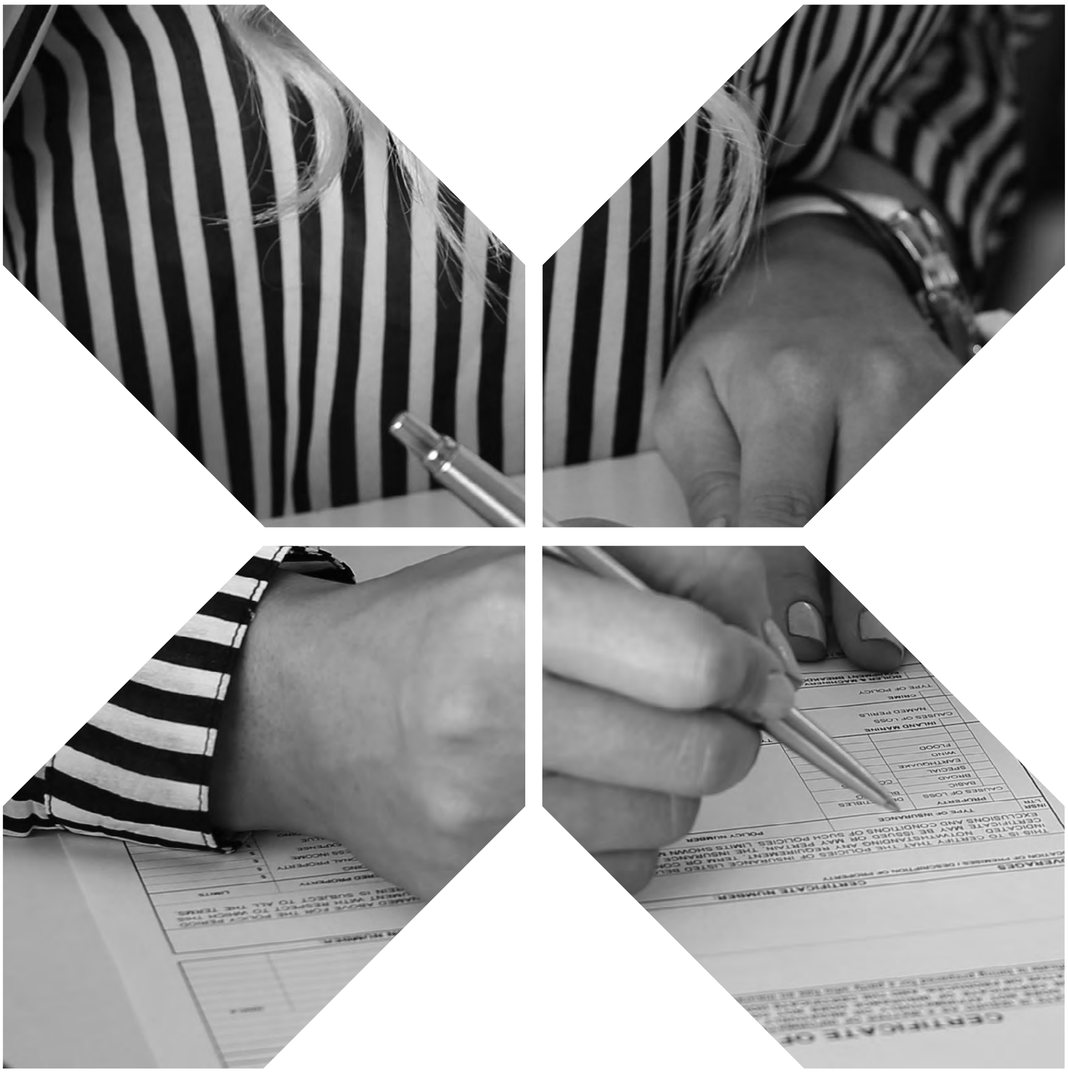
ZERO-BASED BUDGETING



An R3 White Paper

INTRODUCTION

In the past ten years, marketers and agencies have been forced to adjust to disruptive change brought on by technology. Digital is no longer new. It has left a deep imprint on the consumer landscape and that brings to surface a broader imperative for all brands to change the framework on which they build their business.

Though many companies have adopted digital platforms and acknowledged the importance of metrics and measurement in marketing and finance, the majority still share an operational approach that could have been taken out of a business playbook from thirty or forty-years ago. Budgets are still calculated and distributed in the same way even though the market has undergone a drastic transformation.

