

1. Setting Targets & Creating Budgets

Compagnie du Froid: Agenda

1. Situation & Challenges
2. Budgeting & Budgets
3. Reading P&L Reports
4. Deep-dive: Italy
5. Targets & Targeting
6. Summary

Compagnie du Froid: Agenda

1. Situation & Challenges

What's the situation? What's on the CEO's mind?

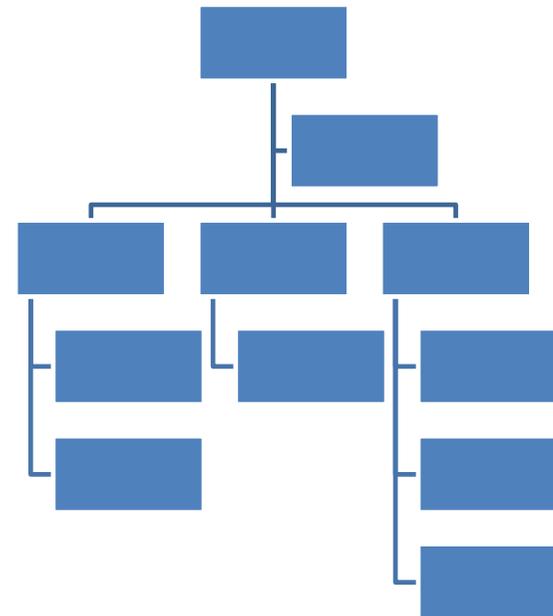
Management-by-Mood-Swings





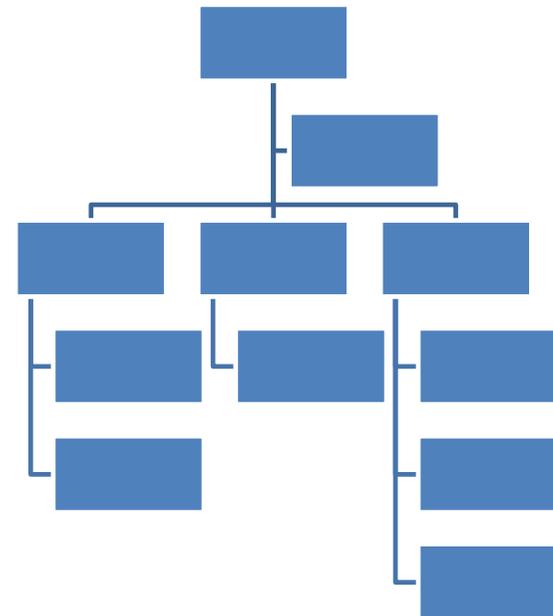
Organizations

- **Decentralization:**
 - Delegation: separation of stakes, taker of action \neq bearer of result.
 - Dispersion: division of labor across multiple people.



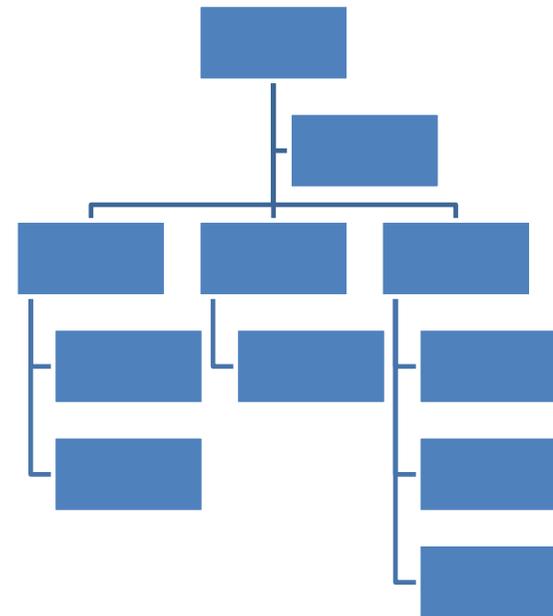
Organizations

- **Consequences:**
 - Conflict of interests.
 - Information incompleteness & asymmetries.
 - Adverse selection.
 - Global vs. local objectives.



Organizations

- Management Challenges:
 - Congruence.
 - Coordination.
 - Cooperation.
 - Communication.
 - Commitment.
 - Control.
 - Culture.



Compagnie du Froid: Agenda

1. Situation & Challenges
2. Budgeting & Budgets

What are the Challenges?

What Are Budgets Good For?

Budgets & “VUCA”

Setting Your Annual Budget Amid Economic Uncertainty

by Simon Freakley and Lisa Donahue

September 01, 2022



master1305/Getty Images

<https://hbr.org/2022/09/setting-your-annual-budget-amid-economic-uncertainty>, dated September 1, 2022, accessed January 17, 2023

3 Ways to Bring Flexibility to Budgeting

by Nadya Zhexembayeva

September 28, 2022



Yaroslav Danyichenko/Stocksy

<https://hbr.org/2022/09/3-ways-to-bring-flexibility-to-budgeting>, dated September 28, 2022, accessed January 17, 2023

Compagnie du Froid: Agenda

1. Situation & Challenges
2. Budgeting & Budgets
3. Reading P&L Reports

Exh. 4 (b)



	Profit Plan		Actual		Variance
	Volume ('000)	Euros ('000)	Volume ('000)	Euros ('000)	Euros ('000)
Contribution margin		7,824		8,924	1,100 F
Other costs		2,536		2,557	-21 U
Transfer from France		0		2,126	-2,126 U
		<u>2,536</u>		<u>4,683</u>	<u>-2,147 U</u>
Operating margin		5,288		4,241	-1,047 U
Selling and Administrative Expenses					
Logistics		1,149		1,182	-33 U
Subcontracted transportation		0		77	-77 U
Sales & Advertising		2,233		2,194	39 F
Administration		720		744	-24 U
Allocated central office expenses		158		193	-35 U
		<u>4,260</u>		<u>4,390</u>	<u>-130 U</u>
Operating profit		<u>1,028</u>	≠	<u>-149</u>	<u>-1,177 U</u>
Identifiable Assets					
Cash (average)		94		98	-4
Accounts Receivable (average)		423		266	157
Plant and equipment (net of depreciation €1,669)		4,764		4,837	-73
Total identifiable assets		<u>5,281</u>		<u>5,201</u>	<u>80</u>

Exh. 4 (a)



	Profit Plan		Actual		Variance	
	Volume ('000)	Euros ('000)	Volume ('000)	Euros ('000)	Euros ('000)	
Sales Data						
Sales ice-cream (volume in litres)	3,685	16,294	3,575	15,507	-787	U
Sale specialties (litres)	409	3,330	400	3,251	-79	U
Total Sales	4,094	19,624	3,975	18,758	-866	U
Cost of Goods Sold						
Cost ice-cream						
Dairy ingredients (litres)	2,653	6,923	2,175	5,607	1,316	F
Other ingredients (100 gr.)	1,769	2,670	1,450	2,202	468	F
Labor (hours)	34.37	279	29.21	238	41	F
		9,872		8,047	1,825	F
Cost specialties						
Dairy ingredients (litres)	381	994	362	933	61	F
Other ingredients (100 gr.)	299	633	275	571	62	F
Labor (hours)	37.09	301	34.73	283	18	F
		1,928		1,787	141	F
Contribution margin		7,824		8,924	1,100	F
Conditions for tourism						
Average summer temperature	30.2		28.5			

“Unfavorable”
= negative
profit impact

“Favorable”
= positive
profit impact

Exh. 4 (a): Closer Look



	Profit Plan		Actual		Variance	
	Volume ('000)	Euros ('000)	Volume ('000)	Euros ('000)	Euros ('000)	
Sales Data						
Sales ice-cream (volume in litres)	3,685	16,294	3,575	15,507	-787	U
Sale specialties (litres)	409	3,330	400	3,251	-79	U
Total Sales	4,094	19,624	3,975	18,758	-866	U
Cost of Goods Sold						
Cost ice-cream						
Dairy ingredients (litres)	2,653	6,923	2,175	5,607	1,316	F
Other ingredients (100 gr.)	1,769	2,670	1,450	2,202	468	F
Labor (hours)	34.37	279	29.21	238	41	F
		9,872		8,047	1,825	F
Cost specialties						
Dairy ingredients (litres)	381	994	362	933	61	F
Other ingredients (100 gr.)	299	633	275	571	62	F
Labor (hours)	37.09	301	34.73	283	18	F
		1,928		1,787	141	F
Contribution margin		7,824		8,924	1,100	F
Conditions for tourism						
Average summer temperature	30.2		28.5			

“Favorable” = cost savings!?



