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Zero Based Budgeting (ZBB)



ZBB: Radical Approach to Budgeting

ZBB can act as a management tool for complete business transformation and not just cost reduction

Zero based budgeting is a structured way to develop the budget of an organization. It is not a one-time budgeting exercise, but a multi-year program which brings about a mind-set and a culture shift towards the way the business is done in the organization. It is a tool which drives innovation and competitive advantage, while optimizing costs and providing capital for growth.

Through ZBB, allocation of spend is made in alignment with company strategy and growth directions. Expenses are grouped into cost categories of similar nature and spending levels are determined on the basis of cost drivers rather than historical trends. The identified cost categories are co-owned by both the cost category owner and the budget owner. ZBB allows the organization to rework its operating structure across functions, geographies and business units in a more efficient and value focused way.

Detailed Visibility

Visibility of cost across the organization, bucketed into cost categories of similar nature



Cultural Shift

Organizational change where cost optimization becomes part of the company's culture

Shared Accountability

Shared accountability between the cost category owner and the budget owner

Key Success Factors

Success stories with ZBB



AB Inbev, Kellogg, Campbell, Unilever, Mondelez International have all successfully used ZBB as a turnaround tool in the last two decades

Levers for Business Transformation

From spend analysis to automation, ZBB uses multiple levers in a phased manner for business transformation



Time and Motion Study

- Define objective, tasks, time required and frequency of an activity
- Based on volume of work and desired service level, determine the ideal team size for each role

Eg: For a given call traffic, optimize the number of call center agents across shifts



Automation of Processes

- Identify processes which have scope for automation
- Perform cost-benefit analysis for each such process in consultation with process owner and automation vendors to arrive at final list Eg: Implementation of IVR, Chatbots, Robotics

Spend Analysis and Vendor Negotiation

- Consolidate the spend into categories for annual bidding
- Identify new vendors including manufacturers
- Negotiate price and other terms for achieving maximum value
- Eg: Direct purchases (COGS), Indirect purchases, Rent



Process Re-engineering

- Understand the current processes and determine the gaps
- Identify opportunities for process improvement / re-engineering
- Develop implementation roadmap
- Eg: Introducing preventive maintenance



ZBB is implemented through a phased approach with some one-time phases and several phases repeated for every 2-3 budget cycles

Laying the foundation of ZBB

- Building a core team and providing them with appropriate training
- Creating awareness and alignment within the organization
- Developing a governance framework
- Defining incentive construct and size of the bonus pool

Building visibility

- Building a good understanding of how costs are distributed
- Standardizing G/L codes and remapping data wherever necessary
- Arriving at savings potential based on internal and external benchmarking

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Building cost categories and defining owners

- Reclassifying G/L codes to build categories and sub-categories (Eq. Insurance items from different G/L headers can be classified under one category/sub-category of Insurance)
- Defining governance structure for the identified categories (at category/region/ brand/function level)
- Identifying cost category owner and budget owner for each cost category

Developing blueprint of initiatives at category level and their implementation

- Analysing category level data to further identify the opportunities and corresponding initiatives (including implementation in a phased manner)
- Developing driver equations to be used for historic validation and future budgeting

Developing the zero based budget

- Developing budget at a category level using the driver equations and degree of implementation of initiatives
- Remapping of category budget for accounting purposes

Monitoring and controlling

- Conducting regular review meetings with category owners/ finance to understand the progress against the budget and if any refinements are to be made to the ZBB program
- Celebrating achieved savings with the category and budget owners

И months*

-3 months →

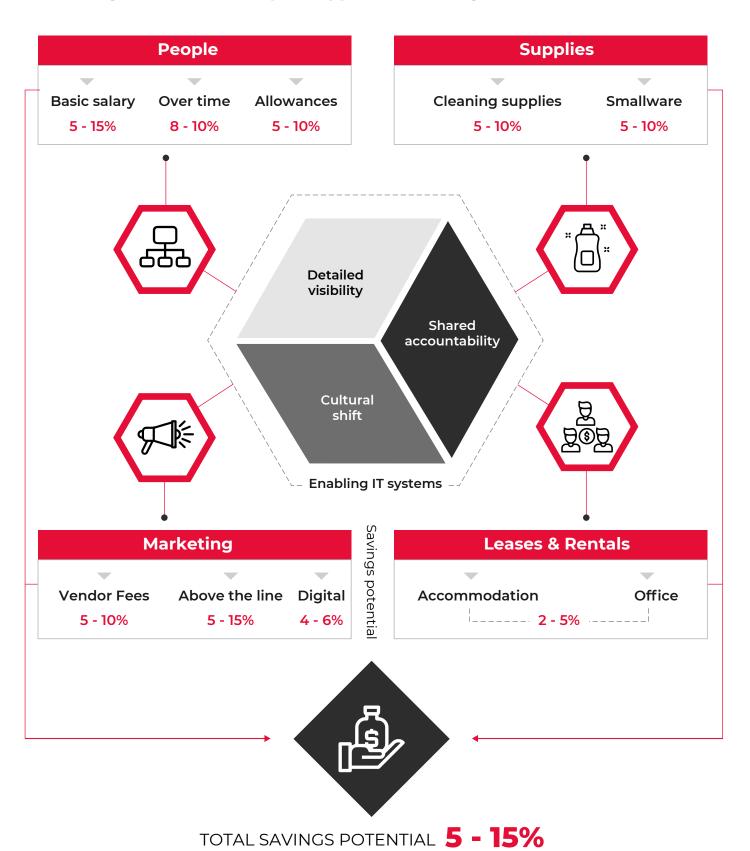
Ongoing

Phases (3-5) to be repeated for every 2-3 budget cycles

^{*}Identification and implementation of initiatives will be an ongoing activity Timelines are indicative

How much savings can be expected?

Cost reduction of 5 - 15% can be expected by optimizing levers across major cost categories such as People, Supplies, Marketing, Leases & Rentals etc.



Savings are indicative and dependent on various factors



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