Grow faster with zero-based budgeting

It’s budget-planning season. Is your budgeting process helping reduce waste, grow the top line, and sharpen your competitive edge? Maybe it’s time to consider a zero-based budgeting (ZBB) approach.

In this edition of Privately Speaking, we take a closer look at zero-based budgeting and explore why this approach to budget planning has made such a big comeback over the past decade. For privately held companies in particular, ZBB may well represent the “next phase” of your growth strategy.

What is zero-based budgeting?
With a ZBB approach to budgeting and forecasting, managers are asked to start their planning from a “zero base”—rather than simply copying last year’s budget numbers, managers are required to build their budget from scratch and then justify each line item in order to receive funding.

If your organization is looking to grow its top line, free up capital, and make better use of scarce resources, ZBB could be the answer you are looking for.

ZBB comes of age
ZBB is not a new idea. It was first developed in the mid-1970s. But, at the time, most executives found the process to be unwieldy, labor intensive, and highly disruptive. Much has changed since then.

Incredible advances in technology and new D&A capabilities now mean that massive amounts of budgeting data can be analyzed, aligned, and allocated in a fraction of the time it once took. At the same time, most growth companies are now looking to sharpen their competitive edge; ZBB is helping many leading companies allocate their spend to their most valuable investments—and their competitors are feeling compelled to follow suit.

Not surprisingly, ZBB has made a big comeback in the past decade. Walgreens recently implemented a zero-based budgeting initiative that is expected to derive significant cost savings (in part by closing unprofitable stores and consolidating warehouses). ¹
In the U.K., supermarket giant Tesco used ZBB to help shave US$583 million in costs from the business over a 12-month period. ² According to recent estimates, around 300 global companies now use ZBB in their annual budgeting process. ³

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³ Source: Wall Street Journal, “Global Companies Extend Use of Zero-Based Budgeting to Slash Costs” (February 27, 2018).

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Zero-based budgeting is an effective approach to ensuring that limited resources are spent in the right places to achieve the most efficient returns. It offers finance organizations an opportunity to improve margins, allocate resources strategically, and have better insight into costs.

—Achinta Khairom
Principal, Advisory, Financial Management, KPMG LLP
Who is adopting ZBB?
Studies indicate that typical ZBB adopters include:

- Growth companies looking for a competitive edge.
- Industries associated with narrow margins.
- Companies with high R&D spend.
- Acquisition-focused companies.
- Companies looking to rationalize portfolios.
- Those seeking to eliminate redundant costs.

More than just cost savings
While ZBB typically generates cost savings, it is not just about cutting costs. It also represents an effective approach to shifting the mind-set of managers and planners to focus on ensuring that your limited resources are being spent in the right places to achieve the most effective returns for your business.

ZBB essentially encourages employees and managers to take a “business owner’s perspective” where each expense is evaluated as a strategic investment into the company’s growth and sustainability. It also drives greater cooperation across the organization and helps leadership address both immediate needs and long-term objectives.

“Zero-based budgeting can deliver a multitude of advantages to privately held companies. But developing the right processes and managing the implementation isn’t easy. It requires extensive planning, a coordinated, company-wide effort and support from many levels of the organization.”

—Conor Moore
National Private Markets Group Leader, KPMG LLP

Four key elements to adopting ZBB

1. **Create a baseline.** This may take some time, especially in the first year. But it’s critical to start the process with a good understanding of your expenses, product profitability, and return on investments.

2. **Identify and prioritize candidates.** While ZBB delivers its best value at a company-wide level, some companies may want to start with areas that represent the biggest opportunities for savings and return on investment.

3. **Provide change management support.** Given the profound impact that ZBB can have on personnel, companies must take a holistic and structured approach that addresses key personnel risks.

4. **Get senior management on board.** ZBB is most effective when the CFO partners with the business to enlist senior management support, particularly in the early stages of the process.

Why now?
Here are six reasons why you might want to start thinking about ZBB:

1. **Technology has made it easy.** Incredible advances in technology and D&A capabilities have alleviated the primary roadblock to ZBB adoption.

2. **Finance is becoming a business partner.** It is now more important than ever that finance be a revenue driver. ZBB can help get it there.

3. **M&A activity is increasing.** Private companies are looking for ways to realize the savings they expected to achieve from the transaction.

4. **New competitors are emerging.** Competition from new players is pressuring companies to become more creative in their budgeting approach.

5. **Profit margins are tightening.** ZBB can deliver more insight and transparency into costs that can lead to improved margins.

6. **Top-line growth is key.** Finance departments need to be able to prioritize where resources should be invested.

Grow faster with zero-based budgeting
Find out more!
In this recent white paper, KPMG’s professionals explore ZBB, identify its advantages and pitfalls, discuss implementation challenges and opportunities, and offer tips to help you determine if ZBB is right for your organization.

Startup CFOs start your journey here
Need to hire your first full-time CFO? Or maybe you are looking for a finance leader to drive your ZBB implementation? Before you do, take a look at this guide. It provides a practical roadmap for helping new CFOs and finance leaders thrive in a new role.

The startup CFO’s roadmap to success is based on interviews with more than a dozen experienced CFOs at fast-growing companies. We talked about their first few months in the role: what they had learned, what they might do differently next time, and what they wish they had known earlier. And we explored the key characteristics and actions of successful CFOs at fast-growing companies.

This guide leverages their insights and KPMG’s deep experience to help provide financial executives, CEOs and board members with critical insights to help their new CFO establish their role in their organization. For new CFOs and executives working with new CFOs, this guide is a must read.

Why KPMG?
KPMG LLP is dedicated to supporting the growing needs and responsibilities of the CFO. Our fully integrated and cross-functional team of experienced professionals help private and public companies identify and address the challenges of working in a rapidly changing digital age. We help clients align their finance organizations with the strategies of the business to realize and sustain value over both the short and the long term.
KPMG’s Private Markets Group is here to help

You may know KPMG, but you might not know KPMG’s Private Markets Group (PMG). We’re dedicated to working with businesses like yours. Whether you’re an entrepreneur, family business, or a fast-growing company, we understand what is important to you. While providing industry and marketplace perspectives along with proactive guidance, our PMG professionals help private companies achieve their strategic objectives through each stage of the business lifecycle. From start to finish, we understand the challenges and opportunities that come with each stage of your business. Contact us to find out how we can help you along your journey.

Privately Speaking focuses on the issues that matter most to privately held entities, including PE- and VC-backed companies.

KPMG’s Private Markets Group understands what it takes to drive private company growth. In each edition of Privately Speaking, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

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