

Zero-based Budgeting versus Baseline Budgeting

Approaches and pros & cons

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Goals

- Understand the differences between zero-based budgeting and baseline budgeting in concept and in BudgetPak
- Understand the pros and cons of each approach
- Determine the best approach for your organization





- Definition of zero-based budgeting versus baseline (traditional or incremental) budgeting
- Pros and cons of each approach
- How does zero-based budgeting work in BudgetPak?
- How does baseline budgeting work in BudgetPak?
- What is the user experience for both?

Zero-based budgeting

- **All expenses – both old and new - must be justified for each new period based on demonstrable needs and costs**
 - Each budget line item starts as \$0
 - Puts the onus on the budget managers to justify each line item in order to receive funding
 - Aims to drive value by optimizing costs and not just revenue
 - Goal of not only controlling expenses but identifying cost-reduction opportunities



Pros

- **Supports cost reduction by avoiding automatic increases to a prior period's budget**
 - Allows savings to be taken to the bottom line or redirected to more productive areas that will drive future growth
- **Can build a culture of accountability and cost management**
 - Could increase organizational efficiency by encouraging stakeholders to work together to analyze operations
 - Improves operational efficiency by rigorous challenging of assumptions
- **Resulting budget is well justified and aligned to strategy**
 - Help to align resource allocations with strategic goals



Pros

- Supports cost reduction by avoiding automatic increases to a prior period's budget
- Can build a culture of accountability and cost management
- Resulting budget is well justified and aligned to strategy



Cons

- **Creation of a structured process**
 - Potentially time consuming
 - Sets detailed savings targets for the next budgeting cycle
 - Rigorous review of every dollar in the annual budget
 - Manage financial performance on a monthly basis
 - Systems and processes need to be in place for detailed reporting
- **Changing attitudes towards costs**
 - Cutting costs that are core to the customer's experience could harm how the organization's reputation and backfire

Baseline (traditional or incremental) budgeting

- Begins with the current year's budget (or forecast) as a starting point
 - Adjusted according to:
 - Actual spending in the new year
 - Inflation
 - Projections for new expenditures
 - Increases or decreases in labor costs
 - Additional capital expenditures



Pros

- Simple and easy to setup and understand
- Stability
 - Requires limited fluctuations in the allocations of funds, so departments are operated in a consistent and stable manner for longer periods of time



Pros

- **Simple and easy to setup and understand**
- **Stability**



Cons

- **Status quo approach to business**
 - Could breed waste
 - Could encourage people to try to increase their budget each year, even if they don't need it
 - 'Spend it or lose it' mentality
- **Does not encourage innovation**
 - Doesn't respond to changing circumstances
- **Perpetuates misallocations of resources**
 - Funding will be allocated to the same areas in the future even if they no longer needs as much funding, or if other areas require more funding.
- **Little incentive to conduct a comprehensive review of the budget**
 - Inefficiencies and budgetary slack are automatically rolled into new budgets

Decisions



Zero-based budgeting in BudgetPak

The screenshot shows the BudgetPak interface with the following details:

- Header:** BudgetPak™ Budget. Forecast. Report. Home Versions Status Reports Projections Configuration About Welcome Jennifer Smith! Log Out
- Navigation:** Navigation ActionPaks What if...? View/edit drivers Across the board (all line items) Monthly spreading (all line items) Notes Files (1/0)
- Currently viewing:** Company: ABC Organization; Unit: 10-200: Marketing; Version: 2017 Draft 2; Status: Started
- Headcount/FTE:** As of 1/1/2017: 26.70; Additions: -; Reductions: -; As of 12/31/2017: 26.70
- Version comparison:** Expense line items; 2016 Actuals: \$5,871,400; 2016 Final Budget: \$6,229,455; 2017 Target Budget: \$9,503,555; 2017 Draft 2: \$166,973,216
- FYI:** Your budget: You are here (red location pin icon) Reviewed (green checkmark icon)
- Budget Categories:**
 - Revenue: Across the Board, Sales Revenue, Membership Fees, Merchandise Revenue, Consulting Revenue, Monthly Spreading
 - Headcount & Salaries: Headcount Review, New Hires, Salary Increases, Hourly compensation, Bonus, Benefits, Other Compensation
 - Benefits: Across the Board Change, Medical, Dental, 401K, Monthly Spreading
 - Travel & Meeting Related: Across the Board Change, Training Fees, Meeting Expense, Air Transportation, Rental Car, Lodging Expense, Seminar Fees
 - Marketing Expenses: Across the Board Change, Photography, Printing Costs, Advertising Expense, Other Professional Fees, Monthly Spreading
 - Occupancy Related: Across the Board Change, Rent, Real Estate Taxes, Monthly Spreading

