

Driving Benefit Based on the Zero-base Budget Under the 3G (Garantia) Capital Model A Case Study of Budweiser InBev

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ABSTRACT

According to a Bain report, the zero-base budget has been ranked first in many management tools in recent years, but the implementation rate is very low. Therefore, this paper takes Budweiser InBev under 3G capital holding as an example to study how 3G capital effectively implements zero-base budget. According to the research results, 3G capital is the process of "blood exchange to blood transfusion" for the M & A (mergers and acquisitions) companies. The whole process solves the problem of zero-base budget based on organizational culture and talent system. This paper studies the case of Budweiser InBev's successful implementation of zero-base budget, and provides suggestions for enterprises to use zero-base budget effectively.

Keywords: 3G Capital model, Zero-base budget, Budweiser InBev.

1. INTRODUCTION

American Wayne Lewis (Wayne Lewis) put forward the idea of zero-base budget for the first time in his article "New Solutions of Budgeting Theory" in 1952. In the early 1970s, the tool spread unexpectedly across the country then worldwide. According to the Harvard Business Review, the zero-base budget ranks first among the ten most favored management tools in the global CEO. As a modern scientific management tool, zero-base budget far exceeds the traditional budget tool in cost control. However, compared with the traditional budget method, although there are many good innovations in zero-base budget, many companies are deterred in practical application, mainly reflected in the change of organizational culture and employee loyalty.

Based on the research object of Budweiser InBev, this paper studies how to effectively implement zero-base budget in Budweiser InBev to obtain economic benefits.

Budweiser InBev (ABInbev), which belongs to the beer industry, has the characteristics of large output but thin profit. In order to obtain greater profit, it is necessary to effectively control cost so enterprises need to budget in advance. However, most enterprises budget according to past data, which

have no scientific constraints on cost, and cannot make dynamic prediction if the environment changes. The zero base budget is based on zero expenditure, and it is scientific in management to make a dynamic change judgment on all actual needs and possible expenses.

Under such condition, Budweiser InBev effectively implements the zero base budget under the operation of 3G capital, completely breaks the "limit" and finally drives the whole industry to update and iterate continuously. According to the latest earnings data, Budweiser InBev's net profit rate in the past 12 months was 19.67%, and the average net profit rate in the past five years was 15.62%, basically the same as the industry average. However, this data is 2-3 times comparing with China domestic beer industry. In conclusion, Budweiser InBev's success contributed from the zero-base budget adopted by 3G capital, and the utility of the zero-base budget is particularly prominent.

2. THEORETICAL ANALYSIS

2.1 Theoretical Basis for a Zero-base Budget

The zero-base budget method, also known as the zero-base budget, is called "the method of preparing plans and budgets based on zero", or ZBB. Management will not base on historical data and only considers whether the expenditure criteria are reasonable or not. On the basis of cost-benefit analysis, the management activities are sequenced and the allocation of resources is determined accordingly.

The zero-base budget realizes the conversion from non-economic expenditure to economic expenditure, and provides cash inflow for the growth of market input. It is no longer a single budget tool, more as a cost control and enterprise operation tool. From implementing the zero-base budget, the company will enhance the efficiency from cost control, the business strategic deployment will be voluntarily implemented by the employees, and they will regard the company as its own, show respect to every penny of the company, also more focus on accountability and understand the value of cost drivers.

2.2 Research Status

The zero-base budget initially applied to the preparation of the company's department budget, and was quickly spread throughout the United States because of its objective evaluation system and remarkable results. In 1982, about 18 states in the United States adopted it, and the system is now

largely complete in most countries. In China, both theoretical and practical, the mainstream view regards zero-base budget as the best budget model, but the budget system is not yet mature. In the paper "zero-base budget research hotspot and frontier analysis — based on visual measurement perspective", most of the research on zero-base budget from 1998 to 2017 is limited to the fiscal budget direction of national and local governments. The direction of budget system reform has not been extended to a wider range.

3. CASE ANALYSIS

3.1 Global Status of the Beer Industry

From prospective industrial research institute data at 2018, the biggest world's beer producers are Budweiser InBev, Heineken, Carlsberg, China Resources Beer, Morson Comson and Tsing Tao Beer. The market competition pattern is stable. Budweiser InBev is still the world's best seller. According to its annual report, the company generated revenue \$54.6 billion in 2018, sold 56.7 billion liters, 28.7% of total global volume. That's 2.4 times as much as 11.8 percent of Heineken, 4.2 times the 6.7% of Carlsberg in third position. "Figure 1" shows the data.

