

SMART SPENDING

IS NOT JUST ABOUT THE NUMBERS

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GET THE COST TRANSFORMATION MINDSET RIGHT AND THE FIGURES FOLLOW

Just 36 percent of senior executives report their organizations sustain benefits from cost transformation programs.¹ This, despite headlines heralding the rise of cost transformation programs across industries, from consumer goods manufacturer Procter & Gamble, to the largest bank in Israel, Bank Hapoalim.

What does this 36 percent do that the rest do not? We believe they create a smart spending mindset.

Controlling costs can be framed in many different ways (e.g., zero-based budgeting and its counterparts) but the savvy leadership team presents it to employees as “smart spending.” Smart spending implies an employee’s active role and draws a parallel to what many of us already do in our personal lives. Conversely, “cost transformation” sounds like one more corporate program to which employees must adhere, but would rather ignore.

Leaders who know how to instill the right mindset, and make employees partners in reinventing their company, tend to see better results. These leaders directly correlate savings to growth in an inclusive, business-driven approach that can be the missing ingredient in many cost transformation programs. Add a smart spending mindset and you could be adding your company to the elite upper third that lead the way with successful cost transformation.

BEYOND COST CUTTING

Beyond zero-based budgeting (ZBB) and its counterparts, lies new growth, profitability and sustainability. With most industries experiencing disruption from nimble, lean startups—many in countries where the cost of doing business is far lower—changes in long-term thinking about spending are fast becoming a competitive necessity.

While over the past several decades a large percentage of startups have failed, the next five years provide a different landscape entirely. There are now more than 140 “unicorns”—startups with valuations of \$1 billion or more — with a total valuation of more than \$500 billion.² An ownership mentality, by employees en masse, will be key to competing in this emergent economy.

The established players in this scenario may initially fight an uphill internal battle as they try to reverse the lethargy that can result from size and scale. Startups have the advantage of starting lean and hungry, with a mindset that sees smart spending as a necessity for survival.

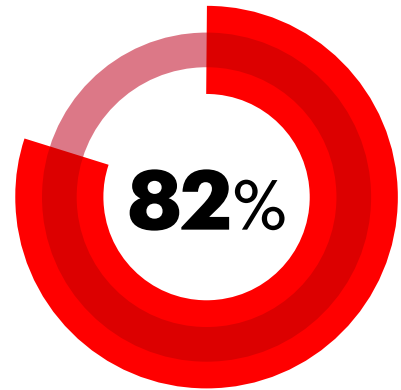
FULL SERVICE, **NOT LIP SERVICE**

When leaders position cost savings as fuel for growth, it is a critical first step towards engaging and motivating the workforce.

And a motivated workforce can translate directly to financial results. Accenture Strategy analysis of over one million employees involved in change initiatives at more than 200 organizations finds that high levels of passion and drive can increase benefits realization by 50 percent. Conversely, high levels of fear and frustration can result in a more than 20 percent decline.³

The importance of creating buy-in to the smart spending vision is clear. The same Accenture Strategy analysis finds that vision and direction is the key driver of benefits realization from change, having nearly 2 to 4 times more importance than any other driver. But simply understanding the vision is not sufficient – emotional agreement is at the heart of differences between high and low performers. And trust in leaders is the key enabler of emotional agreement.⁴ That trust is built when the workforce see leaders demonstrate support of smart spending values through their actions, not just their words.

In an era where 82 percent of organizations are focused on cost reduction to improve margins⁵, addressing the human part of the equation matters immensely.



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USING HUMAN NATURE TO YOUR **ADVANTAGE**

The temptation with cost transformation initiatives is to run them as a “Program” that includes plenty of rules, processes, boxes to check, forms to fill out, and spreadsheets to monitor.

And while the process aspect of smart spending is very real, leading with it spells disaster. Downplaying rules, and emphasizing mindset, bodes much better for the overall success of a program.

Executives can harness some of the many biases scientists have identified to design actions that further their cause by changing behaviors. For example, availability bias.

Most people make decisions based on information that comes to mind the quickest, versus information that is less prominent or not readily available.

By providing their people with forums for information on smart spending success stories and tactics, leadership teams keep cost conscious behaviors top of mind and therefore more likely to be repeated.

Sunk cost bias can also be managed. Many people find it difficult to give up on a strategy or process after investing in it, i.e., “We’ve always done it this way.”