Starting point for zero-based budgeting in BudgetPak

- Finance sets the default budget creation to 'start my budget from scratch' or bulk starts all budgets from scratch
- All sections are blank/have no values when user begins their budget

Nothing is completed; no checkmarks

Zero-based budgeting in BudgetPak

The screenshot displays the BudgetPak interface. At the top, there is a navigation bar with links for Home, Versions, Status, Reports, Projections, Configuration, and About. A user greeting 'Welcome Jennifer Smith!' and a 'Log Out' button are also present. Below the navigation bar, there are tabs for 'Navigation', 'ActionPaks', 'What if...?', 'View/edit drivers', 'Across the board (all line items)', 'Monthly spreading (all line items)', 'Notes', and 'Files (1/0)'. The main content area is divided into several sections:

- Currently viewing:** Shows 'ABC Organization' as the company, '10-200: Marketing' as the unit, and '2017 Draft 2' as the version. The budget status is 'Started'.
- Headcount/FTE:** Shows 'As of 1/1/2017: 26.70' and 'As of 12/31/2017: 26.70'. Additions and reductions are both zero.
- Version comparison (Expense line items):** A table comparing budget data across different versions.

	2016 Actuals:	2016 Final Budget:	2017 Target Budget:	2017 Draft 2:
Total:	\$191,750	\$268,000	\$307,798	-
Your difference:	(\$191,750)	(\$268,000)	(\$307,798)	-
- Meeting Expense:** A section for configuring budget methods. It includes a 'Step 1' for selecting a budget method (By annual amount, By percent increase, By per head, or By line item detail) and a 'Step 2 (optional)' for adding notes. The 'By percent increase' method is selected, showing a 2016 Forecast annual amount of \$304,750 and a 2017 Draft 2 annual amount of \$0. A 'Category' section is also visible at the bottom.

Helpful features for zero-based budgeting in BudgetPak

- Guidelines in 'Version comparison watch box'
- Guidelines in budget method 'by percent increase'
- Import and use:
 - Line item details
 - Notes
 - ActionPaks

Zero-based budgeting in BudgetPak

Version code	Version	Note	Your description
FY2017-B-3	2017 Draft 1		2017 Draft 1
FY2017-B-5	2017 Draft 2		2017 Draft 2
FY2017-B-11	2017 Draft 3		2017 Draft 3
FY2017-B-6	2017 Final Budget		2017 Final Budget
FY2017-D-15	2017 Budget - Growth Plan		2017 Budget - Growth Plan
FY2017-D-16	2017 Budget - Conservative Plan		2017 Budget - Conservative Plan

Use of Versions in Zero-based budgeting

■ Finance offers multiple optional versions

- End users can choose to 'try out' different versions of the budget prior to copying to final signoff version

E.g. Marketing decides that in Draft 1 they will not include new hires or plans for a new program
In Draft 2, Marketing includes new hires, plans for a new program, and cutbacks to existing programs

■ Finance requests specific types of budgeting plans

- E.g. growth plan and conservative plan

Baseline budgeting in BudgetPak

Step 3

Would you like to start your budget with the defaults established by your BudgetPak administrator?

- Yes, start me off with the defaults
 No, start my budget from scratch

'Yes, start me off with the defaults' will start off your budget with some guidelines, such as a standard percent increase for all discretionary line items, already applied.

Start

The screenshot shows the BudgetPak web application interface. At the top, there is a navigation bar with links for Home, Versions, Status, Reports, Projections, Configuration, and About. A user greeting 'Welcome Jennifer Smith!' and a 'Log Out' button are also present. Below the navigation bar, there is a 'Currently viewing' section with dropdown menus for Company (ABC Organization), Unit (10-200: Marketing), and Version (2017 Draft 3). A 'Start' button is visible. To the right, there is a 'Version comparison' table showing 'Expense line items' with columns for '2016 Actuals', '2016 Final Budget', and '2017 Target Budget'. Below this, there is a 'FYI' section and a 'Your budget' section with a progress indicator showing 'You are here' and 'Reviewed'. The main content area is a grid of budget sections, each with a 'Monthly Spreading' button and a checkmark indicating completion. The sections include: Revenue (Sales Revenue \$9,589,950, Membership Fees \$389,500, Merchandise Revenue \$524,531, Consulting Revenue \$40,500), Headcount & Salaries (Headcount Review, New Hires, Salary Increases, Hourly compensation, Bonus, Benefits, Other Compensation), Benefits (Medical \$261,908, Dental \$2,403, 401K \$21,176), Travel & Meeting Related (Training Fees \$20,756, Meeting Expense \$307,798, Air Transportation \$100,243, Rental Car \$39,188, Lodging Expense \$76,710, Seminar Fees \$22,372), Marketing Expenses (Photography \$1,944,250, Printing Costs \$977,680, Advertising Expense \$2,966,875, Other Professional Fees \$10,024), and Occupancy Related (Rent \$19,500, Real Estate Taxes \$0).

