

Four Reasons Why Zero-Based Budgeting Works

As manufacturers face shifting customer expectations, macro-economic turbulence, and technology change, business decisions can be more difficult and consequential than ever. How can leaders improve their odds of success? One answer lies in a surprising source: zero-based budgeting (ZBB), or zero-basing.

Too often blamed for uninspiring cost-cutting programs, zero-basing's real objective is to instill a growth mindset—a return-on-investment (ROI) mentality based on value, not cost.

Of course, changing minds is hard work: most transformations fail because of management behaviors and employee resistance. So, creating a culture of cost management for growth takes more than just the CEO and the leadership team asking the right questions. Instead, managers must learn to debate spending with an eye toward investing where it matters.

How exactly does zero-basing, when done right, help bring about this culture change for growth?

Create opportunities to make better spending decisions

While cost-cutting has a role to play, ZBB's real aim is to make thoughtful spending decisions—reframing choices as cost management. The small changes that result have the cumulative effect of creating investment opportunities to drive growth.

For example, an appliance manufacturer kicked off their reinvestment process by gathering ideas from employees – no idea was too small. Once the ideas came in, fully two-thirds were quickly funded. Although the remaining ideas either failed to prove a return or didn't align with strategic priorities,

the transparency of this approach showed everyone that the new way of working was real and lasting—and ensured that dollars were used where they were needed most.

Promote budget transparency

Only by knowing what you spend your money on can you decide if it's worth it. For example, a company that rented parking from a football club wrongly allocated the cost to entertainment, only because of the type of organization sending the invoices. In another case, 80% of spending was classified as “other,” defeating the purpose of having spend categories at all.

This visibility across an organization highlights resources that aren't being used to their full potential, and those that can be reallocated for a better return in areas like marketing, R&D, or supply-chain improvements. So, instead of asking, “What do I spend?” or even “What should I spend?” the question becomes, “Is this the best use of my resources?”

Opens the door to innovation through fast, flexible spending decisions

Zero-based budgeting doesn't set an annual budget for everyone to strictly adhere to. Instead, it drives a culture of ongoing, conscious questioning about resources, which in turn, allows for spending to respond quickly to market volatility. This agility helps businesses capture opportunities as they arise, improving resilience.

So, at a building-products manufacturer, a typical line item in the annual budget might read, “Product X—Midwest—marketing.” Under ZBB, that item becomes, “15 promotions for Product X in the Midwest at \$250,000 each.” If construction in the Phoenix area starts booming, the manager can capitalize on the moment by reassigning a couple of promotions from the Midwest to the Southwest. It is through this approach that you can assess whether you're getting ‘bang for your buck’, or whether you've already achieved your target

and should reassess the best possible use of marginal capital.



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And when ZBB is powered by today's digital tools, organizations can more easily embed it in their culture with real-time transparency. Granular visibility, clear governance, and accountability for cost and value become part of everyone's daily role, rather than a once-a-year effort that is a snapshot in time.

Apply its principles to all your resources—not just indirect costs

Better visibility can extend beyond just budgets across both people and CapEx spend. Zero-basing resources re-focuses people to higher-value areas, ensuring that the org structure aligns with business strategy. This can help forge a purpose-built—and flexible—organization, leaving behind silos that may be hindering growth.

Success with a zero-based approach to people was highlighted by an industry leader with more than 100,000 employees and \$15 billion in annual revenue. It sought to support its organizational transformation by starting from a clean sheet, and as a pilot, the company zero-based its HR and marketing functions, and purpose-built them to support the enterprise-wide rollout. The results were impressive: the company identified opportunities to reduce costs by 30 to 50 percent across functions and developed practical blueprints to both realize its goals and rebuild the functions. And, most important, these types of efforts free people's time so they can focus on higher-value activities.

The volatility of today's business environment isn't likely to slow down anytime soon. It's up to business leaders to create the internal conditions needed to continually make smart decisions in the face of these challenges. Used thoughtfully, zero-basing can be an important tool: powering innovation, clarifying how to invest where it counts, and most important of all, changing culture to have a mindset of growth.