



# Zero Based Budgeting: A Marker of Agility

Insights & Opportunities for  
Finance Transformation

# Introduction

Transforming the finance function goes deeper than upgrading technology. It's using that technology to fundamentally change the role of Finance — from reactive to proactive, reporting to predicting, observing to advising. Taking on this new role, however, requires finance professionals to develop new capabilities and presently, planning, budgeting and forecasting are in the spotlight.

FSN & Prophix recently conducted a survey of CFOs to see how Finance functions are progressing with the digital transformation of their planning, budgeting and forecasting process. The survey sought to understand their capabilities in forecasting, automation, analytics and more.

The study found there are sizable gaps in abilities and outcomes in nearly every category. But every gap

is an opportunity to build a bridge and drive collaboration internally.

The COVID-19 pandemic has been a notoriously difficult period for every business. In this period of uncertainty, the role of planning, budgeting and forecasting is becoming even more pivotal to the success of a business, and those falling short of accuracy and insightfulness are adding to their burden. Producing accurate, far-sighted forecasts and being able to respond quickly to change within and outside an organization are invaluable agile skills, but not ones universally demonstrated.

The Agility in Planning, Budgeting and Forecasting survey found some organizations fall well short of the basic competencies necessary to maintain an agile planning, budgeting and forecasting (PBF) process.

# Solutions

While agility is lacking in many areas, the survey finds that organizations that had made headway in transforming their PBF process are better equipped to handle change. Around a third of participants had made some efforts to transform PBF, although only 5% claim to have completely transformed the process. That said, those 5% are able to forecast quicker, more accurately and with greater foresight into the future than the transformation laggards. They are also able to manage their data better and used more advanced BPF tools.

The importance of data – its validity, trustworthiness and relevance – is widely recognized as a key component of agile planning, budgeting and forecasting. What is not as universally accepted is the importance of connecting with more users outside of the finance function. In addition, internal data sources are valued above external ones. However, including a variety of perspectives and data sources from across the



spectrum is crucial to extracting the best insight from the PBF process.

Even as a semblance of normality comes closer with the vaccine roll-out, the landscape of society and the businesses that service them has changed irrevocably. There are opportunities within this wider societal change, but organizations won't be able to take advantage of them unless they have a clear vision of their future, and for that they need supreme agility in planning, budgeting and forecasting.



## Process Power: Zero Based Budgeting

Even as many organizations fall short of a truly agile planning, budgeting and forecasting process, there are others that improved their lot substantially by introducing process improvements. The survey found that rolling forecasts lend more agility than quarterly ones, zero-based budgeting improves outcomes ahead of more traditional budgeting methods, and companies that find time to implement scenario planning are much more agile than their competitors over the longer term.

Companies committed to improving their budgeting outcomes are turning to other helpful methodologies including zero based budgeting (ZBB), and this is having a positive impact on agility. ZBB requires budget holders to 'start from zero' and justify their resource requirements at each budget setting. It is particularly pertinent in the context of profound business changes such as COVID-19. The survey shows that ZBB improves all round performance of the PBF process, particularly, in the area of forecast accuracy.

# Transformation Improves Agility

Preparing for and managing change is a fundamental part of business success. This includes both the tectonic shifts in social and economic stability that occur during unexpected events like the financial crisis and COVID-19 pandemic, as well as the shifts that take place normally through the course of business, like changes in consumer demand, new business models, acquisitions or competitor disruption. Effective planning, budgeting and forecasting enables organizations to thrive in the face of change, although many businesses have not embraced change within the PBF process itself.

**Just 36%**  
of finance functions have made substantial or transformative changes over the last 3 years.

The majority of organizations have not made any major changes to their PBF processes in the last three years. Only 36% have made substantial or transformative changes during that period, with the remaining 64% either implementing minimal improvements or no change at all.

In looking to understand how transformation impacts on the agility of planning, budgeting and forecasting, the survey compared the 5% of companies that have enacted complete transformation of PBF with the 14% that have put no effort into it in the last three years. The results show a distinct difference in how each manage their data. Those that have achieved complete transformation are able to manage data as a corporate asset rather than being overwhelmed by disconnected spreadsheets with poor data governance.