Coincidently, one of the most radical approaches to budgeting gaining popularity today was promulgated in the 1970s. Zero-based budgeting (ZBB) has been adopted in recent times by companies like Coca-Cola, Kelloggs, Kraft-Heinz, Mondelēz International and The Campbell Soup Company to notable success. As a cost-reduction program, ZBB wipes the page clean and starts budgets from “zero” every financial year, forcing departments to justify costs and demonstrate real value.

The amount time and effort required to implement ZBB might seem counter-intuitive to the modern executive wanting to achieve greater financial and operational efficiency. However, in this instance, done right, the cost of ZBB justifies the savings. In its second year of ZBB, Diageo has increased its savings goals from £700 million from £500 million. Unilever has identified savings as much as “15% in warehousing, 10% in transport and 10% in repacking products for promotions.”

The numbers are just the type of results-driven provocation that make ZBB attractive in the boardroom. Interest in rolling out ZBB grew four times in two years, rising 28% in North America in 2016 and an astounding 67% in Asia-Pacific.

In our experience working with companies to increase the efficiency of their budget and remunerations models, R3 has seen first-hand the positive impact that ZBB can make to a company’s bottom-line. We have also identified potential derailers to the process, and it is these observations which we share in this white paper.

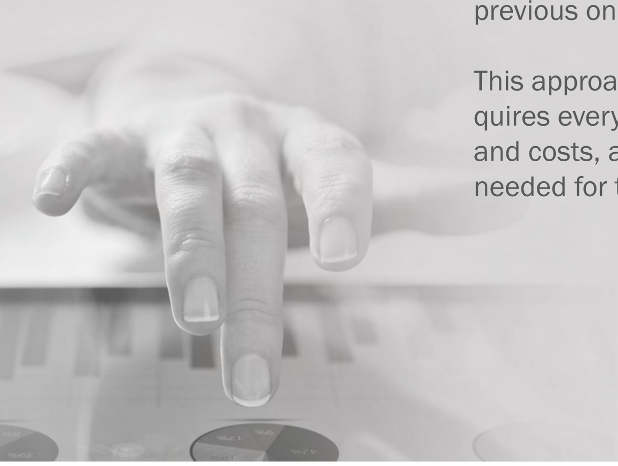
R3 believe that every business can benefit from increasing the effectiveness of its operations and financial models. Whether you are new to ZBB, already committed to rolling it out in your company, or just considering the potential of ZBB, this white paper highlights the pros-, the cons- and provides a few suggestions for best-practice implementation.

There may be no one ‘right’ way to implement ZBB, but like any cost-reduction program that works, success is grounded in ownership, seamless design and accurate reporting.

THE CASE FOR ZBB

Every company, at some point in its lifecycle, will face a cost-reduction exercise. It could be as innocuous as making more international calls using Skype or more significant in the form of department-wide hiring freezes or selling brands in the portfolio. Whatever the reasons for cost-reduction, the end goal tends to be the same: to be more efficient in spending to increase overall revenue.

The resurrection of zero-based budgeting (ZBB) over the past few years as the preferred cost-reduction approach by many corporate shareholders, is attributed to big savings made by big-name companies. Verizon has set their sights on saving $10 billion. General Mills has targeted annual savings of $600 million. So how does ZBB work and why is a budget approach developed almost half a century ago applicable today?



WHAT IS ZERO-BASED BUDGETING?

ZBB is a method of budgeting in which all expenses must be justified for each new period. It starts from a “zero base,” which means focusing on what expenditures are really necessary to the business in an upcoming period, regardless of whether the budget is higher or lower than the previous one.

This approach, which is akin to starting with a blank sheet of paper, requires every function within an organization to be analyzed for its needs and costs, and asks the question of what activities and resources are needed for the company to compete in future market conditions.

THE ORIGINS OF ZBB

Before the development of ZBB, annual budgets were determined by calculating percentage increases based on general rates of inflation and projected expenditure determined by managers. Budgets for business functions were either increased or decreased on the benchmark carried on from the previous year, and managers would get caught up with "how much" instead of reflecting on the purpose and rationale of those costs. An increase meant you were doing something right and a decrease suggested a recalibration was in order.

