Zero-base Budgeting
Agenda

- What is ZBB?
- What are the Benefits?
- What are ZBB concepts?
- Ameren’s approach
Zero-Base Budgeting Books

Peter A. Pyhrr:
Zero-Base Budgeting
A Practical Management Tool for Evaluating Expenses
1973

Logan M. Cheek:
Zero-Base Budgeting Comes of Age
1977

First used in current form at Texas Instruments followed by the State of Georgia under Governor Jimmy Carter
Zero-Base Budgeting (ZBB) Definition*

“An operating planning and budgeting process which requires each manager to justify his entire budget request in detail *from scratch* [hence zero base] and *shifts the burden of proof to each manager* to justify why he should spend any money at all. This approach requires that all activities be identified in “*decision packages*” which will be *evaluated by systemic analysis* and ranked in order of *importance*.”

*Peter A. Pyhrr, “Zero-Base Budgeting,” unpublished speech delivered at the International Conference of the Planning Executives Institute, New York, May 15, 1972*
What are the benefits of ZBB? (polling question)

Transparency

Effective cost control

Encourages ownership

Improved forecasting accuracy

Greater visibility

Clear Accountability

Consistent level of detail

Efficiency

Standardization

Cost per unit
ZBB Concepts

Planning
- Establish plans & programs
- Set goals & objectives

Zero-base budgeting
- Evaluate all activities, alternatives and costs to achieve plan

Evaluation
- Determine if costs are compatible with the plan objectives

Final Budget
- Funding approved
- Monitor, control, follow up

Revisions
ZBB Concepts

• Decision units
  ➢ Stand alone element where budget is developed (cost center, activity, function etc.)

• Decision Packages
  ➢ Purpose
  ➢ Consequences of not performing activity
  ➢ Measures of performance
  ➢ Alternative courses of action
    ✓ Different ways of performing same function
    ✓ Different levels of effort of performing function
  ➢ Costs and benefits

• Ranking
  ➢ How much should we spend? Where should we invest our money?
Figure 8. A sample decision package.

1. Define and describe your program.
2. Identify and segment legally required efforts.
3. Evaluate feasibility:
   (a) Need-for-change implications.
   (b) Economic benefits.
   (c) Non-economic benefits.

<table>
<thead>
<tr>
<th>POTENTIAL NAME</th>
<th>Service Force Job Enrichment Program</th>
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<tbody>
<tr>
<td>PROGRAM NO.</td>
<td>16</td>
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</table>

**DESCRIPTION**
- To extend the job enrichment program for the service force — as outlined in Appendix — to all employees in the company.
- Inclusion of minimum number of branch managers is mandatory.

**STATE OF THE ART**
- High
- Medium
- Low

**BASE OF IMPLEMENTATION**
- High
- Medium
- Low

**ECONOMIC BENEFITS**
- High
- Medium
- Low

**Identifiable benefits**
- Reduction in service force turnover: 4.3%.
- Increase in service force productivity: 12%.
- Reduced costs of training: 30%.

**Reimbursable**
- Increased service in service force, with improved customer service and satisfaction.
- Improved manager development.
- Increased productivity.
- Increased job satisfaction.

**ECONOMIC RISKS**
- High
- Medium
- Low

**Potential revenue increment**
- $450,000
- $2,122,000
- $3,500,000
- $11,346,000

**Probability of occurrence**
- 0.2
- 0.5
- 0.8
- 0.9

**Probability of occurrence**
- 0.2
- 0.5
- 0.8
- 0.9

**Total cost**
- $432,650
- $479,650
- $920,346

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Ameren’s Approach: Shared Services Organization

- **Areas of Focus:**
  - Labor
  - Outside Services
  - Purchases
  - Memberships & Dues
  - Employee Expenses
## Ameren’s Timeline

<table>
<thead>
<tr>
<th>Phase</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
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<tbody>
<tr>
<td>1. ZBB Kickoff Meeting</td>
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<td>2. Memberships &amp; Dues, Employee Expenses</td>
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<td>3. Outside Services, Purchases</td>
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<td>4. Labor</td>
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<td>5. Other Non-Labor</td>
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<td>6. ZBB Review</td>
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<td>7. ZBB Complete - June Snapshot</td>
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*Note: The timeline indicates the progress of each phase from February to July 2017.*
ZBB Dashboard

- Dashboard being developed in OBIEE
- Labor Reports
  - Capital/O&M Split
  - Overtime Trend
ZBB Dashboard (cont)

- Non-Labor Reports
  - Annual Trend by Focus Area
  - Monthly Trend by Focus Area
  - Detailed Data Table (Transaction-Level)
Memberships & Dues Example

• Potential ZBB Steps:
  ➢ Each coworker is asked to provide membership and certification dues requests
  ➢ Information is compiled and the results are:
    • Individual:
      • 3 PMP x $450
      • 4 PE x $500
    • Department Subscriptions:
      • Electrical Board of Missouri and Illinois x $10,000

➢ Total Memberships & Dues Budget: $13,350

Note: Ameren will reimburse up to $500 the professional membership fees for Engineering and other professionals, provided the appropriate function head approves any such request. In addition, Ameren will reimburse Engineering professional employees for state registration fees, and seals if required, and such expenses will not be counted as part of the $500 maximum limit.
Memberships & Dues Example

