



**A&M SERVICES**

# PUSHING FOR DISRUPTIVE TRANSFORMATION THROUGH ZERO-BASED BUDGETING

In a business world full of disruption, many companies from all industries are struggling to transform themselves. Changing and optimising the way teams work while reducing costs is not an easy thing to do for executives who encounter resistance to change.

Compared to top-down approaches based on benchmarking and often misunderstood by operational teams, Zero-Based Budgeting (ZBB) can be a relevant solution both for the top management because of the results generated and for the teams who find themselves involved in establishing the diagnostic and defining the optimisation levers. ZBB is indeed a fact-based approach, rooted in day-to-day organisations and relying on up-to-date financial data.

## **ZBB can basically be delivered anywhere but such approach proves to be even more relevant in some contexts:**

- Companies facing an increasing pressure on their business model coupled with a deteriorating operating profit
- Companies willing to secure and accelerate their transformation
- Complex environments: numerous departments, siloed and scattered organisations, post-merger situations, etc.

## **Many consulting firms claim a mastery of the ZBB, but A&M's unique consulting model is fully adapted to secure complex transformations through this approach:**

- A significant track record in transformation projects resulting from nearly 50 successfully delivered ZBBs in various industries, through robust and proven methods in all types of environments, systematically able to generate significant gains
- We attach as much importance to execution as to design in the success of a transformation program
- Our consultants bring a mix of industry background and consulting skills to drive and accelerate transformation

- Our teams are senior: empathy and constructive challenge of the internal teams to go further, faster, without losing support
- Our approach to transformation is based on a 'blank page' philosophy, results rooted in budgets and organisational charts
- A tight and agile system: 80/20 pragmatism, we do not recreate the complexity we are trying to eliminate, stronger integration with internal teams, fast decision-making process

## **At A&M, we believe in approaches of this type based on a few key principles:**

- A collective ambition and a strong individual responsibility, in a task-force mode, capitalising on group dynamics to create a collective emulation
- A precise understanding of the activities allowing to question without taboos the cost drivers with regard to the value added of tasks and the associated level of resources involved
- A hand-in-hand working method with managers within the framework of a collaborative and iterative process allowing for both convergence and validation of the optimisation levers, targeted savings and organisational impact

# 1

## What is ZBB?

**ZBB approach is a result-driven transformation initiative, often used to fuel long-cycle transformation of the operating model**

