Georgie Frost: Global inflation, geopolitical tension, and soaring labor costs are squeezing business margins. Companies are increasingly needing to justify every penny of their spending. And justifiably so. It’s estimated that around 15% of operating expense is wasted—money that could go back into growing your company. So is it now the time to look under the bonnet and reinvest into your business? I’m Georgie Frost, and this is The So What from BCG.

Mark Austin: This is really about transforming the way you do advertising, the way you go to market, changing the ways of working of the organization, funding and driving your strategy. It is a great opportunity to really evaluate what you’re doing and why you’re doing it and how you can change ways of working to drive your agenda.

Georgie Frost: Today I’m talking to Mark Austin, BCG’s global leader of zero-based transformation.

Mark Austin: There are so many examples from the programs we have done with clients around what you could refer to as ridiculous spend that really could be focused back into the front line. So I had a client which was spending almost 20 million globally on postage in a digital age. It does lead you to question, why not and why not just use an email instead rather than a good old-fashioned stamp.

I’ve had a catering company where they were spending millions, and I mean millions, on unbranded menus in bars with their competitors’ products on the pieces. I’ve got people who in a digital age are spending lots of money, and again, millions, on flying people around the world to training events when actually there are very good ways to train people online, as we all know.

But what I really want to emphasize is it’s not just silly, it’s actually, this is an opportunity for the CEO and CFO to transform their organization and to take that money and to invest that money back into what’s important for them, for the shareholders, for the customers, for the consumers. And so really changing the way they think and way they operate to do stuff differently to put back into front line. And that can be on ESG, that can be on your digital agenda, that could be on driving the brand if you’re a consumer company.

Georgie Frost: How do these practices, like you spoke about there, how do they creep in? Or is it that they’re legacy expenditure and nobody thinks to look over it?

Mark Austin: I think the reality is it’s a bit of both. I mean, it’s often legacy. I mean, the postage one is almost certainly legacy, which has been handed down from one employee to the next over the years and people are sending out, I don’t know, checks or something. In fact, the majority of that was actually weekly checks when actually you could transfer it automatically by bank balance. So there’s a lot of legacy and people haven’t embraced the digital age and actually haven’t really looked at where we are from a digital point of view.

But actually you touched on something, Georgie, that I think is really important, which is spend that people don’t focus on. Because everyone’s looking at, I don’t know, if you’re a consumer goods company, everyone’s looking at commodity prices or raw material prices. Any clients are looking at transport costs, et cetera, today in today’s day and age, inflation, et cetera. But some of these things people don’t look at.

But equally, I wouldn’t just want to say it’s the non-customer-focused stuff. We are finding significant opportunities in marketing, in really reappraising how you go to market and how you use your marketing dollars or pounds to really drive consumer engagement. And that’s right at the forefront of where the consumer and the customer really is looking. So to me it’s a bit of legacy, but it’s also a
little bit of, actually it’s not being focused on specifically.

Georgie Frost: I’ve spoken to a lot of people on this podcast about innovation, about taking risks, taking risks and failing. But with taking risks and failing, I imagine there’s a lot of wasted money.

Mark Austin: Well, I mean, first of all, it may not be bad decision making, it may be legacy and it may have been the right answer three years ago before COVID and now we’ve changed the ways of working. I mean, you think about a lot of this is often there’s an opportunity in terms of office space, for instance. And people are, as we all know, not coming into the office so much and we’re changing the way we utilize our office space. So it's not necessarily silly things people are doing or it's not necessarily in retrospect a mistake.

But I think to answer your question specifically, this is really about working with organizations and with the teams to say, “What should we be doing differently?” Slightly flippantly often say when we kick off our workshops with the client, well, number one, it has to be by the client for the client. It's not a consulting piece where you are being pushed into this box because you know your business better than anybody else.

So it’s actually about facilitating that discussion and, if you like, facilitating the great and good of company X into a place where all of those things—people go home every night and say to their loved ones, their wife, their husband, "Oh my God, I wish we did this differently. It would be so much more efficient, would make my job better. It would make your job better and we could do something differently.”

So it’s actually the knack with this and the key thing with this is to bring that up onto the table, to bring that into the sight of senior management. I mean, I said it right at the very beginning of this. This is a program for the CEO and CFO. This is about transforming how you work and what you do in the organization for the better. And then it's about taking that money and using it in whatever way you want to use it.

Georgie Frost: You used the word transformation there. The eagle-eared among our listeners will have heard me say zero-based transformation. Now, a lot of them will have heard of zero-based budgeting. This is a sort of contentious point with you. What is zero-based budgeting? What is zero-based transformation? Are they the same thing? Just a better word because zero-based budgeting in the past didn’t have the best rep, although we've seen a bit of a renaissance in recent years, no?