Figure 1: degree of transformation achieved

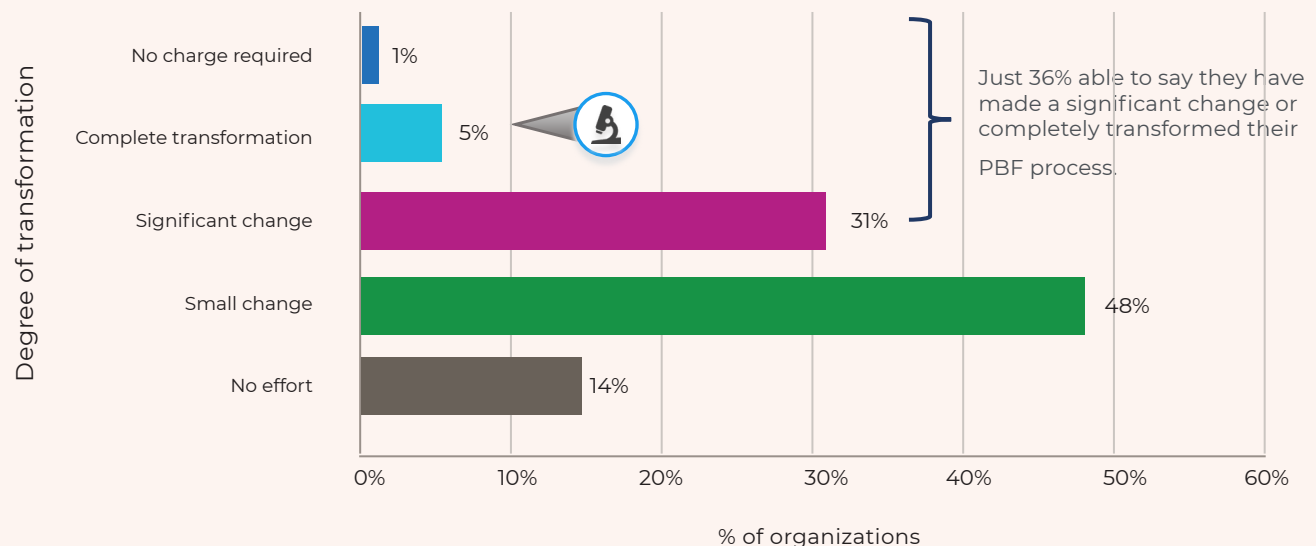
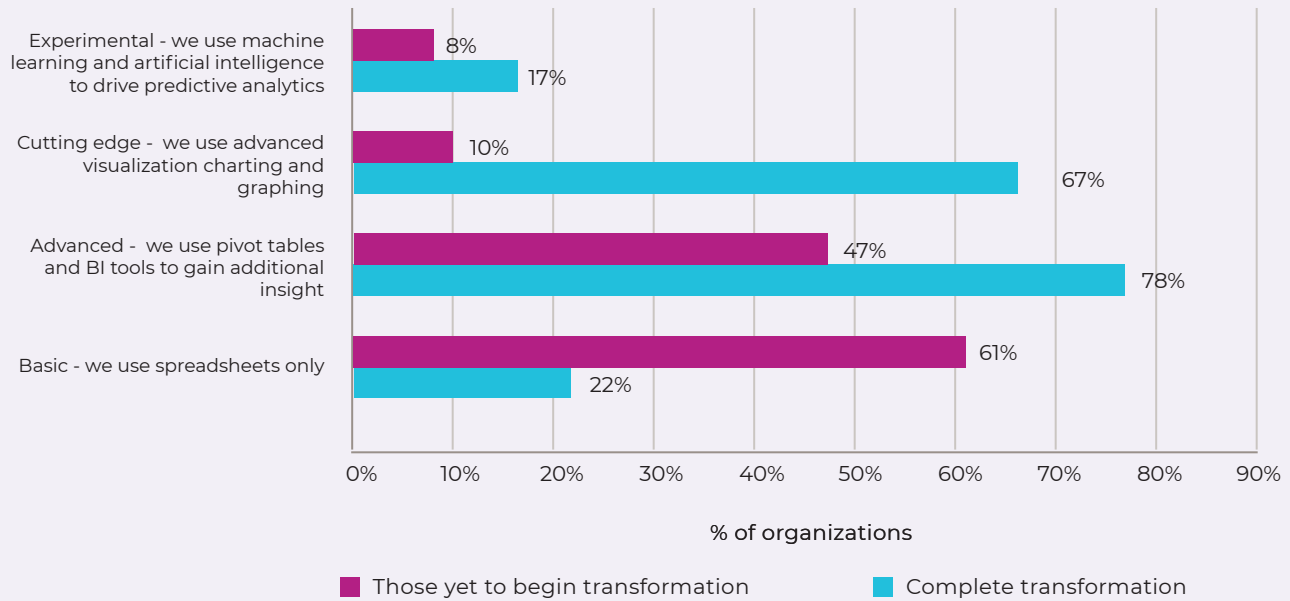