Starting point for baseline budgeting in BudgetPak

- Finance uses a specified version as the starting point (e.g. budget, forecast or actual)
- All of the sections, except for headcount review, assets, shared ActionPaks, and spreading are pre-filled with the default values

Most sections are completed and have checkmarks

Baseline budgeting in BudgetPak

BudgetPak™
Budget. Forecast. Report.

Home Versions Status Reports Projections Configuration About Welcome Jennifer Smith! Log Out

Navigation ActionPaks What if...? View/edit drivers Across the board (all line items) Monthly spending (all line items) Notes Files (1/0)

Currently viewing

Company: ABC Organization
Unit: 10-200: Marketing
Version: 2017 Draft 2
Your budget's status is: Started

Headcount/FTE

As of 1/1/2017: 26.70
Additions: -
Reductions: -
As of 12/31/2017: 26.70

Version comparison
Expense line items

This section:		This unit:	
Meeting Expense		Marketing	
Total:	Your difference:	Total:	Your difference:
2016 Actuals: \$191,750	(\$191,750)	\$5,871,400+\$161,101,816	>1,000%
2016 Final Budget: \$268,000	(\$268,000)	\$6,229,455+\$160,743,762	>1,000%
2017 Target Budget: \$307,798	(\$307,798)	\$9,503,555+\$157,469,661	>1,000%
2017 Draft 2: -	-	\$166,973,216	

FYI

Meeting Expense

← Back Discard Close Save → Next

Step 1

Meeting Expense 8000

Please select one of the budget methods below and use it to designate the annual amount for this line item.

Select budget methods from here:

- By annual amount
- By percent increase
- By per head
- By line item detail

By annual amount

Enter annual amount here: [input field]

2016 Forecast annual amount: \$304,750

Enter your percent increase/decrease: -100.00 % (\$304,750)

2017 Draft 2 annual amount: \$0

Step 2 (optional)

Would you like to make a note about this line item? If so, enter your note here. It will be printed on some reports. You may enter up to 8000 characters.

Import notes from prior budgets


Category

Category code	Category description
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Helpful features for baseline budgeting in BudgetPak

- Budget Manager only has to address the accounts that they want to
- Can still use all of the features for zero-based budgeting:
 - Guidelines in 'Version comparison watch box'
 - Guidelines in budget method 'by percent increase'
 - Import and use Line item details, Notes, and ActionPaks