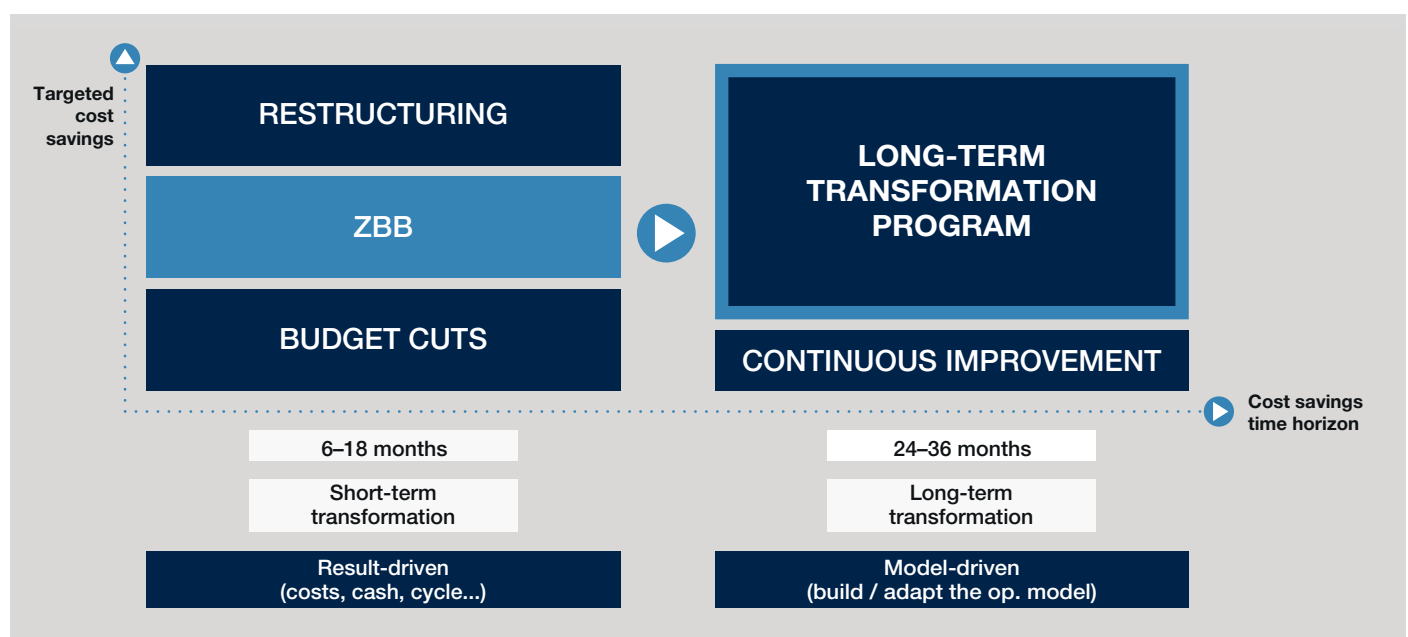
- Getting results within 12-18 months is the primary objective: improve operating profit, do more with less
- The intrusiveness of the approach relates to the level of ambition: ZBB is a bottom-up approach with targeted cost savings of 15-20 percent in most cases and up to 30 percent
- 3-step approach: activity mapping, lever identification, action plan and budget update
- Relies on a deep understanding of the cost base, tasks performed and associated cost drivers
- Cost saving opportunities can raise organisational and strategic issues which are summarised in several scenarios to help promote breakthrough thinking amongst managers
- Optimisation levers can pave the way for an evolution of the operating model (outsourcing, captive nearshoring, etc.)

**Zero-Based Budgeting (ZBB) is a powerful methodology, yet with its specificities and requirements**

- Top management (ExCo level) needs to provide a strong support and communicate clear and high expectations: cost savings > 15 percent, disruptive and intrusive approach into organisations
- Bottom-up approach relying on L-1 and L-2 managers' availability (10-15 percent time commitment) and buy-in
- 10-12 week project on average (at least 6 weeks, notably depending on the level of detail of the activity mapping and to what extent you need to update the budgets and organisational charts at the end of the project)
- What a ZBB is not: 3-4 week top-down and benchmarking exercise with little client interaction

**ZBB approach relies on 5 key success factors**

- Detailed level of operational work with involvement of managers / department heads
- Transparency on activities (no taboos)
- Breakthrough thinking and lack of constraints in terms of ideas & levers identification
- Availability of key stakeholders and direct access to information with the right level of detail
- Tight project management and formal validation / arbitration process



