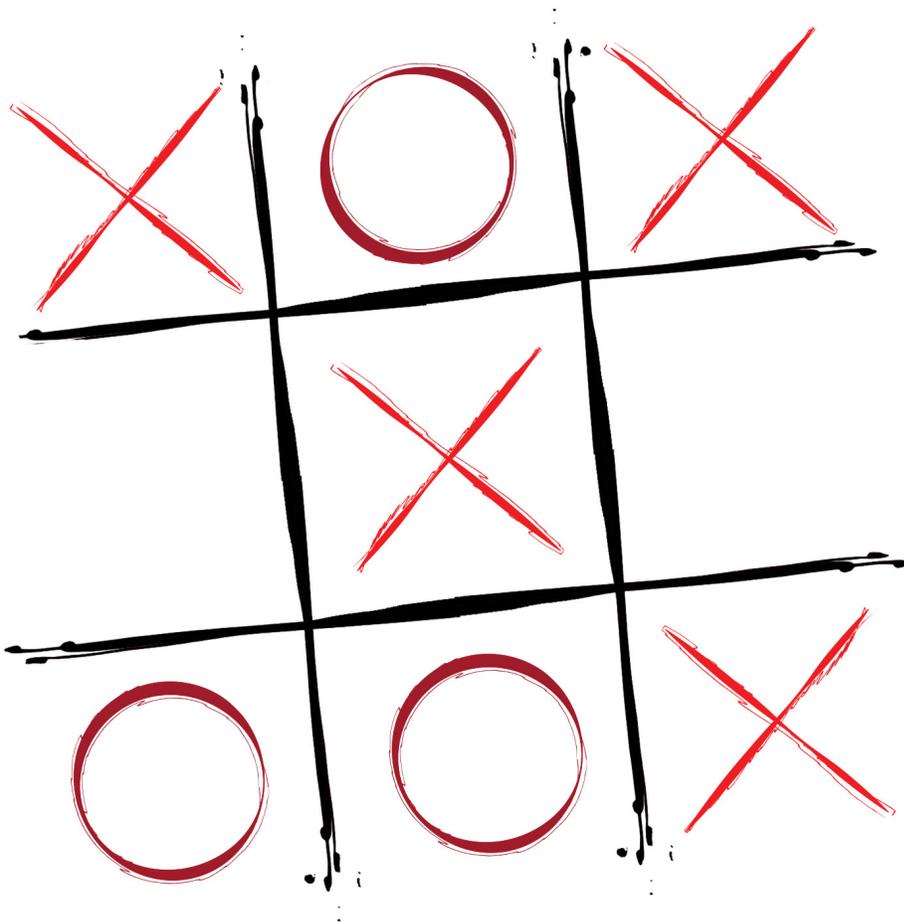


THE X FACTOR

COMPETITIVE AGILITY



Anheuser-Busch InBev (AB InBev), one of the largest and most agile consumer goods companies, made big headlines with an announcement that by 2025, all its purchased electricity will come from renewable sources—cutting its operational carbon footprint by 30 percent.¹ It's a move with positive consequences for profit and the planet.

It's just one example of how new technologies have given rise to powerful opportunities to reduce cost in a way that's good for growth and society. But it requires a C-suite-led enterprise change that aims for agility over austerity. And insightful and intentional level-setting across the enterprise over one-off cost reduction efforts. It's a new approach, more holistic than ZBB. We call it ZBx, (a zero-based mindset), a new way to look at profitability through four zero-based approaches—zero-based spend (ZBS), zero-based organization (ZBO), zero-based front office (ZBFO), and zero-based supply chain (ZBSC). (See sidebar, "Zero-ing in on agility," on page 4.) The impact on profit, growth and trust are nothing short of electrifying.



