Zero Based Budgeting – Is Now the Time?

Budget season is right around the corner. This year in particular, a lot has changed for most organizations. In some cases, the amount of change makes previous cost structures and revenue plans obsolete. **Is it time to use a zero-based approach for your budget process? ?** I have used a Zero-Based Budgeting (ZBB) approach successfully in the past – it promotes out of the box thinking about your cost structure. This article will highlight the basics.

Symptoms – When to Use Zero Based Budgeting
When revenue and expense trends have become disconnected it is time for a ZBB. You may realize that a bottom-up, incremental cost cutting approach to an expense budget has no chance to yield the required result. Or, your business mix has changed so substantially that your cost structure is a do over. Your biggest risk is that you force an answer that doesn't make sense either because it will never happen, or it won't support the "new" business.

ZBB means that you start at zero and re-define your cost structure to support the business going forward. The old operating paradigm is completely forgotten. You start with a blank sheet of paper and design a cost structure that will work for your current operating reality.

Here are a few pointers that I have learned through experience:

1. *Have a revenue plan you can believe in.*

   Put together three revenue scenarios that the leadership team feels are realistic. Typically, these would be Worst, Most-Likely and Best. This will allow you to determine how much your cost structure needs to change. Start with the Most-Likely scenario and get to work.

2. *Get out a white piece of paper for your cost structure, start over at zero.*

   Your business has experienced a dramatic pivot so your thought timeframe should be no more than the next 12-24 months. Figure out how to walk again first, then you can worry about running.

3. *Quantify your base costs.*

   First establish your baseline of "locked in" costs, those that are already predetermined such as insurance, rent and depreciation. I like to view most of these run rate costs, such as rent, as somewhat negotiable. But don't get bogged down. Start with the existing cost base and make notes for the line items that you might be able to renegotiate.

4. *To determine your people costs, design a new organization.*

   When you think about staffing, don't use names, simply identify which roles you will need. I like to say, put boxes on paper with titles only. Consider which activities are absolutely necessary to deliver the first dollar of revenue.

   The hard part is admitting that there are roles in the organization that once seemed important that you can now live without. Remember, this exercise is about survival and the creation of a new, very different business. So, start lean and rebuild. My motto for this work is, "if in doubt, cut it out. You can always add it back later."

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More on Zero Based Budgeting

5. *With the new organization structure in hand, make a skills inventory.*

What are the key skills required for each position? With your capability demand defined you can now start to match your existing workforce with positions. You are going to need a strong HR partner for this part – a good one will provide the protocols for how to implement your plan. The reality? You need fewer people. The benefit of this exercise is that you end up with the right people in the right places to support the ongoing business. You also avoid a large reduction in force that results in an unsupported business.

6. *Technology & Operations Investment*

Approach operations and technology in exactly the same way that you have the broader business. Establish a "BAU" or business as usual budget, which includes the run rate expenses for the bare bones infrastructure. With that in hand you can add back investment, project by project, when it makes sense. And again, when in doubt, cut it out.

7. *Don't starve your sales force*

Assuming that revenue is your issue, this is the last place you should cut. You may need to organize and execute in a very different way, try to provide your sales team with the leeway to try new approaches for growth. Without revenue, the future is grim.

8. *Roll up the "most likely" budget.*

You can now plan for the worst and the best cases. What additional levers can you pull if your actual revenue performance is better? What additional resources will you need if you have more customers? What moves can you make if your recovery happens more slowly than you thought it would? Plan ahead, quantify potential adjustments that can be made as you execute.

I have highlighted only the basics here. Obviously, a zero-based budgeting approach isn't easy. But it does provide a set of tools to help your leadership team make tough decisions. Have you tried a ZBB? Any other tips you'd like to share? Also, feel free to reach out with questions or to talk through your 2021 budget plans.

Give us a call at (703) 254-7071 or send us an email at info@stantonblackwell.com. We are interested in learning more about your vision.

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