

Can Zero-Based Budgeting Drive Growth In Your Business?

4 min read



Key Takeaways

- Not only does zero-based budgeting support cost reduction by avoiding automatic budget increases, it also allows for better decision making and cost management.
- It's important to eliminate manual processes so that errors and redundancies can be avoided, resulting in much more efficient work.
- The idea of zero-based budgeting (ZBB) was first created in 1960 and continues to be a great approach to help businesses get on track with their finances.

Is Zero-Based Budgeting making a comeback for businesses?

Unlike traditional budgeting, where you typically start by looking at the previous period's budget and adjusting it as needed, a zero-based budgeting approach involves creating a new budget from scratch every time- hence starting from "zero."

With the help from advances in technology- reducing manual labor and enhancing transparency- more organizations are turning to Zero-Based Budgeting.

What Is Zero-Based Budgeting?

Rather than looking at historical budgeting trends, **Zero Based-Budgeting (ZBB) looks at individual cost categories across all business units.** The ZBB process allocates funding based on program efficiencies and necessities, where no item is automatically carried over into the next budget.

Budgeters review every program and expenditure at the beginning of each budget cycle and must justify each line item in order to receive funding.

Although building a budget from scratch can seem daunting to most business owners, the zero-based budgeting approach has its benefits. If properly done, it can lead to drastic savings and can free organizations from entrenched processes.

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Why You Should Try ZBB In Your Business

When done correctly, zero-based budgeting can stimulate growth, uncover operational deficiencies, and drive business performance.

Lowers Costs: ZBB supports lowering cost reduction by avoiding automatic budget increases, often resulting in savings. Keeping old and new expenses in check can prevent you from spending what you don't have.

Find Duplicate Spendings: The zero based budgeting exercise starts from scratch and looks at your finances from a blank slate- you have a new fresh set of data to analyze. It

processes information from across the company with a fine tooth comb to uncover discrepancies that may have been overlooked.

Improves Cost Management: The repeatable process builds a sustainable culture of cost management. The nature of zero-based budgeting requires you to keep your fingers on your cash flow- you are fully aware of how much money flows in and out of your business.

Better Decision Making: Zero based budgeting results in a more strategic allocation of planned spend. This enables decision-makers to constantly look at the business with fresh eyes, free from the limitations of past assumptions and trends.

Disadvantages of ZBB

Although Zero-Based Budgeting opens the doors to growth opportunities, there are certain factors to consider before doing so.

Time Consuming: To hold yourself accountable, zero-based budgeting requires the constant monitoring of your spending. You have to justify every budget element from scratch, rather than modifying an existing budget and reviewing only new elements, it takes up a lot of time and resources.

Manpower Requirement: Having to recreate a budget from the scratch involves time and input from the senior leadership. This would take employees away from their day-to-day job roles. If your business is low on human resources, this may be something to consider.

Short-Term Thinking: Zero based budgeting can potentially reward short term thinking by shifting resources toward areas of your company that will generate revenue over the next budgeting period.

How to Start a Zero-Based Budget

5 Simple Steps To Get Started on Zero-Based Budgeting...

1. **Identify Your Goal:** Start with tangible, quantitative goals and **write them down**. This will be used as a baseline measurement to track your efforts in the given timeframe and get everyone aligned.
2. **Know Your Monthly Income:** Add up *everything* you know will be coming in: recurring revenue, project work, etc.
3. **Track Your Monthly Expenses** (*carefully*): Monitor all of your monthly expenses. Evaluate every cost and expense necessary for your business.
4. **Categorize Your Expenses:** Create your budget categories and determine how much of your income will go to each category. This step is where you go through each expense and truly decide if it is necessary for your business, helping you see what areas are driving profits and growth in your business.
5. **Measure Your Goals:** Look back at your previously identified goals and see how you measured up. What would you do differently? What did you uncover? How can you make decisions from what you identified?

Do This to Set Up Your ZBB Right

To successfully implement the ZBB approach, these two things are important...


Eliminate Manual Processes: [Automate, automate, and automate!](#) Implementing automated processes minimizes errors and redundancies, resulting in much more efficient work. Not only does automation minimize the possibilities of error, it will streamline the expenses tracking and categorizing processes. This will alleviate the burden of manual tasks that are not part of an employee's core job function. It takes time away from a manager's abilities to focus on strategic initiatives that propel the organization forward.

Establish a CCOs: The budget processors should be assisted by a [cost-category owner \(CCO\)](#). A CCO vets budget requests associated with particular spending categories. For example, there might be a CCO who monitors facilities management (rent, security spending, etc.) and a separate CCO for HR. These positions are typically held by senior leaders who add it to their day-to-day role.

The Rise of Zero-Based Budgeting

ZBB was initially introduced in 1960. At first, it was slow to gain traction due to the immense amount of manual work required (imagine how much paper went into the budgeting process!)

With the rise of the digital age and automation, zero-based budgeting is beginning to become more mainstream. Regardless of your organization's size, ZBB allows you to take focus on what exactly drives value in your process.

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Although time-consuming, Zero-Based Budgeting is a method that can drive growth and profitability so that your business can continue to thrive.