The speed of change will never be as slow as it is today thanks to digital and other new technologies. To keep up, companies need to take out non-working money that doesn't support the business strategy for future growth goals. However, only 17 percent of CFOs believe their company is properly organized to optimize working money.²

Part of the problem: When it comes to cost reduction, too many “look in the rear-view mirror,” setting projected resource needs based on past demands. And applying incremental cutbacks on past budgets. It's this rear-view mirror mentality that's stalling the growth engines of businesses worldwide. Why? Because this approach doesn't account for change. And cost curves have undergone fundamental transformation, dropping precipitously thanks to the fast evolution of new technologies. Or in some cases, rising dramatically. Changes so dramatic that the only way to compete is to use a new, more forward-looking approach to establish what costs “should be.” One that looks at every line item and sets it to a zero-base across the organization—from the front office to the supply chain and everywhere in between.

It's something we call ZBx or having a zero-based mindset.

ZERO-ING IN ON AGILITY

ZBx is about improving agility by launching interventions in four areas:

ZBS

Zero-based spend enables organizations to identify discretionary consumption of non-labor overhead expenses through a unique lens of granular cost visibility. This allows leadership to make the right choices to change the culture of the organization, ultimately freeing up cash that can funnel into growth initiatives, capability improvements and improving EBITDA.

ZBO

Zero-based organization designs the organization from a clean sheet to shift talent from work that no longer contributes to desired outcomes to the distinctive capabilities required to win in the future. Because the organization, talent, end-to-end capabilities and routines that have been passed from one generation to the next are not necessarily the same ones required to win in the new.

ZBFO

Zero-based front office optimizes marketing, sales, customer service and pricing to deliver superior customer economics.

ZBSC

Zero-based supply chain identifies the “should cost” of COGS and cost reduction opportunities across three levers—price, performance and value engineering—while optimizing product and service complexity. A closed loop process ensures results hold over time.

Consider a large chemicals company. Its annual facilities cost came in at around \$400 million per year. Applying a ZBx approach, they redesigned their global facilities using digital workplace solutions like smart building technologies, real-time operations management, space management and smart working solutions. The results are dramatic, with new should costs coming in at almost 50 percent less annually.

Another example of the power of ZBx is that of a large \$25 billion-plus CG&S company with over 100 manufacturing locations that produce beverages for customers all over the world. As with other higher performing consumer packaged goods companies, raw material, packaging material, and conversion costs are approximately 44 percent of the company's revenue. Since the company sets its procurement, supply chain and manufacturing strategy and budgets from a zero-base, (with digital solutions like machine learning, intelligent automation and control, and digital energy and safety management) they experience dramatic results. COGS as a percent of revenue was reduced to nearly 38 percent.

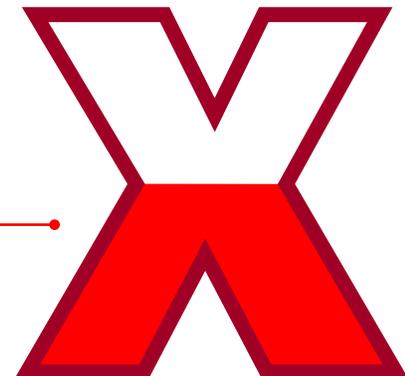
ZBx is about eliminating the activities not contributing to desired business outcomes, automating those not maximizing human potential, and shifting talent to focus on growth-oriented, distinctive capabilities augmented by artificial intelligence.

Take one professional services company that “liberated” 30 to 35 percent of its workforce in about 18 months by “removing the robot from the human,” i.e., getting rid of repetitive manual tasks. Freed capacity was redirected to abstract thinking and contextual reasoning. Human work. The productivity gains in the middle and back office like finance, supply chain, IT and procurement were obtained using digital interventions such as foundational automation, robotic process automation and artificial intelligence (virtual agents and natural language processing).

These digital interventions also enhanced more strategic work through integrated analytics and artificial intelligence that is continually learning. This application of AI helps enable humans to “run with machines,” helping them reach even more powerful insights in support of growth, innovation, sustainability and trust.

