

Reinvest for Growth with Zero-Based Budgeting and Oracle EPM Cloud



Summary

Done right, zero-based budgeting (ZBB) can prove to be a highly strategic move that helps companies make smarter investment decisions, leading to profitable growth. Advances in new technology (such as the cloud) help to enable this modern approach to ZBB.

Oracle EPM Cloud enables zero-based budgeting with a proven and scalable solution that provides visibility into the drivers of cost and profitability, promotes accountability through all levels of the organization, and helps drive smarter investment decisions.

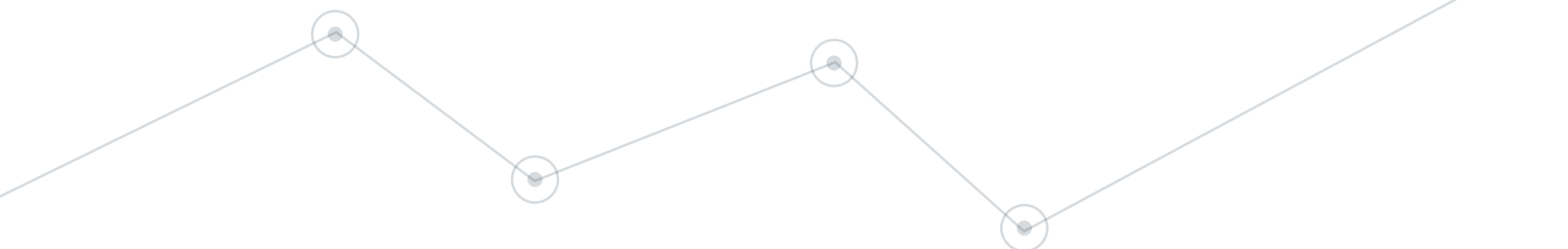
Zero-Based Budgeting Is Back — and Better than Ever

Break out the platform shoes and Bee Gees records. Zero-based budgeting is back, but this time it's a party instead of a pill—or at least, it has the potential to be.

Invented by an account manager for Texas Instruments in the 1970s and championed by President Jimmy Carter, zero-based budgeting (ZBB) is a simple concept that has suffered a bad reputation. Fundamentally, it proposes that instead of relying on historic spending data to forecast budgets, you should start at zero and build budgets based solely on costs with a justified need.

In consumer staples, where sales growth is often capped in the low-to-mid single digits, Kraft Heinz, Campbell's, and Oreo cookie maker Mondelez International have rolled out ZBB programs that promise billions of dollars in savings.

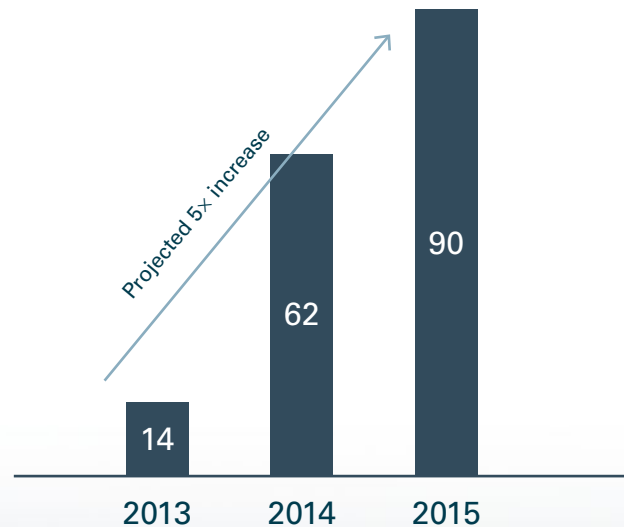
Other industries, including finance, energy, and manufacturing are now following suit. Use of ZBB is expected to increase dramatically in the United States and around the globe, according to consulting experts. The business impact from ZBB can be quite compelling, with results of 10 to 20 per cent reduction in SG&A costs, and significant increases in EBITDA having been reported.



Reasons behind the resurgence include an accelerated pace of change and increased complexity in the business environment.

Today's companies need to be agile, and strategically invest for growth and innovation while paying attention to margins. A zero-based approach can be a strategic weapon in this objective. New technology is also a key driver that helps overcome past challenges with ZBB and is enabling current ZBB adoption.