Since 2008, Global beer production increased by about 8.78 billion liters, the increase was about 4.8%. The countries with more pronounced growth were Brazil (3.8 billion liters), Viet Nam (2.85 billion liters) and Mexico (1.25 billion litres). In 2018, the fastest growth is the Southeast Asian. The increase was 4.3%, due to the strong growth performance in India (4.9%) and the Philippines (11%).

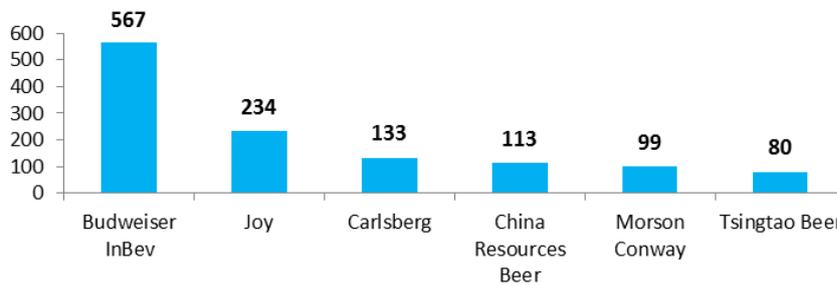


Figure 1 The beer industry's top six annual output in 2018(100 million liters).

In addition, the world's largest beer producer in 2018 remained the Asian region, 32% of the world, followed by the European region (52.1 billion liters), and 27.3% of the world. In addition, the Asia-Pacific region, with the largest sales volume (68.95 billion liters), 35.3% of total sales, but because of the large

population density in the Asia-Pacific, per capita consumption was only 16.8 liters, much lower than other regions. "Figure 2" shows the data.

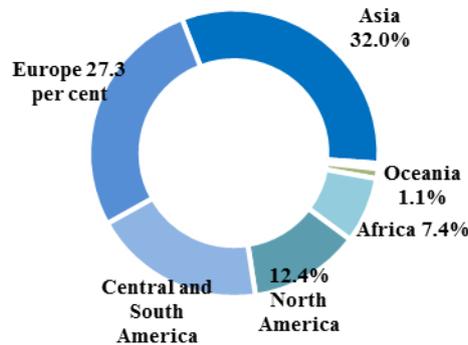


Figure 2 Regional distribution of global beer production in 2018.

3.2 Briefing on the Zero-base Budget of Budweiser InBev Under the 3G Capital Model

3G capital is different from other investment institutions; its model is to earn long-term return from acquisition and operating. And 3G capital the iconic means of capital operation is the use of zero-base budgets, and typical cases include Burger King, Kraft Heinz and Budweiser InBev.

We know that the implementation environment of zero-base budget is more stringent, and the key problem is how to integrate organizational culture and talent mechanism together to build a business environment in line with the development of zero-base budget. First of all, organizational culture needs improvement, employees will take the duty of care to every business activities, and they will regard the enterprise as their home, which means they will treasure company wealth, saving every penny. Under such culture, some employees interests and welfare will be sacrificed, which cause loyalty problem, as a result the probability of brain drain will increase, which requires a set of HR corresponding talent cultivation system.

Lehman, the founder of 3G capital, builds up a company from only 3-room office to top investment bank. He cannot do without the establishment of the elite talent system. The talent system has also become the core competitiveness of the 3G capital, and its talent selection characteristics are "PSDs", that is, poor, intelligent and strong desire to become rich. Using this feature, there is a corresponding elitist payment system, which Lehman replicates Goldman's model. Under this system, the pressure of the talents trained in the 3G capital to work and the pursuit of the performance of the cold storage have reached a

near crazy level, which has also promoted the continuous progress of the 3G capital operation enterprises.

3G capital always adhered to elite system in the process of operating, and this idea also meets the requirements of zero-base budget for the implementation of the environment.

3.3 Budweiser InBev Zero-base Budget Application

3.3.1 Analysis of the Drivers of Implementation of the Zero-base Budget

3.3.1.1 Economic Situation and Industry Level

Since 2006, the global economy has begun to enter a weak state, the financial crisis began to appear credit crisis in two years, most enterprises failed to survive, in order to adapt to the economic environment. Most enterprises can only maintain their profits by reducing staffs, non-essential expenses, and selling unnecessary assets, which requires enterprises to make economic decisions.