Unleashing ZBx involves gaining a forensic visibility into spending. Yet according to Accenture Strategy research, about half of executives surveyed said they lacked the analytical insights to make more informed decisions on which costs to optimize in line with what works best for their business goals.³ And only 25 percent report possessing an operating model flexible enough to deliver in the fast-paced age of digital.⁴

About half of execs said they lack the analytical insights to optimize costs for their business goals.





GROWTH, PROFITABILITY, AND SUSTAINABILITY & TRUST ARE NOT **MUTUALLY EXCLUSIVE**

Most companies are engaging in some type of profitability interventions. In fact, 80 percent of the G2000 are involved in enterprise-wide cost optimization interventions.⁵ But if you're working on cost and not linking it to growth and sustainability/trust, even the most earnest efforts will fail.

Take Unilever as an example of managing profitability interventions in a way that is good for growth and trust. Unilever PLC plans to save up to €6 billion (\$6.4 billion) using a zero-based mentality. The Anglo-Dutch consumer giant plans to extend its use of zero-based budgeting to reduce spending in its marketing and logistics departments, according to finance chief Graeme Pitkethly.⁶ In addition, the company's "Sustainable Living Plan," announced in 2014, is geared at reducing Unilever's environmental footprint and doubling sales and long-term profitability by cutting non-working money and directing it toward growth goals.

A NEW WAY TO MEASURE SUCCESS: **THE COMPETITIVE AGILITY INDEX**

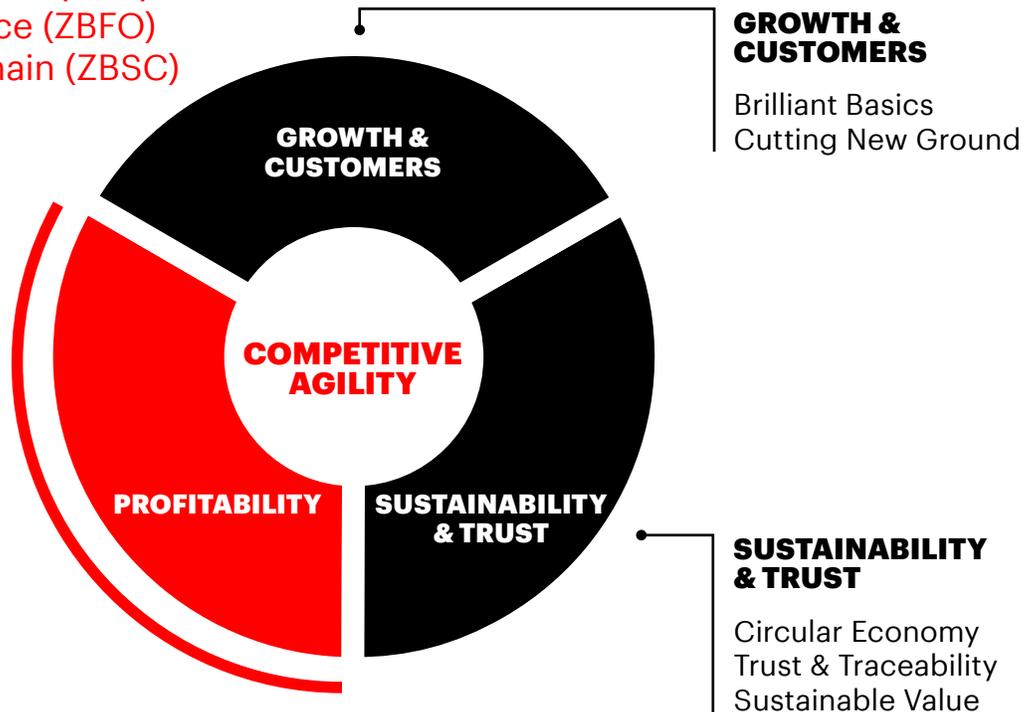
Accenture Strategy research re-examined traditional measurements of competitive advantage in today's fast-moving digital market. Why? Because traditional measurement techniques are backward-looking and don't capture the full value of most companies. So, we created the Competitive Agility Index, which measures a company's ability to simultaneously deliver in three areas: **growth, profitability, and sustainability and trust.**