- Entry into ZBB Template:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Membership</th>
<th># Employees w/ Memberships</th>
<th>Notes</th>
<th>Corp</th>
<th>Project/SR</th>
<th>Cost ($)</th>
<th>Line Total</th>
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<tr>
<td>CCCM</td>
<td>Project Management Professional (PMP)</td>
<td>3</td>
<td>Project Management Institute</td>
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<td>A01234</td>
<td>450</td>
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<td>Professional Engineer (PE)</td>
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<td>National Society of Professional Engineers</td>
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<td><strong>13,350</strong></td>
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</table>
Employee Expenses Example

• Potential ZBB Steps:

➢ Four coworkers will attend a training in Chicago
➢ Assumptions:
  • Training lasts 4 days, 3 nights
  • Registration (per coworker): $1000
  • Travel (per coworker): $1,500
    • Hotel: $300 per night x 3
    • Airfare: $300 x 1
    • Meals: $50 x 4 days
    • Taxi: $100 x 1

➢ Total ZBB Cost: 4 x ($1000 + $1,500) = $10,000
Employee Expenses Example

- Entry into ZBB Template:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Training Title</th>
<th># Trainings</th>
<th>Notes</th>
<th>Average Registration Cost ($)</th>
<th>Average Travel Expenses ($)</th>
<th>Corp</th>
<th>Project/SR</th>
<th>Line Total</th>
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<tr>
<td>CCPR</td>
<td>Advertising Conference</td>
<td>4</td>
<td>Chicago Conference</td>
<td>1,000</td>
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<td>AMS</td>
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Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
--- |---- |---- |---- |---- |---- |---- |---- |---- |---- |---- |---- |-------|
10,000 |    |    |    |    |    |    |    |    |    |    |    | 10,000 |

**Total**

$10,000
Outside Services Example

- **Scenario:**

- After reviewing detailed trend reports and considering future spend, Department determines that it needs the following Outside Services to execute its 2018 business plan:
  - External Auditors: $3,400,000
  - Recruiters: $50,000
  - Webfilings: $120,000
  - Valuation Services: $70,000
## Outside Services Example

- **Entry into ZBB Template:**

| Activity       | Spend       | Corp | Cost Category | Project/Desc | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | Total     |
|----------------|-------------|------|---------------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|
| ISPA External Auditing | AMS         | O&M  |               | A0021        | 850,000 |       |       |       |       | 850,000 |       |       | 850,000 |       | 850,000 | 3,400,000  |
| ASCB Recruiting      | AMS         | O&M  |               | A0001        |       |       |       |       |       | 8,333 | 8,333 | 8,333 | 8,333 | 8,333 | 8,335 | 50,000 |
| RSEC Vendorservices  | AMS         | O&M  |               | A0275        | 12,489 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 70,000 | 122,489 |
| RSEC Valuation Services | AMS     | O&M  |               | A0275        |       |       |       |       |       |       |       |       |       |       |       | 70,000 |
| **Total**           |             |      |               |              | 12,489 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 70,000 | 3,572,489 |
Purchases Example

• Scenario:

➢ After reviewing detailed trend reports and considering future spend, Department determines that it needs the following Purchases to execute its 2018 business plan:
  • Advertising: $14,000
  • St. Louis American Newspaper: $5,000
  • St. Louis Business Journal: $4,000
  • Promotional Products: $2,000
  • Library Subscriptions: $61,000
  • Media Monitoring Service: $2,000
**Purchases Example**

- **Entry into ZBB Template:**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Spend</th>
<th>Vendor/Project/Description</th>
<th>Corp</th>
<th>Cost Category</th>
<th>Project/SR</th>
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<tr>
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<td>Advertising Expense - Paid Search Social (Google, FB, etc.)</td>
<td>Paid Search Social (Google, FB, etc.)</td>
<td>AMS</td>
<td>O&amp;M</td>
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<td>BAOT</td>
<td>Print Advertisements</td>
<td>ST LOUIS AMERICAN NEWSPAPER</td>
<td>UEC</td>
<td>O&amp;M</td>
<td>J0545</td>
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<td>BAOT</td>
<td>Print Advertisements</td>
<td>ST LOUIS BUSINESS JOURNAL</td>
<td>UEC</td>
<td>O&amp;M</td>
<td>J0545</td>
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<tr>
<td>CCCR</td>
<td>T-shirts, etc...</td>
<td>Promotional Products</td>
<td>AMS</td>
<td>O&amp;M</td>
<td>A2078</td>
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<tr>
<td>CCLA</td>
<td>Library Subscriptions (Post Dispatch, etc.)</td>
<td>Post Dispatch</td>
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<td>O&amp;M</td>
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</table>
How did lead team review data?

• Hosted two lead team meetings where leaders presented budgets and data was challenged
• A consolidated pivot table of data was utilized to drill down into specific data
• Action items (budget reductions/adds) were documented
• Final budget review after action items completed
• Final data was utilized in joint planning discussions with our business partners
Ameren ZBB Challenges

- Compressed time line
- Communication
  - Top Down
  - Bottom Up
- Excel based & manually intensive
- Varying levels of Business Acumen
- Cost tracking budget to actuals
To what extent are your organizations implementing ZBB? (polling question)

- Not at all
- Yes, but only for certain areas/departments
- Yes, but not all process phases are being followed
- Yes, enterprise-wide and all process phases are being followed*

* We all want to sit down and talk with you after the presentation 😊