Mark Austin: So no. Zero-based budgeting was a 1970s accounting process to say let’s start with a blank piece of paper. And there’s absolutely nothing wrong with that. And we have taken a lot of the theory and methodology of that and brought that into today’s age.

I think the key comes back to what I said a minute ago, which is the transformation is about the CEO and CFO having an opportunity to look at how they run their organization and what we do and how we do it and aligning it most importantly to the strategy of the organization. And so the combination of that zero-based mindset, that if you like, I mean, some people talk about founder’s mindset or act like an owner. Would you do this if it was your own money? That’s what we’re really asking you to do. And that’s really the zero-based mindset.

So it’s taking that 1970s zero-based budgeting methodology and approach and bringing it to how we use that to transform an organization, transform ways of working. And as you rightly say, Georgie, there are lots of people still doing zero-based budgeting and there’s nothing wrong with that. In fact, I would advocate it. Let’s do it bottom-up and let’s really drive what we spend and how we spend it.

Georgie Frost: There’s a big difference, though, isn’t there in how would I spend my money and how a huge business would look to spend their money in as much as it’s probably a lot easier to go through my budgeting, although I don’t do it nearly as much as I should do, than it is a massive company.

These little practices can creep into departments. Where do you begin to look? I said there lifting up the bonnet, you spoke about workshops. I’m Georgie
Frost Limited with thousands and thousands of workers across the globe. Let’s lift the bonnet of my company. What would you advise me?

Mark Austin: Well, so first of all, let’s identify what we’re actually spending. You are looking at me and probably thinking, well, I know what I spend in Georgie Frost Enterprises, when actually I’m willing to bet you don’t. And not through any malpractices or whatever.

There will be a whole load of spend that is sitting in, I don’t know, something like miscellaneous or other. My personal favorite is a client had a miscellaneous other, which I think means, I don’t know what it is, but maybe I’m wrong. But let’s shine the light on what we’re actually doing. And we find that when we do this, we reallocate somewhere around 20% of spend.

So you’ll have marketing dollars sitting in supply chain and IT dollars sitting in marketing, et cetera. And you also find a huge amount of shadow spend. I mean, just think of your imaginary organization. Yeah, you have an HR organization recruiting people. Is one person recruiting people or has every business unit and department got the right to go and recruit? And are they using the same recruitment agency? And maybe they shouldn’t be, but do we know what we’re really spending on recruiting or do we just see the central figure because people tend to look in a vertical in a P&L?

My personal favorite was a very large multinational trying to get consumer insight and they were using consumer data and they had seven different contracts with a consumer insight company in Pakistan. The same organization with the same organization. So number one, let’s shine a light and understand what we’re really doing. That gives you some aha moments.

But then some of these things are much more difficult to get at. So then the second step would be, okay, now we know what we’re spending. Let’s get the great and good Georgie Frost Enterprises together in a room in a workshop and challenge what we’re doing and say, how could we do this better?

What are the different things we can do? What can we learn from our competitors, but also what can we learn from our own people about how we could do this better? I did this for a very large multinational. It’s one of my favorite stories, actually. I remember walking into their South African headquarters and the lady behind reception came running up to me and she said, “Excuse me. I haven’t been there for about six months. “I think you’re the guy that did the zero-based program.” She said, “I’ve had this brilliant idea. Why do we allow people to go into our canteen without going through security?”

And I kind of looked at her blankly and I said, “I don’t know. Why do you and why does it matter?” And she said, “Well, because the canteen is subsidized and all the local taxi drivers come here for breakfast every morning. So why are we subsidizing the entire local taxi driver population?” Maybe we want to, maybe we did that consciously, but did we, as a shareholder of the organization, the way she put it, she thought it would be better going into employees’ salaries, bonuses or to the frontline, to the brands or whatever. So I thought it was a lovely idea.

Georgie Frost: Zero-based budgeting has been accused of rewarding short-term thinking, being very resource-intensive. And interestingly, I was reading about, open to manipulation by savvy managers. I’m not entirely sure what that means, but what do these mean and how do you address those criticisms?

Mark Austin: Well, so number one, I go back to where I started, which is, and it has been accused of that and I recognize that. I think the point here is you have to align it to your business strategy. Most organizations will have a long-term strategy. What are we trying to do? What are we trying to achieve in the world? Where are we trying to go?