Peter Pyhrr, a manager at Texas Instruments, considered the effectiveness of this traditional approach and concluded that there was a better way of doing things. In the 1970s, Pyhrr authored an article published in the Harvard Business Review that communicated an idea for a budgeting strategy that disregarded the previous year's budget, and hence ZBB made its debut in corporate consciousness.

In this new cost-reduction strategy, every budget would be formulated anew. Managers would start with calculating the lowest-amount needed to run their operations and describe additional activities and their cost rationale in individual "decision packages." These packages would then be evaluated and ranked in order of importance to the business before being allocated.

ZBB 2.0

ZBB has been described as both logical and extreme. "Logical," because its process includes systematic analysis and requires justification of every line item. "Extreme" because all previously-set assumptions are to be questioned for relevance and the entire process is to be repeated at every budget cycle.

Companies that are considering implementing ZBB would best keep in mind that the theoretical approach developed by Pyhrr in the 1970s is not the same as the ZBB being used today. Advances in technology and more fluid corporate structures have instigated changes to its methodology, though the heart of the approach remains the same.

Modern ZBB has more to do with a shift in mindset than sifting through minefields. It is a focus on doing the right things in the most cost-effective way, using stringent methodology to deliver an effective yet low-risk approach to transforming a company's cost base. The new ZBB is more agile, enabling companies to decide whether returning to "zero-base" is necessary for every area, and it instils a more sustainable corporate culture towards cost-reduction.

The ZBB of today also gives greater emphasis to reinvesting in areas that deliver the most return. It presents itself not just a method for cost-cutting but one for business re-generation. In our dynamic business environment, remaining competitive is at the top of corporate concern. Growth initiatives require funding, and with margins already squeezed and direct expenses under greater security, ZBB offers a drastic measure to identify how budgets can be allocated and best used.

WHO'S DOING IT?

- Kellogg's
- Boston Scientific
- Jarden corporation
- verizon
- Heinz
- ALCOA
- Campbell's
- Mondelēz International
- QUIKSILVER

THE ZBB DIFFERENCE

Unlike traditional cost reduction strategies, which bring with them negative associations of stifled growth and having to do more with less, ZBB reframes the process as an opportunity to increase the performance of the whole organization resulting in a leaner, more agile and self-aware business.

We can broadly distinguish the difference between traditional budgeting and ZBB to three areas: **mindset**, **approach** and **precision**.

MINDSET

A key difference between traditional budgeting and ZBB is in the concept of budgetary responsibility. In traditional scenarios, budgets are specified by top management. Also, the levels of finance allocated to various business functions is influenced by the ability of individual cost-centre owners to convince decision-makers of the profitability and value of certain programs.

In a cost-cutting environment, managers are likely to increase their budgets by more than they actually need to ensure that they have enough finance to achieve what they want even in the case of elimination. In traditional budgeting, a top-down review is not required to ascertain if the previous year's budget was used effectively or if any areas of their operations were over or underfunded. As a result, the focus is on how much a business function will receive.

ZBB, in comparison, demands a level of ownership across the company. This shift in mindset is what makes ZBB more than just an exercise in cost-reduction. Successful implementation of ZBB sees greater accountability and awareness as part of corporate culture and drives employees to act in the company's best interest.

Source: CEB analysis

APPROACH

ZBB starts with what a company can afford, and builds a budget from this point of confidence, ensuring that no key part of the business suffers as a result of cost-reduction. Traditional budgeting focuses on what costs can be reduced and carries the risk of crippling initiatives that might be high contributors to future revenue. It might also see the continuous funding of activities which are historic to the business, but which are becoming less relevant.

The routine nature of traditional budgeting might be practical in market environments where there is consistency, but few industries today are safe from disruption. To quote the business magnate Henry Ford, “If you always do what you’ve always done, you’ll always get what you’ve always got,” and in the volatile, uncertain, complex and ambiguous world we live in, doing what you’ve always done to set budgets might lead to a business that is unsustainable and non-competitive tomorrow.

ZBB FOCUSES ON IMPROVEMENTS USING BOTH “WHAT” AND “HOW” SAVINGS LEVERS

LEVERS THAT REDUCE WHAT ACTIVITIES ARE PERFORMED

- STOP Eliminate unnecessary or “nice-to-have” services and activities
- Rationalize service levels
- Rationalize the frequency or number of deliverables

LEVERS THAT ADJUST HOW ACTIVITIES ARE PERFORMED

- Offshore resources
- Rationalize procurement (including outsourced labor)
- Lean-out processes
- Automate processes and activities
- Centralize or decentralize processes and activities and activities
- Standardize processes and activities
- Increase spans and decrease layers
- Create clear roles and responsibilities

Source: Bain

PRECISION

One of ZBB's identifying characteristics is its need to hone into the details. While traditional budgets are calculated using an aggregate of costs, ZBB looks at specific volume and cost-drivers. It demands a much higher-level of detail in its analysis, which can be daunting to companies that do not have the infrastructure or expertise to carry it out.

