

Zero-Based Value Creation & Transformation

Delivering double-digit sustainable ROI whilst building resilience

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1. Why Zero-Based Everything & why now?



Organisations across industries are dealing with relentless budget challenges driven by persistent inflation, extraordinary costs since Covid, geopolitical instability and tighter consumer spending. With recent National Insurance hikes and minimum wage increases, organisations are confronted with sudden financial pressures. At the same time, customers are cutting back on discretionary spending and prioritising value, making it unfeasible for businesses to pass these additional costs to the end consumers. Budgets are getting squeezed further and limited investments are available for growth.

While advanced technologies and AI offer significant promise in delivering efficiencies, organisations are struggling to bring new technologies to their day-to-day operations. Also, implementing large-scale tech programmes requires significant investment and sustained focus, resources that organisations are struggling to allocate in the face of tightening budgets. Meanwhile, conventional optimisation and continuous improvement approaches, while valuable, often deliver only incremental benefits which may fall short of addressing immediate financial challenges.

Globally there is a considerable pull for Zero-Based value creation and transformation (Zero-Based Everything). Active private equity investors are also pushing Zero-Based approaches to CEOs. This white paper explores Zero-Based approaches as transformative tools to unlock significant savings and operational efficiency. Unlike traditional methods, Zero-Based Budgeting (ZBB) and Zero-Based Spend (ZBS) can enable the step change needed in cost management within a timeframe of 10-12 weeks. By resetting cost baselines and aligning resources directly with business priorities, a Rapid-Zero-based approaches offer organisations an effective approach to overcoming today's budget challenges without sacrificing long-term growth potential.

2. How can Zero-Based Everything help?



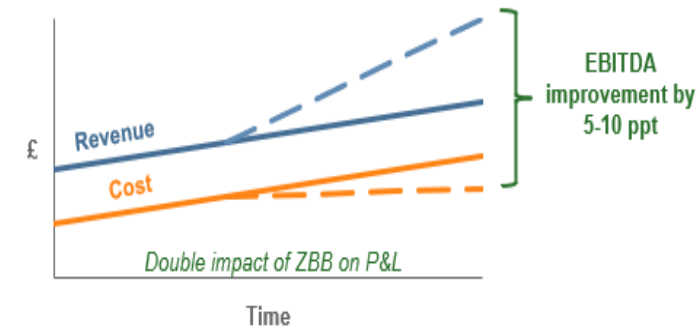
But how can Zero-Based approaches help companies improve EBITDA and re-invest savings towards a growth agenda?

Zero-Based programmes align costs with strategic objectives and deliver robust value creation plan through a bottom-up approach. Zero-Based Everything enables budget-holders to achieve strategy plan targets by eliminating non-value add activities, minimizing nice-to-have and re-investing into future.

Firstly, resetting P&L-wide fixed costs every year - rather than simply drawing on last year's blueprint - prevent unproductive expenditure, working from the bottom up but still aligning with the broader corporate strategy. Companies using Zero-Based Everything in a mature way are also able to adjust headcount to new market paradigms, for example looking ahead to more remote working and automation.

However, annual Zero-Based Everything on each P&L line can feel too bureaucratic and burdensome for some mid-size companies.

