



Reduce business costs: the full report

Example: a 600-person maker of car wiring harnesses in Sousse, Tunisia, whose margin fell from 7% to 2%. All four stages, from the guided tour.

The playbook at a glance

- 1** Where did costs run over plan, and why?
EUR 3.58 million over budget. EUR 2.05 million of it comes from how the work is done, not from prices
- 2** Which costs are out of line with others?
3 cost areas are out of line: **Overhead functions**, **Scrap and rework** and **Freight**, worth about EUR 3.27 million a year at the benchmark
- 3** What actually drives those costs?
Small custom orders loses money once its activities are counted: -14%, not 1%
- 4** What would you fund if you started from zero?
Next year's budget: EUR 13.06 million, EUR 2.4 million below last year's spending. 2 packages below the line

Where did costs run over plan, and why?

EUR 3.58 million over budget. EUR 2.05 million of it comes from how the work is done, not from prices

Spending against budget: EUR 46.78 million against EUR 43.3 million: EUR 3.48 million over (8%)

Overruns: EUR 3.58 million in all, 89% of it in the 3 largest lines

Copper: EUR 1.88 million over: price EUR 1.08 million (**Purchasing**); how the work is done EUR 800,000 (**Operations**)

Freight: EUR 900,000 over: how the work is done EUR 850,000 (**Planning**); price EUR 50,000 (**Purchasing**)

Overtime: EUR 400,000 over: how the work is done EUR 400,000 (**Quality**)

Under budget: EUR 100,000 across the lines that spent less than planned

What this may mean

The pieces that come from how the work is done, such as scrap, rework and rush deliveries, are the ones the business controls. Each piece now has a name and an owner, so each can be acted on by the person who can change it. **Copper** is mostly price: talk to purchasing and customers there, not operations.

Investigate next

In stage 2, compare **Copper**, **Freight** and **Overtime** with comparable businesses: are they high by any standard, or only against your own plan?

Favorable and unfavorable only say which way a number moved against the budget, not whether anything good happened.

Price variance = (actual price – budget price) × actual quantity. Usage variance = (actual quantity – budget quantity) × budget price. Together they make up the line's overrun.

Run this every month against the new budget once the playbook is done: a saving that exists only in the budget is not a saving.

Which costs are out of line with others?

3 cost areas are out of line: **Overhead functions**, **Scrap and rework** and **Freight**, worth about EUR 3.27 million a year at the benchmark

The comparison: **A competitive benchmark, source named, definitions checked**

Overhead functions: 11% against 8%: +38%, a large gap, worth about EUR 1.44 million a year

Scrap and rework: 4.1% against 1.5%: +173%, a large gap, worth about EUR 1.25 million a year

Freight: 3.2% against 2%: +60%, a large gap, worth about EUR 580,000 a year

Quality engineers at customer sites: 1.2% against 0.6%: +101%, a large gap. Kept: a deliberate choice

Direct labor: 14% against 14%: in line

What this may mean

These areas cost more than comparable businesses spend, and nobody has called the gap a choice. Benchmarking shows where costs are high, not why: the same spending can be caused by a few products or customers. **Quality engineers at customer sites** stays out of the cuts, with the reason written down.

Investigate next

In stage 3, trace **Overhead functions**, **Scrap and rework** and **Freight** to the products and customers that cause them, with activity-based costing.

Each figure is compared per unit of output or as a share of sales, not as a total, so businesses of different size can be compared.

Bands: within 10% of the benchmark is in line; 10% to 25% above is a small gap; more than 25% above is a large gap. A gap's worth is the difference at the benchmark, over the period.

What actually drives those costs?

Small custom orders loses money once its activities are counted: –14%, not 1%

Overhead traced: **EUR 9.6 million in 4 activities**

Small custom orders: 22% of sales. Margin 1% by the old method, –14% with ABC; above all from **Machine setups**. Plan: set a minimum order

Large carmaker programs: 78% of sales. Margin 3% by the old method, 7% with ABC

Rates: **Machine setups:** EUR 500; **Engineering changes:** EUR 3,000; **Quality inspection:** EUR 50; **Order handling and shipping:** EUR 200 per driver unit

What this may mean

Spreading overhead by sales made **Small custom orders** look profitable. Charged for what it uses, it costs more to serve than it brings in, and the larger, simpler work pays for the difference. Cutting costs across the board would leave that in place.

Investigate next

In stage 4, rebuild the budget from zero. Packages that cut the loss-making work, the costly activities, or the costs stage 2 found out of line rise up the list, whatever their size.

