bound to be wrong. This overlooks the essential role of a good budget as a benchmark for assessing variances and supporting learning to improve forecasting and decision making in future.

By avoiding the common mistakes and following the steps listed above, you ensure that the strategy and budget are tightly integrated, providing a clear framework for achieving business strategic objectives, making informed decisions and managing resources effectively.

Download a working template of the Budget Process

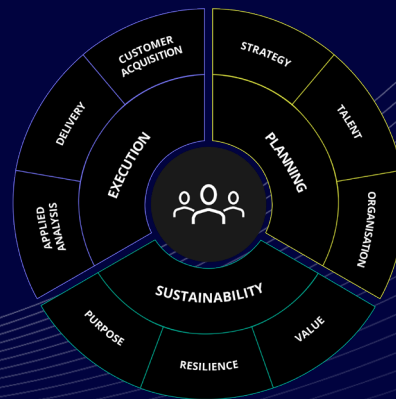
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Month	Activity	Responsibility	Example tasks
1 (Income Statement)	Developed appropriate for high level projects (e.g. IT or product upgrades, new products, new markets) for approval. Other resources	Senior Management	
	Outline objectives with key areas to align on (budgets and forecasts). Operational budgeting to support the objectives (e.g. for sales, R&D, HR, etc.)	Senior Management	
	Check to provide the bottom up approval management (this is the plan for the year) and challenge (are there any risks?)	Senior Management	
	Review the growth investment plans and priorities (projects and capital) and discuss with operational management to ensure resources with current resources and potential with new resources.	Senior Management	
	Challenge and break on assumptions made and discuss in board of finance	Senior Management	
	IR-eligible projects based on cost benefit analysis	Senior Management	
2 (Balance Sheet)	Final budget approved by board (including CFO, CEO, CFO, and other senior based on operational and financial data)	Senior Management	
	Senior management budgeting (break down into departmental budgets) and reporting (monthly) with credibility	Senior Management	
	Senior work with management team to challenge and agree the final version for sign-off	Senior Management	

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# Budget Process Template



## Purpose of financial planning

**Aligning resources with strategy** e.g. estimate the cost of non-financial objectives such as increasing client satisfaction. Requires alignment and understanding of the key drivers of your business by senior management and board. Need to be honest about what can be achieved (i) in the market, (ii) with current resources, (iii) speed and risk of getting in new resources and how quickly they have impact.

**Baseline to measure future performance and align remuneration.** Learnings from outcomes compare to assumptions and causal connections lead to understanding the drivers better.

**Manage expectations** - Highlight upside/downside risks and opportunities and required reactions and outline in advance triggers to action (e.g. revenue miss triggers cost freeze or reduction). Drive better scenario planning and gives board options to choose based on risk and return

**Understand change required to deliver next stage growth;** identify bottlenecks e.g. step change OPEX investment, sales team scaling, IT upgrade, marketing. Understand where there are diminishing returns (e.g. marketing) or incremental unit costs, don't assume the past is a perfect predictor of the future - it may be the best available for this business but here is where broader experience comes into play (from NXDs) to ensure contingency headroom.

**Ensure survival or taking advantage of opportunities** - identifying how early you need to take action to make a difference in time.

## Budget Process Template

Below and on the following pages we demonstrate the budget process template and provide examples of how you may want to fill out the timeline.

Month	Activity	Responsibility	Timeline
4 months before year-end	8+4 full year forecast (P&L and Cash), and create simple roll forward budget (i.e. current cost base) for following year	CFO	Example - Refine Q4 & H1 roadmap
	Current year variance analysis v budget, lessons learnt for future budgeting - What needs to be different next year? How is that going to happen?	CFO	
	Review or renew 3 year plan, clarity on 3 year objectives	Board	Example - Hold annual planning offsite
	Strategy review - high level objectives for following year consistent with 3 year plan	Board	Example - Set the strategic focus areas; review at Board meeting
	Identify what needs to change to deliver strategy and task senior management to address	Board	Example - SWOT input from Board and SLT