However, by identifying specific decision packages, an organization will be able to articulate the function, activities, operations, and extrinsic and intrinsic benefits that each package presents. Costs can be aligned to overall business objectives and evaluated across defined criteria.

STEPS IN ZERO BASED BUDGETING

1. *Identifying the decision units*
2. *Making decision packages*
3. *Ranking decision packages*
4. *Allocating available resources*
5. *Controlling and monitoring*

Source: efinancemanagement.com

THE ADVANTAGES OF ZBB

ZBB DELIVERS GREATER TRANSPARENCY

Regular methods tend to subject budgets to inflation as arbitrary adjustments are made on the previous year. As ZBB requires that all costs be justified, management can get a clear picture of how cost expenditure compares to department performance.

Stephanie is a marketing director who thinks she might need a new approach to setting her budget for digital advertising. She has witnessed more requirements for reporting and accountability, and as a result, increased her budget last year by 10% to accommodate subscriptions to marketing technology platforms. The increase in budget also reflects Stephanie's anticipation of higher agency fees as a result of their need to bring in digital expertise.

How many marketing technology platforms is Stephanie's company subscribing to now? How many are legacy systems? With newer technology available, are all the platforms they currently subscribe to necessary? Is their agency equipped to meet anticipated future digital requirements?

ZBB CREATES A CULTURE OF OWNERSHIP

The actionable outcomes of ZBB can seem severe. Companies have reduced the number of their workforce, minimized the amount of executive travel and even limited the number of pages employees can photocopy each day. Implemented mindfully, employees should regard new ways of doing things as a sign of the business' commitment to helping them be the best that they can be. This should lead employees to feel more motivated by their involvement in decision-making and feel energized and engaged by their ability to work more productively.

Jeremy is a senior manager at an insurance company that has implemented ZBB. He was consulted during a department review and mentioned that he found some processes too convoluted. This resulted in too many emails and unnecessary meetings, some requiring travel, and this slowed down the decision-making process which had a direct impact on his sales team and clients.

As a result of ZBB, the company announced that they were streamlining processes company-wide which would minimize administration time and travel costs and save the company 20%. This impacted two jobs within Jeremy's team. More money was allocated to upgrading office technology to enable virtual meetings and Jeremy's staff would receive further training to take on more responsibility.

IMPLEMENTED MINDFULLY, EMPLOYEES SHOULD REGARD NEW WAYS OF DOING THINGS

ZBB HELPS COMPANIES FOCUS ON AREAS THAT MATTER

Taking cost out of low-value areas and reinvesting them in areas that create competitive advantage is what makes ZBB the choice for companies that desire to be more agile.

ZBB also enables companies to identify opportunities to implement more cost-effective ways of doing things and remove redundant activities. This is done by analyzing the cost-profit status of individual departments and allocating resource based on actual, instead of historical, numbers.

A consumer-packaged-goods (CPG) company has implemented ZBB and discovered that they can cut administrative costs by 12% in six months. The savings will be achieved by outsourcing some administrative functions and restructuring channels of reporting to minimize the amount of management hierarchies within their organization.

With those savings, the CPG company will reinvest in hiring more sales staff. They know that increasing the number of staff and ensuring that they are well-trained increases the company's visibility and revenue with retail partners. They have not had the budget to reinvest in this area before, but with the savings made as a result of ZBB, sales is getting more focus.

ZBB IN ACTION

DIAGEO: SAVING £700 MILLION BY END OF 2019

Diageo announced its strategy to implement ZBB in July 2016, confirming intent voiced earlier that year to become more cost-conscious and drive improved returns. A year later, the company announced that it was raising its original savings target from £700 million from £500 million, and Diageo CEO Ivan Menezes has credited the company's ability to reinvest savings back into the business as "critical in the turnaround of Europe's performance."

