

The text is framed by white, hand-drawn style lines. On the left, a line starts from the top, curves down, and then points towards the text. On the right, a line starts from the bottom, curves up, and then points towards the text.

# ZERO BASED BUDGETING(ZBB) IN PROCUREMENT

# What Is Zero Based Budgeting(ZBB)?

ZBB is a method of budgeting where all expenses have to be justified for every new period. The ZBB process begins with a zero base, and every function within the organization is analyzed for its costs and necessity.

A zero-based budget means that you make a plan for *every single \$* that you earn, down to the penny, before the period (FY) starts.

Zero dollars will be left unbudgeted (hence the name, zero-based budget)!

$$\text{Income} - \text{Expenses} = \text{Zero}$$

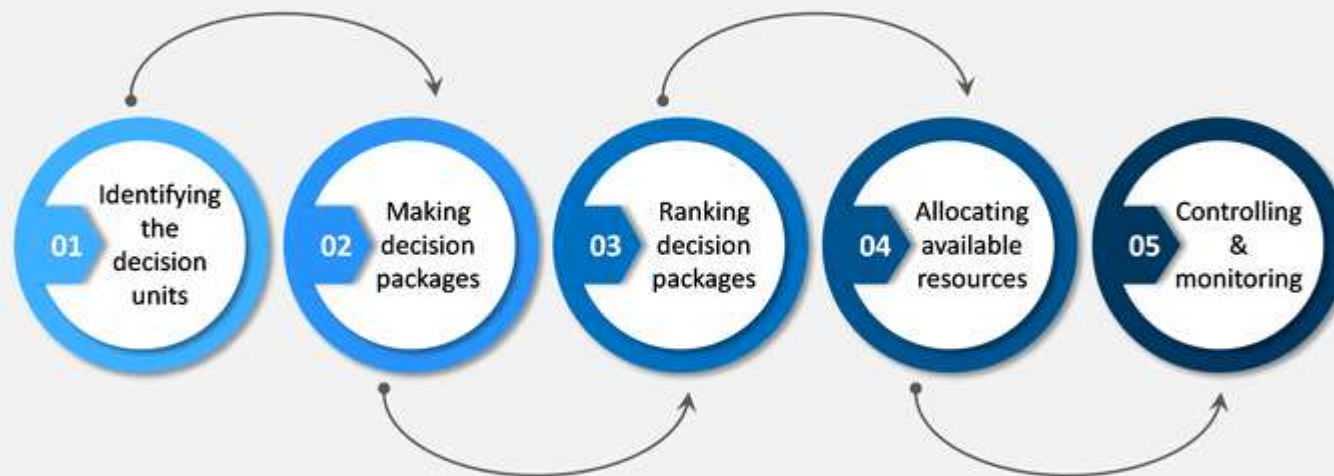
# Role of Procurement in ZBB.

- Procurement brings much needed visibility into every stage of the ZBB process.
- Provide industry benchmarks across all categories to help businesses understand their spending patterns compare to industry and competitors.
- Identify savings opportunities through demand management techniques.
- Renegotiate contracts after budget reallocation.
- Use P&L savings to help business to manage their budget reductions

# How Does A Zero-Based Budget Work?

## ZERO BASED BUDGETING

Steps in Zero Based Budgeting



**Step1 : Identifying the Decision Units:** The first and foremost step involved in the zero-based budgeting process is, identifying the decision unit.

