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TRANSFORMATION STARTS AT ZERO

ACHIEVE COMPETITIVE AGILITY

Growth. It's something most business leaders are confident about achieving. In fact, an overwhelming majority (84 percent) anticipate achieving their next three years' projected growth rates.[1] And a full 79 percent think their organizations will grow revenue by five percent or more.[2] While growth targets remain ambitious, the ability to achieve them is elusive at best. Consider this: The average GDP growth for OECD economies barely exceeds three percent.[3]

Clearly, most of those business leaders will fall considerably short. This reality is driving a pivot toward new business and operating models that will enable companies to remain competitive and drive growth. Embracing the challenge means answering some critical questions: How do we transform businesses while continuing to meet shareholders' expectations? How do we minimize risk along the way? And, one of the most difficult questions, where do we get the money to pay for it?

The answer to all these questions lies within adopting a zero-based mindset.

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In the age of digital disruption, even companies in traditional industries are running scared, and on the hunt for the next, smartest move. And at some point, every company will have to switch to a new business to survive.

ZBx is a management approach that fundamentally re-shifts resources to fund innovation and profitability. It evolved from zero-based budgeting (ZBB). While ZBB has been wielded for decades to cut costs, it falls short when it comes to spurring growth. But ZBx does that and more. ZBx facilitates forensic oversight into resource allocation that funnels savings back into growth initiatives and encourages new sources of innovation.

THE WISE PIVOT

In the United States, the top 25 food and beverage brands generated only 2 percent of industry growth—while the smallest 16,000 accounted for a whopping 53 percent of growth.[4] Clearly, incumbents need to change. Now. It's what we call a "wise pivot." A wise pivot enables an organization to pursue new growth opportunities without abandoning its core business. Companies that pivot wisely know how to continually calibrate their investments and assess their organization's investment capacity to grow new businesses at precisely the right time. This enables them to deliver on their quarterly reporting commitments and still make the big choices necessary for the future.

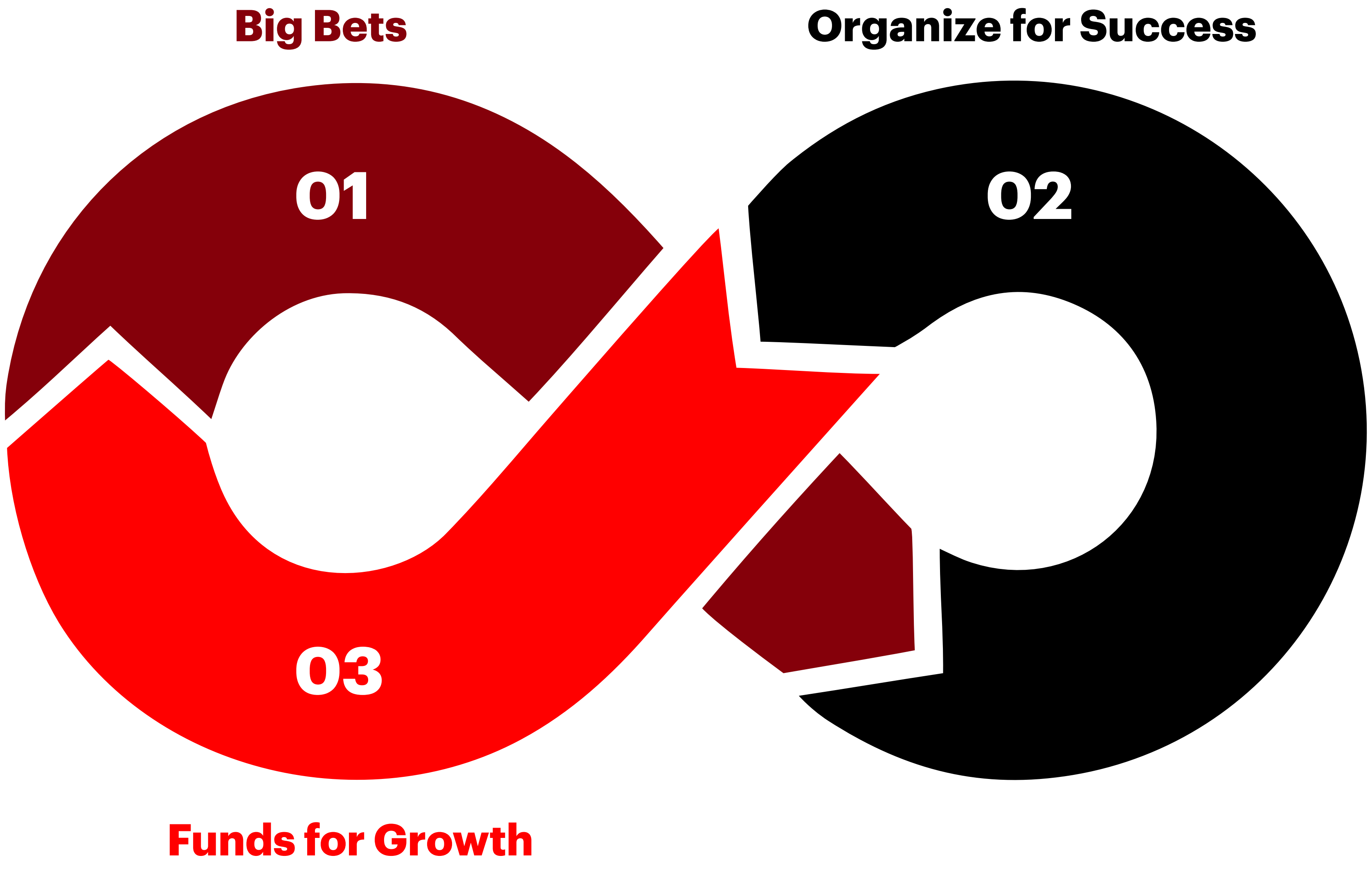
Executing a wise pivot takes three underpinning moves: Start planning as one enterprise, stop using yesterday's operating model, and leave no stone unturned.