The impact of ZBB at Diageo touches every tier of the company, from reducing costs of packaging, to how executives book travel. It has also deployed artificial intelligence and robotics to automate administrative processes. The company works with fewer marketing and media agencies, has rationalized its point-of-sale to a single platform and has rolled out a tool that gives the marketing department instant insight into the return of campaigns.

UNILEVER: SAVING £1 BILLION BY END OF 2020

A gloomy global outlook projected by Unilever was one provocation for the company to roll out drastic action in 2015. The CPG company had already run other cost-reduction exercises and had product initiatives in the pipeline that were projected to deliver double-digit sales in the future. However, to ensure it would be ready to face uncertain economic, geopolitical and environmental influences, Unilever turned to ZBB for further austerity measures.

After a ZBB pilot rolled out in Thailand in 2015 reduced spending across all areas by two percentage points as a share of sales, the company announced that they would roll out the approach globally.

This includes reducing the number of advertisements commissioned by 30%, trimming its agency roster, showing better performing ads for longer periods of time, selling underperforming brands, and exploring mergers and acquisitions in search of further efficiency.

THE CAMPBELL SOUP COMPANY: SAVING $200 MILLION BY END OF 2018

In 2015, Campbell announced that it would implement ZBB as part of a wider redesign of the company's structure to deliver at least $200 million in annual savings by fiscal 2018. The resulting savings will be reinvested into the business in the form of new product launches, capability building, marketing support, long-term innovation and geographic expansion. Campbell has also attributed ZBB to having created an ownership mindset among employees who "treat every dollar as if it were their own," said Campbell CEO Denise Morrison.

THE CHALLENGES OF ZBB

Despite its benefits, ZBB has a reputation for being difficult to manage. Corporate cultures that are comfortable with systems that allow for minimal interrogation, are faced with an approach that only works successfully with a clear and granular understanding of how business operations and expenditure align with wider company goals.

ZBB SUFFERS FROM POOR GOVERNANCE:

Without wholehearted support from top management, an organization will find it challenging to remain committed to their goals. It risks allowing costs to creep back into budgets, making previous efforts seem futile. A strong executive mandate with clear governance and support structures will mitigate any uncertainty felt among managers who are central to the creation of decision packages and the setting of performance benchmarks.

Previously a leader in their market, Telecoms Company XYZ is losing market share to younger, more agile competitors. To regain its preferred position, the company needs to invest in the R&D and marketing of new products and have turned to ZBB as part of a larger effort to restructure the company.

The announcement of a new 'cost-reduction initiative' was made to the Chief Technology Officer without clear communication on how the savings procured will be used and how his team will be involved in implementation. As a result, he felt strongly that ZBB would restrict the company's ability to innovate. His lack of buy-in would eventually create setbacks for the project.

ZBB CAN FEEL NARROW IN SCOPE:

Due to the responsibility of individual cost units to develop their own decision packages, it is easy to execute ZBB within organizational silos. Overlooking the overall complexity that exists in certain portfolios, like within multi-product manufacturing firms, cost packages can be analyzed in isolation without due consideration to other areas of the business which can contribute significant savings if overlapping functions are integrated for efficiency.

Company A has done a fair amount of preparatory work before deciding to implement ZBB with the goal of saving $500 million in three years. They are aware that if they roll out ZBB in the most traditional sense, the siloed nature of their departments could lead the company to miss opportunities to make additional savings in areas like their contracting practices. Committed to making ZBB successful, they decide first to develop a 360-degree view of what drives real business value.

ZBB CAN FEEL IMPOSED ON EMPLOYEES:

Hearing that their company is implementing ZBB can fill employees with fear and trepidation. The effects of cost-reduction are very real and the results of ZBB can be severe. Since it implemented ZBB in 2013, Kraft Heinz has let go more than 10,000 employees. Some companies have replaced administration and support staff with automated solutions and have even removed refrigerators from communal kitchens to save on the cost of electricity.

Without sufficient consultation and communication of the overall goals that a company is looking to achieve, and how new budgets will positively affect cost units, teams and the company as a whole, policies issued in relation to ZBB can feel punitive to the average employee. This can lead to a demoralized workforce and result in a decrease in productivity.

The design department at Company K is disappointed with the outcome of ZBB. Their new budget, a result of the initiative implemented by the company last year, has meant that some of the design processes done in-house will now be outsourced to an external supplier. Two people within their team will be let go, and their overall workflow will be redesigned.

