tropic

10 TIPS FROM A CFO

How To Survive Budget Season When AI Costs Won't Sit Still

This Budget Season is Not Business as Usual

Budget season is simultaneously anticipated and dreaded. CFOs and finance teams pour enormous energy into detailed plans, only to watch them become obsolete the minute the fiscal year starts. What's the deal?

And sit with this: over the past year, companies haven't just picked up new AI tools – existing tools got upgraded with shiny AI features and premiums attached. The result looks different from any prior budget cycle – if anything, it resembles the early days of SaaS, except that undersells it. SaaS came with long purchasing cycles and heavy implementation lifts; AI adoption can happen in seconds. Understand how far your market has shifted, and how much AI is responsible for it, before you touch a single spreadsheet.

That shift shows up hardest in your numbers. Traditional software costs a predictable amount per seat, year over year – AI usually doesn't. Tokens, credits, and consumption swing month to month depending on usage, and there's an AI tax on top of it: renewals are landing with 20-37% price uplifts, often before the AI premium has proven it's worth it. Budget season is genuinely harder to forecast this year.

The only way to survive – and thrive – through this uncertainty is fiscal stewardship. Before diving into tactics, consider how your business treats resource allocation:

- Team sport or silos?
- Centralized or decentralized?
- Data-driven tradeoffs or emotional decisions?

How you treat resource allocation is the foundation of this entire guide – it should be a collaborative effort, because how an entire company spends money is directly tied to where it's placing its bets (and where the business can grow).

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How to Survive Budget Season When AI Costs Won't Sit Still

1. Kickoff Strategic Planning
2. Establish Budget Baseline
3. Set Financial Target
4. Identify Gaps
5. Review Levers and Leakages
6. Establish Key Priorities
7. Integrate All Activities Into A Model
8. Finalize Formal Plan
9. Approve And Rollout Plan
10. Execute Proactively

1. Kickoff Strategic Planning

Many finance teams jump straight to last year's actuals plus 10%, completely disconnected from where the business actually needs to go. A robust strategic review means revisiting your vision, mission, and 1-3-5 year strategy while conducting a thorough external scan.

This includes understanding how AI is reshaping your industry, analyzing new competitive threats, building out market sizing models (total, addressable, and serviceable), and honestly assessing your product roadmap against market realities.

And as you run that scan, ask a harder question first: with all this AI-driven iteration, are we losing the plot on why we're in business? Our customers – internal or external. The best diagnosticians (think Dr. House and his team) weren't obsessed with symptoms; they were obsessed with root cause.

This strategic kickoff deserves that same obsession. Especially with AI, it's easy to get pulled into managing spend and sprawl for their own sake – but the bets and tools worth keeping (and paying for) are the ones actually compounding into better outcomes for the people you serve, not just another line item to track.

Tip Conduct a "strategy retrospective" before looking forward. What bets from last year paid off? Which ones didn't? This look back can be a great way of looking in the mirror as you adjust your approach and begin the new cycle.

2. Establish Budget Baseline

Developed alongside the strategic planning kickoff, the budget baseline forms the financial foundation for the year by clarifying expense and revenue drivers.

The budget baseline is the preliminary budget based upon all currently known investments (prior to layering in additional activities that will come from the strategy work described in the next steps). The **two largest drivers of expense for a budget baseline will typically be personnel and tech stack investments**, which require teams to have comprehensive visibility into spend, suppliers, and contracts (with their end dates) to see where expenses could expand, contract, or churn.

Note that the budget baseline is harder to pin down than it used to be – and that's especially true if you don't have a clear way of seeing everything you're already spending money on, how well it's actually working, and where there's overlap or room to optimize. AI tooling has become the new shadow IT. But unlike the shadow IT of the past, which crept in under the radar and got flagged the moment IT found it, this version is often championed from the top down, treated as a competitive necessity, with FOMO driving proliferation.

Fight AI Cost Confusion

Split your AI baseline into four cost centers: LLM licenses, embedded API costs, AI-native point solutions, and AI premiums bolted onto legacy SaaS. Lumping it all into one "AI" line item is exactly how it gets missed.

To determine expenses, businesses will adopt either:

- **Zero-based budgeting:** No assumed baseline spend; all expenditures are defended from the ground up
- **Run-rate budgeting:** Current spend level extrapolated out into the future becomes the baseline that additional assumptions are layered upon

To determine revenue drivers (which is needed to inform expenses), businesses will conduct revenue modeling. Go-To-Market leaders, with Finance's support, should drive this process using one or both of these methods:

- **Funnel-based:** Sales opportunities materialize from demand generation activities
- **Top-down/bottom-up:** Combines high-level targets with detailed projections

Tip

Because tech spend is typically a top 2-3 line item, it's crucial to include all committed vendor contracts in your budget baseline – and don't stop at seat-based tools. Consumption and credit-based AI contracts can swing month to month, so pull usage history, not just the contract terms, before you lock in a number.