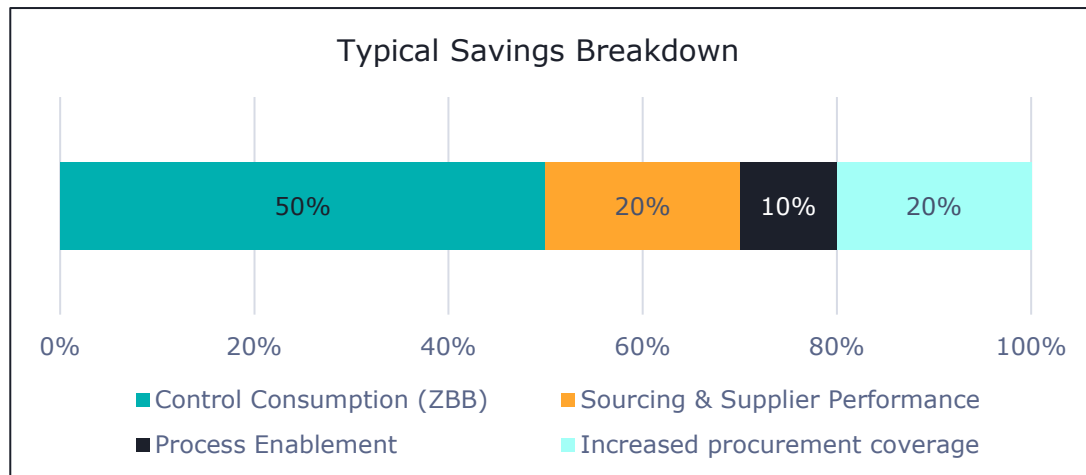
Companies that restructure their fixed cost as part of their annual planning cycle outperform their peers on EBITDA margin and revenue metrics by 5-10 percentage points.



Re-investing savings into a growth agenda enhances operating margins and helps enforce a cost-conscious mindset around the organisation.

Zero-Based Spend (ZBS) is a high ROI project, rather than programme, to optimize 3rd party spending with pace. Most PE firms say that Zero-Based approaches are a game-changer to elevate their procurement capabilities and is a best friend to CPOs who have adopted the category management framework.

The supply side still captures most of the attention from procurement leaders, but as much as 50% of all indirect procurement savings can stem from effective demand management



Matching the Zero-Based approach to the organisation's ambitions, as well as cost control culture is crucial. That's why we favour a scalable 'Pragmatic- Zero-Based Everything' approach which incorporates restructuring methodologies to rapidly reset fixed costs. This can also prepare organisations for future crises since this cost base can be flexed quickly with minimal revenue impact.

In as little as 10-12 weeks, Rapid- Zero-Based Everything can help businesses with:

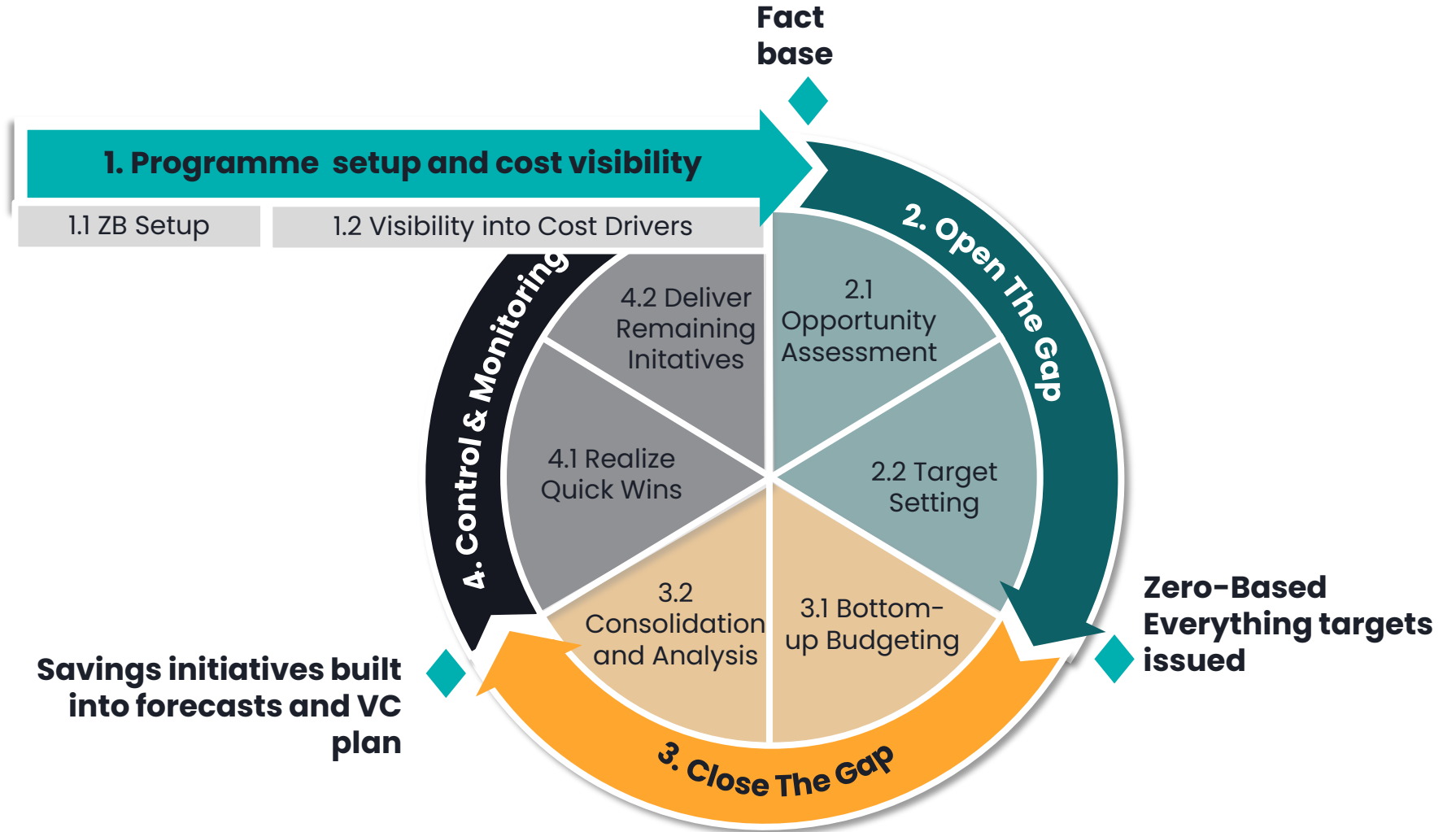
- **Challenge** and **resets** cost aspirations in sync with business strategy
- Understanding **demand** and requirements from internal and external '**customers**'
- **Identifying slack** leading to **optimal use of resources**
- Developing a **cost-conscious mindset** across the group.

3. The Zero-Based Everything Playbook



Zero Based Everything seeks to understand cost drivers, spending rationale and link costs to business strategy.

The virtuous feedback loop is critical in creating a lean and sustainable cost base.



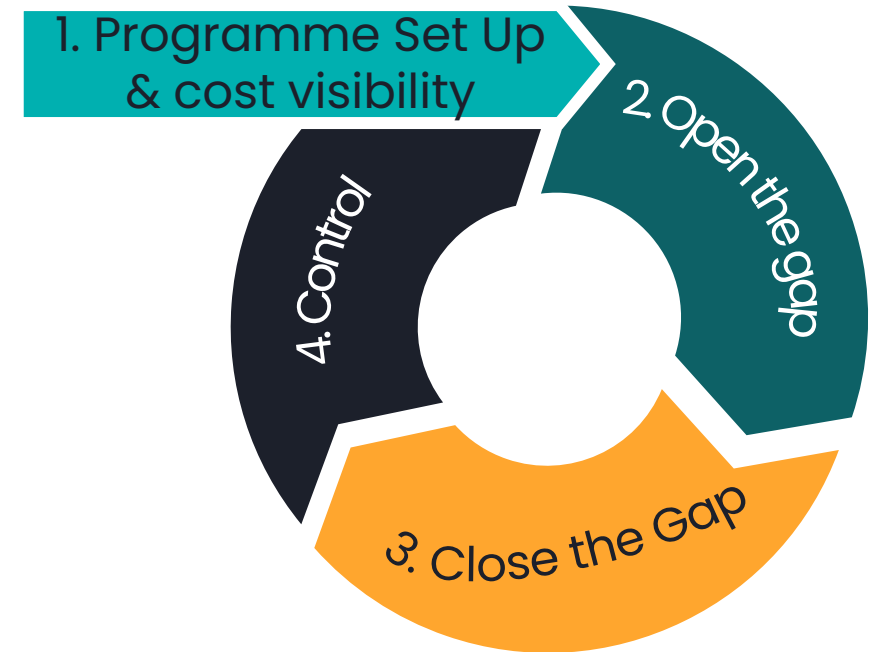
Zero-Based Everything led value creation is delivered through a multi-stage framework including following critical steps:

1. Programme setup and cost visibility

- a. Set-up required project structure and governance.
- b. Visibility into cost and activities: Creating visibility is key to assess who spends how much, on what, and with whom. Very simply, Zero Based Everything seeks to understand cost drivers, spending rationale and link costs to business strategy. Leadership can then leverage this visibility to set intelligent targets for budget owners across the business.

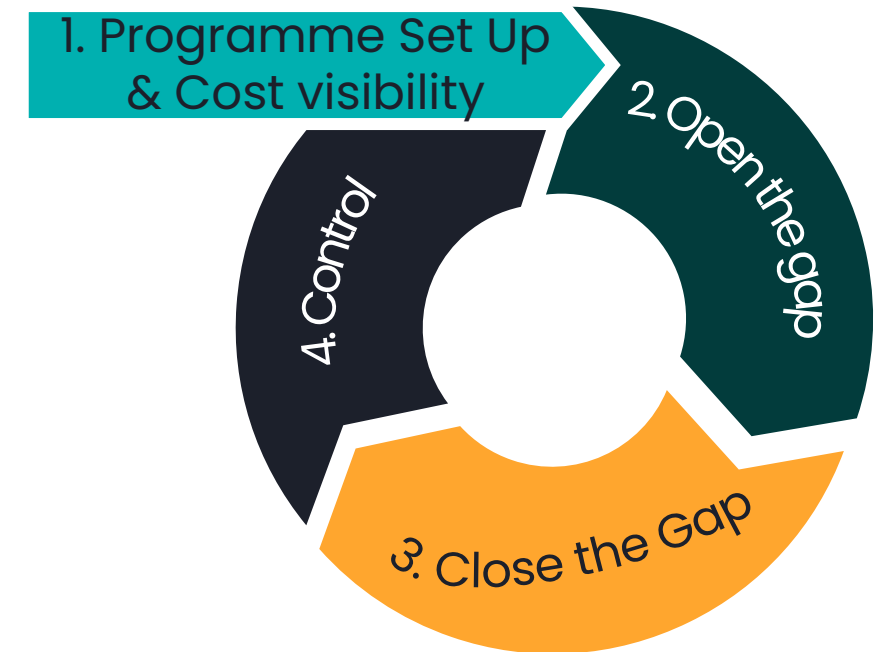
2. Open the Gap

- a. Opportunity assessment: An intelligent 'open-the-gap' approach requiring management to synchronise targets with an annual forward-looking planning exercise.
- b. Target setting: Key questions can help cost owners identify savings for each activity and define tangible targets:
 - i. Can the activity be eliminated or stopped?
 - ii. Can the activity be reduced on a 'minimum viable cost' basis?
 - iii. Can the activity be performed at a lower cost?



3. Close the Gap

- a. Bottom-up budgeting: The 'closing-the-gap' mindset aims to make the fixed cost base leaner without starving the business. Creating a bottom-up budget which uses facts rather than instincts to challenge costs is critical to secure stakeholder support.
- b. Consolidation and Analysis:
 - i. Reconcile bottom-up budgets, confirming adherence to Zero-Based Everything guidelines and policies, then assess options in terms of savings upside, costs of implementation and timelines. Data analytics and visualisation apps can improve visibility and make a significant contribution to controlling indirect spend.
 - ii. Constructive Review: Concluding the process, budget holders provide us with insights from the bottom-up analysis to revise budgets, in line with agreed savings levels. In our experience, budget submissions can remain inflated at this point, but tightening budgets rarely result in evidence of customer impact or lower top-line revenues.