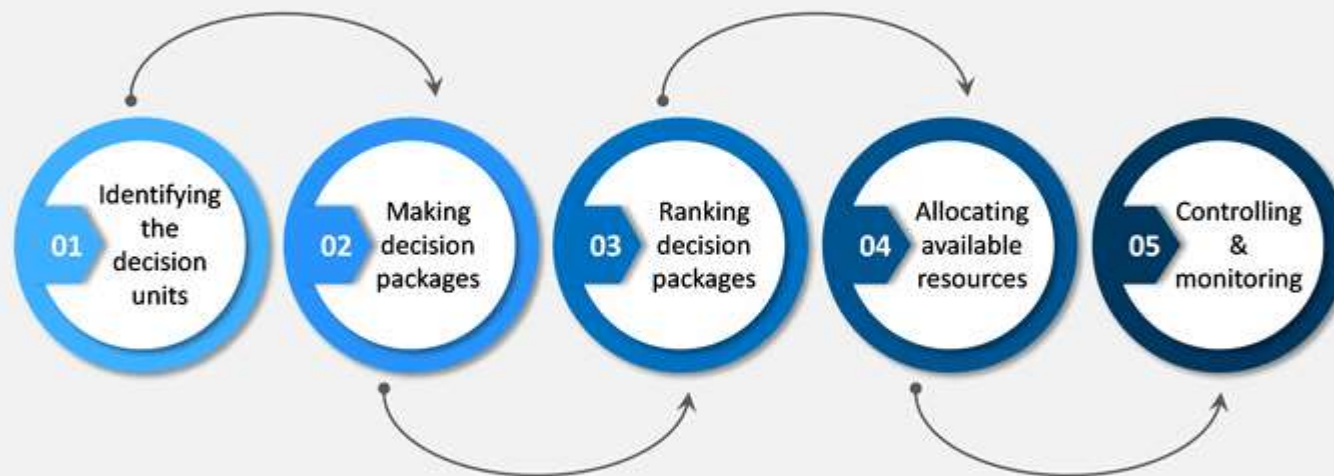
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An organization has many decision units. Each cost center, like the marketing department, production department, human resource department, research, and development department, etc., acts as a decision unit.

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**Step2** :Making Decision Packages:In this step, the decision units identified in the first step are broken down into smaller decision packages.

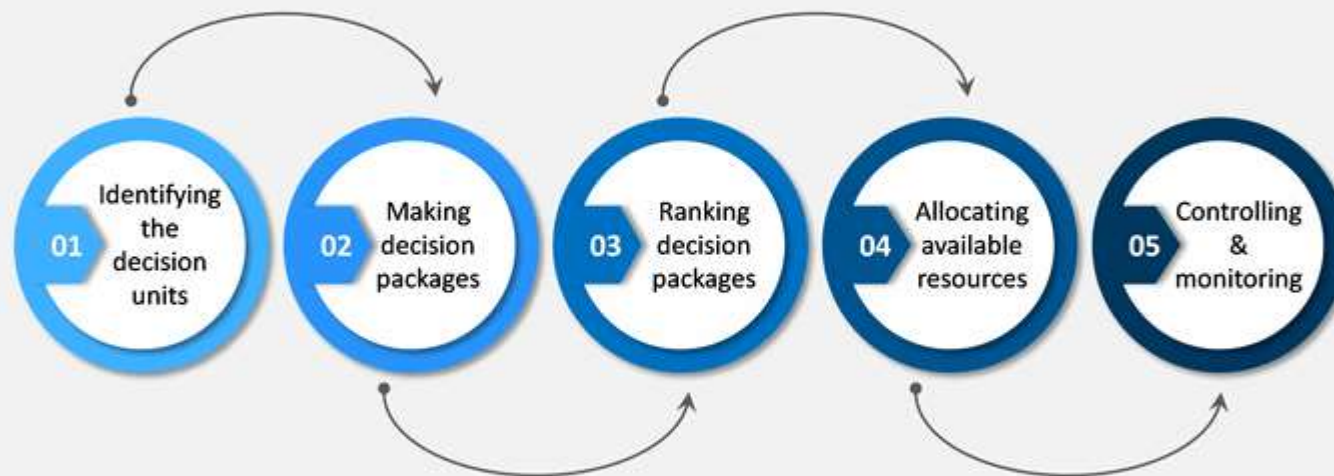
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Each decision package defines the functions, activities, and operations of the proposal, the need for the proposal, economic and intangible benefits associated with the implementation of the proposal, loss of opportunity if funds are not allocated to the proposal, etc.