Exh. 4 (a): Inferences



- Real cost **savings** = when?:

Total Variable Cost (Actual) < **Total** Variable Cost (Budget) ???

or:

Unit Variable Cost (Actual) < **Unit** Variable Cost (Budget) ???

Exh. 4 (a): Inferences



- Lower cost level = no surprise:

Volume (Actual) < Volume (Budget)
 ⇒ Total Variable Cost (Actual) < Total Variable Cost (Budget)

	Budget			
	Total	Litres	Unit	
Sales	16,294	3,685	4.42	
COGS (variable)	9,872	3,685	2.68	
	Actual			
	Total	Litres	Unit	
Sales	15,507	3,575	4.34	
COGS (variable)	8,047	2,972	2.71	F U!!

Exh. 4: Spain



	Profit Plan		Actual		Variance	
	Volume ('000)	Euros ('000)	Volume ('000)	Euros ('000)	Euros ('000)	
Sales Data						
Sales ice-cream (volume in litres)	3,685	16,294	3,575	15,507	-787	U
Sale specialties (litres)	409	3,330	400	3,251	-79	U
Total Sales	4,094	19,624	3,975	18,758	-866	U
Cost of Goods Sold						
Cost ice-cream						
Dairy ingredients (litres)	2,653	6,923	2,175	5,607	1,316	F
Other ingredients (100 gr.)	1,769	2,670	1,450	2,202	468	F
Labor (hours)	34.37	279	29.21	238	41	F
		9,872		8,047	1,825	F
Cost specialties						
Dairy ingredients (litres)	381	994	362	933	61	F
Other ingredients (100 gr.)	299	633	275	571	62	F
Labor (hours)	37.09	301	34.73	283	18	F
		1,928		1,787	141	F
Contribution margin		7,824		8,924	1,100	F
Conditions for tourism						
Average summer temperature	30.2		28.5			C

A "simple" (naïve) comparison Actual vs. Budget does not give good signals. We need ...

Another Sage ...



- Is accounting like a **box of chocolates**?
- You never know what you are gonna get?

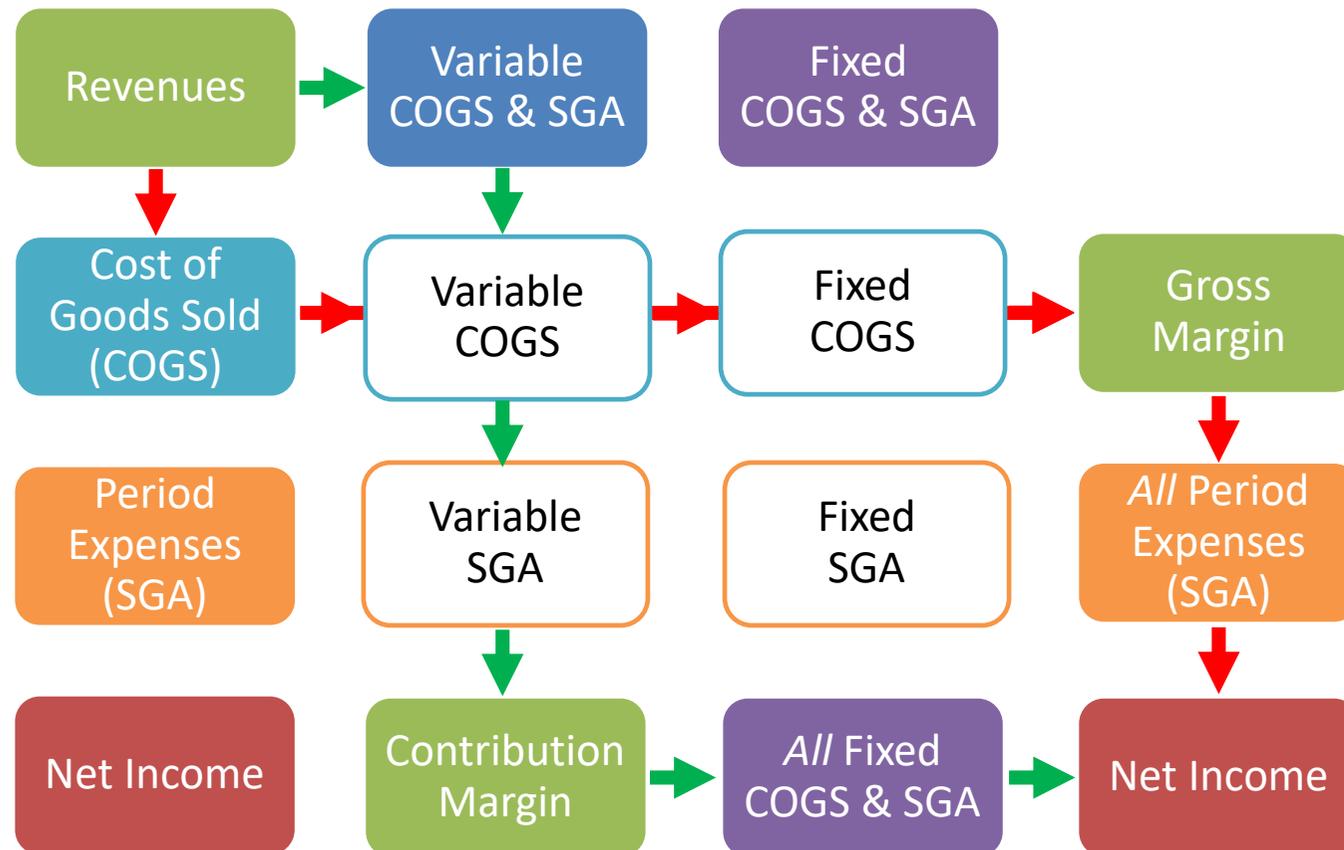
A typical P&L / Income Statement



A desired P&L / Income Statement

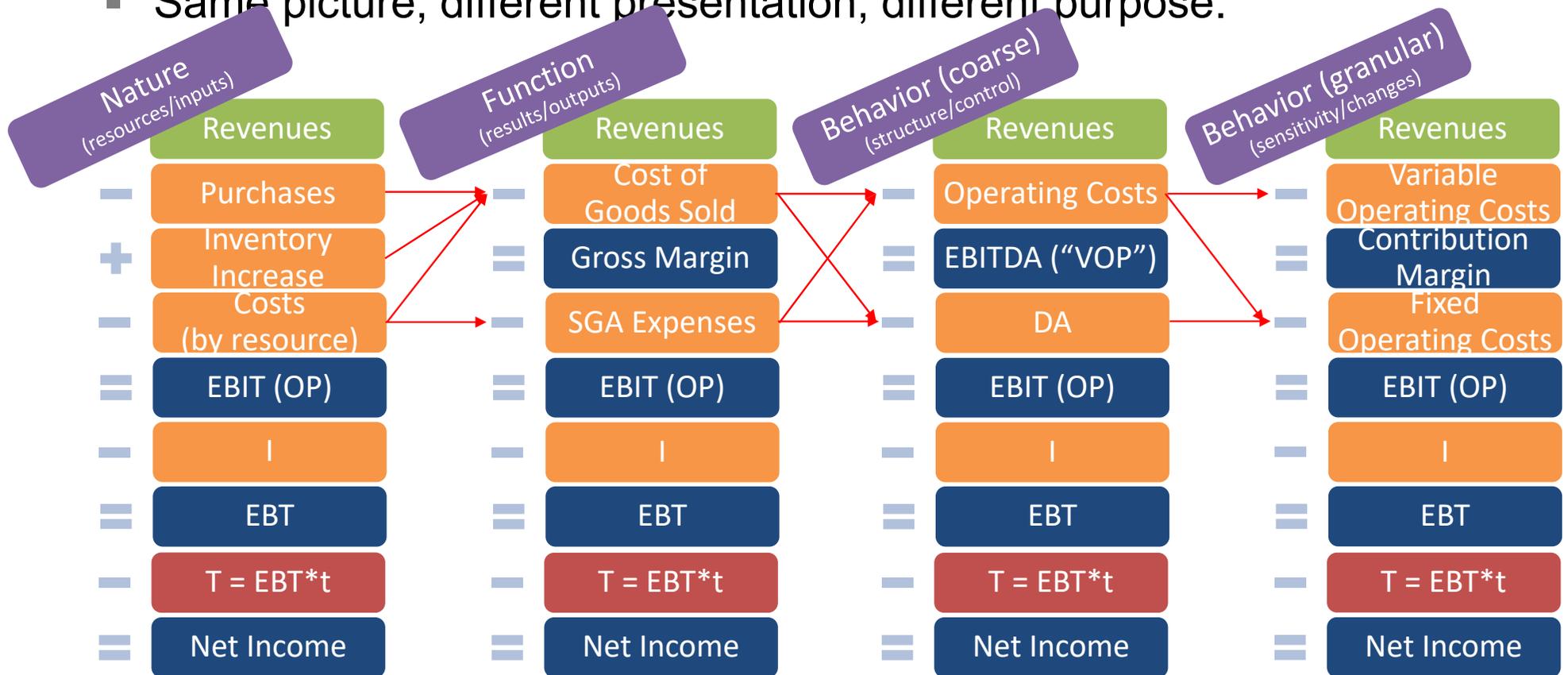


Income Statement



P&L Presentation: some of many Ways

- Same picture, different presentation, different purpose.



