



ZERO IN ON PROFITS

Capitalizing on a zero-based mindset to unlock trapped value for Indian companies.

ZERO IN ON PROFITS

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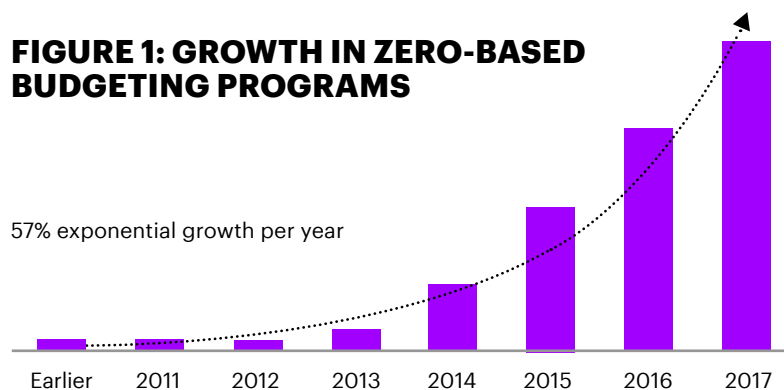
Anything “zero-based” is the rage today. The media is flooded with stories of companies that have successfully used zero-based methods to reduce costs and boost profitability.

What started as a budgeting technique forty years ago has today become an invaluable leadership tool that aligns the strategic priorities of a whole organization. Companies that are behind in zero-based budgeting (ZBB) get left behind everywhere else. In fact, it has become non-negotiable for survival.

Take the example of a leading brewing company in India that was experiencing flailing margins. It teamed up with Accenture to establish a ZBB program to enhance profitability. The program delivered cost optimization of 11–12 percent on the addressable spend baseline—across the entire P&L. More importantly, the client and Accenture collaborated to drive a company-wide cultural change in mindset. By adapting a “control tower” approach and implementing ZBB principles across the organization, it was able to establish a sustainable, cost-conscious ZBB culture.

A recent Accenture survey unpacked the ZBB buzz by speaking with top companies that have gone zero-based. The survey found that adoption of ZBB has grown exponentially by 57 percent every year, over the last five years (see Figure 1). In fact, more than 90 percent of companies globally have fully met or exceeded their program targets. Most major companies are focusing on more than US\$1 billion cost savings to fund growth strategies and pivot to digital business models. It’s no wonder then that a zero-based mindset is the ideal approach for Indian businesses.

FIGURE 1: GROWTH IN ZERO-BASED BUDGETING PROGRAMS



Source: Accenture Research

ZEROING IN ON THE MONEY

ZBB delivers cash back to the business in the form of significant cost savings. The surveyed companies are seeing average bottom-line savings of more than US\$260 million annually and rapid payback, paying for themselves within the first year itself, often multiple times over.

For example, by leveraging ZBB principles, one of the business units of a leading Indian construction company achieved a 14 percent reduction in its indirect budget over the previous year and a further 10 percent reduction over the new budget.



NUGGETS OF WISDOM

Accenture Strategy conducted the largest-ever research initiative on zero-based thinking, involving 85 of the largest global companies across different industries.

ZBB is 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.

Why do companies pursue ZBB?

96
PERCENT

To improve
profitability

48
PERCENT

Are influenced
by competition

40
PERCENT

Name slow growth
as a catalyst

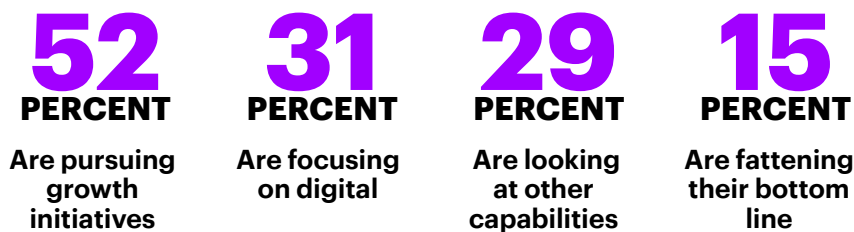
None of this is unexpected, but they did find two surprises here.