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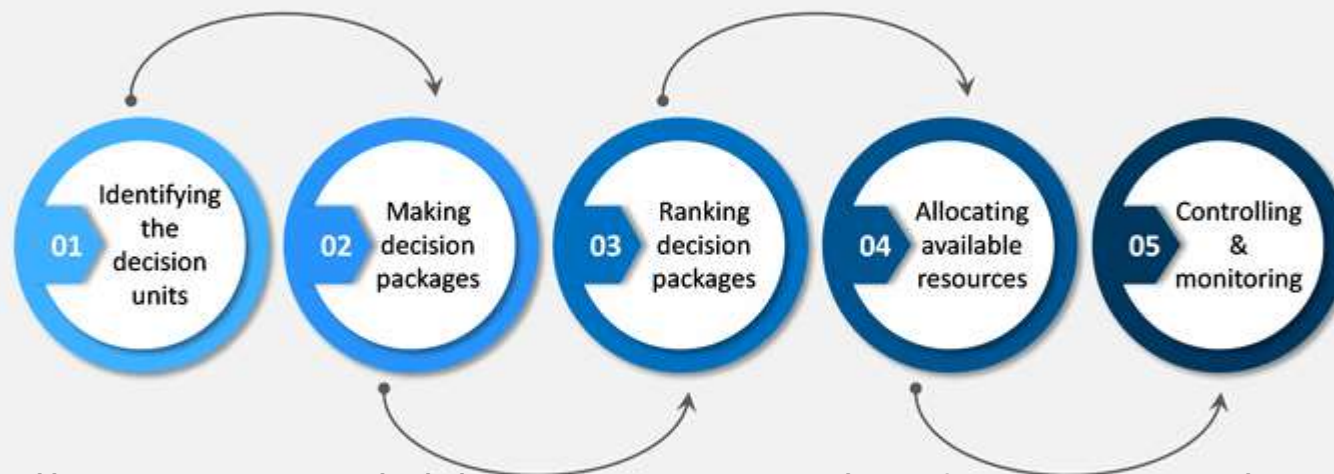
**Step3** :Ranking Decision Packages: In this step, ranking of all the decision packages within a decision unit and among various decision units is in the order of their importance and priority.

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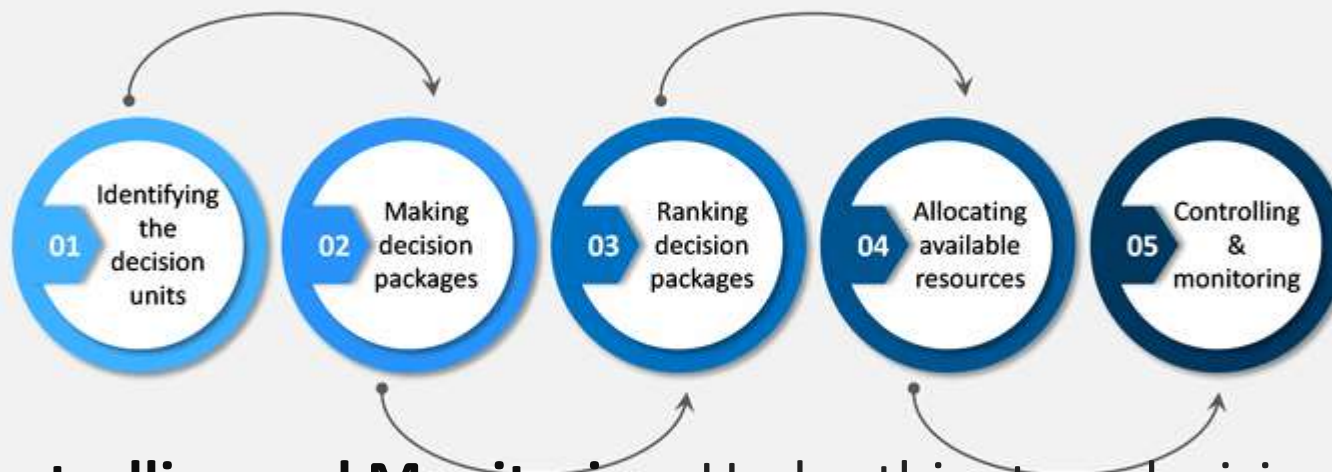
**Step4** :Allocating Available Resources: The decision packages that were ranked in the previous step are allocated funds in this step. The most promising decision packages get better funding. This ensures optimum utilization of scarce resources.