A very “German” Approach

Mehrstufige Deckungsbeitragsrechnung

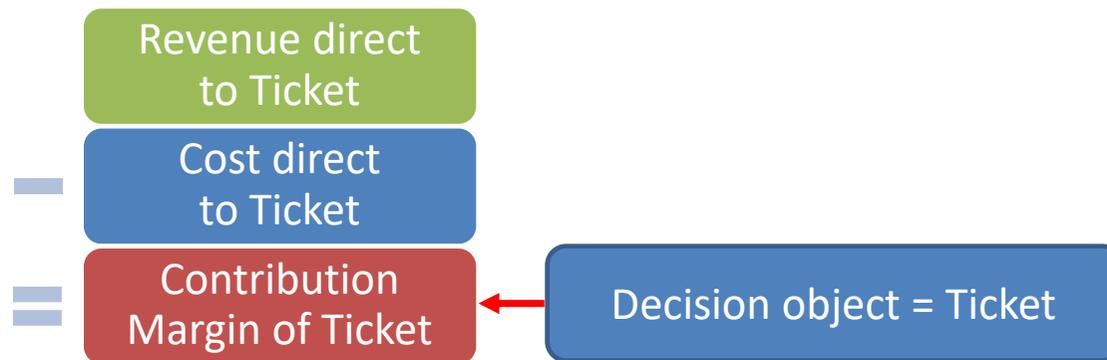
<u>DB I</u>	Erlöse - variable Kosten <hr/> = Deckungsbeitrag I
<u>DB II</u>	Summe der Deckungsbeiträge I - Produktfixkosten <hr/> = Deckungsbeitrag II
<u>DB III</u>	Summe der Deckungsbeiträge II - Produktgruppenfixkosten <hr/> = Deckungsbeitrag III
<u>DB IV</u>	Summe der Deckungsbeiträge III - Bereichsfixkosten <hr/> = Deckungsbeitrag IV
<u>DB V</u>	Summe der Deckungsbeiträge IV - Unternehmensfixkosten <hr/> = Deckungsbeitrag V

Let's Go Back to the Sage ...



- An example of layered contribution margins

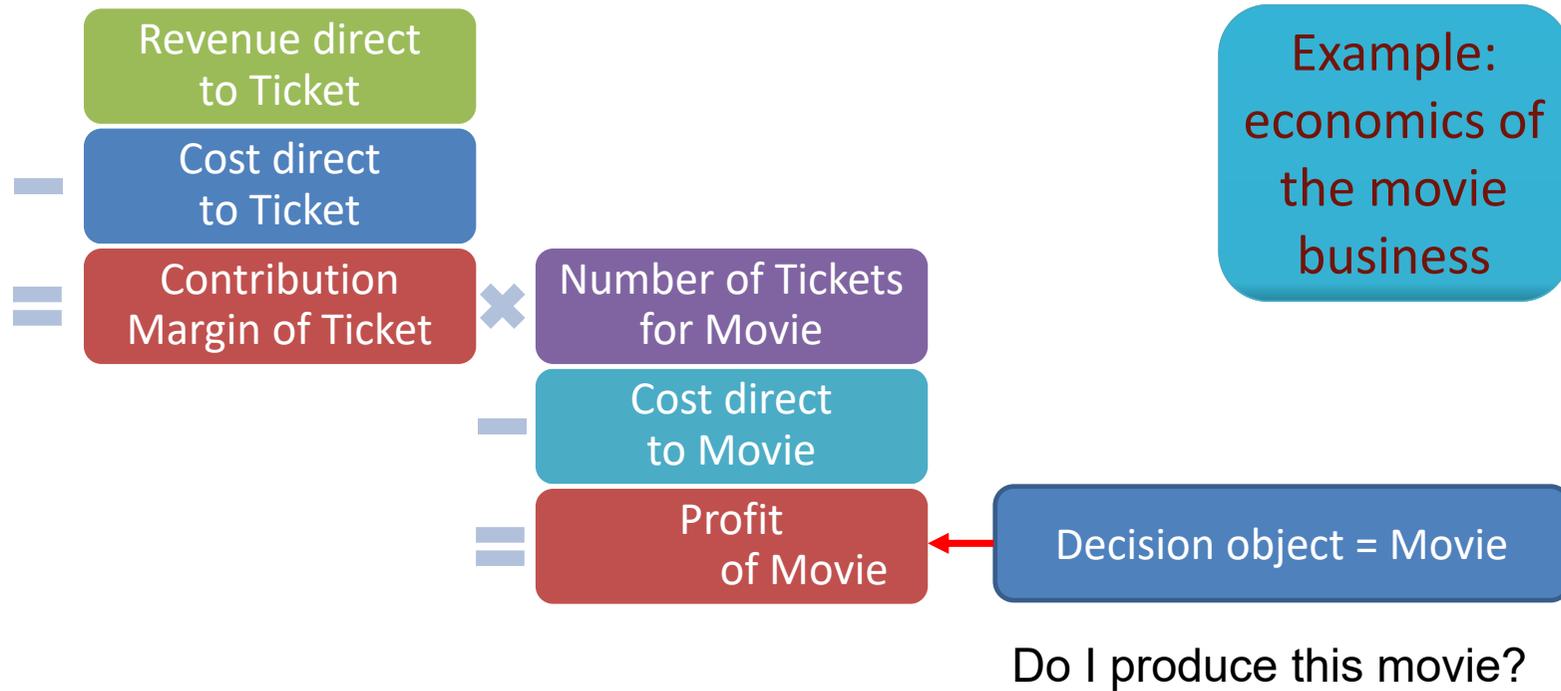
Cost \Rightarrow Profit Layers: Ex.



Do I sell this Ticket?