Figure 2: Percentage of organizations using basic, advanced, cutting edge and experimental tools



With this ability to manage their data, they have made the move away from basic spreadsheets to more “advanced” spreadsheets (pivot tables) coupled with BI tools and “cutting edge tools” for data visualization, although truly “experimental tools” (Machine Learning and Artificial Intelligence) are still out of reach even for those that have completely transformed their process. Earlier FSN research from the Innovation In the Finance Function found that AI and Machine Learning are the preserve of just 14% of companies with more than 10,000 employees.

Verified, well-managed data is a clear priority for improving the agility of the PBF process, and transformation improves the speed of reforecasting, essentially halving the time it takes to reforecast earnings and revenue and allowing organizations to reforecast more frequently.

In comparison to the transformation laggards, transformation leaders are able to forecast further out on the time horizon, with 31% looking out 12 months and beyond, compared with just 11% for transformation laggards.

Transformation experts are turning their attention to unifying and standardizing the budget process and managing the process in the Cloud, which will ultimately add to their already robust PBF agility.

Foresight is a key component of PBF and being able to see beyond a few months is a must. Transformation programs improve the integrity or trustworthiness of data, improve analytic capabilities, and enable faster and more accurate forecasting further out into the future.

**31%**  
of transformation leaders able to forecast beyond 12 months, compared to just 11% of those who have yet to begin transformation.



## How Data Can Improve Forecasting Agility?



### **Investment in automation is misdirected**

The accuracy of planning, budgeting and forecasting is critical to preparing businesses for their future and ensuring they are well-equipped to fulfill their potential. But as the research shows, there has been little improvement in accuracy over the last four years. In order to improve accuracy, organizations need to go to the source of the insight – the data they collect and the tools they use to analyze it.