1 Only 14 percent say M&A was a driver to pursue ZBB.

2 Only 8 percent say private equity and activist investors put pressure to implement ZBB.

THE RESEARCH ALSO ANSWERS A “MILLION (OR BILLION) DOLLAR QUESTION” ABOUT ZBB.

WHERE ARE COMPANIES REDIRECTING COST SAVINGS TO SUPPORT THE CORPORATE STRATEGY?



NO PAIN, NO GAIN

While most say the rewards are worth it, like any major transformation, ZBB is not an easy fix. The top obstacles companies face are creating a culture of adoption, change management and data visibility (see Figure 2). However, the hardest things to do are sometimes also the most important. If you want ZBB to stick, focus on organizational culture and change.

Companies today are investing in several different approaches to evolve their cultures. Their change management initiatives include widely accepted tactics like communication, training and workshops. Targets, incentives and role modeling focus on changing behaviors and are less common (see Figure 3).

Companies find that going deeper to influence behavioral changes can be rewarding. Take, for instance, a leading Indian travel services company. The chairman backed the program from the start and drove implementation by aligning the KRAs of each of his business CEOs. Not only were the results outstanding, a strong

culture of cost-consciousness was also cultivated. People across the company started to take ownership of the decisions made and carried out the implementation as if it were their own decision.

By aligning incentives and investing in governance structures that support a healthy tension between cost 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 once and is then forgotten. It is an act of culture, a mindset that becomes so ingrained in how people think and work that they do it naturally.

FIGURE 2: ZERO-BASED BUDGETING OBSTACLES

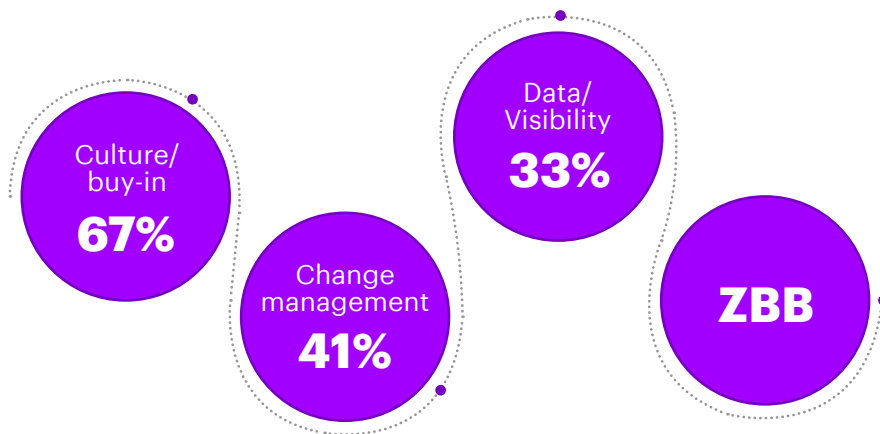
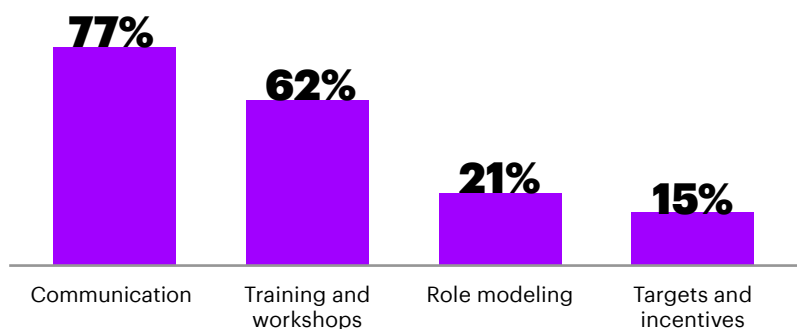


FIGURE 3: CHANGE MANAGEMENT INITIATIVES EMPLOYED IN ZBB



“ZBB has delivered significant sustainable benefits through indirect cost optimization and has also enabled a culture of cost consciousness.” Group Chief Finance Officer, Thermax.

DO OR DIE(T)

So, how can companies take ZBB to the next level to unlock trapped value?