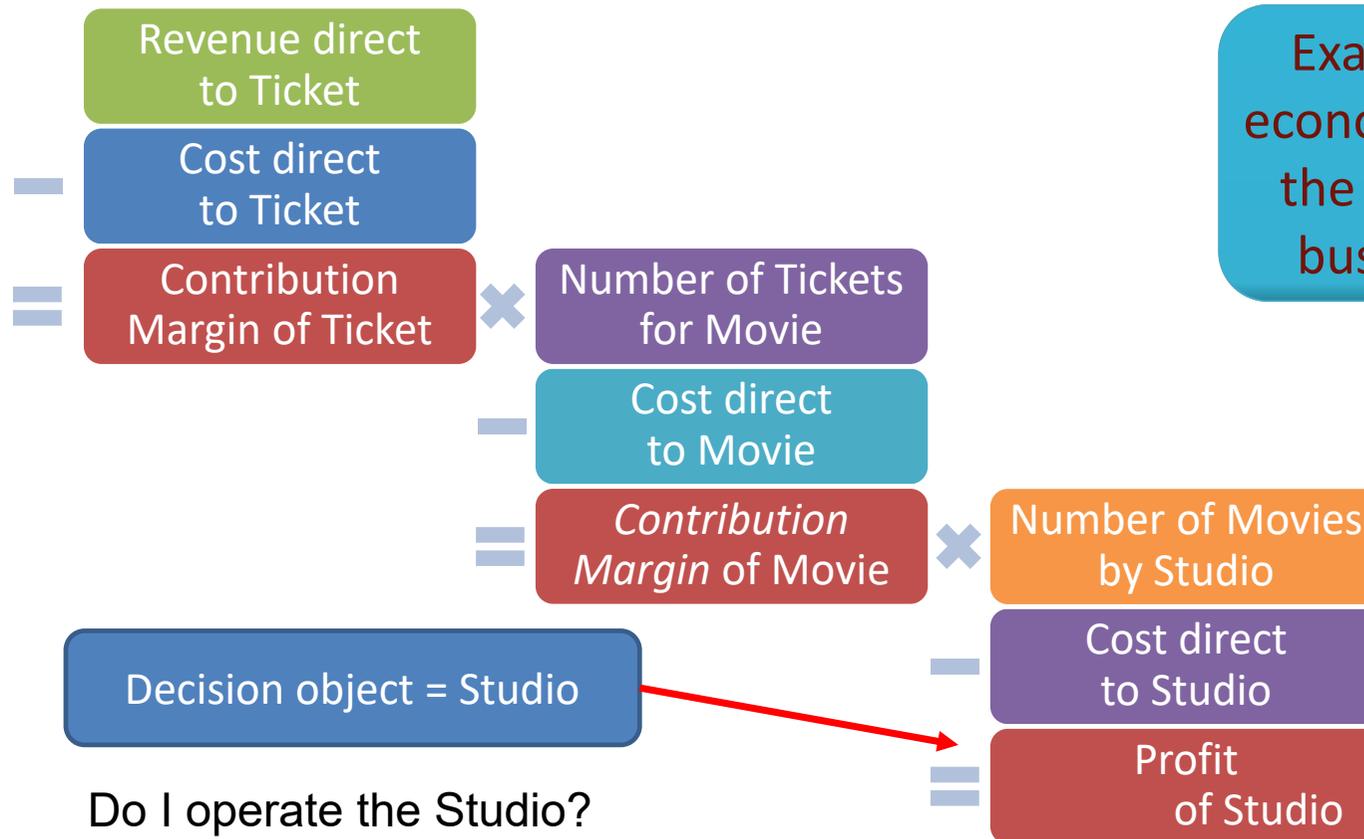
Example:
economics of
the movie
business

Cost ⇒ Profit Layers: Ex.

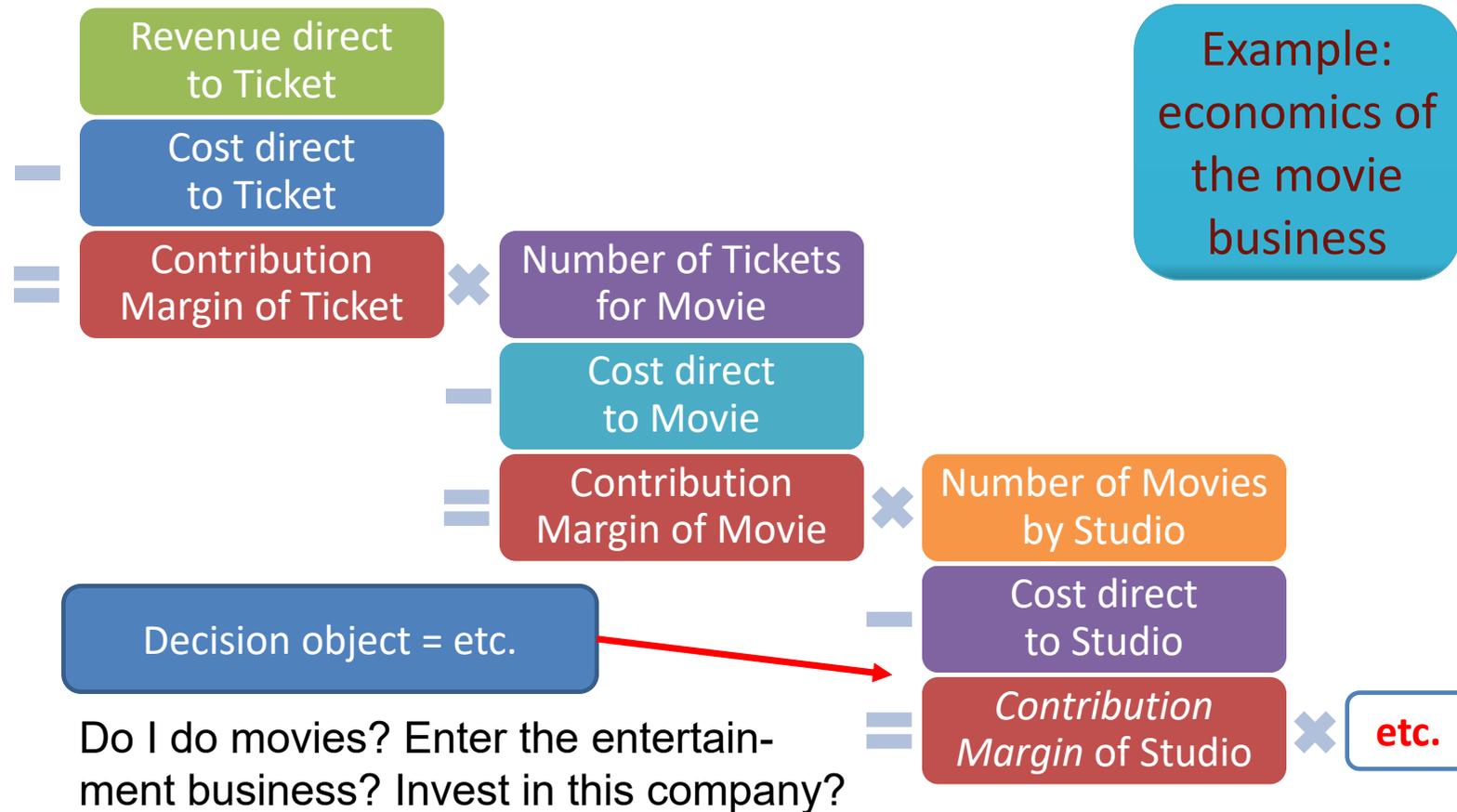


Cost ⇒ Profit Layers: Ex.

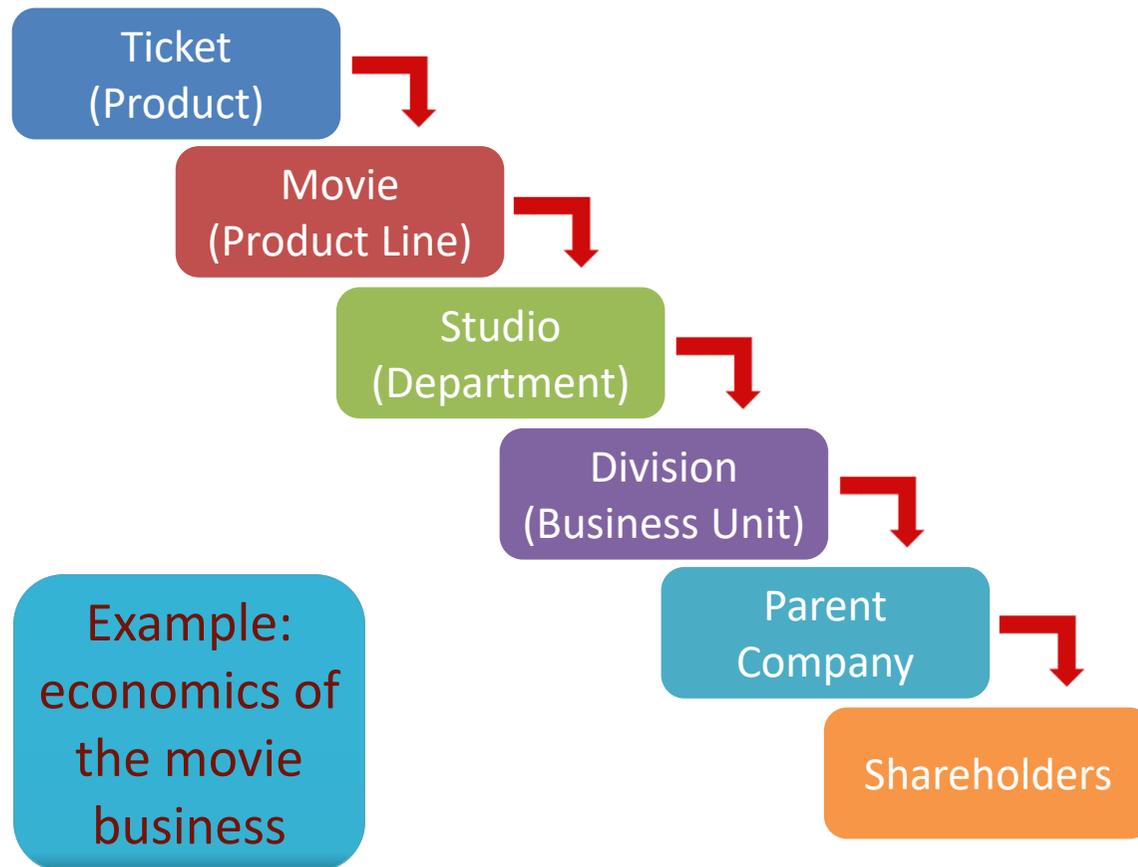
Example:
economics of
the movie
business



Cost ⇒ Profit Layers: Ex.