3. Set Financial Targets

This is where the rubber meets the road and where many planning processes either soar or crash. Target setting requires balancing investor expectations, leadership ambitions, and market realities.

When there is overwhelming noise and constant change in the market, it's crucial to cut through the chaos with data-driven target setting. The formal ownership of establishing the targets can differ depending upon the company ownership structure but is typically some combination of board/investor and company leadership.

New this year, **expect pressure to show your hand on AI: how much are we actually investing, and what is it replacing?** Incremental headcount that never got hired, tools being consolidated away – target setting increasingly needs to account for that trade explicitly, not bury it inside a broader tech line.

There's a harder problem sitting underneath that ask, though. With SaaS, it took years to build the unit economics that let us gauge business health at a glance. We don't have that for AI yet, and we won't for a while, because usage hasn't stabilized. Early experimentation gave way to power users producing genuinely transformative output, but whether that sticks, or whether legacy tools simply catch up and erase the advantage, is still unknown. So set targets, but revisit them quarterly rather than annually. The real skill this cycle is keeping a pulse on how the picture is shifting, not pretending we've already found the metric that nails it.

Tie AI into Existing OKRs

Some CFOs have found a shortcut around the missing-benchmark problem: don't build a separate AI scorecard at all. Tie AI investment to the goals you're already tracking – OKRs, close cycles, time to delivery – and expect AI to accelerate those timelines rather than inventing a new metric to prove itself.

The key when setting financial targets is finding the sweet spot between believability and aspiration. Targets that are too conservative won't inspire your team; targets that are too aggressive will demoralize them when reality hits.

Tip Use reliable market intelligence and cross-reference where your business should be stacking up (i.e. unit economics) when it comes to software spend. AI-specific spend is evolving in real-time so treat related benchmarks as directional and rely on the expertise of others who have a pulse on this market; pull in usage history if you have it.

4. Identify Gaps

Identifying gaps between revenue projections and leadership targets is crucial because it can make or break your company's ability to achieve its plan.

As the revenue planning team's inputs and the leadership team's or investors' targets come together, a gap inevitably emerges. It would be a rare exception that everything aligns cleanly at this stage without additional need for discussion.

Those days when forecast models keep breaking and troubles feel insurmountable? This is where you prevent them. Gap identification done right means no surprises later.

Three Primary Gaps

- **Revenue gaps:** Often reviewed in terms of the levers of the revenue engine: leads, opportunities, conversion rates, attach rates, average selling prices, sales cycle time, retention rates. But don't stop at the surface-level metrics – dig deeper into the underlying constraints.
- **Expense gaps:** Don't necessarily follow the same recipe as revenue gaps as these can be a byproduct of a dislocation of the revenue and expense plan. If teams are investing in things that are not in service to achieving the plan, it is likely that the investment is not delivering the near-term results needed to support the plan.
- **Resource and process gaps:** There can also be a gap in the underlying mechanics of how the plan is achieved. Even if the revenue and expense are aligned to targets, the manner in which the business is assumed to achieve the targets creates some unnatural or unknown interdependencies. The gaps being surfaced are gaps of resources, tooling, processes, sequencing and prioritization.

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It is also important to ensure all these gaps are addressed not only through spreadsheets and planning decks, but through live discussions where healthy debates, tradeoffs and decisions are made.

Tip Because revenue is generated through the investments made to support it, treat revenue and expense gaps as interrelated. Finance should be empowered to ask tough questions about investments, team readiness, and resource allocation and waste.

5. Review Levers and Leakages

This is where Finance transforms from order-taker to strategic advisor. Identifying gaps will reveal whether the business needs to close them or settle for an inferior plan that fails to meet the goals set by leaders and investors.

This step has always been a bear to execute well. It used to fall to FP&A to keep a running tally of levers and leakages by hand – and realistically, most teams didn't have the bandwidth or depth of insight to do it justice, so it quietly got skipped more often than anyone likes to admit. That's changing. **AI can now do a lot of that legwork: surfacing overlap, flagging leakage, and expanding what used to be a once-a-year scramble into something closer to continuous visibility.** For teams that never had the horsepower to dig into this properly, it's less a nice-to-have and more a bridge to a step you may have been skipping altogether.

