ZERO-BASED BUDGETING

Our roundtable experts offer explanations and advice as CPG companies are increasingly facing the challenge of implementing and sustaining ZBB processes.

By April Miller

Faced with disruption from the digital world, private label, big data and customers' demands, some CPG companies have turned to zero-based budgeting (ZBB) in order to maintain their margins and drive ROI.

The practice was introduced in the 1970s by Texas Instruments accounting manager Pete Pyhrr. It recently gained traction when 3G Capital bought Kraft Foods in 2015, merged it with Heinz and implemented a ZBB system.

With ZBB, one starts its budget from zero, rather than the previous year's spend, and defends each expense based on anticipated growth.

A January 2017 study by Deloitte reported that 22% of CPG companies had adopted the method. In addition to Kraft Heinz, other CPG companies that have been reported to use ZBB include Campbell Soup Co., Coca-Cola Co., Kellogg Co., Mondelez International and Unilever.

Some see the practice as simply cutting costs, but supporters point to its many benefits. "I view it as much more than budgeting from zero," says Kyle Hawke, associate principal at McKinsey & Co. "It's aligning resources with the business and strategy and putting in a structure and resource allocation process to get the money to where it matters most – as well as putting in place the governance and culture shift to sustain it over time."

We talked with several consultants to dive further into ZBB. (None of the multiple brand executives contacted for this article responded to interview requests). Here is an edited virtual roundtable discussion based on our interviews.

Q: What are some possible drawbacks of ZBB?

HAWKE: More time-consuming than a normal financial planning and monitoring process. It does require managers to think about not just growth, but profitable growth.

JAMES CIOBAN: It can be difficult to get team members on board when they are resistant to change or fear ZBB will be counterproductive.

ANNE CHAMBERS: Management knows that budgets will be scrutinized or reduced and start with an inflated number when they propose the budget.

MIKE ANTHONY: It's seen as short-termist. ZBB focuses on the short-term financial goals rather than longer-term "investments" such as equity-building, which are hard to measure. A promotion today might benefit from brand-building activity over the last decade: ZBB might kill off the brand-building activity since it doesn't deliver a measurable ROI.

Q: And how about those who see it as an attempt to simply cut costs?

HAWKE: There are a lot of myths out there on ZBB, and a lot of that is perpetuated by a limited number of horror stories exacerbated by the media. This is myth No. 1.

ANTHONY: The reality is, if a company wants to cut costs, they can just do it. At least this way they are likely to cut the right costs.

Q: So why ZBB; what are the positives?

PATRICK FITZMAURICE: It forces new thinking into the marketing planning process. What are the shifts in what media/tools/tactics that consumers and shoppers are

OUR VIRTUAL ROUNDTABLE

MIKE ANTHONY
CEO, Engage

ANNE CHAMBERS
CEO and founder,
Capre Group

JAMES CIOBAN
chief technology officer & chairman,
Cierant Corp.

" ZBB empowers shopper marketers to extract maximum profitability from their programs. It creates transparency into the programs and tactics that are delivering the greatest return at the customer and channel level. It catalyzes broader collaboration between internal and external teams."

James Cioban, Cierant Corp.

using? What elements are proving to be increasingly effective? Which are no longer performing as before? And with that info, how do I think about allocating dollars to drive results going forward?

CIOBAN: ZBB empowers shopper marketers to extract maximum profitability from their programs. It creates transparency into the programs and tactics that are delivering the greatest return at the customer and channel level. It catalyzes broader collaboration between internal and external teams.

ED JOHNSON: ZBB puts a rigorous focus on shareholder value and return on investment. There's a reduction in complacency and reversion to historical plans. It drives a culture of ownership over results and shareholder value at all levels.

Q: Does it help, or hinder, creativity?

CHAMBERS: It should foster creativity in developing the best programs to drive the most volume, or name your priority – and provide the organization with the right short- and long-term plan.

ANTHONY: It challenges creativity for the sake of creativity. Let's be creative, but with purpose. Let's kill off activity that wins awards, but keep the stuff that drives the business forward.

CIOBAN: Zero-based budgeting doesn't stifle creativity. It directs it.

Q: Typically, how are shopper marketing-related functions impacted?

CIOBAN: There is better alignment of brand funding with top-performing channels, tactics and customers. Shopper marketers are able to replace ineffective year-over-year funding models with an active budgeting approach that adopts to real-time changes in performance and opportunity.

FITZMAURICE: It should be a positive for shopper overall. As CMOs and marketing VPs plan the business to maximize spend to capture growth, the increasing importance and value of converting shoppers along the path to purchase should attract greater dollars, drawing from other marketing buckets that might no longer be as strong or effective growth drivers.

ANTHONY: It isn't clear in all of these companies exactly how much shopper marketing is impacted. That will depend on the structure. A lot of shopper activity is buried in trade spend, which in many companies still isn't under a ZBB protocol, though it should be.

Q: Why isn't shopper marketing included in ZBB?

ANTHONY: It's a separate pot and is defended by sales people as 'we have to spend it because the customers demand it' – which is a weak excuse. ZBB doesn't say cut spend, but rather think more carefully and plan better to get a better return.

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Mike Anthony, Engage

Q: What are some areas you have clients think about?

HAWKE: When we work with clients on display, advertising, merchandising – we look at everything in the value chain. Start at the creative design process and whether the display is designed to value. How are they printed, distributed, handled? What are customers really going to value and what will get their attention? When you design a display, are you sourcing it strategically or does every brand manager have a preference?

Q: Who in the retail space is getting it right – rethinking investment spend to drive new ways to capture growth?

FITZMAURICE: One example is what P&G has been talking about for the past few years. Marc Pritchard, P&G's chief brand officer, is pushing the industry for transparency, and P&G is trying to determine what level of precision spend drives the greatest return. Walmart is also making very different spend decisions as it balances store reinvention with dot-com spending and the like.

Q: How frequently does ZBB occur – is it an annual process?

JOHNSON: Increasingly, the commercial planning process is happening more and more frequently, and ZBB can be used in that process. We believe the frequency of planning cycles may continue to increase over time and may lead to an always-on planning capability and even the emergence of "programmatic" platforms for pricing, trade, shopper and in-store digital campaigns – in the same way that it has for digital marketing.

Q: What does it take for ZBB to succeed?

ANTHONY: It has to be handled by people who understand the strategy – the commercial leaders – and set up in conjunction with finance. If managed as a finance process, it is likely to reduce costs but not build brands and business as it will become very short term. Create an integrated strategy, agree to clear KPIs to achieve that (financial and non-financial), and then run ZBB against this. The important thing is to create the balanced scorecard of KPIs first.

CHAMBERS: Solid capability training and core understanding of success metrics will set the team up for success and foster a collaboration that drives focus on strategic priorities.

JOHNSON: Be as transparent as possible with commercial teams, channel partners and retailers and involve them in the decision-making process to help gain buy-in. They are often skeptical of ZBB because of the effort required and the impact it can have on their businesses.

HAWKE: A two-way street between marketers and executives. Marketers must be able to prove to executives that their campaigns have high ROI in order to maintain or grow their investments. Executives must demonstrate to marketers that ZBB is about aligning resources to fuel growth rather than just cutting for the sake of near-term margin expansion. SM

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