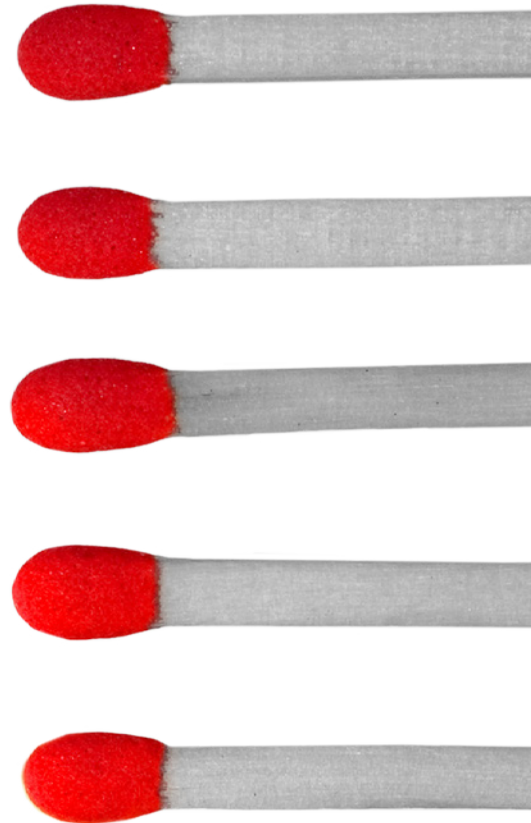
However, if leadership teams make the picture clear—large companies must shave costs to free funds for investment in growth or be beaten by their smaller competitors—they take advantage of loss aversion bias. Thoughts of sunk costs tend to dissipate quickly when the situation is presented as a change-or-become-extinct scenario.

In addition to bias, the nudge effect tends to be successful in smart spending scenarios, as in “People just like you are doing it.”

Companies can also stimulate intrinsic motivation. Employees who want to spend wisely are much more likely to do so than employees who are issued an edict from Executive Row.

A major global food manufacturer recently encouraged employees to act as an owner of the company would—weighing each decision against the merits for all involved. Company leaders used this value to instill personal responsibility in employees in a variety of areas, but it was particularly effective in helping to promote smart spending. The company reinvested savings generated via employee ideas in new product development, longer-term product growth opportunities and building new digital capabilities.

Storytelling—highlighting everyday heroes who shave costs or reinvent more efficient processes—works. Recognizing and rewarding the right behaviors is a basic behavioral science principle. From giving people a portion of the savings they identify, to creating forums where they can share ideas and successes, to highlighting champions of the cause, behavioral science shows us that people want to make a difference and be recognized for it.



EMPLOYEES AS PARTNERS EQUALS **INNOVATION**

Innovation naturally occurs at scale when employees feel like partners in their company.

Recently, a global company with operations in Latin America ran local workshops to complement global smart spending initiatives. Leveraging global tools and data sets, employees generated savings opportunities in local marketing costs of more than 20 percent. A mid-level manager commented on his surprise at the level of engagement and passion from the people involved in a situation where he thought barriers would prohibit success. Instead, he saw people opening up and feeling energized by their potential role in the company's success. Citing "an opportunity to play a role in shaping the future," he said the teamwork was the best he had seen in more than a decade at the company.⁶

Crowdsourcing allows rapid collection of employee ideas in volume. Assessment, prioritization and impact testing can quickly follow, allowing for near immediate feedback. Approaches such as rapid prototyping and advanced analytics allow organizations to engage employees at all levels, making cost transformation less top-down and more bottom-up. Case in point, Accenture worked with a large company to generate more than 3,000 smart spending ideas from its employees. Using the same digital platform leading consumer goods companies use to crowdsource ideas with consumers, this initiative generated US\$1.5 million in genuine savings opportunities and helped to engage from the bottom-up, as well as driving the program from the top-down.

A LEADER'S CHECKLIST FOR A SMART SPENDING MINDSET

- Have you defined your smart spending story? Do you know where and how cost transformation will fuel future growth in your organization?
- Have you been a transparent leader? As such, are you clear on identifying your biggest areas of spend compared to your peers?
- Have you made a visible commitment? What will you publicly promise to stop, start or do differently? What have you already done?
- Have you asked your people about the opportunities they see from the ground up?
- Have you appealed to hearts and minds? How are you leaning on personal beliefs and emotional triggers to paint a picture of a smart spending future?
- Have you put the social, analytic and collaboration tools in place to effectively engage employees across the organization?
- Have you showcased your successes? Are you sharing and celebrating real stories, with real people and real results?
- Have you fulfilled what you promised? Are you showing your people where and how you're re-investing for growth, and what benefits you've already achieved?

HOW TO BECOME A MINDSET MASTER

PROVE A PARTNERSHIP

Setting a vision of growth in new areas, fueled by savings from existing areas, is key. Taken one step further, tie your company's progress directly to employee ideas and you foster a partnership mentality. Remember that high levels of passion and drive can increase realization of benefits by 50 percent. A partnership mentality is your best route to sustainable passion and drive.

CREATE INTRINSIC APPEAL

Before you design your cost transformation initiatives, seek input in areas where your teams have expertise and can drive outcomes. Use behavioral science principles to motivate smart spending behavior. Emphasize the positive, make opportunities relatable and appeal to social proof, i.e. here's what others just like you are already doing, to reinforce the adoption of new norms.

DEMOCRATIZE WITH DIGITAL

Leverage social, analytic and collaboration tools to effectively engage employees across all parts of the organization.

The people portion of any smart spending program is no longer "soft and fuzzy." The data is clear: leading with mindset and empowerment is key to the success of any cost transformation effort.

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NOTES

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