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ZBB and Closed-loop Cost Management: An Engine for Growth

Providing the Agility to Compete

The Growth Challenge

Growth may be back on the agenda for many, but cost pressures remain fierce. Companies that want to focus on growth – whether by moving into new markets or developing innovative new products – are spending their vital resources on overheads. Yet piecemeal approaches to cutting unproductive expenses only scratch the surface and can undermine valuable capabilities and differentiation. Too often, companies free up funds but fail to use them effectively elsewhere.

We recommend closed-loop cost management as a way for businesses to operate more cost-effectively and reinvest their savings in driving growth. Our approach helps companies build the finance and procurement capabilities they need to sustain and improve savings over the long term.

Investing in growth means freeing up funds without undermining value. Closed-loop cost management helps companies find major savings and reinvest for the long term.



A Wiser Approach to Cost Saving and Reinvestment

Closed-loop cost management involves helping to achieve full visibility on all operating spend—across business units, categories and geographies to a detailed level—and exploring how the money can be spent more wisely to add value and help drive growth.

Accenture has identified three components that are essential for companies moving to a closed-loop cost management approach. These components are:



Transparency

First we create unprecedented spend visibility at a forensic level to help achieve a complete alignment of procurement and finance, verifying consistent data. A matrix with cost categories on one dimension and structure on another allows a complete view of how much is spent, by whom, and on what. It is then possible to identify tangible cost reduction opportunities, through better price negotiations, more competitive consumption policies and better operational efficiency.

Adopting zero-based budgeting (ZBB), through which budget holders start from zero each year, removes unnecessary cost and creates a detailed forecast. Savings can be ring-fenced and assigned to activities that will boost growth.



Accountability

Accenture's approach creates high-level responsibility for each category of costs, going right up to the C-suite. Those responsible negotiate with business units to set up a 'smart consumption' policy, monitor compliance and remedy problems. So accountability is embedded in the structure and cost-management becomes a continuous process.

This creates a positive tension that can be difficult to manage, but at the same time stimulates teamwork around budgetary specifications. The key principle is that people treat the company's money as their own. Accountability is not just a leadership idea; it is a way to alter behavior at all levels, with everybody contributing from the lowest levels of the organization right up to the C-suite.



Agility

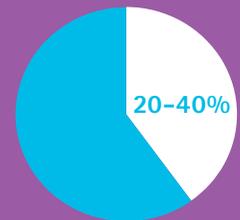
The final aim of closed-loop cost management is to change the company culture so a sustainable cost management philosophy becomes part of the company's DNA. Employees should constantly question the need for spending.

Helping achieve this organizational transformation is both an art and a science. The behavioral shift involved is massive, so a change-management program and communications will be vital. Closed-loop cost management won't work if employees don't understand the need for transformation and what is in it for them.

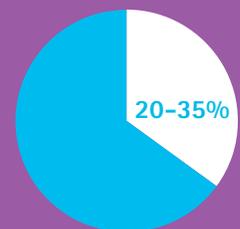
So ambition is required—this is not an easy process, but a necessary one in order to reduce cost and help drive growth. It does not call for a top-down, prescriptive company culture but can work in many different cultures.

"Closed-loop cost management is having the desired impact on our culture," explains Irene Rosenfeld, CEO of Mondelez. "We're pushing our teams to budget¹ at a very granular level and challenge old ways of thinking. This sets the stage for a best-in-class cost structure and further margin improvement over the next few years. I'm confident in our ability to successfully implement these initiatives to get this company fit to win regardless of the macro-environment, and to deliver sustainable, profitable growth."

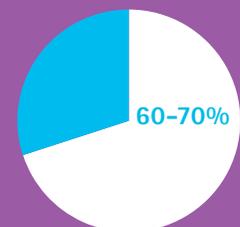
Accenture's approach does not discriminate where costs sit in the profit and loss statement. In our experience, by bringing together costs from across the company, such as from travel or training, we often discover that there are more expenses than the company believes, typically increasing indirect baseline by **20-40** percent.



Visibility is not just a mapping exercise but a real analysis. Usually **20-35** percent of costs are reallocated, which means that either people are not using the chart of accounts properly, or that the accounts are simply not granular enough.



Depending on procurement maturity for each company, some **60-70** percent of savings would come from consumption and the rest from price. Two-thirds of savings can be realized within the first year.

