White paper The importance for Consumer Packaged Goods Companies to invest in Zero-Based Budgeting initiatives

Summary of the merits of using a Zero-Based Budgeting (ZBB) approach
ZBB is a strong methodology which can deliver substantial cost savings but requires important investments. Companies must attack costs in a holistic way, bringing into scope a whole range of costs not addressed in narrow classic ZBB implementations.
In our experience, the most successful outcomes use ZBB in concert with approaches for operational excellence, digitization and not to forget reduction of organizational and business process complexity as a simpler environment energizes people and enables performance improvement

What is Zero-Based Budgeting?
ZBB is an analytical, data-based and repeatable process to eliminate waste and using resources more effectively. At its heart it is an elegantly simplistic concept – but complex to implement. Rather than using last year's budget as a starting point and then adjusting up or down to formulate projections, ZBB requires expenses to be rationally justified over each new budget period. When done correctly, ZBB reduces waste and frees up cash, which companies can use to reinvest in brands, innovation and future growth or increase shareholder value. It funds top line and bottom line growth.

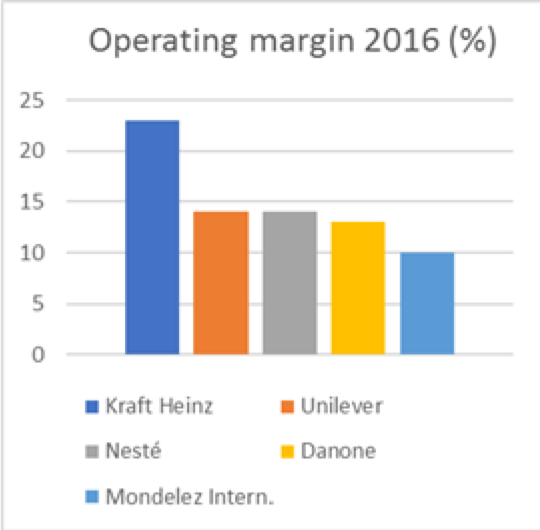
The advantages of broad based ZBB
Some of the critics of ZBB point to the fact that ZBB is often executed exclusively within organizational silos. When cost packages are analyzed in isolation, ZBB completely overlooks the substantial cost reductions attainable at the interfaces between functions.
To realize larger and more lasting value from zero-based budgeting, companies must take a more substantial and ambitious approach. That means blowing up the boundaries that have confined classic ZBB and taking a true end-to-end view of what drives business value.
This broader approach to ZBB leaves nothing out of scope, pursuing fresh efficiencies in contracting practices, make-versus-buy tradeoffs, demand reduction, requirement simplification, operational efficiency, applied analytics, rules and policies, and much more.

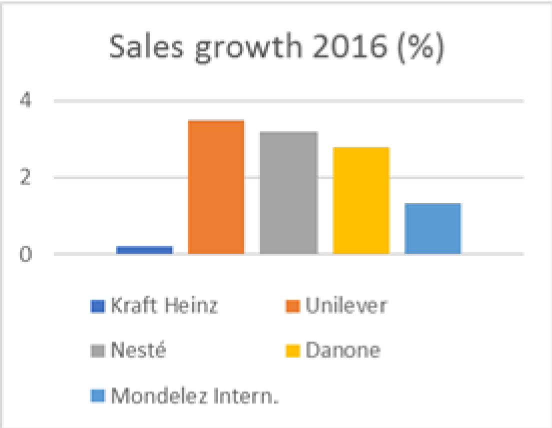
Why is there so much interest in Consumer Packaged Goods (CPG) companies for ZBB?
CPG companies are facing a period of disruption that has hampered sales growth and dampened profits. Continuous increasing market shares for discounters and private labels have led to further commoditisation and increased competition. Changing consumer preferences for fresh and sustainable products across developed markets have seen the pulling power of legacy brands eroded. New consumer understandings of value are placing pressure not only on pricing, but also on quality and therefore margins. Consequently, large CPG companies are forced to step up their efforts around innovation and renovation. Furthermore, the rise of the digital sphere and social media, has challenged the effectiveness of traditional media budgets.

Antonius Kromwijk

Some examples

The recent approach by Kraft Heinz to buy Unilever for 135 billion USD has highlighted the importance of embracing ZBB to improve profit margins or to fund top line growth. ZBB has positively contributed to an improvement in Kraft Heinz's profit margins, which currently sit ahead of many food industry peers (see figure) but have not contributed to sales growth which is far behind competition (see figure)





Mondelez International, General Mills, Kellogg, Unilever and Danone have, started ZBB initiatives (often coupled with other strategic initiatives) to strengthen profitability. Mondelez has set an operating margin target of 17% to 18% in 2018. General Mills hopes to generate annual savings of US$ 600m. Kellogg believes it can achieve a margin improvement of 350 basis points by the end of 2018. Unilever and Danone wants to reduce annual costs by EUR 1bn.

Advantages and weaknesses of Zero-Based Budgeting

Advantages ZBB	**Weaknesses ZBB**
• Resulting budget is well justified and aligned to strategy • Catalyses broader collaboration across the organization • Supports cost reduction by avoiding automatic budget increases, often resulting in savings • Improves operational efficiency by rigorous challenging of assumptions	• Costly, complex, and time consuming as budget is rebuilt from scratch annually • Risky when potential savings are uncertain • Typically requires specialized training or personnel to accomplish, and requires more resources in general • May be disruptive to the organization’s operations • Could harm organizational culture or brand

***mas** provides elegant solutions for complex issues. **mas** advisors have a holistic approach for defining the type of value creation which fits the client’s objectives and the specific challenges. The holistic approach incorporates a critical review on where to apply pragmatic programs to drive value creation with the highest returns. This can include initiatives for complexity reduction, process standardisation and simplification, broad Zero-based Budgeting, Strategic Sourcing, Spend better and Buy better initiatives. This pragmatic approach reduces the risk of failure and by reducing complexity and ensuring better alignment motivation of staff is increasing.*

Antonius Kromwijk