“Cascade” of Profit Layers



- The profit of a ticket contributes to the profit of the movie.
- The profit of a movie contributes to the profit of the studio.
- The profit of a studio contributes to the profit of the entertainment division.
- And so on.

Versatility



<https://www.lego.com/en-pl/product/wild-animals-panda-family-31165>,
accessed January 14, 2026

Variance Analysis (aka Gap Analysis)

	Budget	Step 1	Step 2	Step 3	Actual
Key Value Driver	Budget	Actual	Actual	Actual	Actual
Revenue	Budget	Budget	Actual	Actual	Actual
Variable Cost	Budget	Budget	Budget	Actual	Actual
Fixed Cost	Budget	Budget	Budget	Budget	Actual
Profit	Budget	Theoretical	Theoretical	Theoretical	Actual
		Variance 1	Variance 2	Variance 3	Variance 4

Compagnie du Froid: Agenda

1. Situation & Challenges
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3. Reading P&L Reports
4. **Deep-dive: Italy**

Is *This* Your Story?



<https://www.linkedin.com/feed/update/urn:li:activity:7072860406221787136/#>, retrieved June 19, 2023

Exh. 3 (a)

	Profit Plan		Actual		Variance	
	Volume (<i>'000</i>)	Euros (<i>'000</i>)	Volume (<i>'000</i>)	Euros (<i>'000</i>)	Euros (<i>'000</i>)	
Sales Data						
Sales ice-cream (volume in litres)	2,453	10,967	2,480	11,106	139	F
Sale specialties (litres)	272	2,232	276	2,253	21	F
Total Sales	2,725	13,199	2,756	13,359	160	F
Cost of Goods Sold						
Cost ice-cream						
Dairy ingredients (litres)	1,864	4,963	1,895	4,986	-23	U
Other ingredients (100 gr.)	1,275	1,885	1,296	1,932	-47	U
Labor (hours)	33.10	300	36.03	328	-28	U
		7,148		7,246	-98	U
Cost specialties						
Dairy ingredients (litres)	259	689	257	676	13	F
Other ingredients (100 gr.)	196	425	197	430	-5	U
Labor (hours)	24.24	220	23.29	212	8	F
		1,334		1,318	16	F
Contribution margin		4,717		4,795	78	F
Conditions for tourism						
Average summer temperature	29.7		29.8			C

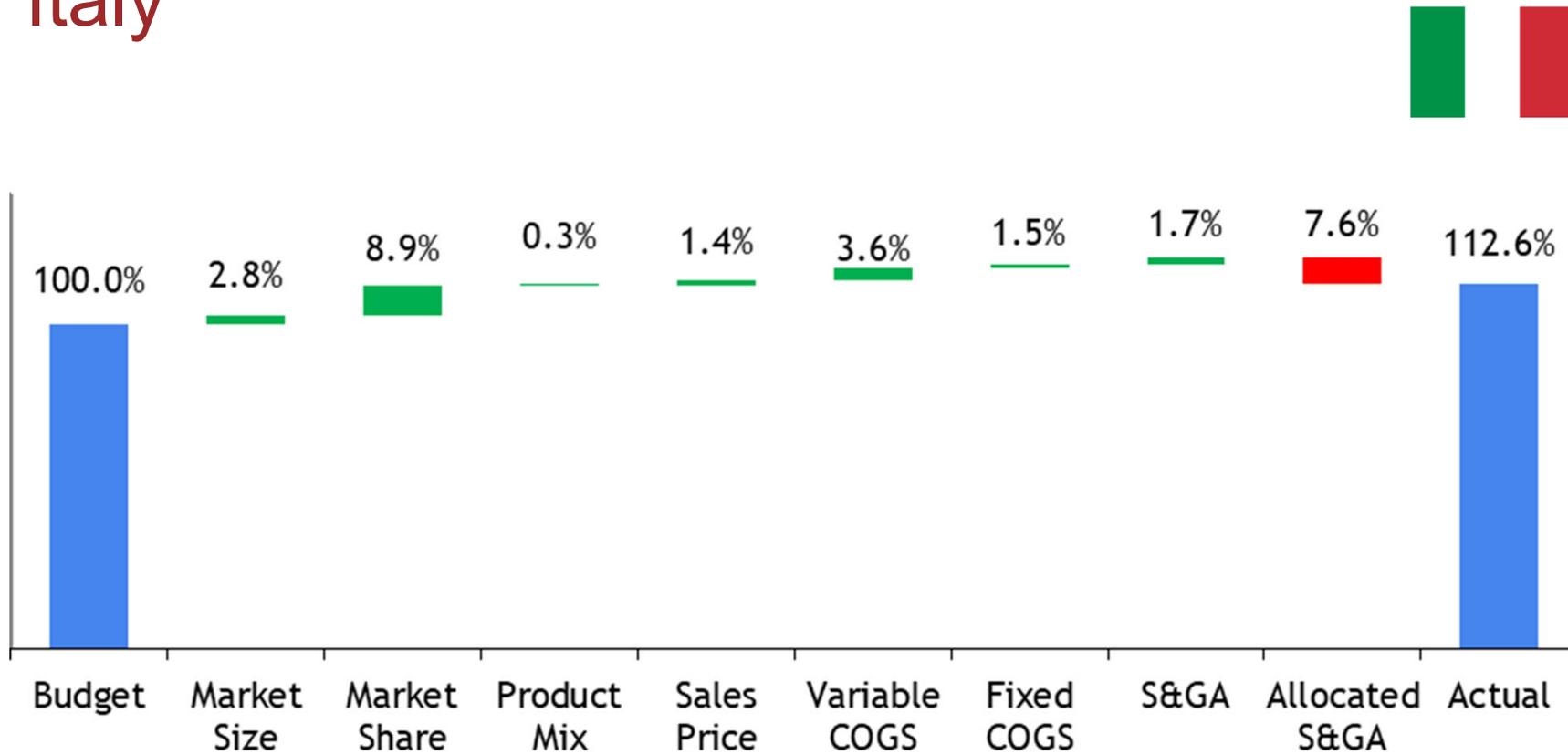


Exh. 3 (b)

	Profit Plan		Actual		Variance
	Volume (<i>'000</i>)	Euros (<i>'000</i>)	Volume (<i>'000</i>)	Euros (<i>'000</i>)	Euros (<i>'000</i>)
Contribution margin		4,717		4,795	78 F
Other costs		1,251		1,244	7 F
Operating margin		3,466		3,551	85 F
Selling and Administrative Expenses					
Logistics		527		513	14 F
Sales & Advertising		1,642		1,632	10 F
Administration		680		696	-16 U
Allocated central office expenses		158		193	-35 U
		<u>3,007</u>		<u>3,034</u>	<u>-27 U</u>
Operating profit		<u>459</u>		<u>517</u>	<u>58 F</u>
Identifiable Assets					
Cash (average)		94		108	-14
Accounts Receivable (average)		377		357	20
Plant and equipment (net of depreciation €3,200)		2,763		2,764	-1
Total identifiable assets		<u>3,234</u>		<u>3,229</u>	<u>5</u>



Italy



Objection, your Honor!



What Then *Is* Your Story?



Numbers & Stories

- What's **your** story about Italy?



shutterstock.com · 1798909765

Compagnie du Froid: Agenda

1. Situation & Challenges
2. Budgeting & Budgets
3. Reading P&L Reports
4. Deep-dive: Italy
5. Targets & Targeting

Hit the Target ...