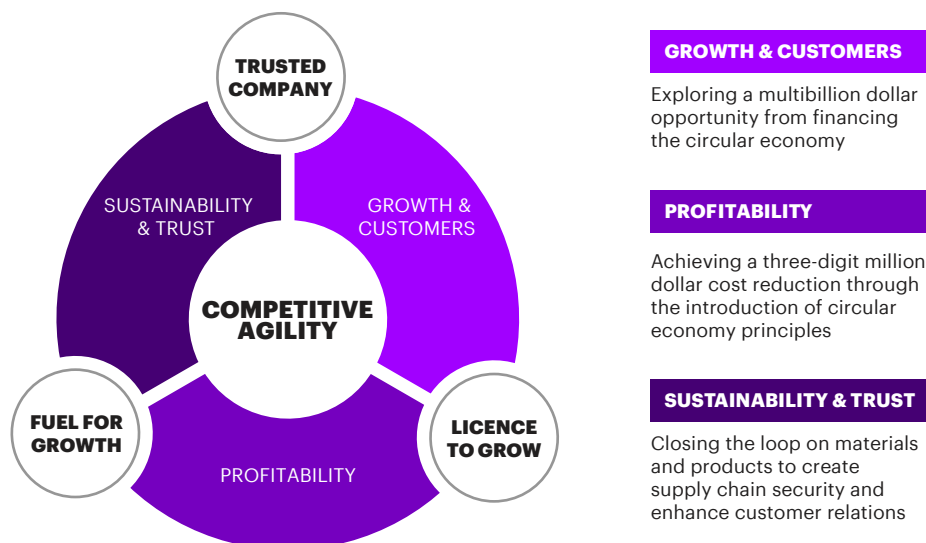
HARNESS THE TRIPLE COMPETITIVE EDGE

Most companies focus on ZBB for profitability. But, having a one-dimensional strategy driven mainly by chasing growth or driving profit, with little or no focus on sustainability and trust, and no integration across the three, is a recipe for disaster.

According to Accenture's competitive agility framework, boosting competitiveness means having a multidimensional strategy, which is executed well across the three interdependent areas—growth, profitability, and sustainability and trust (GPS). Companies with this integrated multidimensional strategy will be the winners in improving EBITDA and revenue. For instance, a US\$30 billion automotive and industrial company that improves its Competitive Agility Index score by one point by focusing on an interdependent strategy could see its revenues rise 3 percent or almost US\$1 billion.

ZBx, or a zero-based mindset, is an essential component of this interplay (refer to "Tackle the entire P&L" section for details). It creates a dynamic that continually re-frames cost in relation to value generated, causing a virtuous interplay between the three areas. That's why the next generation of ZBB must be linked to all three of these dimensions—creating a triple competitive edge.

FIGURE 4: GPS—THE TRIPLE COMPETITIVE EDGE



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LEVERAGE DIGITAL TO SHIFT THE COST CURVES

ZBx creates a new “quartile zero” by embracing digital to fundamentally shift the cost curves. 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. The possibilities are endless.

Accenture recently patented a ZBx AI platform that uses artificial intelligence and machine learning to categorize financial transactions into spend categories, to identify who spent how much on what. This forensic analysis gives companies real-time insights into individual cost categories—a significant improvement from the typical, manual and costly efforts to analyze spend.

TACKLE THE ENTIRE P&L

Zero-based budgeting results can be amplified by taking the winning principles of the closed-loop process and applying them across the entire P&L. This holistic approach is called ZBx or having a zero-based mindset.

A leading Indian electrical and automation player implemented a comprehensive zero-based mindset (ZBx) program by focusing on direct, indirect costs and productivity across its businesses. By zeroing in on costs, the program delivered significant savings across the P&L—by 2X of the business case.

BUILD A CULTURE OF OWNERSHIP

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, ZBB is about instilling a radically different value system across the company where every employee treats every dollar as if it were his or her own, and makes decisions accordingly.

THE POWER OF ZERO

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. ZBx can be the ideal diet plan for companies looking for a sustained competitive edge to thrive in the New—provided they stick to it.



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