Some of the team feel insecure and wonder if their jobs are at risk. They wonder if their work is valued if their positions might be written off in the next fiscal year. The assistant manager, who was not involved in the decision-making, feels that the mandate has been ordered from the top-down and management is “out of touch” with what is happening at a ground-level.

ZBB DEMANDS A SIGNIFICANT AMOUNT OF TIME AND EFFORT:

A common question asked about ZBB is “does the savings justify the effort?” Setting a budget is already a daunting task without having to start with a blank slate. In many people’s minds, all the additional work required by ZBB takes an inordinate amount of time out of a manager’s day - time which could otherwise be spent growing the business.

A solution that has been adopted by many companies embarking on ZBB is to outsource the project management and employ external specialists to undertake the design and measurement. This alleviates pressure internally and provides a level of objectivity.

ZBB & MARKETING

Rapidly evolving consumer preference, the rise of white label and volatile commodity pricing are just some reasons why ZBB is gaining popularity with CPG companies.

A recent study by Deloitte revealed that 22% of CPG companies among the Fortune 1000 have turned to ZBB compared to 16% Fortune 1000 companies overall. Mature industries, like telecommunications, finance, healthcare and retail, which have shown to reap significant benefits from ZBB, are also jumping on the bandwagon.

This has impacted the outlooks of media and advertising companies who can no longer rely on rolling budgets. In 2017, the world's largest holding company WPP slashed its full-year forecast to zero to 1%, with CEO Sir Martin Sorrell blaming the "trifecta of digital disruption, zero-based budgeting and active investors." Publicis, the third largest advertising and media group, cited that weak ad spend was related to "the 3G approach of zero-based budgeting and the consequence of reduced investment."

> A RECENT STUDY BY DELOITTE REVEALED THAT 22% OF CPG COMPANIES AMONG THE FORTUNE 1000 HAVE TURNED TO ZBB

KEEPING AN EYE ON BRAND GROWTH

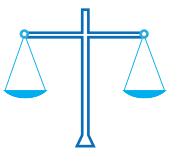
However, it is not just agency networks that face the dread that inevitably follow the words “zero” and “budget.”

Commercial spend, an area owned by sales and marketing, is a cost unit that has only recently been subject to greater cost-value analysis as a result of more accessible performance metrics. With many CPG companies spending the equivalent of 15% – 20% of their revenue on commercial spend, it is no surprise that it is a target of cost-reduction efforts.

Cost-cutting exercises in marketing are nothing new, but with ZBB immediate assumptions are that departments will have significantly less to work with and there’s the burden of having to figure out how best to calculate marketing allocation. Do you generate marketing allocation per sales unit or customer? Or measure the amount of money required to reach a given segment over a specific period of time?

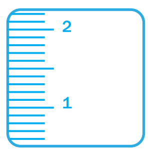
In addition, a common concern voiced by marketers is that reducing cost will stop brand growth. This is likely to happen if ZBB is regarded exclusively as a finance process. Ensuring that ZBB is managed by people who have the right capability training and who understand the company’s over-arching strategic priorities is essential. Marketers can look forward to reaping the benefits of innovative solutions to marketing challenges if ZBB is done right.

CHECKS & MEASURES



CREATE A BALANCED SCORECARD OF KPIS

OUTLINE HIGH-LEVEL MARKETING PLANS FOR BOTH THE LONG- AND SHORT-TERM



OUTLINE HIGH-LEVEL MARKETING PLANS FOR BOTH THE LONG- AND SHORT-TERM

HOW AGENCIES CAN ADAPT TO ZBB

Above and beyond ZBB, we know that agency fees have not increased over the years because of competition from the likes of in-house capability and consultancies.

To an extent, this is caused by an uncertain economic outlook, but there are multi-national companies that forecast stronger growth. The bigger challenge for agencies is to demonstrate their capabilities and stand out amongst the intense competition with a combination of value and creativity.

This is even more of a pressing matter if major clients are adopting ZBB. A change in process and ways of working is always challenging for agencies, particularly if they have enjoyed a long client relationship. With ZBB, agencies are very likely to see a negative impact on their overall fee.

If an agency shares a client's vision on the objectives of ZBB (reduce costs and improve efficiency and competitiveness), this is an opportunity to develop leaner processes and focus on more strategic projects. It forces agencies to adapt their services to remain relevant and offer more transparency.