Your plan: **Small custom orders:** set a minimum order. Where you change the price or the terms, expect some customers to accept and some to leave; those who leave take their losses with them.

Of the 3 areas stage 2 found out of line, 3 are traced to activities here.

Each rate is the activity's cost pool divided by its driver units for the year. Each customer type is charged the rate times the units it used. Precision matters less than direction.

STAGE 4 OF 4

What would you fund if you started from zero?

Stage 4 diagnosis

Next year's budget: EUR 13.06 million, EUR 2.4 million below last year's spending. 2 packages below the line

Next year's budget: EUR 13.06 million for 9 packages, within EUR 13.3 million available

Against last year: EUR 2.4 million lower than last year's EUR 15.46 million

Below the line: **Second inspection of every batch** and **Trade show program**: EUR 1.3 million, not funded

Protected and funded: **Maintenance** and **Quality engineers at customer sites**

Spending more where it pays: **Planning team**: EUR 60,000 more than today, saving about EUR 600,000 a year elsewhere

Funded at the minimum: **Engineering change desk**, **Machine setups** and 2 more: EUR 2.14 million less than today

Tied to the evidence: **8 of the funded packages deal with what stages 1 to 3 found**

What this may mean

Every amount in the budget now has a reason, and the cuts fall on activities the evidence showed didn't earn their cost. Spending goes up where it pays: zero-based does not mean lower.

Investigate next

Check every month that the savings arrive: run the variance analysis against this new budget, line by line, and track a few cost measures as KPIs.

Zero-based budgeting justifies every activity from nothing, instead of starting from last year's figure. Money is given out down the ranked list until it runs out; what sits below the line isn't funded.

The funded packages expect to save about EUR 1.6 million a year elsewhere, such as less air freight or scrap. Those savings land in other budget lines: lower those lines' budgets by the same amount, or the monthly check won't show whether they arrive.

Many companies apply it to overhead and discretionary spending first, a few functions a year, rather than to the whole budget at once.

Next year's budget

Next year's budget EUR 13.06 million 9 packages funded	Available EUR 13.3 million 240,000 unallocated	Against last year −2.4 million Last year: EUR 15.46 million	Below the line EUR 1.3 million 2 packages not funded
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The ranked list

RANK	PACKAGE	LEVEL	COST	FUNDED?
1	Maintenance Keeps the cutting and crimping lines running	Current Planned maintenance, as today	EUR 860,000	Yes Required
2	Quality engineers at customer sites Engineers on the carmakers' sites	Current All four programs covered	EUR 900,000	Yes Customers pay for it
3	Scrap reduction project Find and fix the causes of scrap on the cutting lines	Current A team of three for a year	EUR 400,000	Yes Saves 1 million a year
4	Planning team Plans production so orders ship on time	Improved Four planners and a scheduling tool	EUR 300,000	Yes Saves 600,000 a year
5	Engineering change desk Handles carmakers' change requests	Minimum Changes batched monthly; a fee for custom work	EUR 1.2 million	Yes Activity: Engineering changes
6	Quality inspection Inspection of every batch as it leaves the line	Current Every batch, once	EUR 1.3 million	Yes Out of line: Scrap and rework
7	Machine setups Setup crews for line changeovers	Minimum Fewer setups once custom orders have a minimum size	EUR 1.8 million	Yes Activity: Machine setups
8	Order handling and shipping Order desk, packing and dispatch	Minimum Fewer, larger shipments	EUR 2.8 million	Yes Out of line: Freight
9	Finance, HR and IT The overhead functions	Minimum Shared service for payroll; one system	EUR 3.5 million	Yes Out of line: Overhead functions

RANK	PACKAGE	LEVEL	COST	FUNDED?
Funding runs out here				
10	Second inspection of every batch A second check after the first inspection	Current Every batch checked twice	EUR 700,000	No
11	Trade show program Stands at three European auto shows	Current Three shows a year	EUR 600,000	No

DECISION POINT

Adopt the budget, then check it every month

Every amount now has a reason. Run the variance analysis each month against this budget: a saving that exists only in the budget is not a saving.

Checking that the savings arrive

Every month, against the new budget

Run the [Variance Analysis Tool](#) in the first week of each month, starting **November 1, 2026**, **December 1, 2026**, **January 1, 2027**: this budget against what was actually spent.

A few cost measures to track

MEASURE	TODAY	TARGET
Scrap and rework as a share of sales	4.1%	1.5%
Air freight a month	71,000	20,000
Margin on small custom orders	-14%	Above 0%