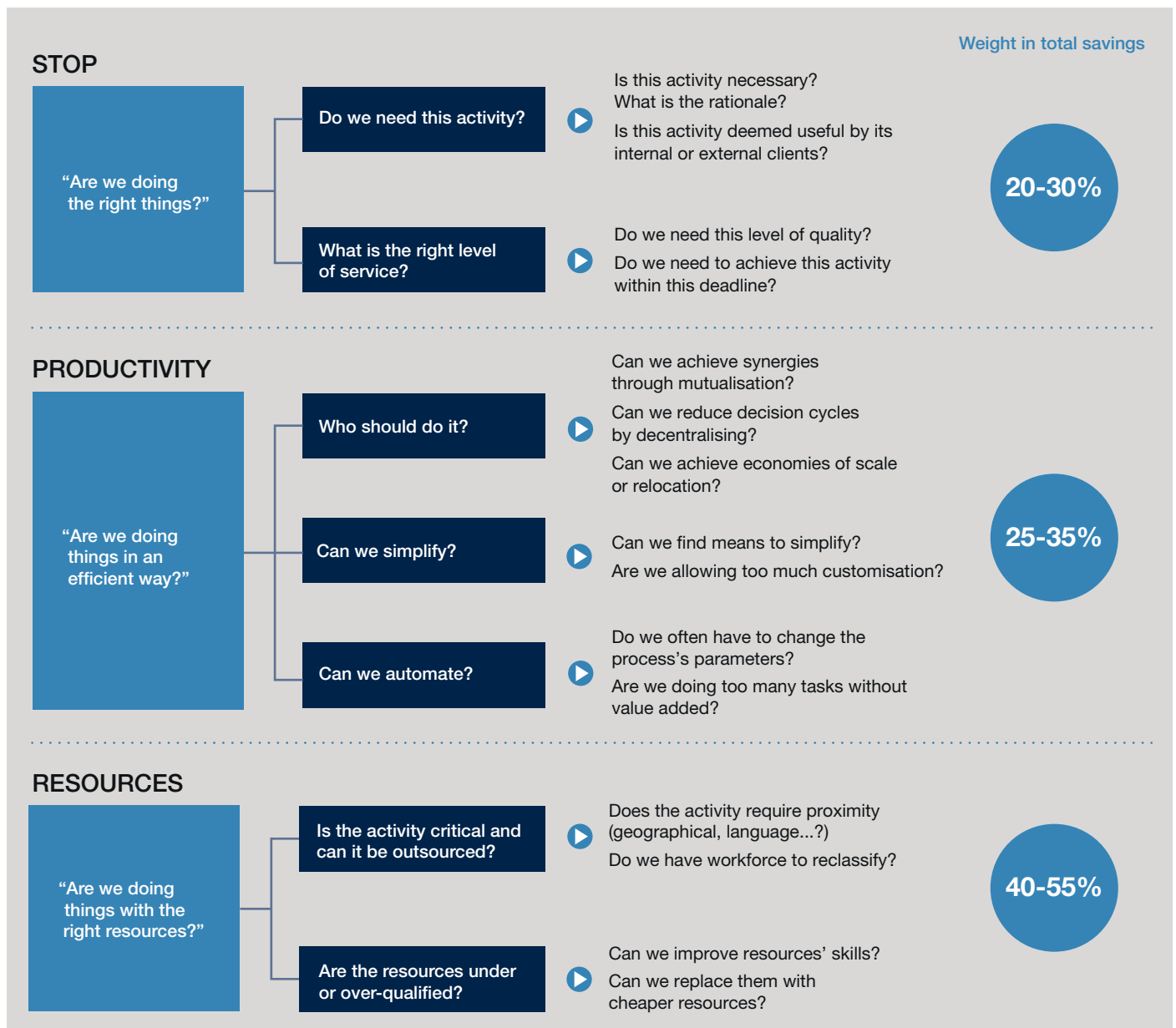
## 2

## What can you expect from a ZBB?

### ZBB brings several meaningful benefits:

- 15-20 percent of cost savings on average
- Cultural change in terms of cost consciousness
- More transparency within the organisation, less siloes
- Improved understanding of activities
- Focus on more value-added tasks

ZBB also provides companies with a wide range of levers stemming from a simple but efficient question tree:



## 3 Case study: What does a ZBB look like when conducted by A&M?

A&M was recently retained by a major European Corporate to assist its headquarters (2,500 FTEs, € 500m of cost base) in becoming more agile in order to serve the various subsidiaries more effectively. A&M was selected based on a track record working on large transformation projects and strong industry expertise. A team of senior A&M experts were able to rapidly identify the key areas for attention.

In order to strengthen the 'culture of efficiency' across the Group, it was important that the headquarters set the operational standard. The key was to increase transparency within the organisation's support functions, improve the understanding of activities they undertake and focus on more value-added tasks. A ZBB programme was agreed as the platform to help understand where to unlock value.

### ZBB KPIs:

- Duration: 3 months
- A&M team: 15 consultants
- 12,000 tasks listed and analysed
- 500+ levers validated and implemented over 18 months
- 20 percent of cost savings
- Levers' average payback: 6 months



**Note:**  
Stop activity / reduce frequency = Are we doing the right things?  
Productivity = Are we doing things in an efficient way?  
Resources = Are we doing things with the right resources?

### KEY CONTACTS



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### ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 4,500 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

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