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**Step5 :Controlling and Monitoring:** Under this step, decision packages are monitored and evaluated for their performance and output. Measuring the performance of the decision packages helps the management to understand whether the allocation of resources is done accurately or not.

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# Example:

In the book of ABC & Co. Trading & P&L A/C

Particulars	Amount(\$)	Particulars	Amount(\$)
To Opening Stock	28000	By Sales	48000
To Purchases	7900	By Closing Stock	800
To Gross Profit	12900		
	<b>48800</b>		<b>48000</b>
To Salary	3970	By Gross Profit	12900
To Loan Repayment	1900	By Royalty	1950
To Interest on Capital	600		
To Factory Rent	2000		
To Insurance Premium	175		
To Depreciation	230		
To Electricity Bill	910		
To Office Rent	800		
To Commission	850		
To Stationary & Office Supplies	88		
To Advertising Expenses	82		
To Net Profit	3245		
	<b>14850</b>		<b>14850</b>

# Strategy for ZBB

- The company doesn't require two people to work on a machine—salary costs can be reduced by \$300.
- An unoccupied factory space can be sub-let to a zip manufacturing partner—saving \$400.
- Social media advertising can replace banner ads to save another \$40.
- Many records can be maintained electronically to reduce the stationery expenses by \$12.

Now, using the given information, we prepare a zero-based budget of ABC Co.



**SWIPE**

## HOW TO START AN ONLINE BUSINESS

### ZERO BASED BUDGET(ZBB)- FOR THE MONTH OF APRIL 2022

Summary		Estimated (\$)	Actual (\$)	Difference [Estimated - Actual] (\$)
<b>Total Income</b>		14850	15250	400
<b>Total Expenses</b>		11605	11253	(352)
<b>Total Balance</b>		-	-	-
S. No.	Particulars	Estimated (\$)	Actual (\$)	Difference [Estimated - Actual] (\$)
<b>Income Received During the Period:</b>				
1	Profit	12900	12900	-
2	Income from Sub-letting	-	400	400
3	Income from Royalty	1950	1950	-
<b>(A)</b>	<b>Total Income</b>	<b>14850</b>	<b>15250</b>	<b>400</b>
<b>Fixed Expenses Incurred During the Period:</b>				
1	Salary	3970	3670	(300)
2	Loan Repayment	1900	1900	-
3	Interest on Capital	600	600	-
4	Factory Rent	2000	2000	-
5	Insurance Premium	175	175	-
6	Depreciation	230	230	-
7	Electricity Bill	910	910	-
8	Office Rent	800	800	-
<b>(B)</b>	<b>Total Fixed Expense</b>	<b>10585</b>	<b>10285</b>	<b>(300)</b>
<b>Variable Expenses Incurred During the Period:</b>				
1	Commission	850	850	-
2	Stationery and Office Supplies	88	76	(12)
3	Advertising Expense	82	42	(40)
<b>(C)</b>	<b>Total Variable Expenses</b>	<b>1020</b>	<b>968</b>	<b>(52)</b>
<b>(D)</b>	<b>Total Expenses (B+C)</b>	<b>11605</b>	<b>11253</b>	<b>(352)</b>
<b>(E)</b>	<b>Total Balance (A-D)</b>	<b>-</b>	<b>-</b>	<b>-</b>

# When to Use ZBB?

The following are four scenarios in which ZBB can be used:

- 1. Urgent turnaround:** When its required to restore liquidity, relieve pressure from apprehensive investors, or reestablish short-term profitability.
- 2. Targeted restructuring:** Companies undertake targeted restructuring when they may need to cut costs quickly.
- 3. Cost enhancement or management:** Companies focusing on medium term improvements can use ZBB to cut waste and manage increases in future spending.
- 4. Growth:** A company may have already completed a cost-takeout initiative but wishes to rebalance its investment portfolio.



Did I help?

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