

By Fred Geyer and Chiaki Nishino

The troubled economy is forcing corporate leaders to re-evaluate their spending plans across the board and marketing is not exempt. In fact, marketing is often first in line for cuts as corporate leaders attempt to identify immediate cost reductions that may take longer to achieve in other areas.

In reducing marketing budgets, corporate leaders face a difficult set of choices: How much is too much? Are we trading off long-term brand building, which may be acceptable in the current climate, or are we doing what is not acceptable—damaging our ability to drive revenue in the current period? Making these choices is particularly difficult if the marketing team lacks a systematic method of measuring the effectiveness and efficiency of marketing spending and a proven method to link marketing spending to business outcomes.

The reality is that in this economy, budget cuts may well be necessary to survive. Few can wait to generate better information, and most don't have to. Most businesses can use their existing intelligence to address five tough questions and rigorously guide how best to reduce and reallocate their budgets in difficult times.

1 Do you have a complete inventory of your growth investments and can you identify waste (or inefficient spend)?

It is surprising how divisional and functional silos in even the most sophisticated companies get in the way of a clear view of the funds that are being spent on marketing. Corporate leaders are often amazed at the sums when trade and channel incentives, sales support costs, local events and promotions, and new product and service support are all tallied across the enterprise. A global, multidivisional client was surprised to learn that over \$1 billion was being spent on new product stocking allowances. A major financial institution didn't realize that local events and seminars were the fastest growing component of its marketing expenses with double digit cost growth in the previous five years.

You cannot manage what you cannot see. But, we've also found that periodically taking investment inventory will

reveal wasteful spending of about 15% of the total almost every time. It will also reveal the proven winners that must be supported no matter how much the budget must be reduced. A thorough inventory will identify obvious waste and clear producers, as well as spending areas that pose bottom line opportunities for more efficient and effective spending.

2 Do your investments change your customers' buying behavior?

Share of market and revenue goals are too general to be true barometers of effectiveness. It's more important to know what behaviors you are trying to drive among specific groups of customers. For one group of customers, it may be driving an annual, versus bi-annual, service package upgrade. For another, it may involve achieving an increase in order size of 50 percent per order among a certain group of customers. If you've identified growth-generating behaviors, you can judge your marketing investments by their ability to drive those behaviors. Two of the most common wasteful spending patterns:

- *Pattern one:* Overspend on attracting new customers when driving existing customers to buy more has more impact on the bottom line. Companies that fall into this trap spend to attract, promote, and reward trial but fail to spend on aftermarket service, clear directions for use, or on ways to engage existing customers.
- *Pattern two:* Rewarding volume instead of loyalty. Companies pursuing this course spend heavily to try to increase the volume purchased per order only to see customers migrate to suppliers who allow them to buy what they want when they want it.

3 Are your investments focused on customers' barriers to buying your brand?

One of the biggest improvements in marketing effectiveness we ever helped a client make involved convincing a large financial services firm to totally turn its geographic spending pattern inside out. In highly developed markets, this client spent heavily on mass marketing to build awareness because it looked very efficient when the cost was divided by the number

of prospects. But, in these markets, the brand was well-known, suggesting a shift away from advertising to spending on closing the sale—which, in fact, doubled growth. Conversely, in low share markets, this client spent on closing the sale because advertising looked too costly. In fact, in low-share markets, no amount of spending on sales closing could generate growth until awareness and consideration reached higher levels. Mass advertising worked best in these markets. The lesson: Don't let numerical efficiencies determine spending. Better to understand barriers to growth, and choose the marketing vehicles and messages that will overcome them.

4 Do you have the right mix of marketing levers among your investments? All marketing investments do at least one of three things:

- They change customer perceptions in a way that encourages them to buy more.
- They provide temporary monetary incentives for customers to buy more.
- They make the brand more available so customers can buy more.

However, focusing too heavily on any one lever can hurt the others. For example, making the brand too available can drive down prices or increase the need for greater monetary incentives. Overuse of monetary incentives can damage customer perceptions of the brand. And overspending on improving perceptions without increasing availability can cause shortages or service level problems that may damage the brand-customer relationship. Marketing effectiveness requires thinking through the right mix of investments to generate profitable growth.

5 Do you have a system to support “winners” and cut “losers”? As you assess your winning and losing investments, it's critical to think about both the potential long-term and short-term impacts of those decisions. There are five considerations:

- *Effectiveness and efficiency:* Both sides of the equation—the ROI and the cost of using the lever—should be factored into investment decisions.
- *Maintenance versus growth:* Even if you decide to forego growth in this economy, you must make the conscious decision to focus on either maintenance or growth of the business.
- *Proven versus experimental:* Despite the harsh economic climate, it is important to ensure that you continue to experiment even on a low level. Cutting all experiments is a sure way to be unprepared when economic conditions improve.
- *Direct and indirect impact:* It is important to remember that certain investments may have halo impacts on other brands or products or provide crucial support to your sales team that will cripple their efforts if they are cut.
- *Across the four Ps:* It is critical to consider investments across the marketing levers—price, product, distribution, and promotion—as you make your decision as there are interactions among them.

While budget cutting and planning for an economic downturn are never enjoyable, they can provide an opportunity for inserting greater rigor, and better capabilities and metrics to make marketing investments more effective in the long run. Actively assessing your marketing practices along the lines of these critical five questions will launch you down the path to greater marketing accountability with spending that better bridges the gaps between effectiveness and efficiency—whatever the economy is doing.

Fred Geyer and Chiaki Nishino are Partners at Prophet. They can be reached at fgeyer@prophet.com and cnishino@prophet.com.