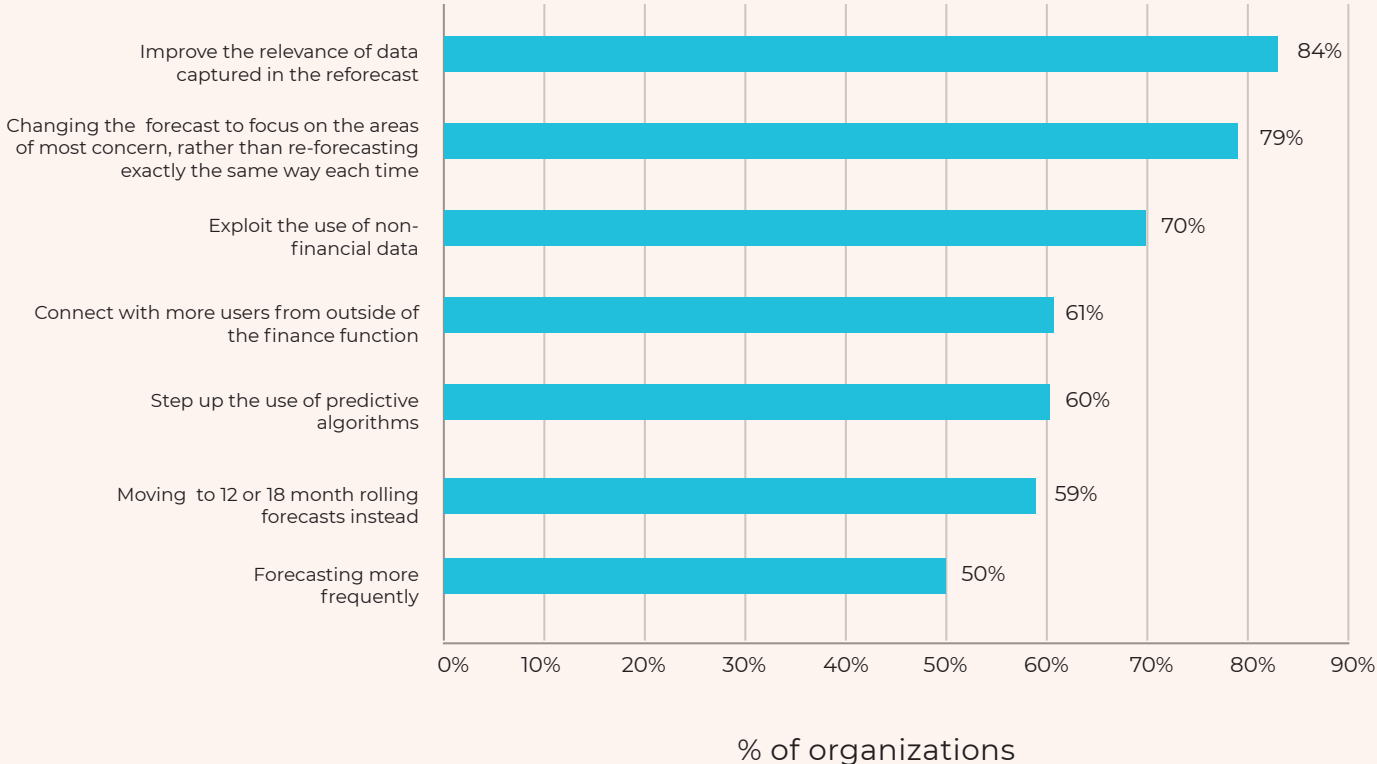
### **Data**

The quality of data used determines the quality of forecasting outcomes, an important aspect of agility. Senior finance executives understand this, and 84% said that improving the relevance of data captured is the most fundamental area that needs to change in order to improve agility.

A further 70% consider that exploiting non-financial data would improve agility, while 59% would consider a move to rolling forecasts. But only half see the value of connecting with more users outside of the finance function. The other half are missing an important tool in their PBF arsenal because casting the net beyond the finance function, broadens the data pool which can increase forecast accuracy and the richness of insights.

Respondents are more inclined to look internally for new data sources, relying heavily on what they already know. But, identifying operational data outside the general ledger (83%), customer relationship data (65%) and other sources of non-financial data (76%) would lend an even more insightful and agile perspective to PBF.

Figure 3: How would you improve the agility of the forecasting process?







84%

of respondents said that improving the relevance of data captured is the most fundamental area that needs to change in order to improve agility.

Disappointingly however, fewer finance executives consider that looking outside the organization adds insight and agility to the PBF process, although some recognize the value more than others. 63% see external data sources as a key PBF contributor, with 53% recognizing the value in customer web analytics and 37% turning to social media analytics to provide richer context for their planning, budgeting and forecasting.

It's perhaps unsurprising that external data takes a back seat to internal data, as on the continuum of necessity, the information within an organization tends to be mined first, yet many organizations aren't even doing that well enough. But the importance of external and non-financial data can't be overlooked. Previous FSN research has pointed very definitely towards the competitive advantage gained by using non-financial data, especially against more agile start-ups or rivals that are already using non-financial data for added insight.

The explosion of social media engagement is commonplace in consumers' day to day life, but organizations have been slow to recognize the value in these interactions. For example, some traders use social information arbitrage to spot new trends and buy into them before they take off, the sort of advantage that companies in competitive markets could use. That's not to say social media is the answer to the accuracy issue in PBF, but it's important for finance professionals to look outside their daily remit for data that will help improve their accuracy, and it could come from unusual places.



