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# INSIGHTS



April 2019: Economic outlook: Turbidity  
with increasing precipitation probability  
- focus on indirect costs

The increasing number of rather pessimistic forecasts for economic growth (e.g. OECD, IMF, Wirtschaftsweisen, IDW) are seen by many companies as the first warning signs that they will have to do more of their own homework again.

In times of growth, the signs regularly point to order fulfillment and revenue generation. This usually involves investments in sales, administration and production.

Classically, however, the IKQ (Indirect Cost Quote), personnel costs and material costs increase disproportionately at the same time. If margins and sales are right, the management of indirect costs is usually forgotten or at least neglected. The efficiency and cost potentials are easy to implement, especially in growth. But exactly then there is often no time for an increase in potential.

In a recent survey of CFOs, over two-thirds of respondents mentioned this problem or task with a high, increased and very high priority, which will be looked at in 2019.

There are indeed numerous fields of action and levers for evaluating and optimizing product groups in purchasing. However, in our experience the Zero Base Budgeting (ZBB) approach is particularly suitable in growth phases or at the end of growth phases: It forces the participants to critically question and defend all costs (personnel, material and services). The ZBB has the result that on the one hand an active demand management is maintained, on the other hand process optimizations are initiated by the organization and that the right make-or-buy questions continue to be asked.

Regarding industry 4.0 and digitization, those areas and processes that are particularly suitable for digitization initiatives due to their current cost structure can be identified very quickly via the ZBB.

10% more orders usually do not mean 10% more personnel in order processing - or even 20% more, because future growth has been considered. The right approach is to highlight process efficiency. By increasing the process efficiency, the additional 10% can possibly be achieved with the same team. With the ZBB method, the previous or planned number of employees in order processing is critically questioned and whether a much higher efficiency cannot be achieved through possible automation.

Not to forget the lack of skilled workers. It is becoming more and more difficult to retain qualified employees, especially to find additional ones. It makes sense to automate recurring routine activities and to invest in sustainable processes and functions as part of a ZBB initiative.

Without this compulsion to critically backlight all costs and to back them up with a value, much of the mismanagement remains with the old and, especially in growth phases, then simply with the still older.

By the way, zero base budgeting cannot only be used for indirect costs. Also, for production costs, warehousing and logistics processes, it makes sense to regularly check the value added of costs.

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