<https://www.manomano.co.uk/advice/thermostat-buying-guide-10110>, n.d., accessed January 14, 2026

... or Push the Limits



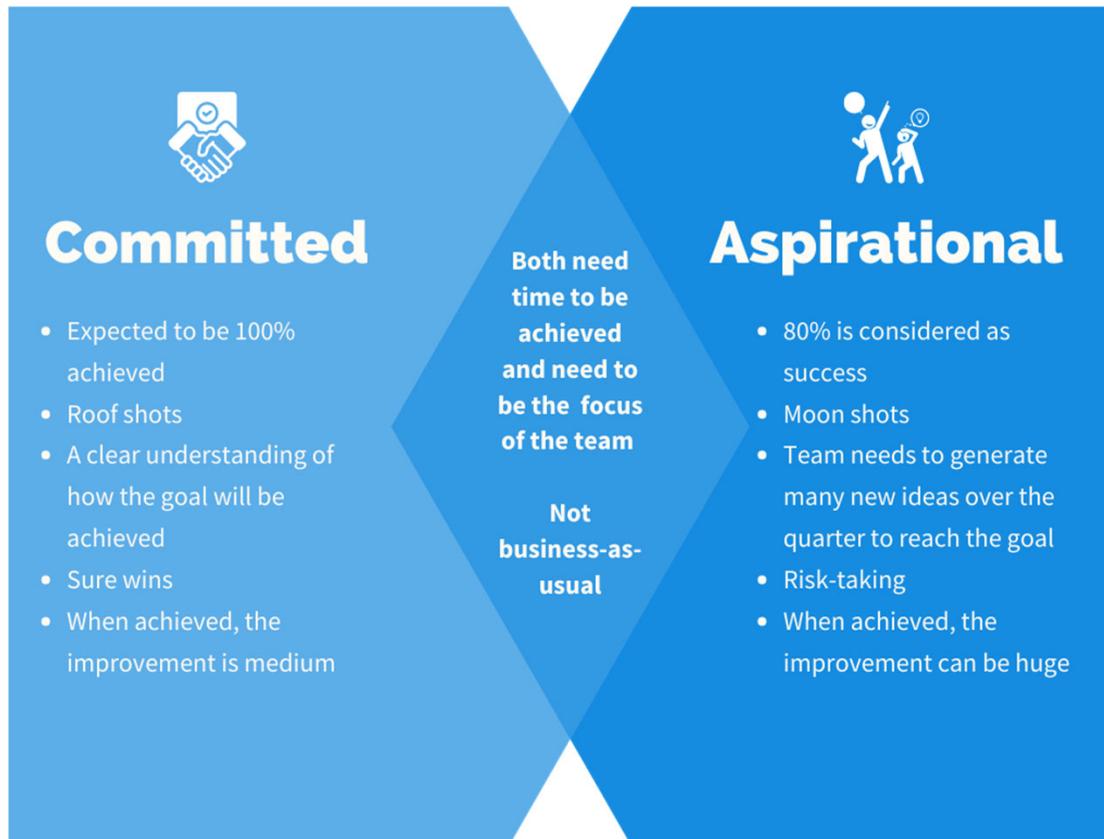
<https://www.wfit.org/live-music/2016-08-08/space-coast-symphony-orchestra-presents-faster-higher-stronger-the-music-of-the-Olympics>,
accessed January 14, 2026

**“OKRs have helped lead
us to 10x growth, many
times over.”**

Larry Page, Co-founder.



Roofshots & Moonshots



<https://blog.weekdone.com/the-difference-between-committed-and-aspirational-okrs/>,
n.d., accessed January 14, 2026

New Type of Goals?

MIT SLOAN MANAGEMENT REVIEW

STRATEGY

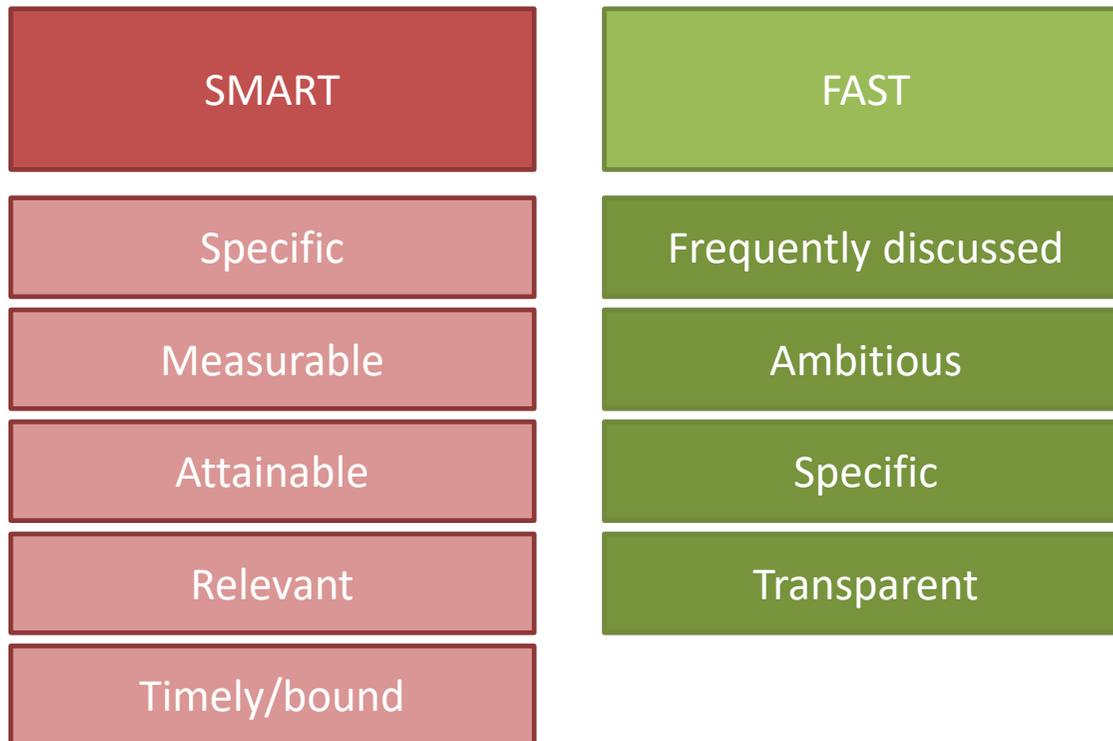
With Goals, FAST Beats SMART

DONALD SULL AND CHARLES SULL

To execute strategy, leaders must set ambitious targets, translate them into specific metrics and milestones, make them transparent throughout the organization, and discuss progress frequently.

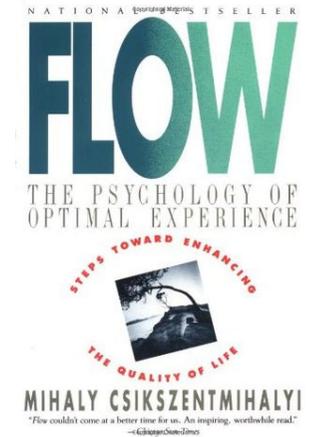
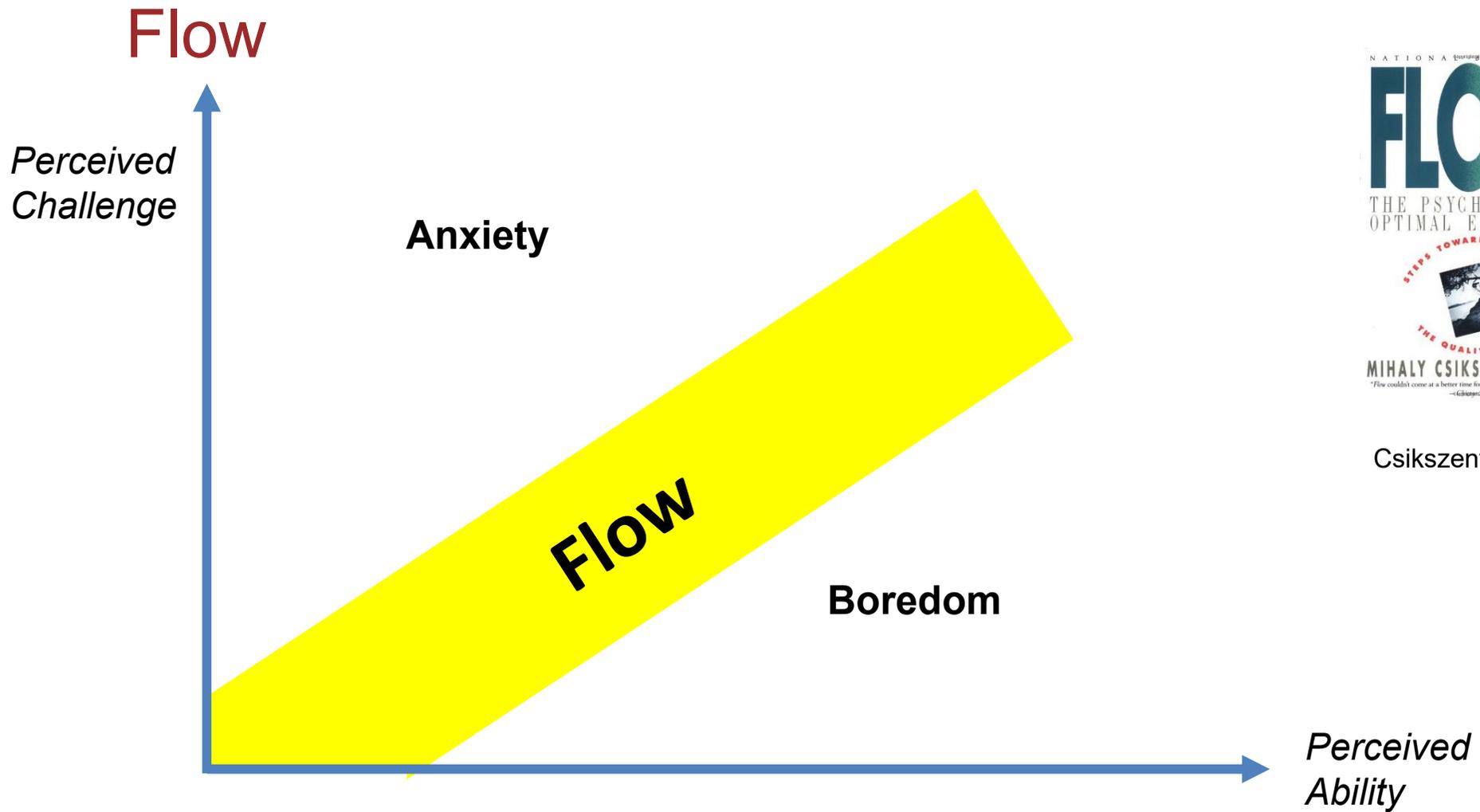
Sull & Sull (2018).