## Tooling up

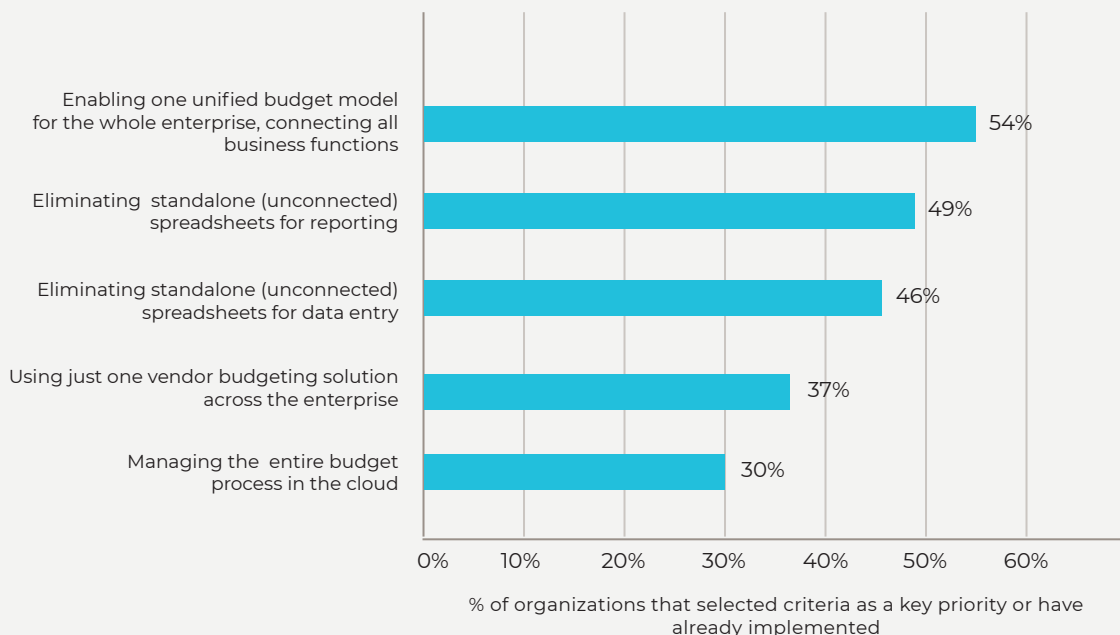
As the data pool increases and becomes more diverse, so must the tools used to analyze the data. In the planning, budgeting and forecasting space, the right tools, like specialist software, are profoundly under-utilized. Almost two thirds of organizations do not take advantage of specialist PBF software, instead relying on spreadsheets.

Vocalizing their technology priorities, just over half of respondents said they were looking to unify their budget model across the enterprise, 49% wanted to remove standalone spreadsheets for reporting and 46% wanted to remove spreadsheet data entry.

Meanwhile 37% would like to use just one vendor for budgeting solutions, whilst 30% would like to manage the entire process in the Cloud. Surprisingly, cloud applications are not yet seen as a unifying platform, capable of bringing data together for the whole organization in one place.

**54%**  
of respondents said they were looking to unify the budget model across the enterprise.

Figure 4: What are your priorities for improving agility through technology?



# Zero Based Budgeting is a Marker of Agility?

## How data can improve forecasting agility?

The number of approaches to planning, budgeting and forecasting is growing as data becomes more widely available and new schools of thought around financial analysis expound. Conceptually zero-based budgeting (ZBB) isn't new, the development of the process has been attributed to Texas Instruments in the late 1960's and it has since found adoption in both the public and private sectors with well-known names such as Anheuser-Busch, Kraft Heinz, Tesco and Unilever claiming its use in all or parts of their businesses.