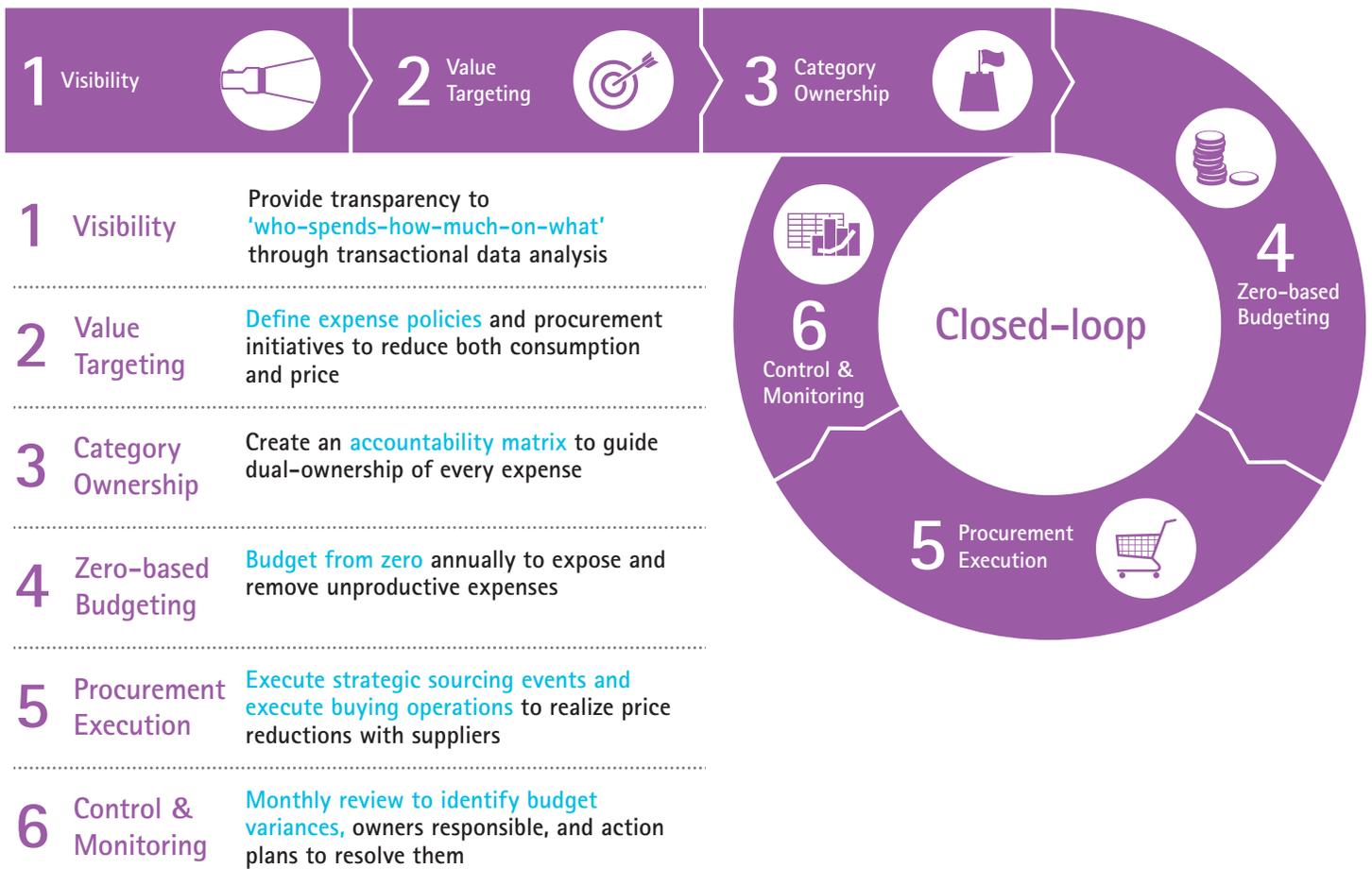


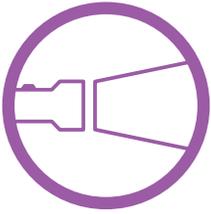
¹The Street "Mondelez International (MDLZ) Earnings Report: Q3 2014 Conference Call Transcript, November 5, 2014 pg.4-5, accessed February 23, 2015: <http://www.thestreet.com/story/12943242/4/mondelez-international-mdlz-earnings-report-q3-2014-conference-call-transcript.html>"

Six Steps to Close the Loop

Accenture's closed-loop cost management approach provides deep visibility across all expenses to identify, eliminate and prevent unproductive expenses on an ongoing basis. This is based on the components outlined above, which leverage a six-step methodology to help drive sustainable cost reduction.