Companies have one group of people in the enterprise planning for driving growth, one group of people planning for people, and one group planning to reduce cost. The answer is to tear down those walls and allocate resources from a zero base. This will be the only way to make the size and speed of decisions required to deal with the level of disruption facing businesses today.

Planning for a wise pivot is neither sequential nor performed in silos. Instead, it takes advantage of leading zero-based practices so discussions about opportunities, costs, and investment dollars can happen openly, in real time, and at speed. This means the C-suite can clearly see which costs can be released from the P&L based on which decisions they make; while considering a list of growth investments and what they will deliver; while seeing how those investments flow through the P&L from the top to the bottom line.

A true wise pivot requires a new approach to the planning process that enables a company to understand the investments required to make the transition, the potential impact on the bottom line, and the cost efficiencies in the existing core business that can fund those investments. How much, for example, should automotive companies be investing in converting their fleet to electric or to the development of their own in-car voice assistants?

A unified enterprise



Tomorrow's vision

While 82 percent of companies are focused on freeing up funds to invest in growth initiatives, only a quarter of executives believe their company's operating model has evolved quickly enough to align to their strategy.[5]

So, once a company is clear on the big bets it wants to place, it must ensure it has the right operating model and the capabilities in place to execute them. Consider a leading tire company that moved from selling tires to selling kilometers. Or Hepsiburada, the Turkish e-commerce leader. Hepsiburada organizes parts of its business around defined consumer personae including, "Working Mothers", "Techies", "Sports Man." And brings them physically to life within the working environment. The new persona teams focus on providing an end-to-end experience across traditional functional roles, tailoring each aspect of consumer engagement to the specific persona.[6]

No stone unturned

If the pivot the business needs to make is significant, it's likely the investment required to fund it isn't available in the normal course of business. ZBx uncovers the savings opportunities that exist across the full P&L that can help fund the big-bet investments. Importantly, it also recognizes that within every P&L, there are "good calories" and "bad calories." The former are costs that are critical to growth, the employee value proposition, and a sustainable operating model and trust in the company—and are objectively optimized for maximum return. The latter are simply waste and are removed. This enables a company to continue to grow its core business and reallocate bad calories to fund the wise pivot.

A zero-based approach also works to uncover savings opportunities not just in the traditional SG&A space, but across the full P&L—in direct materials, the supply chain, trade spend, SG&A, and people—that can help fund the big-bet investments. The more bad calories driven out, the bigger the opportunity to invest in good calories, accelerating the transformation.

While 92 percent are applying ZBx techniques to G&A, on average less than half are applying these techniques across the rest of the cost base.[7] This takes potentially valuable investment opportunities off the table and delays or dilutes the potential to pivot.