Competitive Agility Index scores are based on a unique blend of available data including information on sustainability and trust efforts and from historical and future-consensus growth and profitability data. The data backing it was collected on more than 350 companies across nine industries. Scores were analyzed to see if the combined index has a greater impact on revenue and EBITDA growth than any single characteristic—growth, profitability, and sustainability and trust—or any two of those three combined.

What kind of impact are we talking about? A \$30 billion automotive and industrial company that improves its Competitive Agility Index score by one point by focusing on an interdependent strategy would see its revenues rise 3 percent or almost \$1 billion. ZBx is an essential component of this interplay. Because it creates a dynamic that continually re-frames cost in relation to value generated, causing a virtuous interplay between growth, profitability, and sustainability and trust.

PROFITABILITY

Zero-Based Spend (ZBS)
 Zero-Based Organization (ZBO)
 Zero-Based Front Office (ZBFO)
 Zero-Based Supply Chain (ZBSC)



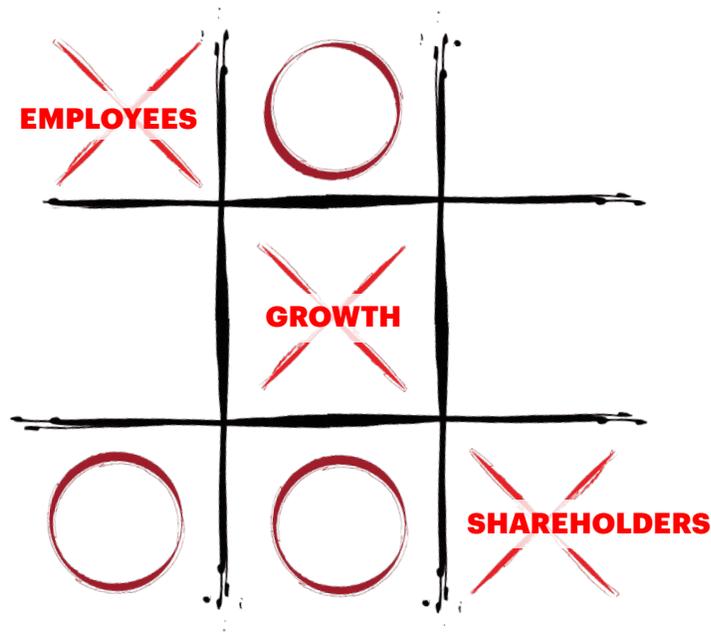
GETTING FIT DEMANDS A LIFESTYLE CHANGE

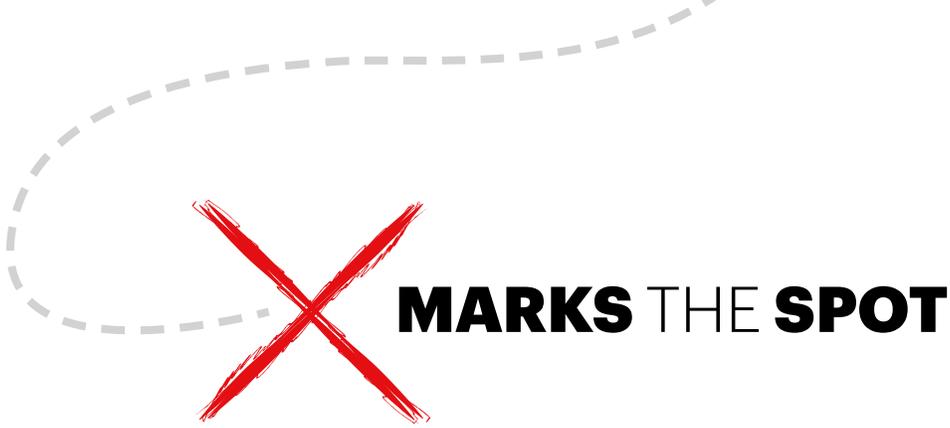
—NOT A CRASH DIET

Just like a crash diet, most cost-optimization initiatives don't last. In fact, only 36 percent of companies surveyed agree that their business sustains the benefit of cost optimization programs.⁷ Like the adage says, "Costs are like fingernails, they always grow back." Keeping things trimmed means securing the commitment from the CEO and the leadership team to continuously zero-base and communicate the benefits of long-term change to customers, employees and other external stakeholders.

And it requires getting the organization engaged, excited, and motivated to make the move to ZBx—helping employees understand that they are the ones who can make it happen. When a company does this, culture is not an obstacle to change.

But how to change something as hard to manage and measure as culture? Zero-based organization, ZBO, is an essential tool and effectively redesigns the organization. Taking a “clean sheet” approach and reducing workplace complexity. ZBO reframes every process from the customer point of view. And if a given process is found to add no value, it’s eliminated. In the process, costs are re-aligned to ensure they’re delivering a clear return to customers, employees and stakeholders. The end result: A more agile organization with employees bought into every aspect of their work. Instead of feeling like a “cog in the wheel” of the corporate machine, employees gain empowerment, and understand they are steering the destiny of company results and their own financial remuneration. **It is an owner mentality which comes from seeing how the savings they create are channeled back into the organization.** As one company noted: “One-third of the savings go to growth, one-third to employees and one-third to shareholders.”