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Month	Activity	Responsibility	Timeline
3 months before year-end	Detailed proposals for high level projects e.g. IT or product upgrades, new products, new markets by sponsor - peer reviewed	Senior Management	Example - Review opportunities and size
	Outline objectives with key sales heads to align on opportunities and threats. Departmental bottom up budgets and compare gaps to top down, iterate to agreed compromise on sales resources and outcomes	CFO/Sales heads	Example - Refine plans to execute & roadmap
	Sales to provide their bottom up account management and sales plans for peer review and challenge (core sales - reliable forecasts)	Senior Management	
	Discuss sales growth investment options and prioritise ( <b>Bus dev - less reliable forecasts</b> )	Senior Management	
	Projects and sales initiatives discussed with operational functional heads to assess limitations with current resources and potential with new resources	Senior Management	
	Challenge and iterate on assumptions made and degree of personal accountability being shown before forwarding to board for review	CFO	Example - Tie back to financial plans
	Re-prioritise projects based on cost benefit analysis	CFO/senior mgt	Example - Draft budget for internal review
2 months before year-end	First cut budget submitted to board including base case, downside and upside cases based on selection of initiatives/projects and trade off between growth and execution risk	CFO	
	Board meeting budget review: Board direction on desired risk/return mix balancing ambition with credibility	Board	Example - Review first cut of budget with Board
	Further work with management team to fine tune budget and agree the P80 version for sign off	Senior Management	Example - Refine budget with latest available information and feedback Example - Review revised budget with Board
1 month before year-end	December board meeting budget sign off	Board	Sign off
Review period	Performance v Budget reviewed monthly irrespective of board meeting frequency. All non budgeted costs to be highlighted and reviewed and any large budgeted costs also reviewed if trading not at least 95% of budget.	CFO	
Review period	Negative YTD revenue variance of > 10% triggers review of mitigating actions required including cost review, default to exclude non essential cost increases.	Board	
Review period	Negative YTD revenue variance of > 25% triggers full reforecast process required.	Board	

CONTINUED OVERLEAF

# Budget stratification build

	Current year	Upside budget sales		Costs		Commentary	
New product to new market			▲	Cost increase likely to be disproportionate to initial revenue based on long term opportunity assessment	▲	Example - Board to decide where sales budget is pitched based on acceptable risk (P80), degree of faith in ability of executive team to deliver on sales for assumed cost increases and desired progress towards profitability. Some projects excluded from budget become the upside case.	
New product to existing market			NEW INITIATIVES				
Old product to New market			▼				
Current Product/ Market growth exploitation			▲	Some pro rata resource increase likely	▲	Example - Projected revenue from all growth initiatives scaled back for P80 budget but retained for sales remuneration targets.	
New client wins - same market							
Productivity/client penetration/AOV up				No resource increase should be required, cost increase through remuneration changes only unless business is already stretching its infrastructure and needs to catch up	▲	Example - Downside case (P95) likely to take out all initiatives that are not already proven.	
Pricing changes (could be - ve)							CORE GROWTH
			▼				
Current year sales						Example - Board start with roll forward budget of what can be achieved with current cost base and assess gap to acceptable level. Board then categorise base cost increase requests between essential, desirable and unjustified. The latter can be rejected and clear identification between the remaining two allows a quick retrenchment to just the essential if trading is behind budget.	

Month	Activity	Responsibility	Example tasks
3 months prior period	<ul style="list-style-type: none"> <li>Identified projects for high level aspects e.g. IT or financial upgrades, new products, new markets by Q4/2016 - other relevant</li> <li>Quality projects with key sales metrics to align on opportunities and risks. Comprehensive budgeting completed on high level and in line with agreed sales to provide clear picture of resource requirements and sales value and other metrics and challenge size</li> <li>Decisions made (with financial options and advice) (Price set - the upside scenario)</li> <li>Financial review to ensure conditions with operational resources and potential with new initiatives</li> <li>Challenge and review assumptions made and copies to board for review</li> <li>Reprioritise projects based on cost benefit analysis</li> </ul>	<ul style="list-style-type: none"> <li>Senior Management</li> <li>CO/Sales heads</li> <li>Senior Management</li> <li>Senior Management</li> <li>Senior Management</li> <li>CO</li> </ul>	
2 months prior period	<ul style="list-style-type: none"> <li>Finalised budget submitted to Board including base of budget/programme and upside/downside</li> <li>Board meeting/budget review. Board discuss on defined metrics max acceptable deviation with flexibility</li> <li>Further work with management team on final budget and agree the P80 version for sign off</li> </ul>	<ul style="list-style-type: none"> <li>CO/Finance mg</li> <li>CO</li> <li>Board</li> <li>Senior Management</li> </ul>	
1 month prior period	<ul style="list-style-type: none"> <li>Decision board meeting budget sign off</li> </ul>	<ul style="list-style-type: none"> <li>Board</li> </ul>	

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