Beyond the ZBB buzz

ZBx: The zero-based mindset
Anything “zero-based” is all the rage today

The business media is flooded with stories of companies using zero-based methods to reduce waste. Accenture Strategy set out to uncover the reality beyond the buzz by talking to 85 of the world’s largest companies that have gone zero-based. Here’s what we found.

Zero-based budgeting (ZBB) began as a budgeting technique forty years ago. A simple but progressive idea to set budgets to zero each year to cut unnecessary costs rather than base them on what happened the previous year. It evolved over time as companies incorporated other methods and emphasized cost savings and reinvestment using more rigorous governance, stricter policies, top-down targets and external benchmarking.
Today, ZBB is an invaluable leadership tool that aligns the strategic priorities of a whole organization. With a closed-loop cost-management process applied across the entire P&L, people act like owners in both spend and reinvestment decisions. This is true transformation. But the headline-grabbing successes of companies like AB InBev and Mondelēz have fueled some misperception that ZBB is only suited for global consumer packaged goods companies with strong top-down cultures. This could not be further from the truth. It is an equal opportunity way of working that applies no matter a company’s size or industry.

Our research bears this out. Before 2011, only two percent of the companies we surveyed had initiated ZBB. Understanding and momentum started to build between 2011 and 2013. And since 2013, ZBB adoption has exponentially grown by 57 percent every year.

ZBB went mainstream fast, spurred by slowing growth, higher profitability targets across industries, and fading views that it is too niche, disruptive or aggressive. ZBB now has a strong footprint beyond consumer packaged goods, including financial services, life sciences, technology, retail, and chemicals and natural resources among others. The outcomes are unprecedented. Over 91 percent of companies have fully met or exceeded their program targets.

With success like this—and with major companies focusing on more than $1 billion in cost savings to fund growth strategies and the pivot to digital business models—it’s no wonder that a zero-based mindset is red hot. That’s why we wanted to talk directly to leaders about their ZBB experiences. This paper is the outcome. It separates the facts from the hype with research insights into results, implementation and challenges, while offering a view into where zero-based companies will go next.
Accenture has conducted the largest research initiative to date on zero-based thinking, involving 85 of the biggest global companies across different industries, from banking to retail, from consumer packaged goods to life sciences.
Cold hard cash

Companies are taking ZBB to the bank. It is delivering cash back to the business in the form of significant cost savings.

Most companies have ongoing cost intervention programs. But the results pale in comparison to what companies are getting from ZBB. Many find it to be the closest thing to a winning playbook for removing waste and freeing up capital. Our surveyed company set is seeing average cost reductions of 15 percent and average bottom-line savings of more than US$260 million annually.

ZBB programs also deliver rapid payback, paying for themselves within the first year, often multiple times over. For example, a healthcare company exceeded its target by one third in year one, achieving US$1.2 billion in cost savings over three years and surpassing its entire program goal by US$300 million. A consumer goods company achieved 18 percent overall savings on the addressable baseline, with nearly half coming in the first year. The positive impact boosted the share price by 20 percent.
Companies pursue ZBB for different reasons. Ninety-six percent got started to improve profitability. Forty-eight percent were influenced by competition. Forty percent cite slow growth as a catalyst. None of this is unexpected. There are two surprises here, however. The first: Only 14 percent say M&A was a driver. This flies in the face of common, but flawed, wisdom that says companies typically pursue ZBB in crisis mode in an M&A scenario to improve integration, speed results and realize the integration business case. The second: The media is fixated on the pressure coming from private equity funds and activist investors to implement programs like ZBB. But only 8 percent of companies say this was a factor for their organization.

Companies apply ZBB across the P&L

- **92%** General and administrative (G&A) expenses
- **43%** Direct and indirect labor
- **52%** Sales and marketing
- **42%** Logistics and cost of goods sold (COGS)
In essence, budgets are financial requirements for the planned initiatives that will deliver a company’s strategy. Companies usually link ZBB to the corporate strategy through profitability (95 percent) followed by growth (56 percent) and sustainability and trust (4 percent) initiatives. This positioning is critical because cost cutting in itself is not a strategy. It only becomes strategic when aligned with and enabling the corporate strategy.