The development of beer manufacturing industry has been a mature and saturated market, and the profit margin of the whole industry is very low. Between 2015 and 2019, the beer industry's return on net assets was at its lowest level compared with other wine industry. For long term it is quite dangerous for business. Therefore, enterprises need to continue to carry out new plans to increase revenue and cut expenditure. Nowadays, it is very difficult for each production and sales volume to break through again, and it is not scientific to increase the price of goods. Based on this, increasing sales through M & A is undoubtedly a long-term way to drive efficiency, but

it will also aggravate the fierce competition in the market. Although M & A brings many benefits, it often needs to pay a premium to carry out M & A. The premium paid can only be grafted to the operating cost. Based on this, zero-base budget, as a

cost constraint tool, can be flexible in the face of severe changes in the economic situation and market environment, and is more scientific than other tools. "Figure 3" shows the comparison.

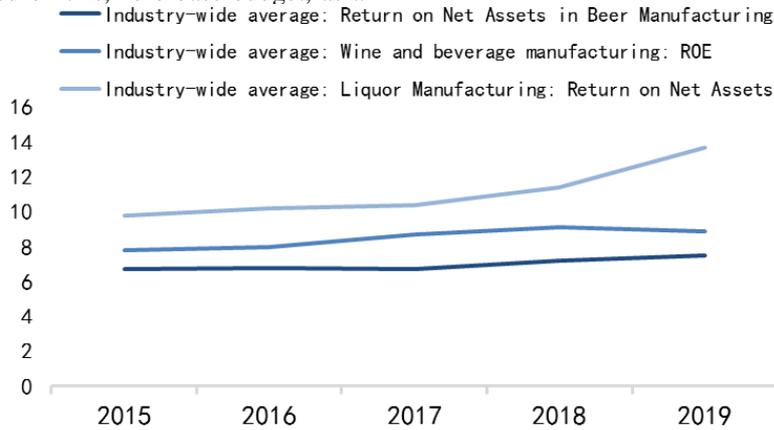


Figure 3 Comparison of the average returns on net assets in different industries, 2015-2019.

3.3.1.2 Strategic Drivers

3G capital model is to earn long-term benefits by operating a business. For capital, the purpose of implementing zero-base budget is not only to reduce costs, but also to better apply funds to strategy. The founder, Lehman, argued that implementing a zero-base budget would not treat overhead as an expense, but rather as an opportunity to restructure, as well as years of investment in assets such as capacity-building and talent, to create a sustainable competitive advantage. Since its establishment, Budweiser InBev has started to implement a zero-base budget. Up to now, almost every year there will be mergers and acquisitions, in order to compete for more market share, through mergers and acquisitions, to reduce the public relations expenditure caused by industry competition and in order to form an oligopoly in the world.

3.3.1.3 Organizational Culture

Before Budweiser was acquired by InBev, the group's controllers bought a lot of vanity assets. Under his leadership, the company's management was loose, messy, and there was a gap in business conditions. After the merger, Budweiser InBev must change the problem, with the merger, 3G capital brought zero-base budget into the industry.

Bain believes: "each organization is unique; in order to achieve the best results, zero-base budget transformation must adapt to a company's culture, expand its advantages and solve strategic and cultural

problems." A zero-base budget will bring about a significant cultural and behavior change. The original Budweiser itself has a state of lax management and chaotic system, so 3G capital introduces its own elite culture and trained talents into Budweiser in order to reshape the organizational culture of M & A enterprises and create a platform for building zero-base budget.

3.3.2 Zero-based Budget Driven Benefits

3.3.2.1 High Level of Industry

Since the implementation of the zero-base budget, Budweiser InBev's performance is bright. From mergers and acquisitions in 2008 to the end of 2019, Budweiser's shares rose from about \$25 to a maximum of about \$122, and its market value grew from \$83.5 billion to a maximum of \$2010 billion. In addition, its wholly-owned Budweiser Asia Pacific listed in Hong Kong in 2019, the market value of more than 320 billion HK dollars;

Budweiser's net profit is only \$1.9 billion in 2008, Net profit was \$14.4 billion in 2013, Ten years after 2008, Budweiser's average net profit is about \$6.9 billion, about 3.6 times, net interest rates far exceed the industry's level of about 5%, The average net interest rate is over 20 per cent; The average shareholder return is about 16.24%, maximum period was 31.46%. This is why the stock price is so strong;

With the help of zero — base budget, the company from cost savings into strategic expansion, from expanding global market share into form an

oligopoly. As of 2019, Budweiser InBev has about 30% of the global market share, double the number in 2008, is three times than Heineken (No.2). Because of its huge market share and size, In 2018, Budweiser InBev's revenue is about \$64.6 billion, more than 2

times compare with Heineken, second place was \$26.5 billion, Compared with domestic listed leading enterprises — China Resources Beer, With only \$4.7 billion in revenue, only 8% of Budweiser InBev's revenue. "Figure 4" shows the detail information.

