



# The road to zero basing success

*Realizing value series*

**Global Strategy Group**



**How does an elite racing team consistently ramp up its performance to stay ahead? By relentlessly focusing on a single goal, underpinned by clearly defined targets along the way. By prioritizing the areas of highest potential improvement, and by creating a powerful sense of shared team ownership and responsibility, from the engineers to the pit crews to the drivers behind the wheel.**

It's exactly the same story when delivering a successful zero basing program. The entire organization needs to be focused on a well-articulated vision of success. The spotlight must always be on those activities where the greatest strategic value lies. And individual teams should be challenged to the max to ensure that the vision outlined by the business becomes reality.

This article considers six critical factors to consider when introducing a zero basing program to an organization:



## **Be crystal clear about your goals**

Zero basing programs are usually driven by cost challenges or the need to better align resources against a new or existing strategy. In either case, it's vital that the overall goal is clear, with ambitious targets to deliver it. This acts as a spur, empowering the organization to think differently and consider radical options that could genuinely mean step changes and improved performance.

Zero basing can be a complex and highly challenging process: it can also mean a major investment in time and resources. Spending time building a persuasive case for change – and ensuring that senior leadership are fully on board will pay dividends in the long term.



## **Think big, start small**

For some businesses, there's a temptation to dive in full throttle with their zero basing program. But far more effective is to start in a controlled manner and work up to a larger program to achieve fully sustainable results. A successful pilot scheme in one particular area creates momentum and addresses any initial concerns across the organization. It helps reduce delivery risk and acts as a form of role model, educating the business on the wider benefits of zero basing, creating a real pull from the rest of the organization.



## Focus on the areas of greatest potential value

Where you start depends on the individual circumstances and objectives of the organization. But all businesses should consider the following elements, when determining the scope and shape of the initial wave of zero basing:



### Materiality:

The areas chosen must be significant enough to justify the considerable effort required. At the same time, there needs to be a sufficient spread to reflect the overall ambition for the business, while taking into account the investment that it entails.



### Comparative performance:

Clients are increasingly using competitive analysis to understand how their own performance measures up and to prioritize any gaps in their activities. This will enable them to focus efforts on the biggest priorities.



### Nature of the spend:

Zero basing can be used effectively with different cost types – such as headcount and third party spend – but works best for those that are more consistent and where the organization exercises more control.



### Team dynamics:

It's essential to think through the context and make-up of the team when prioritizing which areas to zero base, especially in the initial stages of the process. Any organization must appreciate and be sensitive to the human journey that zero basing involves. It's important to ask, for example, 'How capable and supportive are the managers in the team?' or 'Has the team been through any significant changes recently?' Working with a group that is less than fully committed, without the right support, will undermine the success of the program and ultimately wider buy-in across the business.

## Case study

An AsiaPac energy distribution company was facing regulatory-imposed reductions on their network tariffs. In light of this challenge, the client was looking for a partner to help them become the lowest sustainable cost electricity distributor in the country. KPMG helped run a diagnostic to assess the areas of greatest value potential, then operated a first phase of zero basing across some core operational processes, such as maintenance, and a number of corporate functions. A second phase then built on this success in other areas. To ensure that the potential value identified was realized, we provided further support to set up and run a value tracking mechanism. The client is now well on its way to minimizing the bottom-line impact of the tariff cuts.



## Think well outside of the box

Once the target areas have been identified and the zero basing program has been set up, all associated activities then also need to be put through their paces. Clients often view some activities as driven by regulatory requirements when in fact that is not the case. Likewise, activities that are deemed to be highly valued by customers can turn out not to be so at all. All activities need to be thoroughly tested to identify their inherent value, starting at zero and building options up from there.

It is also worthwhile to bring in internal stakeholders, external subject experts and even customers to participate in the zero basing program. These diverse views and outside expertise can quickly challenge engrained thinking and provide the kind of creative tension necessary to achieve the best results.

## Case study

As part of the zero basing exercise of a service organization, internal customers were asked to join workshops and decision-making forums. Not only did this allow a clearer understanding of which specific activities were the most valued, but also helped support the stakeholder journey into implementation as customers had already been part of the decision-making process.



### Give everyone a voice

Avoid the temptation to escalate all decisions up to the highest level. The most detailed knowledge and understanding of the impact of the activities is most likely to reside with the teams themselves. An effective program places the decisions about what to implement into the hands of the people who know best – with only major decisions with high potential risks evaluated at the most senior levels. Organizations taking this approach often benefit from a clear cultural shift, where managers feel genuinely empowered and innovative ideas emerge from the close involvement of the teams.

At the same time, leadership should be unafraid to ask managers to repeat the process if they believe they haven't pushed themselves far enough in the zero basing process. Digging deeper can lead to even more effective results and a broadening of the suggested options available.



### Make sure you deliver on what you promise

Perhaps inevitably, value is most likely to be lost in the transition stage from the design of the recommended changes to their implementation. That's why it's vital that any zero basing program needs to be set up from day one with implementation firmly in mind, including robust governance to hold management to account. Change management and communication plans need to be developed at the start, as well as clear accountabilities and sign-off for opportunities throughout.

**A successful zero basing program can help to deliver major long-term value for your organization, helping you to radically re-think what activities truly add value and how you deliver them. Many businesses find it both liberating and empowering, enabling them to become leaner, more agile and align activities that truly drive strategic value and growth. Consider these factors in your zero basing program design and you will be in pole position to maximize the value to your organization and deliver on its potential.**



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## 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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