

ACCOUNTING

in the headlines

How will zero-based budgeting impact Unilever?

Unilever is a multinational consumer goods company headquartered in Rotterdam, Netherlands, and London, United Kingdom. Some of its major brands in the U.S. include Dove, Hellman's, Lipton, and Ben & Jerry's. The company is organized into four main divisions including Foods, Refreshment (beverages and ice cream), Home Care, and Personal Care.

Despite reporting better than expected results for 2015, the Unilever CEO, Paul Polman, has warned that the company expects tougher market conditions in 2016. Speaking in mid-January 2016, Polman pointed to the volatility in the stock market in January 2016 as evidence of the tougher market conditions.

Polman stated that Unilever is rolling out a zero-based budgeting initiative across the entire company. This initiative is expected to save approximately €1bn (about \$1.09 billion in US dollars) per year by 2018. Unilever is seeking steady improvement in its operating margin and strong cash flow.

Questions

1. What is zero-based budgeting?
2. What is operating margin?
3. How would zero-based budgeting help Unilever increase its operating margin?
4. How would zero-based budgeting impact Unilever's cash flows?
5. What benefits does zero-based budgeting potentially hold for Unilever? What disadvantages?
6. Put yourself in the position of a brand manager for Unilever. Imagine that your brand has been performing well over the past three years. How would you feel about the zero-based budgeting initiative? How could this impact your work performance?