Figure 1. Six Step Methodology for Sustainable Cost Reduction





1. Visibility

The first step in the closed-loop makes costs visible as never before, instilling a sense of accountability and discipline within the organization. The goal is to create unprecedented transparency around who is spending how much and on what. Using cost categories with

standard definitions, we create a data matrix combining both cost category (the what) and a business function (the who) dimension. This creates transparent, non-ambiguous company-wide spend visibility.



2. Value Targeting

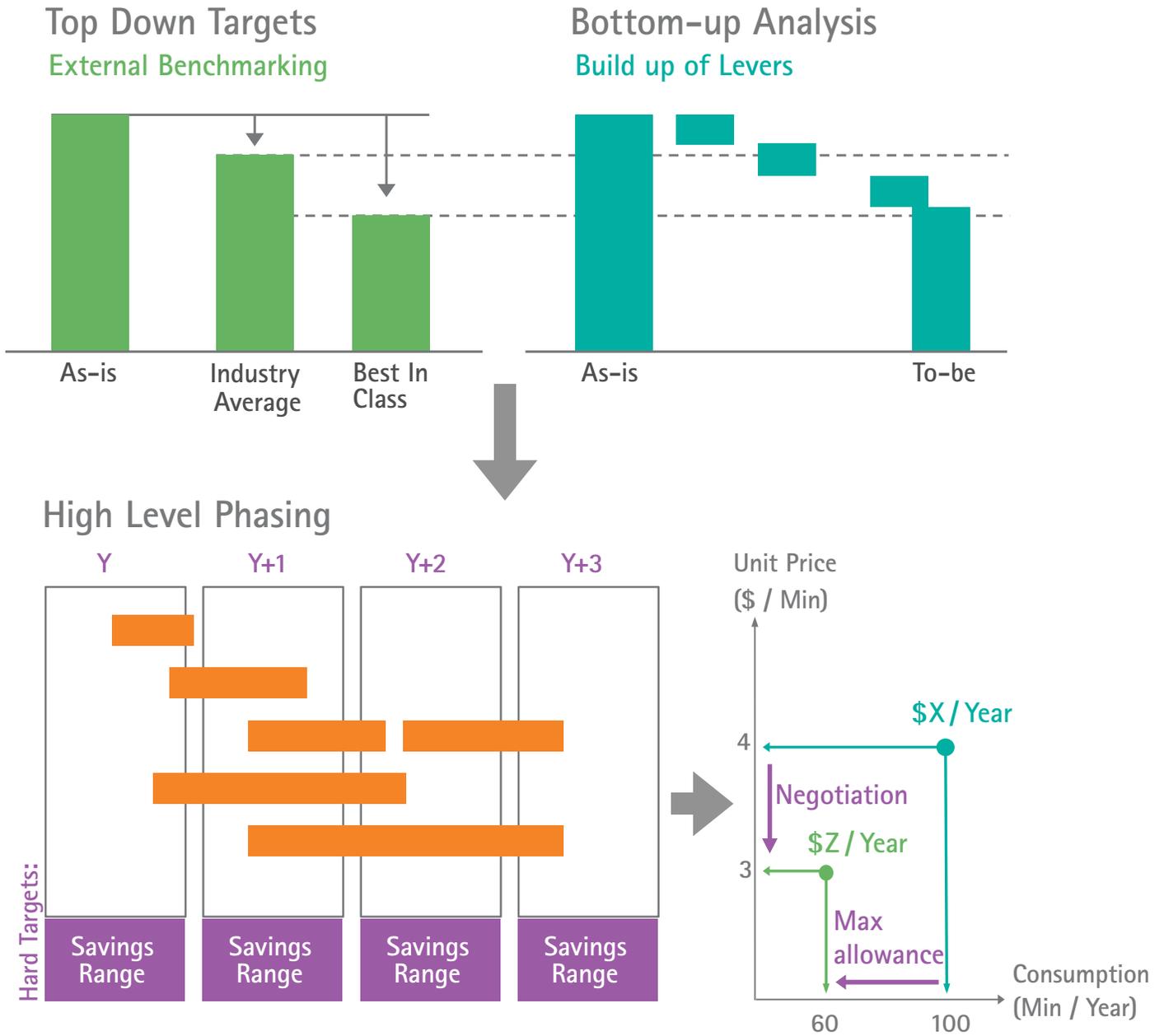
For each category, an owner and a support team run robust analytical models to define what helps drive price and cost, in order to identify detailed savings opportunities. This involves running internal and external benchmarks, to identify clear savings requirements.