The problem with traditional budgeting is that it is performed in an incremental way, i.e., its starting point is to take the current budget and flex it a few percent for the coming year against high level business forecasts and plans. So the danger inherent in traditional budgeting is that the historic cost base becomes more or less fixed and left to languish year after year, regardless of whether the costs are effective or necessary to meet an organization's presumed level of activity. Furthermore, it is assumed that whilst the external environment in which the business operates will change and evolve, it will do so in a controlled and relatively predictable manner over manageable timescales that can be readily swept up in an incremental approach.

By contrast, ZBB takes a completely fresh approach so that nothing is taken for granted. Engrained assumptions are rigorously challenged by starting with a clean sheet of paper, building up a picture of what resources are required to conduct operations at a proposed level of business activity and each resource (and its related cost) must be justified from 'the ground up'. The COVID pandemic, and the upheaval it has caused, is a natural impetus for organizations to use ZBB to re-base their budgets in the light of profound business change.


Despite all of this, ZBB still has a minority following. This FSN study finds that only 13% of organizations use ZBB in all areas of the business, compared with 32% who don't use it at all. Additionally, it has proved more popular within smaller organizations with fewer than 5000 employees – perhaps because the effort of implementing ZBB is perceived to be less onerous in a smaller organization.

However, FSN's research this year confirms that ZBB confers significant agility. 84% of zero-based budgeters can reforecast in under a week, compared with 51% of those who don't use the process. Earnings forecasting is accurate to +/-5% for 58% of ZBB companies, compared with 28% of ZBB holdouts. Revenue forecasting shows a similar trend of 60% vs 35% accuracy.



ZBB helps with the response to changing circumstances too. Those using the technique are able to make changes far more quickly and easily, including 62% who are able to get a minor change like a new cost line added or taken out of a budget or forecast model within half a day compared with 27% of those using traditional budgeting methods. The ratio is similar for getting that change into the budget holder's data entry template. Meanwhile 36% of ZBB users are able to get the change reflected in reports within half a day, versus just 13%, and 27% can reflect a change to the organizational hierarchy within half a day, versus 10%.

The only area ZBB users fail to improve on their traditional counterparts is in the ability to forecast further into the future, which is likely the case because ZBB is primarily concerned with recalibrating the budget rather than forecasting further into the distance.



The nature of zero based budgeting and the need to be thorough and detailed in the budget process, lends itself to well-prepared companies committed to process improvement.

The nature of zero-based budgeting and the need to be thorough and detailed in the budget process, lends itself to well-prepared companies committed to process improvement. Those using zero based budgeting are twice as likely to have invested in the PBF process. 40% have made significant investment in automating the PBF process in the last three years compared with just 21% of companies that don't use ZBB.

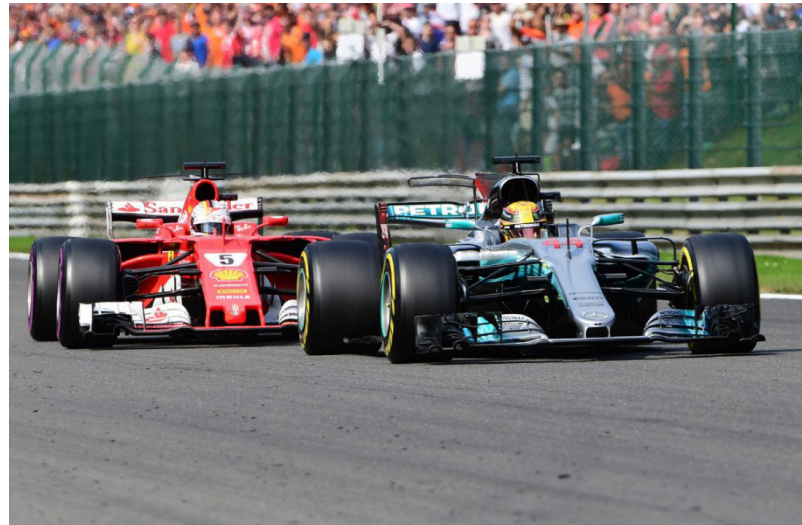
They are also more likely to consider themselves data masters (40% vs 27%) which is unsurprising since a ZBB initiative requires complete mastery of all of the data that is available in order to comprehensively and diligently build a budget model 'from scratch'.

