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What to Cut: How to Pick Your Spots When the Budget Axe Is About to Fall

We've all been there before. Business is a little soft, and you are asked to start cutting the marketing budget so the company can make its year-end profit goal. To be overly dramatic, this is the marketer's version of "Sophie's Choice" and you have to decide which of your "babies" will go.

But what do you cut first? In the age of integrated marketing, how do you go about determining what is expendable when everything seems so important?

THE WAKE-UP CALL

Before we answer, let's examine a fundamental assumption of the question. Assuming your company isn't in "burn-the-furniture-for-heat" mode, the request to start cutting is rooted in one of two perceptions in the minds of the CEO and/or CFO:

- Your marketing does not provide a sufficient payback in the short run (i.e., this fiscal year) and nothing beyond that matters; or
- You can't prove that it does.

In other words, they see the marketing activity as a discretionary investment and don't link it clearly to generating a specific (and sufficient) financial return. Or maybe they understand the concepts of brand equity and customer loyalty as having short-and long-term implications, but don't know how to assess the net present value of a dollar spent today in creating them.

The realities of today's business environment force short-term thinking and, as the CMO, you may not be in a position to do much about that (except maybe start building your measurement framework NOW so you won't be asked to cut like this again next year). Face it: You being asked to cut is a warning sign that your persuasive charm and good looks alone are no longer sufficient to justify the money spent. If you can't prove the financial value of your marketing investments, you'll be dealing with this situation again, and soon (see Figure 1).

The good news is that the push toward marketing accountability has advanced the tools and methodologies available to the point where it is now quite possible to measure the majority of marketing activities. The argument that "it can't be measured" is just no longer a valid excuse. You can accept that statement either as another pain-in-the-ass part of your job description, or as an insurance policy against further short-sightedness on behalf of the marketing-challenged.

But enough of the soap box ... How do we go about determining what to cut?

NOT ALL CHILDREN ARE ABOVE AVERAGE

While you may feel that all your marketing programs are profitable, chances are that some are far less so than others. Having conducted detailed analyses on thousands of integrated marketing programs, I can tell you that the vast majority have some tactical elements that really work, some that clearly don't, and some that have to be tweaked to become profitable.

Step one in the process is therefore to determine what you already know about what is effective and what is not. What data exist that may point to a likely candidate for cutting? This may sound like an obvious step, but I'm always amazed at how many companies knowingly apply the same levels of investment to particular marketing activities because "that is what we have always done," even in the face of strong evidence of its folly (see Figure 2).

So if you find a sacred cow in your marketing pasture with no apparent justification for being there, that's your first candidate for lower investment. Use the mandate for cuts as an excuse to test lower levels of support. Challenge the owners of these tactics to develop a business case of the near-term financial cost of cutting the program. See what comes back and if it passes the sniff test.

AVOID SATURATED FATS

Often, we see companies putting the fat part of their marketing budget in a single tactical bucket, like automotive brands' use of TV, or Internet companies' use of online advertising. If you have more than 70% of your budget in any one item, alarm bells should go off. Time and again marketers using this strategy are found to be at or beyond the saturation level for their preferred tactic, resulting in diminished returns at increased levels of spend. These should be candidate areas for your cuts.

BIGGER IS BETTER

Fact: When you look at thousands of brand studies, financial returns on each dollar of spend tend to be greater for larger brands because of economies of scale.

If you manage a number of businesses (brands, SBUs, product lines), the ones that are smaller may have a disproportionate share of spending associated with them as they are trying to grow. Often, there are strategic reasons for this, such as launching a new product or putting up a competitive defense. But these same smaller brands tend to provide the company less return from their marketing activity and may be better candidates for near-term (especially temporary) cuts. That way you can show you're still optimizing the company's ROI in the near term based upon what spending you have left.

A related strategy is to focus the cuts on geographies where the brand is underdeveloped. Returns tend to follow a company's development in the market (this is a variation of the "bigger is better" rule). Cuts made in geographies where the business is weak will probably hurt less in the near term, but may also pose considerable expense in terms of successfully building the brand in those markets. This is a classic example of the tradeoff between short- and long-term investment decisions.

TIMING IS EVERYTHING

So far, we have talked about varying the level of investment and changing the marketing mix to address what to cut in the face of a budget whack. One other way to look for "what to cut" is to think about the timing of your marketing activities.

First, if there is a natural seasonality to your business, consider cuts in the off-peak periods. Activity in off-peak periods is rarely more efficient than when the highest seasonality occurs. It will also help minimize the risk to your overall annual plan, since less business will be at risk during those times.