These detailed analyses are performed across cost categories and cost drivers, supporting specific savings opportunities embedded into smart policies. For example, mobile phone expenses can be optimized by negotiating the cost per minute with suppliers, by reducing consumption, and by promoting alternative means of communication.

Accenture guides this cultural change by developing a powerful communication plan, using a variety of channels and materials to create awareness and encouraging adoption of the closed-loop methodology by the entire organization.



Figure 2. Value Targeting Process





4. ZBB

In ZBB, budget holders build a budget starting from a zero base, justifying each item's need or cost, while respecting strict policies and top-down targets set by the cost category owners. This level of detail (which could extend to the cost of the canteen, per meal and per hour) allows for useful internal and external

benchmarking. ZBB is an open and transparent way of creating a budget, resulting in important insights into consumption that will help procurement drive additional price savings. ZBB becomes an annual exercise, not a one-time thing, to help drive sustainable cost management.

Figure 4. Zero-based Budgeting Principles



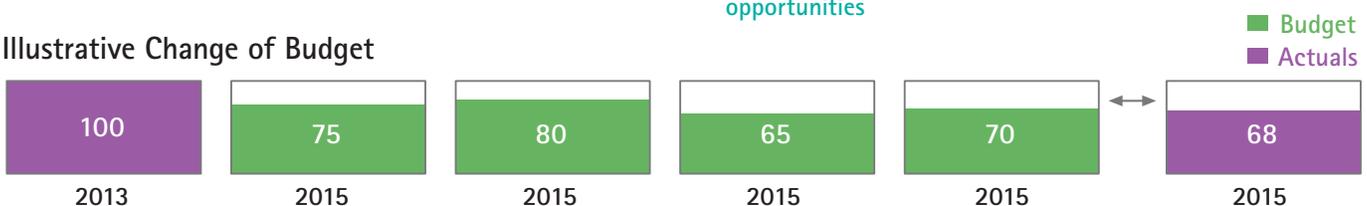
Figure 5. Zero-based Budget – Part of an End-to-End Process



Key Process Steps

- Create a **consistent mapping** of the costs into a matrix of cost categories and business functions according to **standardized definitions**, in order to have a clear insight in 'who spends how much and on what'
- Proceed to an **initial opportunity identification** to identify costs savings opportunities **across cost drivers**, define policies for all cost categories and set **top down targets** per cost category
- Create **bottom up budget by business function** starting from a zero base, while adhering to strict policies and according to the **cost category split** and their cost drivers embedded in budget templates
- Analyze the bottom up budget** by checking adherence to guidelines/policies, benchmarking and running analytical models both on price and consumption cost drivers in order to **identify detailed savings opportunities**
- Organize sessions with the **cost category owners and budget owners to negotiate** the detailed savings opportunities and agree on the final budget
- Confirm target achievement by tracking variances between the budget figures and the actuals on a monthly basis and setting up action plans

