

Six Approaches to Spend or Cut Marketing in Tight

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Jim Lenskold : « More marketing is not absolutely the right decision »

As many global economies become tighter and revenue streams shrink, marketing executives must strategically assess their opportunities to profitably win their share of that smaller revenue pie. Marketing pundits have advocated throughout this year that tough economic times are the right time to build brands and grow share of voice. But this will not work for every company. If you can't make a smart strategic case for how your spending is going to add value to the company, you won't convince CEOs and CFOs to fund marketing budgets when revenues are down.

I'm going to outline the six approaches available and share the key criteria around financial dynamics, competitive environment, and customer behavior patterns that can help you determine whether spending more or less is right for your business.

These approaches are based on the fact that you need to have some expectation for how and when your marketing will generate a positive return on investment (ROI) for the company. While measuring and managing ROI is always a good discipline for marketing organizations, there has never been a more critical time than during a threat of significantly contracting markets. Executives are not going to buy into a theoretical

discussion on brand building as easily as a quantified projection using your best assumptions. A good ROI analysis takes into account long-term brand building and purchasing behaviors. It's a critical planning exercise to not only show that you can generate more profits than you spend, but also guide the strategies to make it happen.

Presented below are the six strategic approaches that a company can pursue in tough times to generate the best long term financial outcome. To help you identify which approaches you should consider, I have also included a series of assessment questions following the descriptions of each approach.

1. Win Share & Grow

The approach is to invest in building market share and acquiring new customers now, take a loss on short term ROI, and earn higher long term ROI as you retain customers and market share when purchasing levels resume. Success is dependent on competitors pulling back on their spending levels so you gain share of voice, otherwise all players spend more and incur losses without the upside potential. Marketing investment levels are driven by the amount required to generate a higher share of voice.

If you have not been measuring and managing your ROI, you will unfortunately be managing just spending levels in hopes of winning the right customers, without good insight into marketing effectiveness and efficiency.

2. Spend Smart & Grow

The approach is to keep or grow investments just in specific segments or marketing initiatives that will drive the majority of the growth during the recovery. It is a shift from the first approach in focusing on the spend

side of “share of voice” to return side of “share of growth potential.” This approach may allow a drop in total marketing budget but an increase relative to competitors. Companies that have insights into customer buying behaviors, segment value, and marketing ROI will do much better with this approach. It is perhaps the most ideal opportunity as companies strategically win the better customer segments to emerge much stronger.

Marketing investment levels are driven by an ROI assessment of the combined short term returns and long term returns. This approach can work even if competitors maintain their spending, as long as your insights into more profitable segments and marketing effectiveness is more advanced and actionable than theirs. In fact, using this approach against competitors pursuing a Win Share & Grow approach without good ROI insights will leave them to win lower value customer segments at a higher cost (tip: make sure you are not on the wrong side of this combination of approaches).

3. Minimize Spend but Hold Share

The approach is to retain existing customers or share of transactions while cutting spending levels to maintain short term profitability. This is an attempt to balance short term and long term financial performance but forego any opportunity to grow.

Marketing investment levels are determined in response to competitors. It works well if all competitors decrease spending significantly but as others increase their spending, you match as necessary. If your competitors choose to hold or increase spending first, your increase in spending can be justified to executives with an ROI analysis that shows profitable returns generated by retaining profits that competitors would otherwise steal with their Win Share & Grow approach. This is most appropriate for companies where short term cash flow and performance is critical to sustaining viability.

4. Cut Marketing & Invest Elsewhere

When marketing may not provide enough short term or long term value, consider the approach of cutting traditional marketing and advertising spend back to minimal levels and investing in other parts of the business to improve performance during the recovery. Instead of advertising brands and communicating messages that may not make a lasting impression or drive immediate purchase behaviors, you invest in customer relationships, additional service, and added value to retain current customers.

You may be able to avoid the high costs of employee turnover and avoid incurring other short term expenses by using the extra capacity of marketing, sales and staff resources to enhance the customer experience, get feedback from potential future customers, or participate in volunteer activities that generate good PR. This alternative, more personal form of “branding” has the potential to deliver a deeper, longer lasting impact than traditional branding communications.

You can also pursue opportunities for product or service enhancements. While there is evidence that winning market share during recessions can lead to growth during recoveries, there could easily be greater opportunities to win market share by launching valuable innovations and new competitive differentiators once market performance returns. You have to consider that competitors making budget cuts in marketing could also cut back on product/service enhancements.

5. Cut Cautiously & Allocate Smart

This approach is to accept the budget cut necessary to meet company requirements but then re-allocate the remaining budget to concentrate acquisition and retention budgets on winning a greater share of the most profitable customer segments. It also involves using measurements to identify opportunities and threats to performance that can be incorporated into your strategy.

Marketing investment levels are driven by short term business priorities, meaning cutbacks. The budget allocation becomes more critical here as marketers use customer intelligence, sales analysis, measurements, and ROI analyses to retain and acquire customer segments based on short term and long term value. Finding segments that can be profitable in the short term can help justify increased marketing spend now. Finding segments with higher long-term profit potential may be necessary to justify keeping the current level of spend.