Legacy systems are being replaced amid the relentless march of digitization; legacy budget processes should be moving in the same direction.

# Revitalizing the Finance Environment at RACER Trust

With a \$500 million budget to revitalize 60 locations, RACER Trust needed a budgeting and reporting solution that would allow them to track and update holding costs for each property including maintenance, insurance and security expenses.

Using their 100-year projection, RACER Trust can budget based on the predicted sale date of each property, while also monitoring the associated costs. Using this model, RACER Trust prepares three separate budgets based on different economic conditions: natural, slowdown and recession. These budgets are monthly for the first five years and yearly after that.



To read the full story about RACER Trust & Prophix click [here](#).

**Prophix**®

Prophix Customer Story

## Revitalizing the Finance Environment at RACER Trust

Revitalizing Auto Communities Environmental Response Trust (RACER Trust) was formed to clean up and position for redevelopment the facilities formerly owned by General Motors Corp. before their 2009 bankruptcy. With a \$500 million budget to revitalize 60 locations, RACER Trust needed a budgeting and reporting solution that would allow them to track and update holding costs for each property including maintenance, insurance and security expenses. With Prophix, RACER Trust can project these holding costs 100 years into the future to reflect their ownership responsibilities.

**Business Challenges**

Each of RACER Trust's 60 properties have key attributes that need to be monitored including the status of property (i.e. owned, sold, etc.), its location and the necessary maintenance (i.e. mechanical, fire, electrical, alarm, general, janitorial, landscaping, elevators, etc.).

In addition, RACER Trust needs to account for a variety of managers (i.e. cleanup, site, etc.) and other personnel, including engineering, environmental and industrial consultants, that are necessary to maintain and position their facilities for redevelopment.

Their properties may also incur additional expenses including equipment removal, permits and environmental concerns, which must be incorporated into the budget.

Changing attributes made it difficult for RACER Trust to keep track of the status of their properties, while also working towards revitalization. This process was further complicated by RACER Trust's 100-year environmental responsibility for their assets.

RACER (Revitalizing Auto Communities Environmental Response) Trust is one of the largest holders of industrial property in the United States and is the largest environmental response and remediation trust in U.S. history. When the Trust was formed, it owned properties at 89 locations in 14 states, principally in the Midwest and Northeast. The Trust was created by a settlement agreement in the U.S. Bankruptcy Court between the U.S. Government, the 14 states where the former GM properties are located, and the St. Regis Mohawk Tribe, which owns land adjoining one of the properties in Upstate New York.

**Operating:** Since 2011  
**Website:** www.racetrust.org  
**Operating Budget:** 500 million USD  
**Employees:** 30 full-time employees, 600 contractors  
**ERP:** Sage

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## Rolling Forecasts, ZBB or Scenario Planning?

The need for agility in planning, budgeting and forecasting has been accentuated by the global pandemic, and the survey highlights several key techniques that can promote PBF success, namely zero-based budgeting, rolling forecasts and scenario planning. Each one has proved more agile than their polar opposites who use traditional budgeting methods, only reforecast quarterly or just have no time to undertake the complex process of scenario planning.

But they are not mutually exclusive, and each method contributes to agility in a different way, although there are certainly areas of overlap. For this reason, modern finance functions should be deploying all three techniques to extract the most flexibility from their PBF processes, because they offer different, complementary benefits which, together, provide a completely rounded view of the business. For example, organizations that deploy rolling forecasts are more responsive to change, whereas zero based budgeting is notable for improving forecast accuracy. Scenario planning is most notable for directional agility, i.e. for enabling organizations to see out further into the distance.

Scenario planners in particular are most likely to have done all the groundwork already, with robust cloud platforms, good data management, broad contributor base, modern PBF tools and an insightful cache of future scenarios.

Assuming that organizations have mastered their data and invested in specialized software in the cloud, what should they do next? Rolling forecasts mark a natural progression from four times a year reforecasting. This measure on its own will reward organizations with better performance across all of the FSN benchmarks. Scenario planning is the gold standard for PBF since it yields vast improvements across the board, but its most valued feature is improving the ability to see out further and allocate resources accordingly. ZBB arguably sits between the other techniques, enabling a much more accurate forecast.