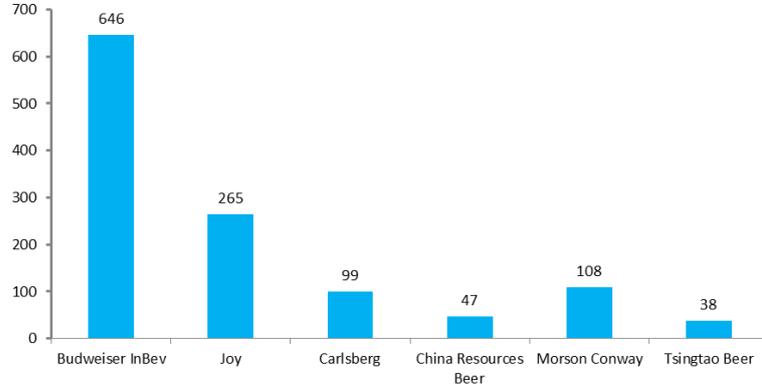


Figure 4 The beer industry's top six revenue streams in 2018(\$100 million).

As a special note, in 2016, Budweiser InBev merged the SABMiller of the world's second-largest beer company through capital investment, increasing current interest payments to more than three times, sharply reducing net profit this year and related

financial indicators. But then the financial data performance is still excellent, in 2019, Budweiser InBev with bright financial data to win the second place in the global fast-moving industry. "Table 1" and "Table 2" have more details.

Table 1. InBev 2015-2019 income statement data (100 million dollars)

Reporting period	2019	2018	2017	2016	2015
Operating income	524	530	549	455	436
Operating costs	204	199	210	178	171
Gross profit	320	331	339	277	265
Operating expenses	193	255	241	234	140
Of which: interest expenses	60	93	70	94	31
Operating profit	126	76	98	43	125
Pre-tax profits	128	77	103	43	125
After-tax profits	100	52	86	27	99
Net profit	104	57	92	28	99

Table 2. Main financial indicators for INB 2015-2019

Reporting period	2019	2018	2017	2016	2015
Asset-liability ratio	64.27%	69.02%	67.41%	68.49%	66.04%
Property rights ratio	2.01%	2.48%	2.29%	2.48%	2.11%
Current ratio	0.83	0.53	0.66	1.07	0.54
Net sales rate	19.9%	10.42%	16.27%	6.08%	22.63%
Basic EPS	\$4.62	\$2.21	\$4.06	\$0.72	\$5.05

3.3.2.2 *Efficient Tool Management*

Although the successful implementation of the zero-base budget enables Budweiser InBev to achieve a high level of industry, it cannot be separated from other tools, such as ERP numerical control

management and performance supervision and evaluation.

The zero-base budget, because of the complexity of everything from scratch, huge data makes most enterprises fear, realistic success cases are few, many

people do not think it can be applied to large, complex multinational companies, but Budweiser InBev created this miracle, as a large-scale multinational enterprise, in order to achieve the current internal resources parallel, reduce the cost and

workload caused by collation, data check, Budweiser InBev pioneered the zero-base budget into the ERP system, using the company's intranet and subordinate enterprise ERP interface to save time and energy.

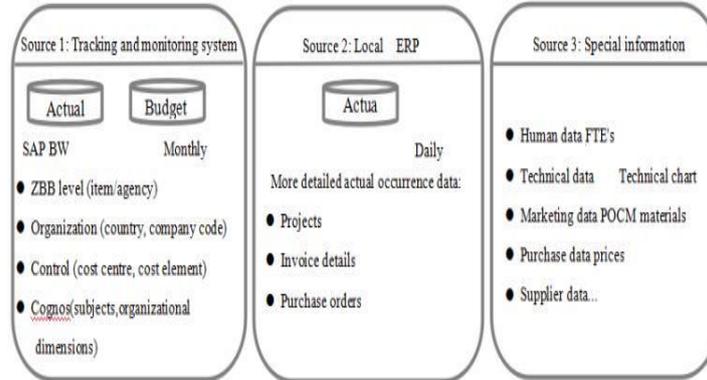


Figure 5 Embedded Model of Zero Base Budget and ERP of 100V InBev.

Besides, G capital takes the means of determining the performance goal to play its guiding role, and its principle is to associate the work item with the activity performance, and to measure the benefit of the project with the performance measure. However, the zero-base budget does not have the regulatory role of evaluation and control, which makes up for this deficiency. The former plays the planning function, while the latter plays the evaluation and control function.

