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Zero-based Budgeting: Creating Value to Drive Growth

Video Transcript

(Robert Willems on camera)

Zero-based budgeting is a far-reaching new approach enabling companies to be fit to compete in consumer goods. It is focused on taking cost out of low value areas and reinvesting that money in the areas that create a competitive advantage.

This closed-loop cost management methodology continuously challenges the company's cost levels in order to reprioritize spend and focus resources on driving growth.

A leading US food manufacturer wanted to invest in gaining agility and driving growth. Using ZBB, the company was able to identify cost reduction opportunities in five key areas: operating model and headcount; SG&A or overhead expenses; procurement; logistics; and IT. To create a long lasting cost-conscious culture, Accenture helped them put in place a new governance structure, spend controls and monitoring. This generated almost $1B of fiscal-year savings and helped the company free up funds to invest in product innovation and growth in emerging markets.

If we look at the three core components of ZBB, we can see how it adds value.
First, increase visibility. You need to create full visibility around spending, to understand line-by-line what is being spent, who is spending it, and why. This will help the organization reprioritize the spend in line with its business priorities and key growth areas.

For example, when building visibility on training, one multinational consumer goods company discovered that business units were spending not only a significant amount of money on developing already existing training but also on delivering the wrong training. The visibility helped the company reprioritize its training budget globally to address its critical capability gaps.

Once you have full visibility, you need to appoint individuals with clear accountability for each of the cost packages. This accountability helps create positive tension within the organization that is critical to ensure continuous cost management.

Third, you embed zero-based budgeting. The big difference between ZBB and traditional budgeting is that each year you build the budget from scratch and justify the need for each dollar spent. This methodology forces the organization to continuously look for opportunities to reduce costs and ensure that spend is aligned with the right growth opportunities.

Using this approach, Accenture helped a leading food multinational save $350M in SG&A in year one. But it doesn't stop there: projected 3-year savings are over $1B. The company aims to increase operating margins 2 - 4 percent by 2016.

ZBB resets the overall cost position, sustains savings over time, and gives companies the agility to respond to volatility.

If your company is under pressure to improve results or if you need the funds to invest in growth initiatives, it's time to consider ZBB.