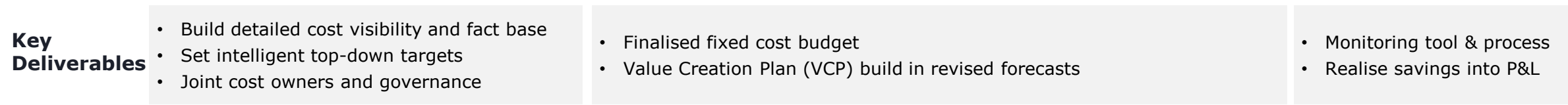
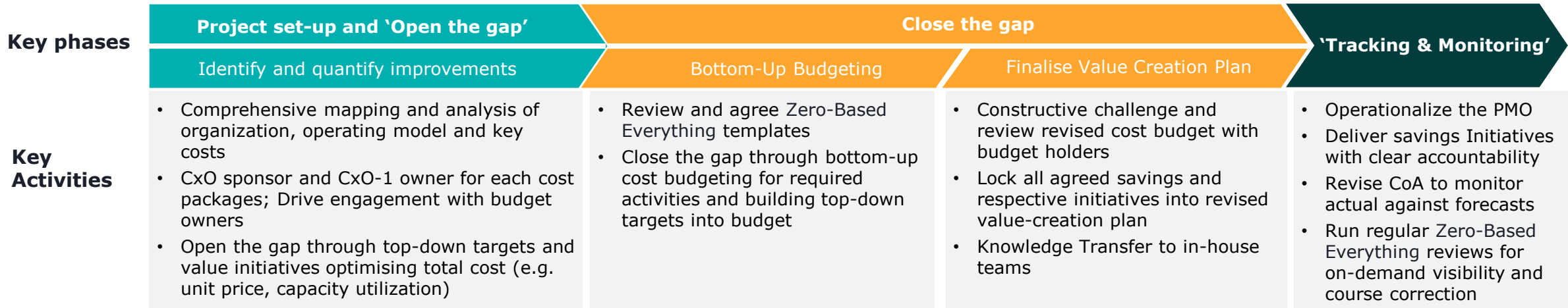


Virtuous feedback loop is critical in creating a lean and sustainable cost base

4. Control and Monitoring

- a. Realise quick wins to build momentum and fund more transformative initiatives.
- b. ERP-based tracking of monthly variances between the budget and the actuals with corresponding action plans are critical for the organisation to keep agile.

Realise significant margin expansion while driving mindset change and embedding new ways of working;
Tools available to accelerate delivery