Companies that want to boost their competitiveness need to drive out costs and re-invest them in growth. And in the process benefit sustainability and build trust. To be sure zero-based initiatives build competitive agility, companies need to follow three tenets:

CEO COMMITMENT.

To drive a ZBx mentality requires ownership by the CEO and the leadership team. They are responsible for driving and operationalizing ZBx daily.

FOCUS ON FOUR MACRO AREAS (ZBS, ZBO, ZBFO AND ZBSC) TO GET THE NEEDED CASH TO REINVEST FOR GROWTH.

Zero-base and examine your should costs for everything from plant maintenance to customer marketing and sales. That focus means forensic visibility, opening the cost gaps relative to the should costs as well as closing the gaps in an engaging way with everyone involved. Re-set the budget from a zero-base and change the governance and the culture.

HARDWIRE ZBX INTO YOUR COMPANY CULTURE TO CREATE A SUSTAINED COMMITMENT TO SHOULD-COST MENTALITY.

How? Create a healthy tension within the business. By that we mean providing a structure for “category ownership” to ensure there are checks and double checks to keep the players honest. This requires adapting a new operating model—one that reduces complexity, clarifies responsibility and helps enable a sustainable corporate lifestyle.

THRIVING IN THE **NEW**

For companies looking to gain agility to thrive in the new, where chaos is the norm and the ability to pivot to new market demands is a prerequisite, a zero-based mindset is a must-have. Through it, companies drive profitability, growth, trust and sustainability, gaining unprecedented levels of competitiveness.

JOIN THE CONVERSATION



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NOTES

¹ “Beer giant Anheuser-Busch InBev commits to 100 percent renewable energy,” CNBC, March 29, 2017.

² “Agility to Compete,” Accenture Strategy research.

³ Ibid.

⁴ Accenture Strategy research.

⁵ Accenture Strategy research.

⁶ “European Companies Use Old-School Budget Tactic to Cut Costs,” *Wall Street Journal*, April 7, 2017.

⁷ Structural Cost Transformation & Enabling the Growth Agenda Survey, Accenture, September 2015.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 401,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

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