Illustrative Change of Budget



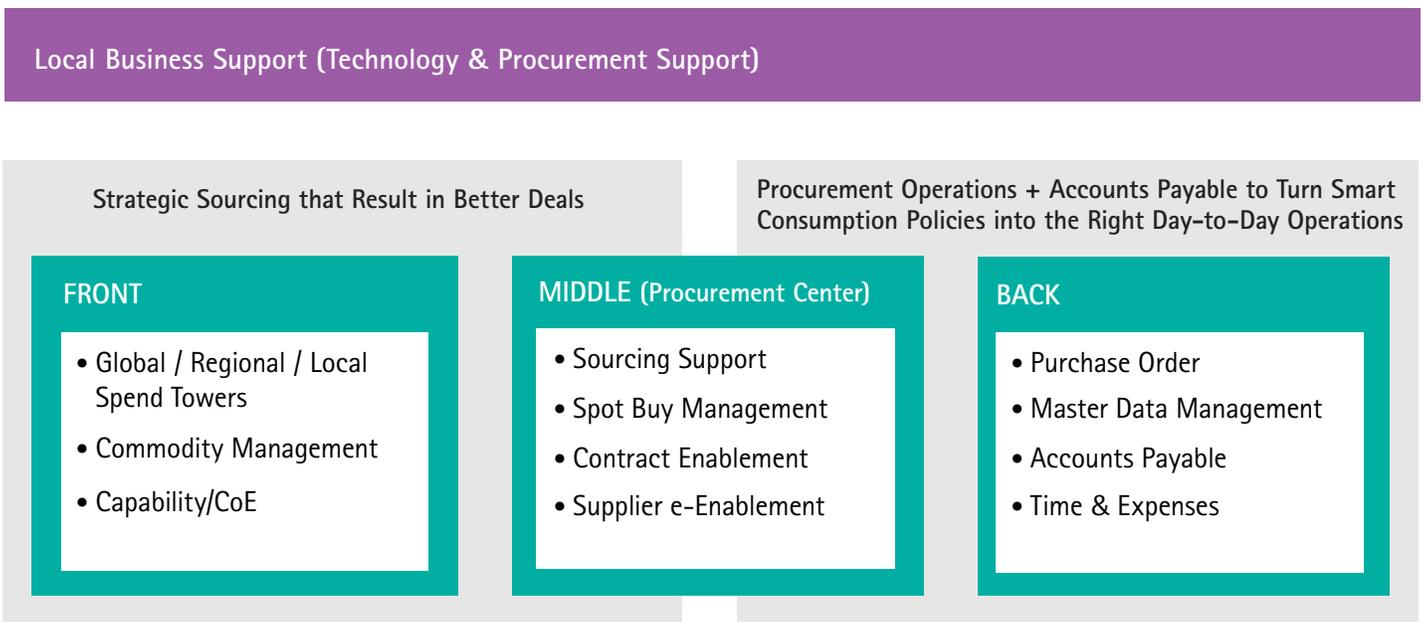


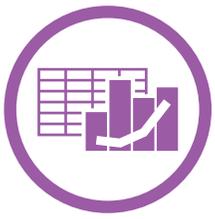
5. Procurement Execution

Procurement staff work closely with the cost category owners to increase savings, combining consumption-based initiatives with mid-term procurement sourcing. An "I need" digital portal with clear buying channels and built-in policies guides the actual consumption behavior. A procurement middle office focuses on raising compliance and reducing spot buys. This

combination aims to produce the lowest total cost of ownership day in and day out. The detailed visibility and strict accounting discipline of invoice booking is essential to track savings and to maintaining solid control and monitoring. By leveraging ZBB, procurement already receives an indication of the upcoming spend and can proactively engage vendors to optimize pricing.