The research also answers a “million (or billion) dollar question” about ZBB. Where are companies redirecting cost savings to support the corporate strategy? While nothing emerged as common practice around who owns the reinvestment decisions—budget owners, category owners and the C-suite are all mentioned—companies are redirecting savings into growth initiatives (52 percent), digital (31 percent), other capabilities (29 percent), and the bottom line (15 percent).

As one pharmaceuticals executive explains,

“We reinvest one third into our growth initiatives, one third in the salaries of our people, and one third back to shareholders—and we see this as a winning formula.”

A large commercial bank was lagging peers in both profitability and digitization in an environment where the race to become digital is cutthroat. The bank's digital ambition required a multibillion-dollar investment. Leadership turned to ZBB to unlock monies for its digital transformation and growth while also improving the cost-to-income ratio.
Far and wide

Once companies adopt ZBB, they move fast and globally. Delaying by even one week could have an opportunity cost of US$5 million to a global company.

No two ZBB programs look exactly the same, but there are trends in how companies implement them. They are not afraid to take the long view. Consider the scope of ZBB programs. Most companies focus worldwide, while in-country and regional programs are less common. One example is a travel industry leader with simultaneous implementations in nearly 30 countries.

When it comes to enterprise involvement, companies tend toward corporate-wide initiatives rather than cherry picking specific functions or divisions. As for the pace of implementation, there is not a clear preference between going full throttle all at once or staggering the roll-out. However, pilots are not as widely preferred.

ZBB implementations focus on cost management and efficiency using a closed loop process. Think of it as a virtuous cycle of self-reinforcing insight and action that constantly challenges costs. The closed loop involves visibility, value targeting, category ownership, budgeting, execution, and control and monitoring. Companies are starting with visibility and value targeting.

They are also implementing healthy tension between budget owners and cost/package owners. Some companies have gone deeper in their implementations. About one third do driver-based budgeting from a zero base, and 77 percent are investing in improving control and monitoring.
When competition and a slowdown in price inflation stalled growth for a healthcare leader, the company issued a 10 percent budget cut. The uncoordinated and unpredictable spend reduction that resulted did nothing to improve margins or make cost management a core competence. Abandoning high-level percentage cuts, the company is beginning a five-year zero-based journey focused on growth, cost reduction and capital redeployment.

Beyond the ZBB buzz: ZBx – The zero-based mindset
A tightly closed loop process helped a mining company improve results in a new ZBB implementation. The introduction of an enterprise resource planning (ERP) system was the first step. It gave the company a single source for trusted financial information that fed the closed loop. This budget monitoring by drivers enabled new visibility into cost drivers and much better control of the use of resources.

In addition to strengthening the closed loop itself, companies are investing to improve how their organizations use money as part of their ZBB implementations. Policy change is the main transformation tool. This is not so surprising considering that changing policy is familiar terrain, and it is a comparatively easy lever to pull. However, companies are also making changes to the operating model and organizational structure, enterprise spending visibility and control, and contract renegotiations.

*Accenture’s proprietary closed loop process, specifically its methodology and analytical models which are supported by Artificial Intelligence, are patented in the U.S. as of November 14, 2017—Patent number: 9,818,067 B2*
No pain no gain

While most say the rewards are worth it, companies find that the work of ZBB can be quite challenging—especially creating a culture of ownership and cost control.

The hype surrounding ZBB has fueled the idea that it is a silver bullet for all of companies’ cost management woes. The reality is that, like any major transformation, ZBB is not an easy fix. Anyone can do easy. Only those resilient enough to go through hardship will thrive. One travel executive thinks of ZBB as a “painful but worthwhile exercise.” Companies report that cultural buy-in (67 percent), change management (41 percent) and data visibility (33 percent) are the hardest obstacles to overcome.

Yet the hardest things to do are also among the most important. Culture and change are what make ZBB stick. Unlike traditional techniques that use a cut-the-fat and gain-it-back approach like every fad diet does, ZBB is a lifestyle transformation. It requires big changes in organizational thinking and doing so that the “weight” never comes back. In fact, one pharmaceutical executive thinks of the company’s cultural change as its top ZBB accomplishment: “Creating this culture of cost control was the biggest challenge. It was the biggest thing we achieved.”