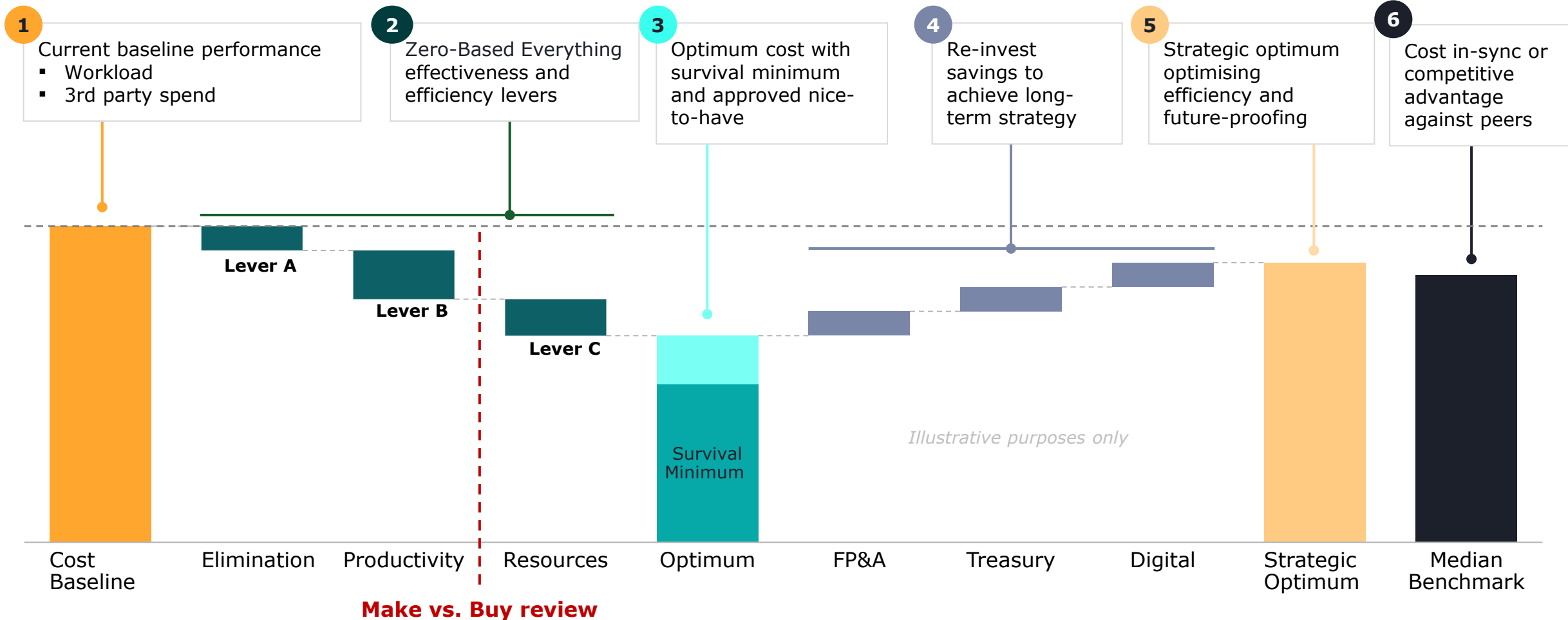


Illustrative deliverables	<h3>Fact-base</h3>	<h3>Value Targeting</h3>	<h3>Build bottom-up budget (against top-down targets)</h3>	<h3>Cost Analysis and Constructive Challenge</h3>	<h3>Revised cost budget forecasts</h3> <table border="1"> <caption>Variance by Decision Units</caption> <thead> <tr> <th rowspan="2">Variance by Cost Area</th> <th colspan="2">Regional DC</th> <th colspan="2">National DC</th> </tr> <tr> <th>Quantity</th> <th>Price</th> <th>Quantity</th> <th>Price</th> </tr> </thead> <tbody> <tr> <td>Transport</td> <td>-2</td> <td></td> <td>1</td> <td>2</td> </tr> <tr> <td>Warehousing</td> <td></td> <td>1</td> <td>-1</td> <td></td> </tr> <tr> <td>Pallets</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Variance by Cost Area	Regional DC		National DC		Quantity	Price	Quantity	Price	Transport	-2		1	2	Warehousing		1	-1		Pallets				
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4. Example Output



Zero-Based Everything enables budget-holders to achieve strategy plan targets by eliminating non-value add activities, minimising nice-to-have and re-investing into future.