New Type of Goals?



	Definition	Benefits
 Frequently discussed	Goals should be embedded in ongoing discussions to review progress, allocate resources, prioritize initiatives, and provide feedback.	<ul style="list-style-type: none"> Provides guidance for key decisions. Keeps employees focused on what matters most. Links performance feedback to concrete goals. Evaluates progress and course corrects.
 Ambitious	Objectives should be difficult but not impossible to achieve.	<ul style="list-style-type: none"> Boosts performance of individuals and teams. Minimizes the risk of sandbagging. Forces broader search for innovative ways to achieve goals.
 Specific	Goals are translated into concrete metrics and milestones that force clarity on how to achieve each goal and measure progress.	<ul style="list-style-type: none"> Clarifies what employees are expected to deliver. Helps identify what is not working and quickly course corrects. Boosts performance of individuals and teams.
 Transparent	Goals and current performance should be made public for all employees to see.	<ul style="list-style-type: none"> Makes use of peer pressure to perform on goals. Shows employees how their activities support company goals. Understands other teams' agendas. Surfaces activities that are redundant or unaligned with strategy.

Sull & Sull (2018).



Csikszentmihalyi (1990)

OKR (Objectives & Key Results)

- Rigorous & radical Target Setting: moonshots.
- Rigorous & radical Transparency: public.
- Rigorous & radical Breakdown of Targets, Activities, KPIs.
 - Concrete
 - Measurable
 - Participative
 - Quarterly/Weekly/Daily
 - Team & Personal
 - <5 p.p.
- Rigorous & radical Monitoring, Feedback & Management.
- **NO link to compensation.**

Performance Management on Steroids



<https://generationiron.com/tag/build-muscle/>, downloaded July 27, 2024

Modern Performance Management?



Slack vs Stretch

	Slack (easy or none)	Stretch (difficult)
Environment	Unpredictable, uncertain	Predictable, understanding
	Uncertainty	Certainty, Knowledge, Understanding of the markets
Emphasis	Innovation	Implementation
Jobs	Unique, novel, unstructured	Repetitive, structured
Multitasking	Complex, trade-offs	Lo/no “side effects”
Input-Output relation	Unclear	Mechanical
Results/outputs	Ambiguous	Crisp, clear

Advantages

FACTS

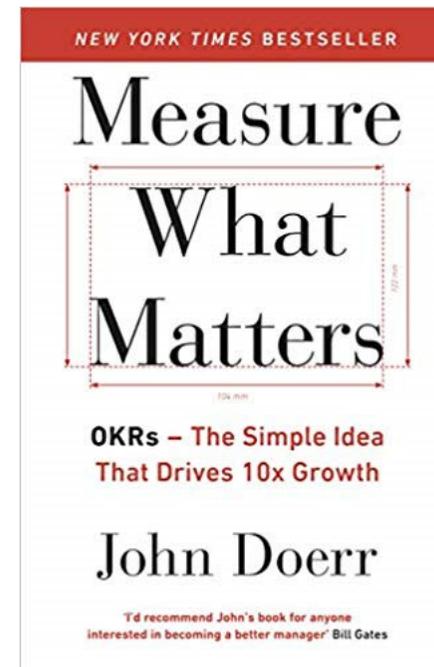
Focus

Alignment

Commitment

Track

Stretch



(Unusual) Terminology

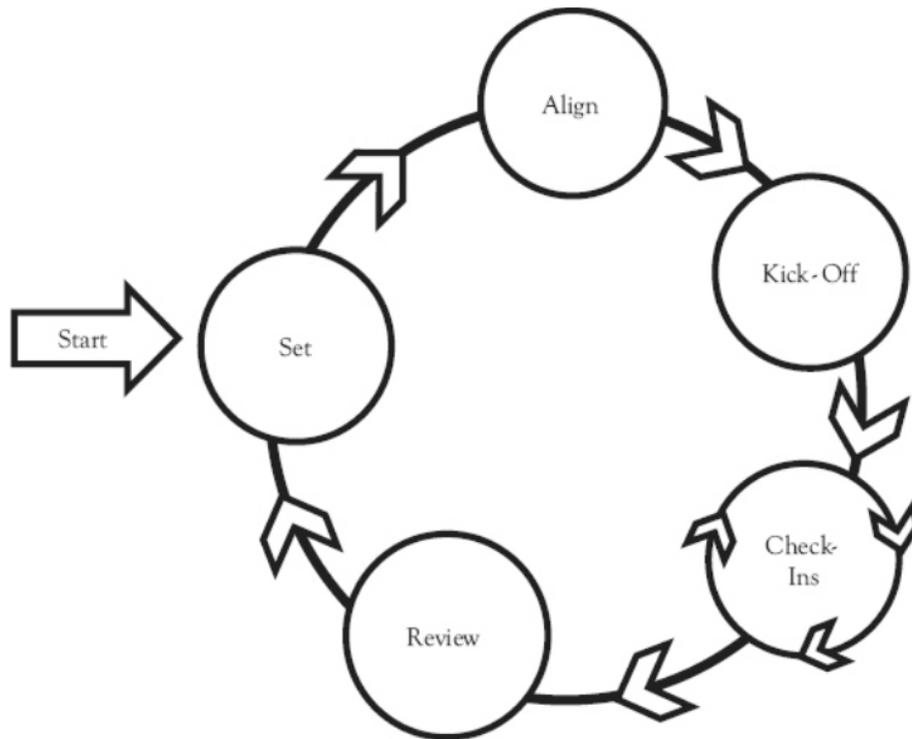
- Objective (what do we strive to achieve):
 - “90-day challenge” quarterly time horizon.
 - Memorable, short, qualitative, inspiring description of what you want to achieve.
 - Aligned & impacting most critical top-level business goals & metrics.
- Key Result (how do we assess if we achieve):
 - Measure that indicates
 - progress towards the objective.
 - achievement of the objective.
 - No what to do, but what to achieve.
- Initiative (what do we do to achieve):
 - Concrete actions.
 - Granular, feasible.

Example

- Objective: customers choose us instead of the competition.
- Key Results:
 - Increase the percentage of customers that prefer our product to the competitors' product in a blind test from 30 to 75 percent.
 - Increase the average order rating (customer feedback) from 3.1 to 5.0.