Figure 6. New Procurement Operating Model to Optimize Pricing





6. Control and Monitoring

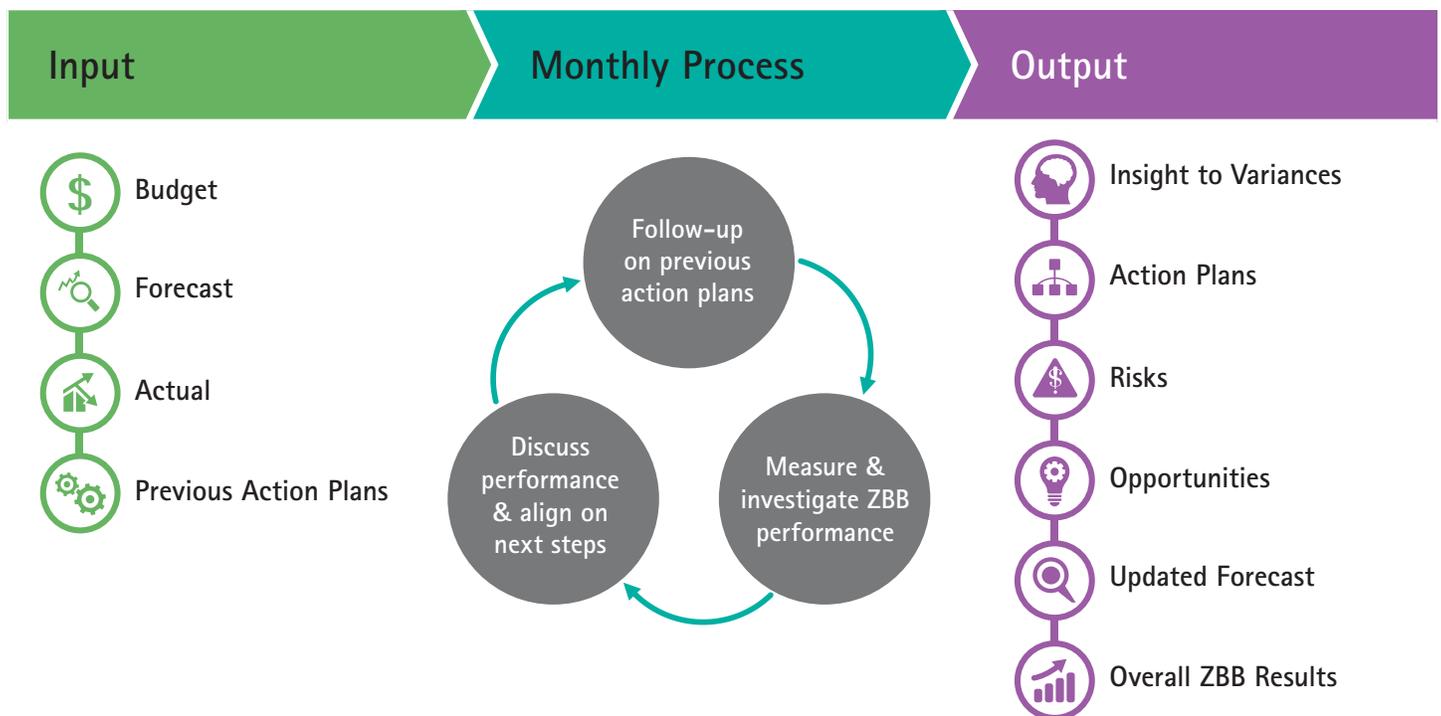
Focusing on shared responsibility and identifying the true drivers of cost mean that actual spend can be accurately tracked against budget on a monthly basis. This can be done by cost category and even sub-category. Variances will be analyzed and corrective actions taken to ensure that spend respects what has been budgeted. Tracking can be done on both financial

and operational KPIs, focusing on delivered results while keeping track of policy compliance and ownership. Also in Procurement analytics are key to drive compliance against supplier contracts and buying channels. This will help integrate closed-loop cost management in the company culture in a sustainable way, creating a stable basis for future growth.