I had an industrial kits client who in the country they were mainly based in, was the largest emitter of greenhouse gases, actually in the country. They ran this program specifically, their whole strategy was obviously to clean themselves up, to reduce their greenhouse gases, to drive their ST agenda.
This program was used to fund that and to drive that down. From day one, our number one objective in this whole program was to do that and therefore it was aligned to the strategy. That’s not a short-term piece of activity. It’s actually where we try to take the organization.

Most importantly, it has to be aligned to the strategy because you are trying to give, enhance your total shareholder return, slash, drive a better deal for your consumers, your customers, and the business itself. So important to attach to the business strategy.

I think where this has gone wrong, and of course it’s gone wrong, is where people do take that short-term view and it’s to try and get a quick buck. It’s not about getting a quick buck. This is about changing the mentality of the organization to act like an owner. To really think about what I’m doing on a daily basis.

**Georgie Frost:** How do you change the mentality of a business?

**Mark Austin:** You change the mentality of the business by a embedded change management program within this, which gives people visibility of what’s happening. Most people, 99.9% I’m sure, of individuals come to work to do a good job. This is not about people doing silly things because they’re trying to be, I don’t know, manipulative or whatever. But I think you change the behavior of the organization through giving them visibility of what we’re doing, flushing that up, and empowering them.

My South African example a minute ago was about empowerment. That individual felt empowered to change the organization. And this was a multi-billion dollar business. So I think it’s about visibility of what we’re doing and then it’s empowering those people. And taking them on a journey and accepting that, to be slightly trite, Rome wasn’t built in a day. This is not something that’s going to happen in six weeks. You do not change the culture of an organization in six weeks.

**Georgie Frost:** To be clear, it sounds a lot like you’re saying that this is not just about business expenses.

**Mark Austin:** Oh, no.

**Georgie Frost:** I think that’s pretty obvious, but a lot of people do think that it is just about that, don’t they?

**Mark Austin:** Yes, a lot of people do, and that’s because it’s a very emotional topic, which gets a lot of press and a lot of highlights. If I look at these programs that I’ve certainly been involved with and I’ve stopped counting how many I’ve been involved with, 98% of the benefit comes from places other than T&E.

This is really about transforming the way you do advertising, the way you go to market. It’s about changing the ways of working of the organization. It’s about funding and driving your strategy and driving the organization in a different way, which is why I keep coming back to, it comes back to the chief executive and the chief financial officer.

It is a great opportunity to really evaluate what you’re doing and why you’re doing it and how you can change ways of working to drive your agenda. And let’s be clear, that agenda may well be, especially you started this podcast by pointing out the financial challenges of today, that may well be about putting money to the bottom line. I’m not taking that away.

**Georgie Frost:** Anyone who’s listening who’s not in the C-suite, doesn’t own a business, might be thinking, why on earth are you not doing this sort of thing anyway?

**Mark Austin:** I think the pressure of the current market highlights the challenge on costs. We did a survey the other day and 72% of CEOs are planning and looking at process and cost improvement for obvious reasons. You highlighted at the beginning of this podcast. This is about, let’s look at where quite frankly there is the obvious stuff and the world has changed hugely in the last three years.

We have all changed the ways of working. We have all changed how we think about life, et cetera. Both you and I are sitting here on this podcast in our homes. We are more prepared to challenge what we’re doing and how we’re doing it. I certainly
wouldn’t have seen that in terms of running these programs.

It’s about classic business process. It’s something that’s repetitive and we always do. But in a large multinational, refocusing on some of these things is actually an important thing every now and again.

**Georgie Frost:** Is the reality then that for the best will in the world, you are never going to get to zero wastage? There’s always going to be some areas because business changes, the environment changes all the time, and so your solutions need to change.

**Mark Austin:** Yes, correct. It’s a continuous improvement program. This is not something, what’s the old advert? “Dog is for life, not for Christmas.” This program is for life. It’s not for Christmas. And it’s actually not really a program. It’s actually changing the way of the organization. It’s a cultural change as we’ve already talked about. I think also it’s about making decisions and conscious decisions about where you want to invest.

I had one client where when we did the, this is a great example, actually, funnily enough, it is travel and expenses, but when we did the transparency piece up front, we identified that in India they were spending significantly more on taxis than anywhere else in the world. And your immediate reaction is to go, oh my goodness, that’s a waste of money.

In fact, it was exactly what they should have done because they were investing money. Anyone after the time of eight o’clock at night could get a taxi because it was safer to get home that way. And so that was a conscious decision by the senior management to support their staff and to provide safety and security for their staff to get home and was the right decision.

And that’s why I react sometimes to the zero-based budgeting work. This is not just in a financial accounting procedure. It’s about challenging what we’re doing, understanding what we’re doing, and then making a conscious decision about whether that is right for the business today. It may well be right for the business last week, but is it right for the business next week?