Number of companies mentioning zero-based budgeting on quarterly earning calls



2015 value projected based on year-to-date mentions
Source: Seeking Alpha; McKinsey & Company analysis

Challenges with ZBB in the Past

ZBB can come with baggage. While intended to build long-term organizational resiliency, during challenging economic times, ZBB was often used for harsh, nonstrategic cost-cutting. Zero-based budgets were also more painstaking to develop. In some large organizations, the sheer volume of information involved in creating a new budget was overwhelming.

Prior to the advances in cloud computing and SaaS solutions, ZBB entailed gathering finance and operational data from every corner of the business—usually on hundreds (if not thousands) of spreadsheets. Finance teams then had to spend days consolidating and reconciling these numbers. This process had poor visibility across the organization, lacked version control, and suffered from a lack of scalability and performance due to extreme user and expense detail. It was also difficult to get everyone in line with a cost-cutting culture, and programs took a long time to implement. And often, once they were finally implemented, they were not sustained over time, and any gains soon disappeared.

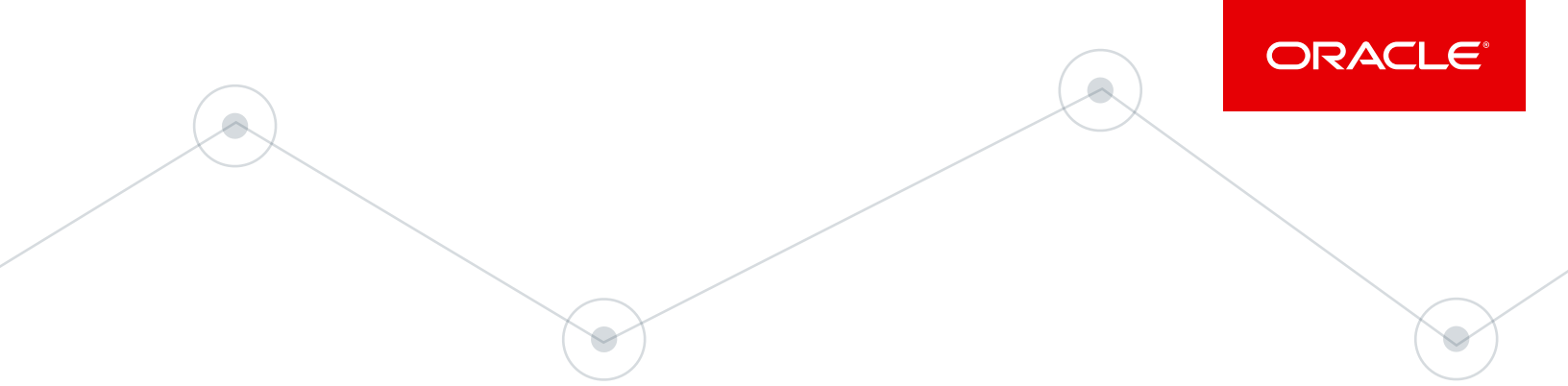


The New ZBB: Beyond Cost-Cutting to Reinvest for Growth

Along with the resurgence of ZBB comes a broader definition that makes the practice more strategic to the business. The new focus of ZBB is on identifying cost savings and then reinvesting those savings for growth and profitability.

Characteristics of the New ZBB

- Have end-to-end view of what drives business value
- Drive smarter investment decisions
- Foster a culture of accountability
- Enable broad participation across the organization
- Deliver a single version of the truth across all functions
- Provide full visibility into drivers of cost and profitability



Harvard Business Review published an article that encourages organizations to take an ambitious and rigorous approach to ZBB to uncover new ways to redirect assets away from costs that don't add value: "Companies must attack costs not just within organizational silos, but those that reside at the intersection of functions as well, bringing into scope a whole range of costs not addressed in typical ZBB implementations." So, looking beyond the obvious SG&A costs.

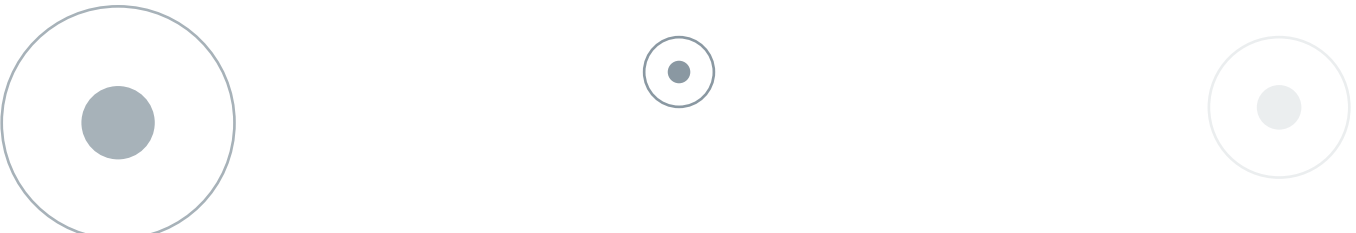
For example, the authors report, one large consumer-goods company viewed a logistics cost gap as unavoidable due to labor issues; the company used a ZBB exercise to identify opportunities to reduce costs through negotiations with freight providers. Another company uncovered an opportunity to save money through strategic adjustment of its commercial discounts—an area that wasn't even on the CEO's radar for improvement.