Larger network agencies are at more of a disadvantage in this situation because they are less able to respond to this degree of change and suffer more as a result of changes on major accounts. Holding groups could feel that need to plug gaps with more acquisitions, focus on more value-driven activity and further invest in ad tech.

In comparison, smaller shops and outliers have the opportunity to offer competitive services as well as transparency in the way they work and charge the client.

THE IMPACT OF ZBB ON THE CREATIVE PROCESS

Prioritize planning, expect tighter briefs and less time to execute

Prepare for less long-running campaigns and more short-term outputs

Enable reporting functions and be ready to justify the ROI of your campaign

Have a response protocol in place in case corrective action needs to take place quickly

IS ZBB RIGHT FOR YOUR COMPANY?

Skeptics will be quick to point out that despite the success stories being reported about ZBB, there are many attempts that have met with disappointment. It is true that the methodology does not work for everyone, and that companies that have certain principles and characteristics are more likely to benefit from ZBB than others.

These characteristics include:

- COMPANIES WITH BRANDS THAT ARE VALUED HIGHLY
- COMPANIES THAT HAVE PRODUCTS WHICH ARE STILL DOMINANT IN THE MARKET
- COMPANIES THAT ARE OPEN TO TESTING AND VALIDATING THEIR MODELS
- COMPANIES THAT BUDGET MORE REGULARLY DUE TO CHANGES IN THEIR MARKET AND THEREFORE FREQUENTLY ADJUST THEIR EXPENSES AND REVENUES
- COMPANIES THAT HAVE FLUID AND FLEXIBLE GOALS

EFFICIENT ORGANIZATION, EFFICIENT BUDGET

"Companies that use ZBB as part of a comprehensive effort are nearly twice as likely to say they are satisfied or very satisfied with the results as their counterparts who pursued limited initiatives." This is because ZBB works best as part of a holistic approach towards driving operational excellence, which demands a clear sense of purpose, specific targets and adequate resource capabilities.

An example of this holistic approach is demonstrated by The Coca-Cola Company. The Company announced in 2014 that it would adopt ZBB as one of four key initiatives to reinvigorate growth and restore the Company's long-term growth targets. This "productivity program" included restructuring of its supply chain, streamlining the company's operating model and driving efficiency in direct marketing investments.

A review of both human resource, and manual and automated processes is often conducted before companies implement ZBB, thereby ensuring that the organization is optimized for the process to follow. This might result in restructured hierarchies, scaled-down workforce and implementation of user-friendly, configurable and scalable platforms that enable data gathering and modelling.

QUESTIONS TO ASK BEFORE YOU START

- WHAT IS ZBB REPLACING? IF THE EXISTING BUDGET IS NOT WORKING, WILL ZBB BE AN IMPROVEMENT?
- WHAT PERFORMANCE DATA IS ALREADY AVAILABLE?
- HOW MUCH WORK WILL BE REQUIRED TO IMPLEMENT ZBB?
- WHAT IS THE ORGANIZATION'S LEADERSHIP VIEW OF ZBB?
- WHAT ISSUES ARE DRIVING INTEREST IN ZBB?

5 WAYS TO SMARTER ZERO-BASED BUDGETING

1 SET A VISION AND SUPPORT IT WITH VALUES

Ownership starts from the top. Senior management need to articulate how ZBB supports the vision for the company. This also ensures that when decisions are made, and actions are taken, they align with core intent and values of the company. You might even need to re-envision the business to be able to identify what resources the company might need to perform in the future market conditions.

2 PUT THE RIGHT PEOPLE IN PLACE

There are several areas of resource that need to be addressed as part of the ZBB process. Management need to ensure that individuals are clear on their job descriptions so that they can focus on value-added activities (work governance); a comprehensive audit of full-time, part-time and freelance resource should be undertaken (resource governance); approval and veto powers need to be defined (decision governance); and a project management team should be in place to oversee the entire project.

Allocating the right resource also means determining global, zone and in-country decision package owners.

When ZBB was implemented at Kraft Heinz by 3G Capital and Berkshire-Hathaway, they strategically ensured that all cost packages would have well-defined owners which would lead to shared responsibility and a deep understanding of expense drivers. Two owners were allocated for every cost package, an entity owner and a package owner. An entity owner is the equivalent of a traditional budget owner. A package owner ensures that the organization spends the allocated budget responsibility.