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<th>Hardest ZBB obstacles</th>
<th>Percentage</th>
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Companies are investing in several different approaches to evolve their cultures. Change management initiatives include widely accepted tactics like communication (77 percent) and training and workshops (62 percent). Targets and incentives (15 percent) and role modelling (21 percent), which focus on truly changing behaviors, are less common.

Even so, companies are finding that going deeper to influence behavioral changes can be very effective. Take the story of a European bank, for instance. After implementing ZBB, the bank’s new cost management culture suffered initial resistance. Leadership got behind the program from the outset, and their buy-in and confidence helped to turn it around.

Recognizing the C-Suite as culture and change ambassadors, the bank translated ZBB program goals into executive performance incentives, all aiming at achieving the same target.

By aligning incentives like this bank is doing, as well as investing in strong governance structures that support a healthy tension between cost/package owners and budget owners, companies are signaling their understanding of a fundamental tenet of ZBB. That people are the linchpin. Unlike one-time, high-level percentage cuts, ZBB is not a budgeting exercise that gets completed and everyone moves on. It is an act of culture. A mindset that becomes so ingrained in how people think and work that people do it naturally. Like breathing.

“ZBB is one of our pillars. It’s part of our DNA. The company is now known for its efficiency.”
Planning Director, Health Administration Company

Beyond the ZBB buzz: ZBx – The zero-based mindset
Over the horizon

This research offers a compelling picture of the reality of ZBB today. But how will the best in the world take it to the next level?
Harnessing the triple competitive edge

Most companies are focused on ZBB for profitability. Yes, the pursuit of profitability is critical. But it is only part of the new equation for competitiveness in disrupted markets. According to our competitive agility framework, boosting competitiveness means executing well across the interdependent areas of growth, profitability, and sustainability and trust. Companies with this multi-dimensional strategy are winners in improving EBITDA and revenue.¹

That’s why the next generation of ZBB must be linked to all three dimensions—growth, profitability, and sustainability and trust—the triple competitive edge. It’s about managing profitability interventions in a way that fosters growth, and sustainability and trust too. Financial, social and environmental interests do not have to be mutually exclusive. The examples are everywhere. When companies use renewable energy sources to power their factories or commit to use renewable or recyclable packaging in the “war against plastic,” they are doing what’s good for society, and what’s good for growth and profits too. A win-win-win.

¹ Beyond the ZBB buzz: ZBx – The zero-based mindset

Growth & customers

Exploring a multi-billion dollar opportunity from financing the circular economy.

Profitability

Achieving a three-digit million-dollar cost reduction through introduction of circular economy principles.

Sustainability & trust

Closing the loop on materials and products to create supply chain security and enhance customer relations.
Tackling the entire P&L

There is tremendous opportunity to amplify ZBB results by taking the winning principles of the closed-loop process and applying them across the entire P&L—G&A, direct and indirect labor, sales and marketing, logistics and COGS—to identify and rebuild the costs that companies “should” have to deliver their strategy. This is something we call ZBx or having zero-based mindset. It is different from ZBB because it is more holistic. Today, 92 percent of companies start with G&A spend. The data suggests that leaders will evolve to addressing the full set of sales and marketing cost lines, COGS, and direct and indirect labor to capture the synergies among them that are being left on the table now.

Companies will need to push the envelope on their own terms with ZBx. Every company can decide how aggressive it wants to be (and can be) in stretching performance around “should cost” targets. Imagine a ten-point scale. Some will turn the aggressiveness dial timidly, to a two or a three. Others will boldly crank the dial all the way up to an eight or nine, being careful not to destroy the culture. The place to start is with C-suite buy-in and commitment, which sets the foundation for a true enterprise focus.

Shifting cost curves with digital

ZBx is also different from ZBB because it does not rely on first quartile benchmarks that reflect how top performing companies currently work. ZBx creates a new “quartile zero” for how they will work in the future. This future focus reflects a continuous improvement mentality that accounts for the impact of digital technologies, sustainability practices and other dynamic forces on enterprise-wide cost profiles over time.