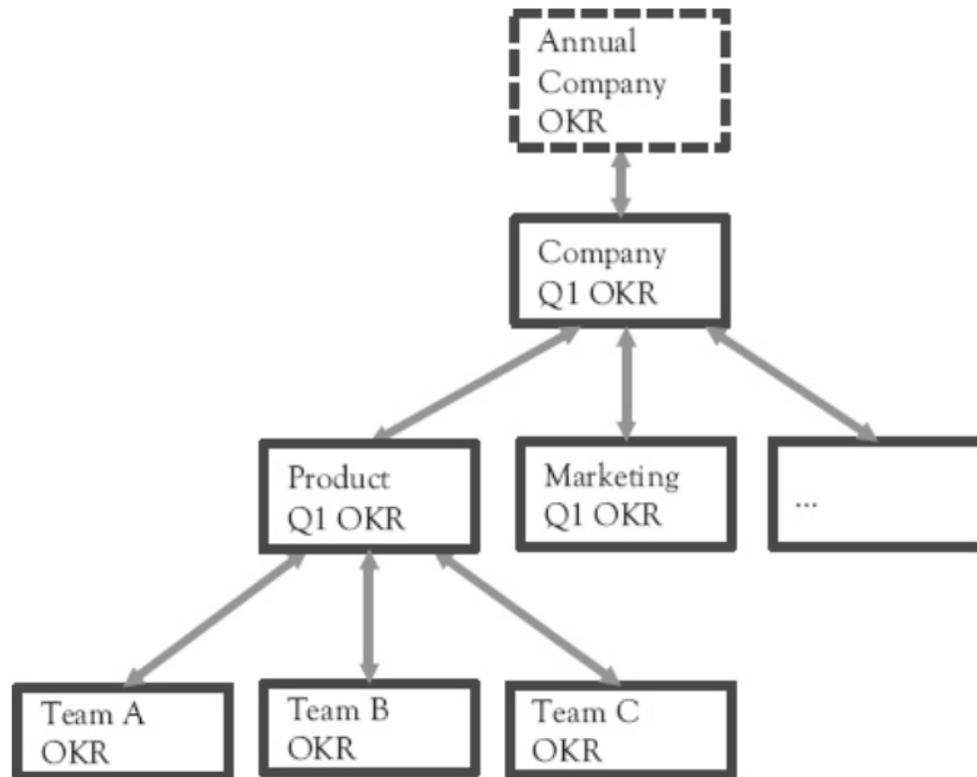
We will **[Objective]**, measured by **[Key Results]**.

90-Day Cycle ...



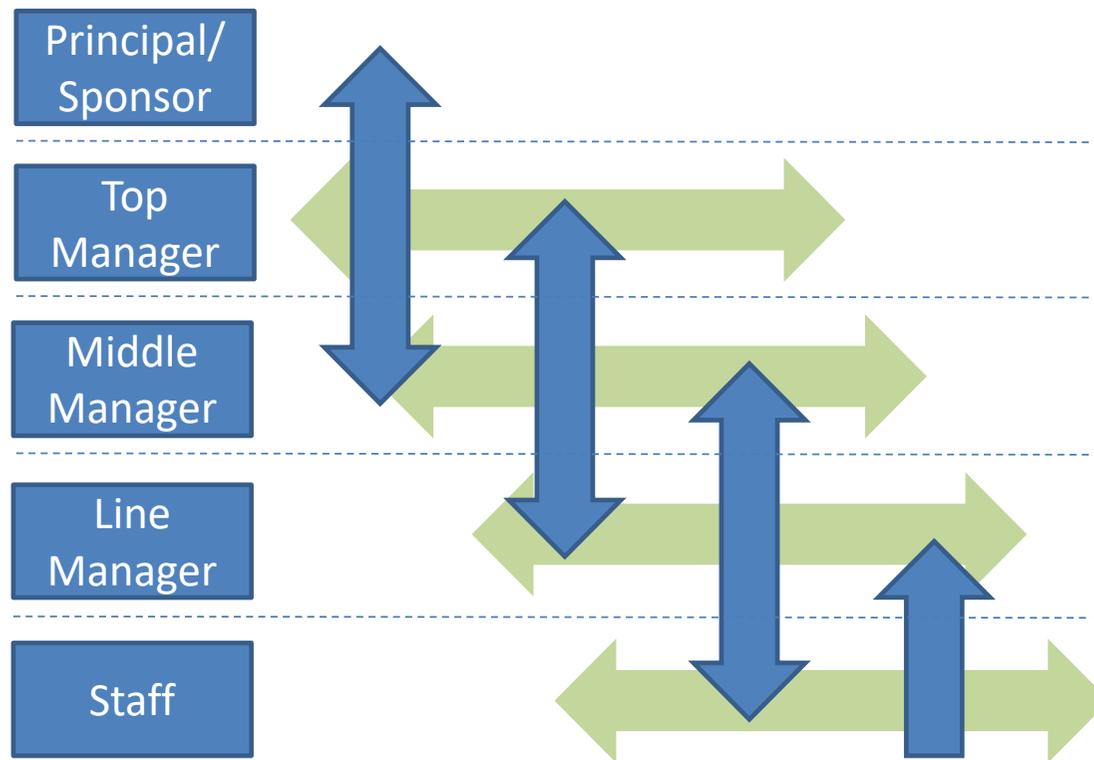
Den Haak, Bart (2022).
Moving the needle with Lean OKRs.
Figure 1.2.

... Strict Hierarchy



Den Haak, Bart (2022).
Moving the needle with Lean OKRs.
Figure 1.3.

Cascading OKR



Digital Enablers (An Example)

Microsoft Viva & Lernen

Wie können wir Ihnen helfen?



Viva Amplify



Viva Connections



Viva Engage



Viva Glint



Viva Goals



Viva Insights



Viva Learning



Viva Pulse



Topics in Viva

<https://support.microsoft.com/de-de/viva>, accessed July 27, 2024

Compagnie du Froid: Agenda

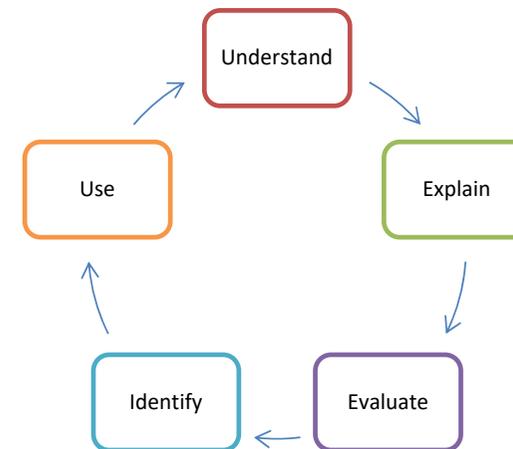
1. Situation & Challenges
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Variance Analysis (aka Gap Analysis)

	Budget	Step 1	Step 2	Step 3	Actual
Key Value Driver	Budget	Actual	Actual	Actual	Actual
Revenue	Budget	Budget	Actual	Actual	Actual
Variable Cost	Budget	Budget	Budget	Actual	Actual
Fixed Cost	Budget	Budget	Budget	Budget	Actual
Profit	Budget	Theoretical	Theoretical	Theoretical	Actual
		Variance 1	Variance 2	Variance 3	Variance 4

Variance Analysis

- Theme: isolate the incremental impact of ...
... the deviation (actual vs. plan) of each identifiable profit driver ⇒ step-by-step:
 - Understand impacts.
 - Explain reasons.
 - Evaluate businesses & managers.
 - Identify likely future.
 - Use for corrective actions.



Variance Analysis

- Theme: isolate the incremental impact of ...
 - ... the un-budgeted business changes
 - ⇒ disaggregation:
 - What: structural/permanent changes, temporary developments, one-off events.
 - Why: avoid distorted comparison Budget – Results.
 - How: identify, disaggregate, separate.
 - When: unpredictable *or* predictable but not budgeted.

Key Messages

- Variance analysis = **rigor**:
 - Why did the real income statement (or any other accounting report) look different from what we had planned?
- VA **mechanics** = **carpaccio**:
 - Step-by-step analysis of the incremental impact of each key profit (or cost) driver's deviation from budget.
- VA **objectives** = evaluate & improve **performance**:
 - Understand the past, learn & decide for the future.
- VA **limitations** = **accounting**:
 - Multiple causes \Leftrightarrow one individual variance \Leftrightarrow multiple responses.
 - Process = accounting \Leftrightarrow objective = management.
- VA **problem**: allocated fixed overhead.

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