



Brexit and zero basing — creating certainty in an uncertain world

Realizing value series

Global Strategy Group



Aligning resources for growth

CEOs are facing almost unprecedented levels of uncertainty and cost pressure from Brexit and other macro-economic conditions. But businesses are fighting back. One way we are seeing this is a renewed focus on cost management and use of zero basing to support this.

What is 'zero basing'? It entails building operating plans and budgets from the bottom up. It means starting with a blank piece of paper and justifying every activity and cost, adding them back in if they support delivery of the business strategy.

Using this approach, it's not uncommon to see cost savings of 25 percent or more. The spend that remains is directed to the activities of greatest strategic value. It's a powerful proofing agent against the pressures of Brexit, making businesses leaner and more resilient for the future.

Assessing the Brexit impact

With all the delays and political convolutions of Brexit, the prevailing sentiment among UK companies is one of sustained and draining uncertainty.

The current Brexit delay has had three main impacts:

- **Reduced investment** is evident with capital spend down for the fourth consecutive quarter, driving a tightening of the reins around scarce resource as CEOs consider how to deploy limited funds.
- **Delayed decisions** around recruitment, expansion and inorganic growth. Uncertainty has created a watch and wait ethos that is self-perpetuating over time.
- **Increased costs incurred** as a consequence of preparing for no-deal Brexit, along with considerations like stockpiling of inventory (warehousing, storage costs etc).

In response, well-prepared businesses are developing mitigation plans to achieve four things:



Do more for less

Companies are trying to optimize the yield from their existing portfolio. This can mean that activities such as discretionary marketing spend are stopped altogether, scaled back, or creative opportunities are taken to claim back or share costs with other supply chain partners.



Be more agile

CEOs are testing ways to create optionality within their operating budgets. They want to enable greater flexibility in response to opportunities and challenges to align business and operating models.



Establish greater focus

Constraints around strategic expansion have led businesses to consider how to optimize their allocation of spend to improve alignment to strategic priorities.



Create the right balance

Limited investment means that organizations are really scrutinizing the allocation of scarce resource across core strategic priorities. It's about maintaining the core business whilst continuing to drive growth.

In short, businesses are increasingly looking inward for bold and creative solutions to better leverage the resources they already have. It is a huge shift in the prevailing corporate ethos, that Brexit has overwhelmingly been the catalyst for.

And one of the most effective solutions that businesses are finding is zero basing.

Zero basing adds up

In light of today's pressures, zero basing as an antidote to the Brexit conundrum in fact appears obvious. One only need consider the core principles of the methodology to be struck by the value it can create.

Fundamentally, a zero basing mindset provokes a financial reboot of the organization's cost base. Cost components are identified, assessed, optimized and justified individually before being looked at and re-optimized at a portfolio level. Done well, this process creates a level of transparency over how costs are created by activity, process and owner and what value each aspect creates for the business. Furthermore, a series of options for each component are developed, with associated levels of service and risks, which can be quickly adjusted to meet the future business demands as clarity in the macro environment emerges (e.g. impact of Brexit).

This process, hard though it may be, ensures that scarce funds are directed to the areas of greatest strategic value. Where Brexit constrains investment, defers expansion decisions and drains cost from the business, zero basing ensures what remains is put to the greatest strategic benefit possible. In short, the perfect counter-measure.

Zero basing: a mindset not just a methodology

Does all of this sound too easy? The fact is zero basing is extremely difficult. Because it puts all spending and resourcing under question, great care needs to be taken in how it is applied to avoid amplifying uncertainty. It can cause great uncertainty for managers and staff, meaning that the human dynamics are crucial. Sympathetic and intelligent people management and engagement is essential – the impact of the human journey on the success of zero basing cannot be underestimated.

In short, the application of a methodology alone is unlikely to drive success. A broader approach is needed. This must consider the less concrete aspects such as dealing with resistance, tackling attitudes to risk and creating the right governance to drive effective choices and decisions.

If Brexit uncertainty is sending numbers and forecasts haywire, the attraction of zeroing in on the cost base to bolster operational resilience is compelling.





About KPMG's Global Strategy Group

KPMG's Global Strategy Group works with private, public and not-for-profit organizations to develop and implement strategy from 'Innovation to Results' helping clients achieve their goals and objectives. KPMG Global Strategy professionals develop insights and ideas to address organizational challenges such as growth, operating strategy, cost, deals, digital strategy and transformation.

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