Another variation on timing is to question the scheduling of the activity. For those of you with a media back-ground, this is second nature. Examine the frequency of your marketing activities and look for ways that might minimize the total effect of the cuts. Can you vary the flighting of your activity? An example would be a retailer going to three weeks on and one week off for promotions rather than every single week.

A GOOD OFFENSE IS THE BEST DEFENSE

The aforementioned suggestions are strategies for dealing with a tough decision. They are intended to help answer with the question of what to cut in the absence of solid facts about what your marketing activity actually contributes.

The key takeaway, however, should be that none of these approaches is even a close second to the option of proactively developing a comprehensive measurement structure that clearly demonstrates the links between each investment and the financial value it creates. Doing so will both reduce your risk and allow you to make more informed decisions on what to eliminate.

More importantly, it might just become the deterrent weapon to keep the CFO looking elsewhere the next time they're looking for givebacks.<

NOTES & EXHIBITS

FIGURE 1: ROI

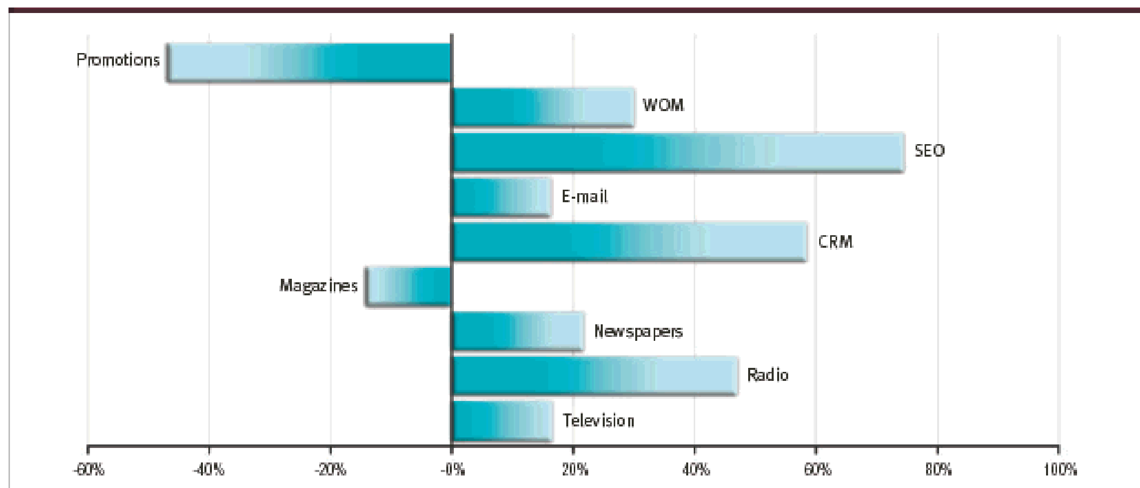
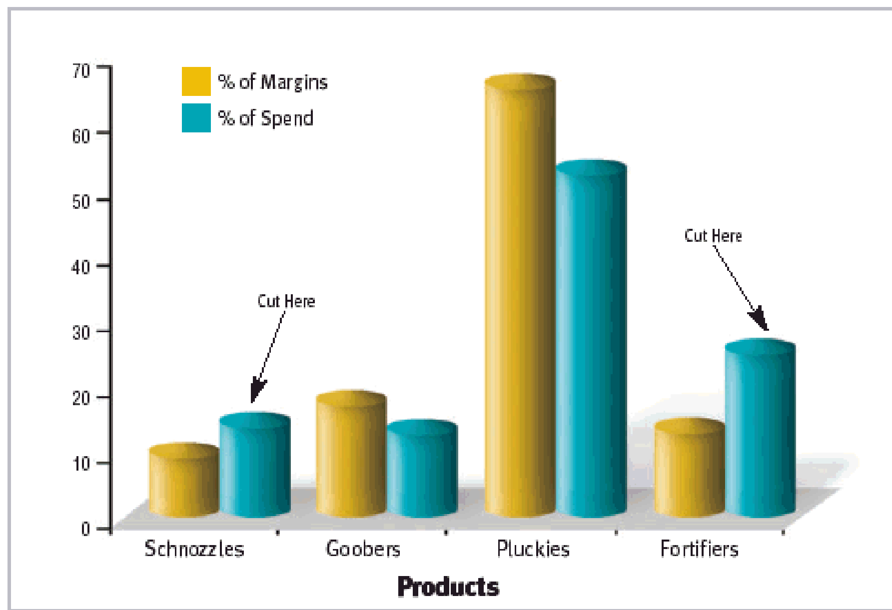


FIGURE 2



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MarketingNPV
100 Overlook Center, Suite 200, Princeton, NJ 08540, USA
Tel: +1 (609) 688 0606, Fax: +1 (609) 375 2001

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