The opportunity here is so significant because digital technologies fundamentally shift cost curves, empowering companies to far surpass even their best past performance and first quartile benchmarks. Just think, for example, how machine learning and intelligent automation can lower manufacturers’ cost curves. Or how image recognition systems can collect invaluable information about product placement across retail stores from smartphone pictures.

Or how facilities costs would be impacted if companies used digital energy management and safety and security tools, such as drones, instead of people to police their properties. The possibilities are endless. ZBx organically accounts for this change so that companies can stop revisiting the past and start creating the future. But only if companies invest in digital and link their zero-based initiatives to their digital transformation.
Powering the closed loop

Digital tools and capabilities can make the closed loop run more efficiently and effectively. Think of it as zero-basing the closed-loop process itself. Take data visibility, which companies say is a major obstacle today. After all, nearly a quarter of them still use spreadsheets for their ZBB reporting. By replacing spreadsheets with automation and artificial intelligence technologies, companies can dramatically improve data visibility as well as data quality, key performance indicators and processes.

Cloud-based, global collaboration tools can transform how companies lock cost targets into budgets. They centralize the collection and analysis of spend for a single version of the truth. With the right business intelligence and data analysis tools on top of this, people don’t have to be data scientists to understand and use them.

Companies can also strengthen the closed loop by creating a ZBB Center of Excellence to support both cost/package and budget owners. The Center can provide intervention ideas, root cause analysis, variation analysis and big data analytics among other enriching tools and insight to take the closed loop to the next level.

Building an ownership culture

Change management has to be a long-term process. “Decaf” approaches that do not target enduring behavior changes are simply not sufficient to sustain cost benefits. Employees need to understand what is expected of them and have skin in the game to drive their willingness to do it.

The core principles here are accountability and transparency across all levels of the organization, not top-down mandates that feel arbitrary to employees on the line. Leading by example is a critical part of this. Our research reveals a very high correlation between top management having a high level of engagement in the program and obtaining the desired results. Incentives are another critical part, as are integrated change management programs that use different tactics and channels to generate awareness and buy-in. Ultimately, it is about instilling a radically different value system across the company where every employee treats every dollar is if it were his/her own, and makes decisions accordingly.
The momentum around ZBB today mirrors the early years of the digital wave. First movers ignored the skeptics and bet on digital. Some wound up reinventing business models, customer experiences and even entire industries in the process. The buzz reached a fever pitch, and others went digital too. Flash forward to today, and companies that are behind in digital get left behind everywhere else. Digital has become non-negotiable for survival. ZBB has reached this turning point too.

Companies have always needed to stretch their budgets to fund important initiatives or to meet their margin targets. What’s different today is that savings must be even bigger and bolder to fund the growth strategy and the pivot to digital business models. Our first-of-its-kind research tells the real story of ZBB—the outcomes, implementations and challenges. Zero-basing has come a long way, and it is clearly hereto stay. The next wave promises to be even more extraordinary.
About Accenture

Accenture is a global professional services company with leading capabilities in digital, cloud and security. Combining unmatched experience and specialized skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services—all powered by the world’s largest network of Advanced Technology and Intelligent Operations centers. Our 569,000 people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities.


About Accenture Strategy

Accenture Strategy works with boards, CEOs and C-suite executives to create 360° value for all stakeholders by defining and answering their most strategic business questions—including growth, profitability, technology-driven transformation, mergers and acquisitions (M&A), operating models and sustainability—with insights from AI and data science, combined with deep industry and function expertise.

For more information, follow @AccentureStrat or visit www.accenture.com/strategy.

About the research

Accenture identified 136 major companies that use zero-based mindset (ZBx) to reduce costs and reinvest. Eighty-five of these companies are in the Forbes Global 2000. From this distinct set of companies, Accenture analyzed the scope, results and practices of their ZBx programs based on in-depth examinations and executive interviews carried out between November 2017 and January 2018.

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@AccentureStrat
www.linkedin.com/company/accenture-strategy

Author

Kris Timmermans
Senior Managing Director, Strategy & Consulting, Supply Chain & Operations Global Lead

Contributors

Christopher Roark
Senior Managing Director, Accenture Strategy, North America Lead

Benigno Herrera
Managing Director, Accenture Strategy

Robert Willems
Managing Director, Accenture Strategy, Zero-Based Mindset (ZBx) Global Lead

References


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