Try to keep or add measurements that help assess and guide marketing effectiveness. Companies that can spend the smartest will have a significant advantage during tight times against those companies spending cluelessly who will struggle to survive. The extra knowledge you gain on effectively marketing in tough times will create even more competitive advantage if poor market conditions extend over longer periods of time. Include testing of different spending levels as part of your measurements to help make the case for more (or less) spending levels. This can involve varying the spending levels in different markets, segments, or time periods.

6. Cut Drastically & Wish for the Best

This approach is pretty straightforward since it involves cutting the budget to the point where marketing and business performance is likely to suffer, both in the short term and long term, in order to meet short term financial objectives. Success might be possible if customer and brand loyalty within your market are so low that increasing spending when markets recover is likely to profitably win back a good share of revenues and restore your market share.

If there is any flexibility with the remaining budget, consider running test markets at higher spending levels to determine and possibly demonstrate that reasonable short term returns can be generated to justify additional spending. This will work much better than unproductively complaining that the spending level is below the minimum threshold necessary to be effective.

Assessing Your Options

So here is some general guidance on which of these approaches may fit best for your company. The assessment criteria below should help eliminate certain approaches and surface several that are most viable. Keep in mind that there are other factors to consider and the combinations of responses to the questions will provide even greater insight than each individual response noted below. This quick assessment should be followed by a deeper analysis and quantification of your approach to make the right decision.

Is the company under significant pressure to meet short term financial performance at the sacrifice of long term financial performance?

Yes - - You are stuck with option 5 or 6, with a slight chance to argue for option 3 or 4

No - - Make the case for option 1 or 2; keep option 3 or 4 as back-ups

Are competitors increasing or maintaining previous spending levels? (assuming additional budget is an option)

Yes - - Consider option 2 or 3

No, decreasing spend - - Make the case for option 1, 2, or 4

Do you have measurements, analyses, and/or marketing ROI insights that can guide smarter spending to reach more profitable customer segments or higher impact marketing?

Yes - - Use option 2 or 5

No - - You are stuck with option 1, 3, 4, or 6

Does your market demonstrate a high degree of loyalty, long-term agreements, or purchasing inertia that suggests purchasing preference in the near term is likely to remain as markets recover?

Yes - - Make the case for option 1 or 2 with 3 as a fall-back option

No - - Determine if investing in differentiators in option 4 is viable, otherwise pursue option 5 or 6

Are your sales levels highly correlated to advertising and marketing activity, indicating a high short-term impact and an ease in brand switching?

Yes - - Consider option 3 or 4, and possibly 5 since postponing marketing until purchasing levels resume may work

No - - If sales are less sensitive to spikes and dips in advertising and marketing, there is a better opportunity for option 1 or 2

What customer behavior changes are most likely occurring as overall sales levels are declining?

- > Suppression (not purchasing in category) - - With customers leaving the category and having limited opportunity to take action as you build brands, consider option 3, 4, or 5
- > Replacement (switching brands) - - Customers may be trading down to less expensive brands. If you are the premium brand that may lose customers, share of voice may not work so consider option 2 or 4. If you are the lower tier brand picking up customers, marketing may have less of an impact now than during the recovery when you need to retain customers from returning to their previous brands. Look closely at option 4 and 5.
- > Reduction (purchasing less of same brands) - - Customers are still buying so this may be the best opportunity for option 1, 2, or 3 since winning customers now could have upside potential.
- > Deferral (delaying purchase) - - This is also where share of voice can make a more significant impact so option 1, 2, or 3 are your top options but be smart about the timing of a spending spike so you do not burn through budget to maintain mindshare far advance of purchasing decisions.

Don't jump to the conclusion that more marketing is absolutely the right decision. Pull together enough information to make an informed decision. For example, if your current strategy is to spend \$1 million for the next four quarters and generate \$2 million in profits during a time when purchase activity declines (a net loss of \$2 million), consider the alternative of cutting that spend back to \$.5 million for three quarters followed by a \$2.5 million in 4th quarter to earn a much higher share of a growing market (assuming that consumer spending returns in just 4 quarters). You may see that good alternatives exist within the context of the approach you choose.

Your conclusions and recommendations have to be relevant to the priorities of senior executives. It is not a time when executives will go on faith that good branding or share of voice is critical to maintain. A solid ROI analysis that shows short term and long term returns from current investments will guide the discussion to the appropriate decision. If you do not get the decision you feel is right, create test market scenarios in the market place to make your case. That approach provides you with the insight to make the right recommendations and it provides the company with the confidence to re-prioritize limited resources to achieve the right balance between short term and long term profitability. If marketing does not step up to participate in these critical business decisions, it is very likely that growth opportunities will be missed.

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About the author : Jim Lenskold is President of Lenskold Group and author of *Marketing ROI, The Path to Campaign, Customer and Corporate Profitability*. Founded in 1997, the Lenskold Group provides consulting services to deliver a comprehensive approach to marketing ROI management, marketing measurement and analytics, and profitability planning tools. The Lenskold Group serves Fortune 1000 and emerging companies in the US, Canada and Europe.

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