Figure 7. Control and Monitoring Best Practices



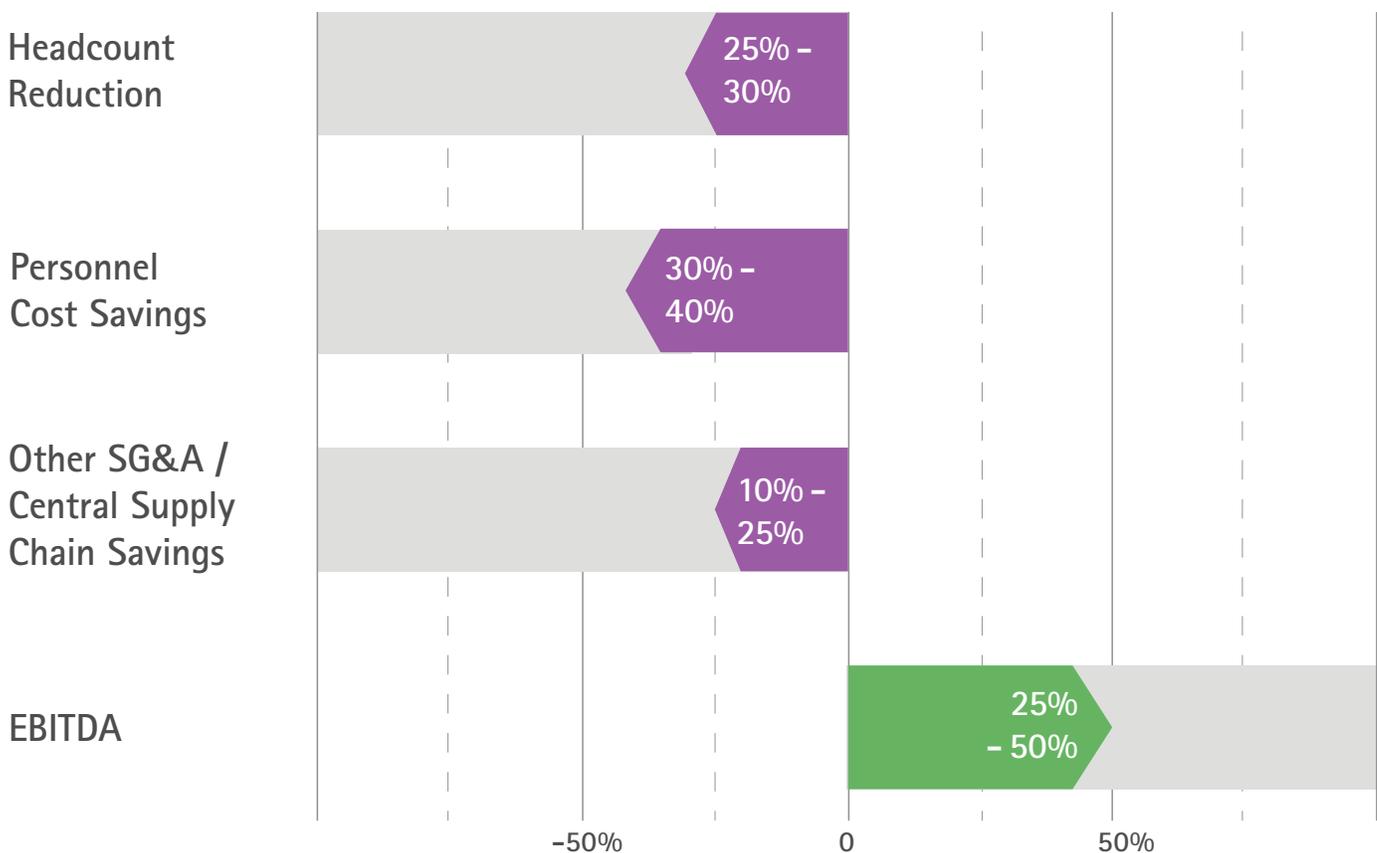
Figure 8. Monthly Control and Monitoring



A full implementation covering all six steps of the closed-loop methodology typically takes about six months. However, not all components have to be rolled out at once; one can leave zero-based budgeting for a later stage, especially given that this is often the biggest change for the organization to accept.

Figure 9. Tangible Results

Our previous experience in cost take-out programs has shown that savings can be very substantial:



Managing the Cultural Change

Circling through the closed-loop is a challenging journey. It demands that every employee takes responsibility for their expenditures, behaving like owners of the business and treating the company's money as if it were their own. That requires attention to people and behavior, not just to numbers in a spreadsheet.

So, how can companies promote a culture of high performance in cost management? For starters, senior executives need to support the change every day and not just through words; they need to lead by example. Leveraging the

closed-loop approach as an enabler to realize the company's vision is a strong message, one that helps cascade the appropriate messages throughout the whole organization.

Accenture guides this cultural change by developing a powerful communication plan, using a variety of channels and materials to create awareness and encourage adoption of the closed-loop methodology by the entire organization.



Why Accenture

High performance in cost management hinges on having the appropriate blend of cultural change, business process improvement, and technology deployment – all underpinned by a deep understanding of the industry dynamics at hand. Accenture is unique in being strong in each of these areas. From our many closed-loop engagements, we have developed a comprehensive toolset that allows us to develop insights and implement this field tested methodology quickly and with great certainty.



- **Deep experience:**
Our teams have extensive experience in various industries around the world. Several Centers of Excellence help drive knowledge and experience sharing on a global level.
- **Detailed datasets:**
We bring standardized cost definitions for more than 150 sub-categories.
- **Advanced analytics:**
We have developed analytical models to scrutinize the costs in each of these categories.
- **Powerful metrics:**
We make use of detailed, leading edge KPIs and benchmarks.
- **Thought leadership:**
We share our thinking on field tested cost management policies and leading practices.
- **Flexible tools:**
We have built a wide range of tools for budgeting that can be tailored to your specific requirements, offering both short-term and long-term solutions to help drive results.

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About Accenture

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