Based on the drawbacks of the zero-base budget, but considering the advantages outweigh the disadvantages, Budweiser InBev has made Budweiser InBev, have a rigorous thinking model like people through the thinking of auxiliary management tools Thus making management more regular and transparent.

3.3.2.3 A Highly Transparent Talent Management System

One of the keys to the implementation of the zero-base budget is employee loyalty, which depends on the atmosphere created by the organization and the difficulties in implementing the zero-base budget. It needs a "platform" to play. Therefore, there is a zero-base budget and elite culture combined with the talent system. Lehman believes that the long-term business, the most important thing is people. Based on the talent system under 3G capital, a strong and stable platform is built for the zero-base budget. A "zero-base budget + elite culture" talent management system allows companies to have very high transparency from top to bottom, for example,

whenever new systems or policies are formulated, every employee from the top to the bottom involve in. Both reflect equality and facilitate mutual supervision between the upper and lower levels. "Figure 5" shows the relationship.

4. CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

Based on the above analysis, 3G capital in the implementation of Budweiser InBev zero-base budget is based on three considerations below:

4.1.1 Internal Control Environmental Failure

3G capital acquires an enterprise lack of internal control, only such enterprise, whether from the point of acquisition cost or strategic development, it is helpful to reduce the friction caused by cultural incompatibility caused by reorganization and to complete the process of blood exchange.

4.1.2 The Corresponding Talent System

The "blood exchange" of the M&A company, followed by the process of "blood transfusion" reengineering, has carried out unified training and management, and is familiar with the corporate culture of the 3G capital. By assigning these elites to the M&A company, the hidden costs of restructuring are reduced.

4.1.3 Variable Pay Mechanism and Performance Management

After completing the process of "blood exchange" to "blood transfusion", we need to give value to enterprises. Budweiser InBev's M & A road, from the source is to build a zero-base budget implementation platform to help it form an oligopoly. But the implementation of the zero-base budget means sacrificing the welfare of employees, and it is difficult to ensure that employees are loyal to the enterprise. 3G capital knows that the key to the implementation of zero-base budget lies in employees, so by establishing variable compensation mechanism and performance management, the risk of brain drain caused by lack of welfare is also transferred while improving enterprise performance. This mechanism not only guarantees the employee's own interests, but also makes the enterprise maintain high efficiency operation.

4.2 Recommendations

4.2.1 Sound Internal Control System

In order to achieve the strategic goal, enterprises need to have a sound and good steady-state, and such a steady-state environment is internal control, the scientific formulation and implementation of internal control system, it can standardize enterprises to make strategies that meet strategic needs, improve sustainable competitive advantage and create long-term value. It is integrated into the enterprise through environmental control, risk assessment system control, internal supervision and audit control, and related to the interests of the enterprise. Every enterprise has its own control, method and procedure, but in practical application, it will be more or less affected by some factors such as management idea, manager quality and morality, information communication ability and so on, so it cannot reach effective control. If there is no sound internal control, there will be many obstacles in the implementation of new management tools and organizational culture change. It is an effective measure to implement zero-base budget to ensure that the internal control system is implemented accurately and the effect is good.

4.2.2 Employees Are Key to Project Execution

If companies plan to implement a zero-base budget, the project will not be implemented because of poor implementation. The reason is that they spend too little time and energy training their employees to

properly guide them to understand what a zero-base budget is rather than implement the project only. Therefore, it is possible to realize the utility of zero-base budget by changing the thinking of employees from "we plan to promote zero-base budget in the organization" to "we help the organization to accept and use zero-base budget ", then the utility of zero-base budget is possible. When the thinking changes, then the enterprise will usher in a "triple color " — improve revenue, profits, staff dedication. But there is also a need to shift the risk of loss from cost cuts at the expense of employee benefits by setting variable compensation mechanisms or other drivers such as equity incentives.

4.2.3 Combination of Performance Management

Because of the poor maneuverability of zero-base budget, combined with performance management, the maneuverability of zero-base budget can be greatly improved. The first is the expected use of project cost, when the estimated cost of a project has been determined, the performance appraisal can be carried out according to the implementation of cost control to evaluate the degree of achievement and achieve performance evaluation. Second, compared with the zero-base budget, the requirement of performance appraisal for technical level is relatively simple, so the combination of each other can enhance the practicality of the former.

AUTHORS' CONTRIBUTIONS

Liangchen Zhang was responsible for writing the manuscript and analysing data, Yu Wu contributed to revising and editing, and Kangtai Huang was responsible for data collection.

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