The more you treat spend management like a strategic function (not a cost center), the better you understand where capital is deployed and why. Simply put, these finance teams are the ones who identify the best levers and eliminate the most wasteful leakages.

Levers and Leakages 101

The concept of levers and leakages is for the finance team to create a running list of opportunities (levers and leakages) for review.

- **Lever:** Something that can improve or multiply the impact of something else (think opportunities for improvement)
- **Leakage:** Instance where there is inherent waste or spoilage in how the business is operating (think opportunities to eliminate operational waste)

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Too many finance teams look for ways to close gaps at the end of a quarter when it's really too late. The goal here is not to just create a process of identifying levers and leakages for the plan and budget cycle, but to instill this mindset as a forever constant in the business year-round.

Building this flywheel requires creating a culture where ideas, inquiry, innovation, and introspection are encouraged and not thwarted. The output of a levers and leakages process should answer these questions:

- **How do we fill the gap?**
- **Which levers are most viable?**
- **What has to be true to achieve them?**
- **Which ones are we willing to commit?**

Finance should be empowered to recommend alternatives and keep that running list of levers and leakages current for review.

Tip

If your company has gone through several cycles of growth, leadership changes, and/or pivots in strategy, it's a safe bet that there are many expenses lurking in the run-rate that might not be contributing their fair share to business success. Look for tool overlap and streamlining opportunities – AI premiums and features especially, since teams often adopt them independently before anyone in finance has visibility. This can lead to significant savings.

6. Establish Key Priorities

Successful planning requires brutal prioritization. As a CFO, you're often the one who has to enforce the hard choices. Balance, insight, data-centricity, and judgment are part of the toolbox that finance leaders (and teams) must have to thrive.

Input-Output-Outcome Framework

Aligning key priorities involves understanding the inputs, outputs, and outcomes of business activities.

- **Inputs:** List the actions your team fully controls day to day – these are among the most underrated levers for distinguishing high performers from low performers

- **Outputs:** Track what results from executing on those inputs; often one team's output is the handoff that becomes another team's input

- **Outcomes:** Measure what happens when inputs and outputs work together. Maximizing business performance means optimizing both the inputs and the handoffs between them

Capturing the key priorities requires ensuring that there is a management system of operating cadences, measurement processes, and ongoing visibility to track progress against the priorities.

Run the Business versus Trajectory-Changing Bets

It's helpful to often carve out the plan priorities into:

- **Run the business:** Those areas of focus that must be true to keep the lights on and allow the business to function as normal (think essential activities)
- **Trajectory-changing bets:** Those risks the business is going to take to move beyond the current run-rate and move the business towards the intended future state (think innovative risks)

A caution here: nearly every company today would call AI its "trajectory-changing bet." That's not specific enough to mean much, and it's not durable – if everyone's bet is "AI," no one actually has an advantage. AI is a means, not an end in itself. **The bet still has to be about something more specific: a happier, more active, stickier customer who knows, loves, and uses your product enough to tell others and can't imagine going back to how things worked before.** That was true before AI. It's still true now.

Practical Filter for AI

When someone says an AI investment or tool "saved time," don't stop there – keep asking "so what?" until you reach a business outcome you can actually measure, like a shorter sales cycle or a faster resolution.

If you can't get there, the bet probably isn't as trajectory-changing as advertised. This is what we call the "double-click" method after learning what Zapier and Nium CFOs are doing within their organizations.

Tip Take the time to map out inputs and outputs so that the interdependencies are well understood. Apply some grade for how well each component is working. This will shine a light on where the business needs to focus most to improve.

7. Integrate All Activities into a Model

Converting all activities (your inputs, assumptions, and accountabilities) into a cohesive plan requires careful documentation.

With the executive leadership team acting as the producers of this process, their role is to determine whether the pieces fit, where gaps still exist, and whether everyone understands their role.

Whether you're using planning software or spreadsheets, your goal is to create a scalable, error-resistant model that accurately incorporates all activities.

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Activities Include (but are not limited to)

- **Key initiatives**
- **Bookings targets** (derivative of lead volume, conversion rates, AEs, ASPs)
- **Retention targets** (derivative of NRR, GRR)
- **Staffing levels/hiring needs** (derivative of employee retention, capacity models)
- **Tech stack investments** (tools being offboarded, tools being onboarded)
- **Merit/promotion allocations** (percent of salary)
- **Benefits expenses** (anticipated changes/increase year-over-year)
- **R&D investments required** (based on product roadmap, new features, new markets)
- **Demand generation funding** (SEO, SEM, Partner, etc.)
- **Infrastructure ability to scale** (GM impacts, cloud investments, etc.)