3

DEFINE SCOPE, DECISION-PACKAGES AND BASELINE

The scope of the program will inform which areas ZBB will be applied to and how restrictive the policies will be. Defining packages and sub-packages ensures that all owners have a clear idea of what should and should not be included in each package. Some companies make their "package-definition book" essential reading for all individuals involved in the ZBB process.

4

SET AND COMMUNICATE GLOBAL AND LOCAL POLICIES

Many might regard ZBB policies as burdensome, even draconian, but this sentiment tends to be the result of poor communication around the fundamentals. Policies are not for policing behavior. Rather they are meant to communicate who the audience is, what the guidelines for behavior are, and what the process is for creating the budget, approval or veto.

5

BUILD A SEAMLESS REPORTING SYSTEM

Creating a routine and standardized reporting system is key to running ZBB seamlessly. It enables regular monitoring, minimizes the number of errors, increases the amount of data able to be collected and ensures that consistent mapping and measurement is possible. Aim to schedule weekly reviews with package owners and quarterly reviews with the CEO.

CONCLUSION

R3 has worked with leading FMCG companies, financial services and telecommunications companies on implementing value-based remuneration models and we find that the approach can be a catalyst for marketers to improve three main areas: measurement, accountability and sustainability.

In reviewing the conversation around ZBB, the sentiment is that companies that are committed to growth will need to shake up their business and financial models to become more agile, competitive and resilient. Uncertainty in the global consumer, geopolitical and financial market means that ensuring future brand growth requires creating new channels of revenue and sustaining existing pipelines.

It is impossible to improve on what you cannot measure, and if you do not know which brands or campaigns are increasing ROI, it will be impossible to create an accurate budget based on value. It will also drive accountability, both internally and externally, with marketers being held accountable to business and agencies being pushed to deliver what matters. Finally, the more agile and responsive model focusing on measurement and accountability will empower teams to learn from failures much faster and replicate success quicker

The end game for zero-based budgeting and value-based remuneration are the same, spending marketing dollars effectively and efficiently. Marketers can mitigate cost redundancies, while freeing up that money to invest in market trends, which is crucial in the current landscape of constantly shifting digital ecosystems and agency relationships models.

However, it is important to note that while ZBB can provide cost cuts and savings if implemented correctly, it will not solve larger brand issues. Just like with any strategy, there are pros and cons to weigh before it is adopted, especially for companies with such large marketing budgets and several brands and agency relationships to consider.

ABOUT R3

OUR REASON FOR BEING

In a word, we are about performance. R3 (www.rthree.com) was set up in 2002 in response to an increasing need from marketers to enhance their return on marketing, media and agency investments, and to improve efficiency and effectiveness.

We act as coach to marketers wanting to play better.

OUR BACKGROUND

We've worked with more than one hundred companies on global, regional and local assignments to drive efficiency and effectiveness.

We have talent based in US, Asia Pacific and Europe and partners in LATAM and Africa.

Through global work for Samsung, Coca-Cola, JNJ, Visa, Unilever and others, we have developed robust benchmarks and process targets for more than 70 countries.

WHAT WE DO

Our core service offerings include proprietary processes and tools in the areas of marketing investment and agency relations.

HOW WE DO IT

We invest in the best talent, bringing in senior leaders from marketing, agency and analytic backgrounds.

Since 2002, we've interviewed more than 2,000 marketers about their agency relations.

Since 2006, we've spoken to more than 80,000 consumers in China's top twenty cities and continue to do so every three months.

Each month we exclusively track over 500 agency new business wins.

We authored the book "China CMO" about marketers in the world's most dynamic country. We maintain an ongoing database of media costs for key markets.

We have co-developed software to measure agency and media performance.

IMPROVING THE EFFECTIVENESS & EFFICIENCY OF MARKETERS & THEIR AGENCIES

RETURN ON AGENCIES

We help marketers find, pay and keep the best possible agency relationships – covering Creative, Media, PR, Digital, Social, Performance, Event, Promotions and CRM.

We take the lead on improving the Integration process through proprietary software and consulting.

RETURN ON MEDIA

We offer professional analysis of the media process, planning and buying with proprietary benchmarks and tools to set and measure performance.

We conduct financial audits to validate and benchmark transparency

RETURN ON INVESTMENT

We review marketing data, structure and processes to help benchmark and drive improvement.

We track Digital Engagement in China through a proprietary study in China called EnSpire

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