6. Learn from the best and look beyond the usual paths to results



Rapid- Zero-Based Everything over 8-12 weeks can deliver a robust plan to optimise fixed overheads, which constitute up to 50% of total costs in specific sectors

P&L cost structure and typical Zero-Based Everything scope

ZBX Sweet Spot

P&L		Variable ¹	Fixed ²
	Net Sales		
Gross Profit	COGS	Raw Materials ✓	
		Direct Labour	✓
		Overhead FTE Cost	✓
		Other Overheads	✓
EBIT	SG&A	SG&A	✓
		Distribution ✓	
		R&D	✓

Illustrative in-scope functions

SG&A

- Finance
- HR
- Legal
- Marketing
- Sales
- Office (Hard and soft FM)
- ESG & Comms
- IT/Digital

Production

- R&D
- Engineering & Quality
- Facilities Management
- Capex
- Repair and Maintenance
- Packaging

Supply Chain

- Procurement
- Logistics
- Working Capital

1. Variable costs like direct materials are adjusted on recurring basis during FP&A cycle. Direct labor is semi-fixed and can be optimised using Zero-Based Everything

2. Typically, fixed costs like SG&A do NOT get challenged during typical marginal budgeting. Hence, ZBB's sweet spot is to regularly re-set fixed costs in sync with a forward-looking strategy

Zero-Based Everything elevates the procurement issue into the boardroom, helping CFOs drive spend transformation effectively. A Zero-Based Everything toolkit, tailored to the needs of PE firms, can deliver double-digit ROI while building resilience for companies to navigate growth-related challenges in the post-Covid economy.

6. Leadership. Action. Results with 4C



4C has decades of experience executing complex restructuring and transformation initiatives. We combine strategic advisory with hands-on operations to create long-term and sustainable value for clients. In the following two case studies, we define and demonstrate how companies can unlock value through Zero-Based Everything led business transformations. To achieve full-potential Zero-Based Everything benefits, 4C teams have implemented Zero-Based Everything use cases across P&L, Balance sheet and Mergers and Acquisitions

	1. P&L-ZBB			2. Balance Sheet-ZBB	3. M&A-ZBB
	<div style="border: 1px dashed black; padding: 5px;"> <p style="text-align: center;"><i>Recommended</i></p> <p style="text-align: center;">Rapid-ZBB Pragmatic-ZBB Full-ZBB</p> <p style="text-align: center;">1 ←————— 2 —————→ 3</p> </div>			Capex lifecycle	Integration and Carveout
Description	<ul style="list-style-type: none"> Ensure P&L visibility to prevent internal inefficiencies. Align actionable value creation with the strategic plan. Pilot the Zero-Based Everything approach with 2-3 entities or cost categories. 	<ul style="list-style-type: none"> Enterprise-wide Zero-Based Everything -led transformation. Focus on selected cost packages. Underspending in one package can't offset overspending in another. 	<ul style="list-style-type: none"> Integrate Zero-Based Everything into BAU FP&A for every P&L line and entity. Link Zero-Based Everything targets to individual performance. Enforce consequences for non-compliance with global policies. 	<ul style="list-style-type: none"> Cross-functional TCO led approach across Capex lifecycle 	<ul style="list-style-type: none"> Accelerate value creation throughout the M&A lifecycle: due diligence, value planning, and exit readiness. Major benefits for Buy-Build platforms.
Typical Scope	<ul style="list-style-type: none"> COGS-Indirect SG&A costs 	<ul style="list-style-type: none"> Selected fixed cost packages across P&L and enterprise 	<ul style="list-style-type: none"> P&L Balance sheet 	<ul style="list-style-type: none"> Capex: Growth, Efficiency and Maintenance Working capital management 	<ul style="list-style-type: none"> Buy-Build Carve-out Exit readiness
Outcome	Cost visibility and value targeting	Sustainable margin expansion	ZBX as BAU process	ZBX as default way of working	Integration and Synergy realisation
Benefit	<div style="display: flex; justify-content: space-around;"> <div style="background-color: #00a68f; color: white; padding: 2px;">P&L</div> <div style="background-color: #ccc; padding: 2px;">Capex</div> <div style="background-color: #ccc; padding: 2px;">M&A</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="background-color: #00a68f; color: white; padding: 2px;">P&L</div> <div style="background-color: #ccc; padding: 2px;">Capex</div> <div style="background-color: #ccc; padding: 2px;">M&A</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="background-color: #00a68f; color: white; padding: 2px;">P&L</div> <div style="background-color: #ccc; padding: 2px;">Capex</div> <div style="background-color: #ccc; padding: 2px;">M&A</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="background-color: #ccc; padding: 2px;">P&L</div> <div style="background-color: #00a68f; color: white; padding: 2px;">Capex</div> <div style="background-color: #ccc; padding: 2px;">M&A</div> </div>	<div style="display: flex; justify-content: space-around;"> <div style="background-color: #ccc; padding: 2px;">P&L</div> <div style="background-color: #ccc; padding: 2px;">Capex</div> <div style="background-color: #00a68f; color: white; padding: 2px;">M&A</div> </div>
Timeline	8-12 weeks	8-12 months	12-24 months	2-4 months	3-6 months