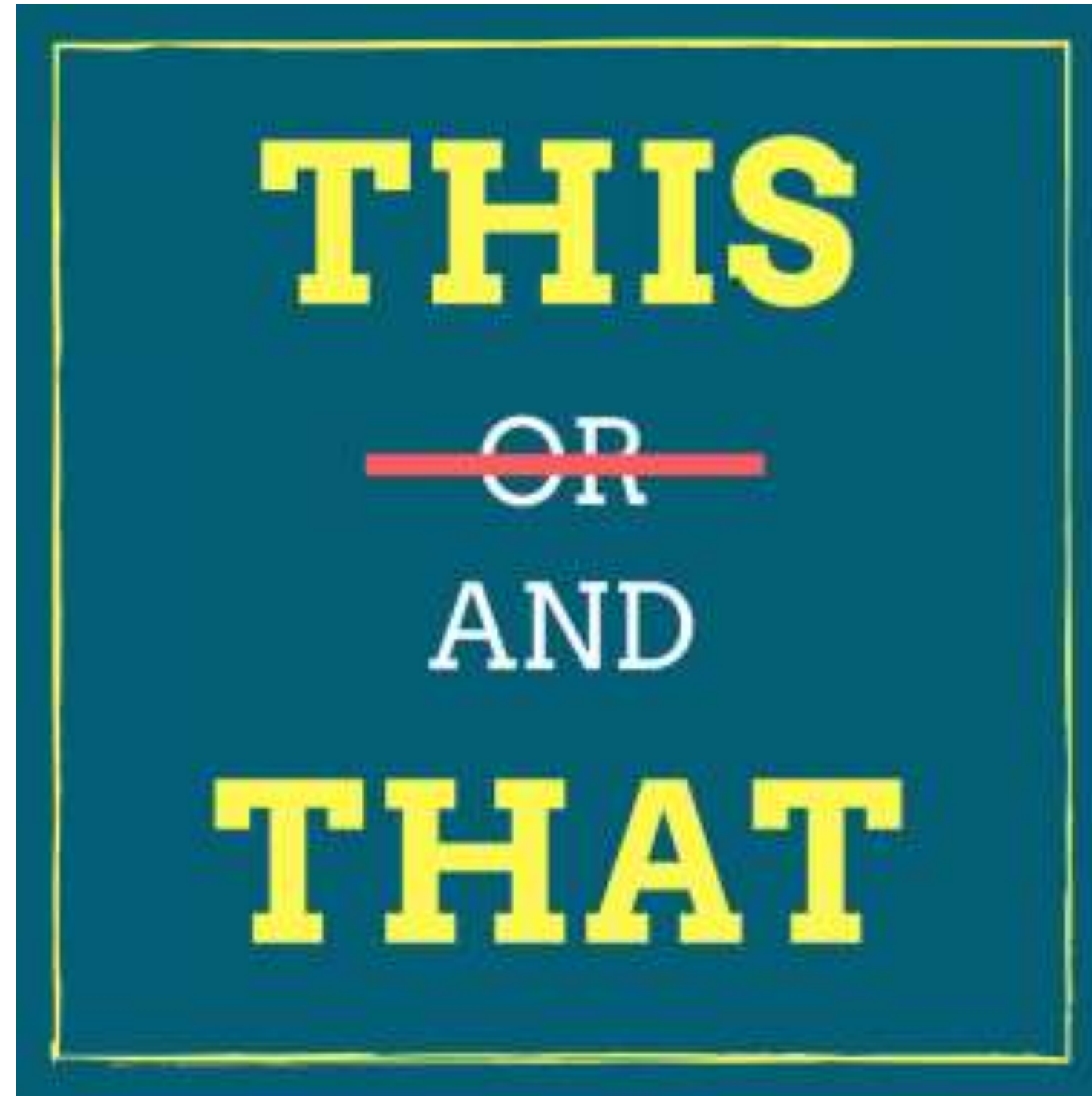
Baseline budgeting in BudgetPak

FY2017-B-6	2017 Final Budget		2017 Final Budget	
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Use of Versions in baseline budgeting

- **Finance offers one version – the Final/sign-off version**
 - Since each budget is being pre-filled with specific values for each account, one version is sufficient and eliminates confusion

Which approach?



Hybrid approach

BudgetPak™
Budget. Forecast. Report.

Home Versions Status Reports Projections Configuration About Welcome Jennifer Smith! Log Out

Navigation ActionPaks What if...? View/edit drivers Across the board All line items Monthly spreading (all line items) Notes Files (1/0)

Currently viewing
Company: ABC Organization
Unit: 10-200: Marketing
Version: 2017 Draft 2
Your budget's status is: Started

Headcount/FTE
As of 1/1/2017: 26.70
Additions: -
Reductions: -
As of 12/31/2017: 26.70

Version comparison
Expense line items
This section: Meeting Expense
Total: Your difference: Total: Your difference:
2016 Actuals: \$191,750 (\$191,750) - \$5,871,000 + \$161,101,816 > 1,000%
2016 Final Budget: \$268,000 (\$268,000) - \$6,229,555 + \$160,743,762 > 1,000%
2017 Target Budget: \$307,798 (\$307,798) - \$9,503,555 + \$157,469,661 > 1,000%
2017 Draft 2: - \$166,973,116

FYI

Meeting Expense [Back] [Discard] [Close] [Save] [Next]

Step 1
Meeting Expense 8000
Please select one of the budget methods below and use it to designate the annual amount for this line item.
Select budget methods from:
By annual amount (selected)
By percent increase
By per head
By line item detail

By annual amount
Enter annual amount here: 8000
2016 Forecast annual amount: \$304,750
2017 Draft 2 annual amount: \$0

By percent increase
Enter your percent increase/decrease: -100.00%
(\$304,750)

Step 2 (optional)
Would you like to make a note about this line item? If so, enter your note here. It will be printed on some reports. You may enter up to 8000 characters.
[Exit] [Import notes from prior budgets]

Category
Category code Category description

Hybrid approach

- Each unit can start with either zero-based budgeting **or** baseline budgeting
- Budget manager can decide:
 - Incremental budgeting for some accounts
 - Keep baseline amount **or**
 - Use 'by percent increase' budget method
 - Zero-based budgeting for other accounts
 - Use most appropriate budget method

Goals review

- ✓ Understand the differences between zero-based budgeting and baseline budgeting in concept and in BudgetPak
- ✓ Understand the pros and cons of each approach
- ✓ Determine the best approach for your organization



Q&A

Thank you!