YOU’RE DOING IT WRONG.
Why you should define your strategy first and budget second.

They are more than a record of what you think you’ll earn and what you think you’ll spend. At least that’s what a budget should be.

With the proper planning and preparation, a budget can be a reflection of the strategic, long-term plans for your organization. It can serve as an annual framework against which your organization can measure financial success and directional movement towards its goals.

Do not simply take last year’s budget number and add or subtract dollars or percentages. Rather, utilize a zero-based approach to budgeting. Each year you should be evaluating your annual operating plan, reviewing metrics and benchmarks, and determining the ratios and drivers you will use to determine the most effective areas to which to allocate your resources and capital to achieve the optimal return on investment. Remember to align your metrics and drivers with your long-term strategic goals, rather than focusing narrowly on “cutting postage expense in Q1.”

What are the steps budgeting strategically?

1. Set the Long Term Strategy with Your Management Team

The budgeting process is about linking long-term strategic objectives to achievable tactical goals and actions. Your budget will function as a roadmap to help you guide your organization where it needs to go, but that can’t happen until you’ve decided what that destination is.

2. Create an Annual Operating Plan by Division

This step translates a high level strategy into more detailed operational planning and action items, which should (of course) align with the overall organizational strategic plan. As opposed to the strategy determined in Step 1, the

Example Metrics

- Revenue per employee
- Expense per employee
- Compensation per employee
- Cost per unit of service
- Earned income to total income (autonomy and flexibility)
- Earned income to total expense (self-sufficiency)
- Program service expense to total expense (mission delivery)
- Fundraising expense/contributions (cost to generate charitable contributions)
annual operating plan encompasses a shorter term. It should focus on what is achievable given available resources and on the details of your organization and the tasks to be accomplished in the coming year.

3 Create the Budget

Strategic plans usually have high-level financial estimates based on assumptions. The budget is a bottom-up build of revenue and expense plans, given the tactical activities defined in the operational plan. This process may certainly involve iteration with the operational plan to align goals and the availability of resources.

Why does this work?
This process establishes a visible near-term and long-term roadmap to measure success. “Visibility” is a key word here—your employees are able to see and understand which priorities your organization has chosen and why. It’s more difficult to reach this point of trust and transparency if each year’s budget is simply “last year’s budget, but this time you need to spend less!”

This puts a clear focus on the individual departments or divisions of your organization and aligns those (possibly disparate) departments with your overall strategic goals. You end up with clear priorities and objectives, and ensure that any department’s new ideas or initiatives are aligned to the overall strategy.

About Blackbaud

Serving the nonprofit, charitable giving and education communities for more than 30 years, Blackbaud (NASDAQ:BLKB) combines technology solutions and expertise to help organizations achieve their missions. Blackbaud works in over 60 countries to support more than 30,000 customers, including nonprofits, K12 private and higher education institutions, healthcare organizations, foundations and other charitable giving entities, and corporations. The company offers a full spectrum of cloud and on-premise solutions, and related services for organizations of all sizes, including nonprofit fundraising and relationship management, eMarketing, advocacy, accounting, payment and analytics, as well as grant management, corporate social responsibility, education and other solutions. Using Blackbaud technology, these organizations raise, invest, manage and award more than $100 billion each year. Recognized as a top company, Blackbaud is headquartered in Charleston, South Carolina and has operations in the United States, Australia, Canada, the Netherlands, Ireland and the United Kingdom. For more information, visit www.blackbaud.com.