Rolling forecasts,  
ZBB or scenario  
planning?

Not mutually exclusive.

# Zero Based Budgeting and Prophix

Traditional budgeting is static and easy to roll out using manual processes and spreadsheets. However, in today's dynamic global economy, this approach to budgeting limits your adaptability and efficiency.

To increase budgeting accuracy, many companies are embracing zero-based budgeting (ZBB). Unlike traditional budgeting, which begins by drawing up a budget for the current year based on the previous year's budget and then adjusting it, the zero-based budgeting (ZBB) method wipes the slate clean every month and requires justification for every line item. In the ZBB process, no line item transfers to the new budget from previous months.

If you think ZBB makes sense for your organization, you will need to implement change management for your people, processes, and technology.



## People

To successfully implement ZBB, you need to ensure you have support at the highest levels of the organization. A successful ZBB process requires input and involvement from everyone — especially senior leaders.

ZBB is a fundamental shift from budgeting as usual that requires a lot more participation from people across the business. And it's not just department leaders — ZBB requires more involvement from all reviewers. Is senior leadership interested in reviewing all budgets in detail and questioning expenses that don't align with business strategies?

If your business pursues ZBB, consider rolling it out as a top-down corporate initiative — and make sure to clearly outline what's in it for the organization and everyone involved.



## Process and Training

In rolling out ZBB, you may need to upskill your finance team and those participating in the budgeting process. Business leaders will need to learn how to use the tools. Finance professionals will need to have a high-level vision of how things roll up from a company-wide perspective — and how the various departments work. Implementing a zero-based budgeting practice is an excellent opportunity to upskill your staff.



## Technology

While it's theoretically possible to implement ZBB with spreadsheets, the added time and complexity might diminish the intended returns. By leveraging Corporate Performance Management software, you can design, streamline, and automate your budgeting, planning, and reporting processes. Specialist tools can drastically reduce the time and effort required to perform ZBB.





# How Prophix Helps

Prophix streamlines [budgeting](#) by making all your financial data instantly available to you in a single, unified system.

- **Single integrated solution** – Instead of time-consuming and error-prone manual data entry, Prophix does the work for you by seamlessly integrating with your other business systems to pull in actual, plan, and forecasted data.
- **Amplify Collaboration** – You can drive accountability and streamline budgeting by tracking inputs, changes, and approvals with Prophix’s advanced [workflow](#) capabilities.
- **Promote Agility** – As you increase the frequency of your budgeting, it quickly becomes clear how inefficient spreadsheets are. You can quickly adapt to rapidly changing factors like interest rates, currency rates, production levels, and payment terms with [Artificial Intelligence](#).
- **Budget Your Way** – Contribute to budgets, approve templates, and manipulate numbers using the software you’re most comfortable with. Whether you prefer a feature-rich web interface or the convenience of [Microsoft® Excel®](#), Prophix will ensure you are budgeting faster and more accurately than ever before.

Private or public, large or small, every business has different budgetary needs. If your company is looking to shift to ROI-focused, efficiency-minded budgeting techniques while still maintaining flexibility to handle unexpected disruptions, incorporating a zero-based budgeting approach can help.

With the right processes, software, and buy-in from key stakeholders, ZBB, powered by Prophix, can help you build results-oriented budgets. Bring your entire team on board to make strategic spending decisions that benefit your company in the long term with proactive, intelligent financial management. Transform the way you budget, plan, and report.

## About Prophix

Your business is evolving. And the way you plan and report on your business should evolve too. Prophix helps mid-market companies achieve their goals more successfully with innovative, cloud-based Corporate Performance Management (CPM) software. With Prophix, finance leaders improve profitability and minimize risk by automating budgeting, forecasting and reporting and puts the focus back on what matters most – uncovering business opportunities. Prophix supports your future with AI innovation that flexes to meet your strategic realities, today and tomorrow. Over 1,500 global companies rely on Prophix to transform the way they work.

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