Detailed cost visibility (i. e. who spends how much on what and why) is must and non-negotiable to secure management buy-in

4C's operating expertise helps organisations deliver sustainable savings, in and outside M&A contexts and prepare actionable value creation plans. Key to our success is small but impactful teams of hybrid 'operator / advisor' practitioners with proven operating credentials.



	Repeatable M&A	Buy-Build-Partner led growth & transformation
Context & Objectives	<ul style="list-style-type: none"> Private Equity firm with assets across multiple sectors Use transformative M&A as a key equity growth story level Improve deliverability confidence on pre-deal diligence Leverage best-practices from both merged entities and extract target synergies in 'full' Establish 'cos conscious' culture as competitive advantage 	<ul style="list-style-type: none"> Lean company with legacy of PE ownership for 10+ years Sales in decline and under pressure from private labels In-year savings required to fund must-have investments Sustain the cost as a competitive advantage against hostile buy-out offers Generate cash to fund 'bolt-on' acquisitions
4C's Role	<ul style="list-style-type: none"> Conduct deep-dive analysis of P&L wide cost categories Identify, quantify, and prioritise performance improvement opportunities Implement Zero-Based Everything as the 'no-exception' basis Design and embed robust tracking and monitoring 	<ul style="list-style-type: none"> Embed cost-conscious culture and Zero-Based Everything as default ways of working Achieve target margins by P&L wide cost restructuring Identify and size value creation from fixed overheads Right-size organisation and future-proof operating model
Results	<ul style="list-style-type: none"> Designed and operationalised 'repeatable M&A playbook' Improved deal velocity using detailed sectoral benchmarks Robust Day-1 readiness through bottom-up org designs Locked-in VCP targets into budgets during first 100 days Realised c90% value creation plan during 3 years 	<ul style="list-style-type: none"> Actionable value creation plan incl rapid-results diagnostic Cross-functional collaboration led Zero-Based Everything programme Awarded 'global leader' for delivering double digit returns Unlocked €5.3m 'fuel for growth' via marketing effectiveness €6m in-year SG&A impact including FTE and spend reduction €3m packaging savings via zero-based value engineering
Impact	<ul style="list-style-type: none"> Senior interim operator roles to get things done 10% YoY savings multiple years since 1st roll-out of Zero-Based Everything Mature in-house capability and repeatable M&A playbook Portfolio wide tracking and monitoring capability stack 	<ul style="list-style-type: none"> Realised EBITDA uplift by 2 percentage points Interim operator role for accelerated capability build ROI & pragmatism led change roll-out Zero-Based Everything as BAU finance process across the enterprise

In our experience, fact-based diagnostic is the start of a rewarding journey. Rapid-ZBB projects over 8-12 weeks can deliver a robust value creation plan to optimise fixed overheads, which constitute up to 50% of total costs.

If you are interested in discussing how we could help you through a Zero-Based Everything implementation, please get in touch with one of our experts.

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