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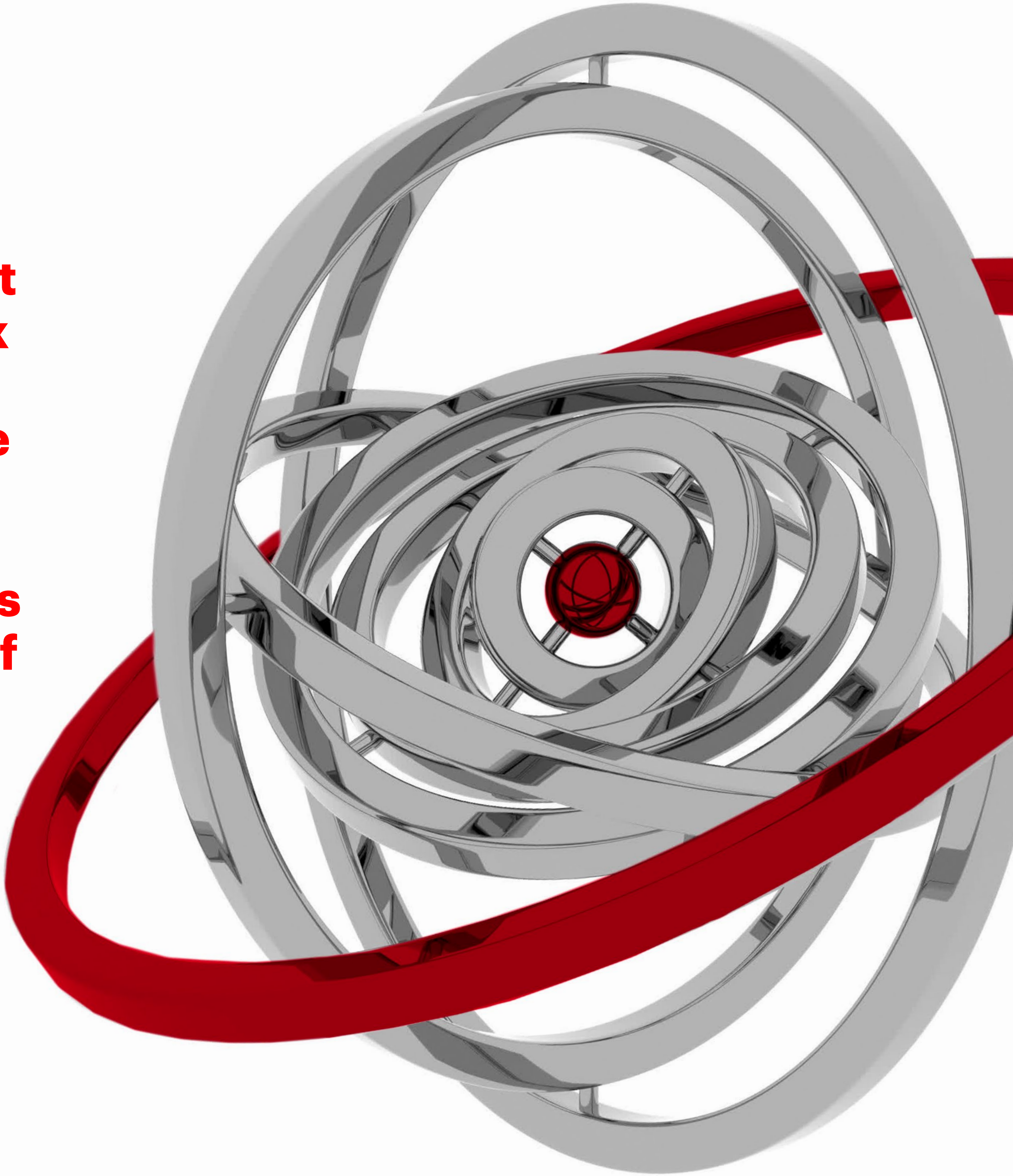

THE WIZEST PIVOT

For most companies, the question isn't should they pivot to new businesses, but how quickly can they do it. With a ZBx approach, companies now can tackle the planning, cost reduction, resource allocation, and organization impact of a wise pivot simultaneously. They can have fact-based, real-time discussions about the possible options and their trade-offs and implications—simulating profit and earnings profiles to determine what will meet shareholders' and executives' expectations. And they can lay bigger bets with the strategic agility that fast-growing companies have but at a scale that smaller competitors can't match.

In the tobacco industry, companies are moving from the cigarette business, where marketing was constrained by law, to the new world of "next-generation products" like vaping. These and other products require companies to build their muscle in physical and digital retail and deliver a new consumer experience.

HERE'S HOW:

Make it a growth story

The biggest challenges around this type of transformation concern change management. Communicating the trade-offs involved in the pivot to growth in real time reinforces the sense of ownership, change in mindset, and entrepreneurship company-wide, whilst making the transformation an integrated growth story, not purely a cost story.

Accelerate through AI

Another important tool supporting the wise pivot: an artificial intelligence-driven dashboard that enables executives and the board of directors to quickly understand the implications, risks, and trade-offs inherent in any decision. It answers the questions: How does cost cutting impact growth opportunities? How do different mixes of capabilities affect potential operating models? What's the best balance between new and existing markets? With AI, these and many, many other possible scenarios can be modelled in real time at the enterprise level.

Closed-loop planning

To sustain changes wrought through ZBx, companies need to establish one integrated closed-loop team that looks at future profit pools, the big bets required to access them, the operating model required, and where to fund those investments in the cost base, all at the same time.

START FROM SCRATCH

Leading companies are starting from scratch—using a zero-based mindset to fundamentally transform by re-shifting resources and fund new sources of innovation. It's a phenomenon that mirrors the early years of digital. First movers were "all in," reinventing business models, customer experiences, and even entire industries in the process. Flash forward to today, and companies that are behind in digital are behind competitively. Digital has become non-negotiable for survival.

Soon, the same will be said for ZBx.

References

[1] Accenture Strategy, The Big Zero: The Transformation of ZBB into a Force for Growth, Innovation and Competitive Advantage, (Penguin, 2019).

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Reach out to our authors to see how to start transformation at zero.

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