Combining Activities

Worth reconsidering here: some finance leaders no longer split "tech stack investments" and "staffing" into separate rigid lines at all – they fund a single outcome-based envelope and let teams decide how much comes from tools versus headcount.

Many finance leaders are now building this model with AI, and it's genuinely impressive at producing the pieces above. But it's easy to lose the forest for the trees. AI will happily let you go down a rabbit hole fine-tuning something that was never core to the plan in the first place. **You're still the human in the loop. Use it, lean in, and just make sure it's helping you see the plan more clearly, not helping you polish the wrong corner of it.** Where it earns its keep: surfacing assumptions that don't add up, flagging where the scorecard is lopsided, and calling out where risk is running hotter than the plan admits.

Your model needs to be robust enough to handle the constant changes and pivots that define our current business environment.

By combining all inputs, assumptions, and accountabilities into a model, you can pressure test your plan from the bottom up and top down with the leadership team to ensure all pieces fit together seamlessly and work as a cohesive unit.

And remember: we're not operating in a static universe. Your model needs to be robust enough to handle the constant changes and pivots that define our current business environment.

Tip

Pressure test your plan to ensure clarity and completeness – specifically, test what happens if your AI/consumption costs run 20-30% over assumption. That's a realistic swing, not a worst case, and it's worth knowing before it happens instead of after.

8. Finalize Formal Plan

Once the inputs have been properly integrated, it's time to make it formal. Documenting a formal plan should include financial statements (i.e. income statement, balance sheet, statement of cash flows), along with an operating plan in the form of a slide deck.

This slide deck should answer these questions:

- **What is the opportunity that the company perceives to exist?**
- **Where is the company situated currently (retrospective on prior year)?**
- **What is the future state (outcomes and goals to be achieved)?**
- **How does the company plan to achieve targets?**
- **What are the Investments required for achievement?**
- **What are the risks that might be present?**
- **How is the business mitigating risks?**

Tip Prepare the documentation as you move through each step (don't just start doing that at step 8 here). Starting the documentation at the end of the process could create a heavy lift in a tight deadline and stir up surprises for your executive team.

9. Approve and Rollout Plan

After the plan has been adequately formalized and documented, leadership teams present the plan for review and approval. This is typically done with the board of directors and related investors.

Sometimes those approving the plan accept it as drafted. Other times there are requests to sharpen pencils and come back with revisions that could span revenue and cost. If this happens, the process may need to return to step 3 or 4.

To avoid delays, nail down the list of levers and leakages from step 5 as that will serve as the go-to resource to fill gaps on either the revenue or expense side of the equation. Once approved, codify your targets into operating systems immediately. Don't let your plan become "shelfware" that sits on the proverbial shelf all year.

Tip Codify the targets into your systems of record to keep them front and center for employees. If there are guardrails around levels of spend allocated for various software tools – including usage caps for consumption-based AI tools – maintain a simple process to ensure employees adhere to the plan. Baking process adherence into workflows will ensure repeatability, scalability, and control into your business.

10. Execute Proactively

The plan should remain relevant and actionable throughout the year. This requires establishing an operating cadence of regular check-ins to review progress against priorities, key observations and learnings, and what you would do differently.

Measuring impact and return on investment allows leaders to adapt budgeting and planning according to strategic initiatives (like efficiency and growth).

The process includes constant assessments, "budget versus actual" discussions, and democratizing data and insights for owners. By doing this, you help your people realize how intricately connected they are to the business and how their work contributes to its success.

Finding AI Value

For AI investment specifically, that means going one level deeper than a total spend number – segmenting usage by team, function, or activity type so you actually know where the value (or the waste) is concentrated, not just that a number moved (this is the telemetry framework the CFOs at Zapier and Nium rely on).

Tip

Involve employees in the planning and measurement process, actively seeking their input. When they see themselves reflected in the plan, they're more likely to stay engaged and committed.

Russell Lester is the President and Chief Financial Officer at Tropic, bringing over two decades of experience steering high-growth technology companies through pivotal transformations. Prior to Tropic, Lester held CFO roles at Versapay, Calendly, and Keap. At Calendly, he was instrumental in scaling the company's operations, overseeing the development of critical teams across analytics, FP&A, IT, legal, and more. His leadership contributed to a $350 million Series B funding round, elevating the company's valuation to over $3 billion.

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