The most effective ZBB programs are those that take a broad approach, beyond just a budgeting exercise. Technology and tools, such as cloud-based enterprise performance management (EPM) software, can support these requirements.

EPM in the cloud makes the entire ZBB process faster and more transparent. Profitability and cost-management capabilities enable the right visibility into profitability and cost drivers, so that users can gain insight into the underlying fundamentals, rather than focusing on superficial cost reductions. To support the culture of accountability, cloud-based narrative reporting tools help bring context to the numbers and gain buy-in.

EPM in the cloud not only provides visibility into the data; it makes it possible to run what-if scenarios to predict the impact of potential budget changes. The quality of ZBB decision-making goes up when EPM and other cloud solutions run on top of a unified platform that supplies a single version of the truth for operations across lines of business.

When EPM is augmented with artificial intelligence, machine learning, and other emerging technologies, such a model builds exponential value over time. With every ZBB project, more information about costs and spending is fed into the EPM cloud. The system learns more and gets smarter as it digests and analyzes more data. Predictions, recommendations, and actions become more accurate and produce better outcomes.



Oracle EPM and the New ZBB: A Winning Combination

The EPM solutions available in Oracle Cloud form a winning combination with the new ZBB. They fix a number of problems that have been associated with ZBB in the past, many of which occurred because ZBB was perhaps an idea ahead of its time.

Oracle EPM Cloud enables the new zero-based budgeting with a proven and scalable solution that provides visibility into drivers of cost and profitability, promotes accountability through all levels of the organization, and helps drive smarter investment decisions.

Unique differentiators include the ability to:

- Invest for profitable growth, with strategic modeling and agile forecasts
- Achieve end-to-end transparency, with deep insight into profitability and cost drivers
- Enable connected processes at scale, with a single version of the truth that scales to support participation of users across all lines of business

Oracle Cloud solutions can also ramp up quickly to meet tight timelines and spur fast ROI. That's a big reason Kraft Heinz chose to deploy Oracle EPM Cloud for ZBB.

"When we merged with Kraft, we had to roll Oracle Planning and Budgeting Cloud Service out to more than 600 new users in less than two months to meet our budgeting timeframe," said Julian Sherwin, head of zero-based budgeting for The Kraft Heinz Company. "Oracle provided the flexibility and scalability we needed to achieve our goal."

[Read case study](#)

Another of Oracle's EPM Cloud customers in the global foods brand business uses ZBB to maintain competitive operating margins by giving employees the processes and tools to participate in a cost-conscious culture. They focus on optimizing finance, accounting and order-to-cash processes. The new cost-conscious operating model was up and running in three months. In the first year using the model, the company saved US\$350 million. The company aims to save US\$1 billion over three years.





Key features of Oracle EPM cloud for ZBB:

- Moving beyond cost controls to reinvest savings intelligently with strategic modeling and agile forecasting
- Statistical and driver-based financial models created and owned by business managers
- Real-time reporting and analytics to enable ongoing visibility and effective controls
- Deep insight into drivers of costs and profitability across all aspects of business
- Narrative reporting that combines system-of-record data with full context for fact-based decisions at every level
- Drill-through capabilities for granular traceability into source data
- Single version of the truth with consistent data and planning models in a centralized solution to ensure validation and controls
- Granular and configurable workflow to manage matrix-structured budget approvals and compliance
- Extreme scalability to support participation of users across all lines of business (marketing, product development, supply chain, and so on)

Get Started Today

The simplicity of ZBB's foundational premise makes it an exercise that can be started at any time and on any scale. Done right, ZBB can prove to be a highly strategic move that helps companies make smarter investment decisions, leading to profitable growth.

For more information on Oracle EPM Cloud, go to www.oracle.com/epm

Additional resources:

- View the [Zero-Based Budgeting solution](#) on Oracle Cloud Marketplace