**Georgie Frost:** And the key point is that the transformation is that what also you can use, I guess, the savings as it were, or the redirection of finances into your company.

**Mark Austin:** Yeah, it is about putting it back to what matters to you, what your strategy is, where you’re trying to drive the organization.

**Georgie Frost:** What success stories have you seen just by taking a look at where you’re spending and where the waste is, what have people managed to achieve?

**Mark Austin:** People have managed to achieve somewhere between 15 and 25% coming out of their sales general admin, which has enabled them to put it back to places. I’ve seen significant growth. I mean, one of my client’s ambition was to double the size of the organization over a five-year period.

We found hundreds of millions, which was able to be reapplied back to the frontline, it was a branded company, to the brands, and enabled them to grow the business in that way. So yeah, we are seeing somewhere between 15 and 25% in terms of opportunity. Which is significant if you think about the margins people are running on. And also about the cost of something like digitization, the cost of the ESG agenda.

And in this very difficult time, as we all know we are in, actually being able to reinvest behind your business to grow. The age-old adage about the organizations that invest during a downturn are those that come out stronger afterwards. This is great. I mean, one of our great household names used this very much to fund their development programs on their products.

**Georgie Frost:** Is there a blueprint to follow?

**Mark Austin:** Yes and no. And that’s a classic consultant’s answer, isn’t it? But there we are. Yes and no. There is a structured process and methodology which enables you and ensures you get the best out of it. But I also think this has to be tailored to your organization, to your strategy, and to what you want to do where you are.
So I don’t believe it’s a blueprint in the sense of anyone can come in and slap it down. I think it is really important that it ties to your strategy and ties where you’re trying to drive the organization and to your internal culture. One decision for me may not be the right decision for you. And so I think it is important to understand the culture of the organization and where the organization is going.

The other thing I think is a huge opportunity with this program, because of the way the program is structured, is to grow your leaders within your organization. So one of the things we do within these programs to drive those working sessions or those workshops, we take a senior leader in the organization and ask them to be the challenger. And importantly, this is not about marking my own homework.

So if I’m the IT director, I don’t look at IT. Or if I’m the sales director, I don’t look at sales. You take somebody else. A lot of people refer to these people as cost category owners or something. One of my clients twisted it or changed it into “investment category owners.” And I have to be honest, I’ve stolen with pride and use it a lot now because actually that changed the paradigm in terms of how people thought about what they were doing.

And really, the investment category, ownership concept, we took a level down from the C-suite, the great and good of this organization, we took about 16 of them to drive each of these cost segments and to say, how could we do this better? And the CHRO actually said to me, it was the best graduate training program for experienced executives he’s ever seen.

To this day, if I went back there now, I think five of those ICOs are actually now in the C-suite and probably another five have left and gone elsewhere into the C-suite. So it is a great way of developing leadership and challenging your future leaders to step up and to understand the business as a whole.

**Georgie Frost:** You’ve spoken about culture and having to change that. I’m wondering how much silos within companies is causing this to be a big problem and how you would break those down?

**Mark Austin:** Well, number one, the cost category, investment category, concept really helps because you take somebody from somewhere in the business to challenge what we’re doing. And it’s not about the blind leading the blind. It’s actually about somebody who’s respected and challenging in the organization to look at it. I think secondly, that upfront transparency. We look horizontally. We no longer look vertically.

So it’s not about how much do you spend on TV advertising, it’s how much does the enterprise spend on TV advertising and why? And are we doing it right? Because to your point, you may have silos, you may have business units that are slightly different and there may be a very good reason why business unit A is doing it differently to business unit B. Or country A to country B. But actually it’s important to look at it horizontally to say, how could we manage this differently?

And also how can we learn from our own organization? We’ve got an office in, I don’t know, New York and we’ve got an office in London, why are we doing things differently in those two? Is it valid? Maybe it isn't. Maybe it is. Really this program is about bringing visibility and transparency to what we’re doing. It’s about shining the light on what we’re doing today, challenging what we’re doing, and then restructuring it to do it more efficiently and effectively.

And importantly, it’s giving visibility to senior management to make the decision. So, if you like, it’s a fact-based decision-making mechanism, as pure and simple as that. Which is slightly boring, but probably true.

**Georgie Frost:** Never. Mark, absolutely lovely. Thank you so much and thanks to you for listening. We’d love to know your thoughts. To get in contact, leave us a message at thesowhat@bcg.com. And if you liked this podcast, why not hit subscribe and leave a rating wherever you found us? It helps other people find us too.