

Marketing

Marketing in the Downturn: How to Cut Where It Hurts the Least

As customers tighten their belts, marketers come under pressure to make short-term performance improvements. One common practice, cutting marketing spend across the board, can seriously undermine a brand in the long term and sales in the short term. This note highlights the importance of understanding the effectiveness and efficiency of marketing spend and then using that information to cut where it hurts the least. Two case studies illustrate the approach.

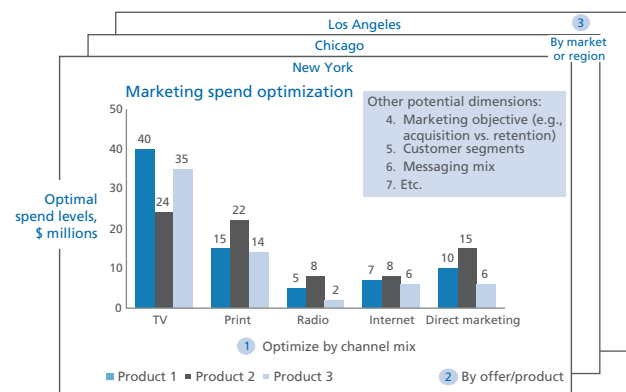
Tough economic times lead to increased scrutiny and cuts to marketing spend. Although research suggests that brands should maintain or increase marketing spend during recessions, marketers are asked to do their bit in terms of cutting budgets.

Yet each dollar of marketing spend is not equal and each gets different returns. As any smart marketer knows, the across-the-board approach feeds a downward spiral: Spend cuts lead to poor business performance which, in turn, fuels further cuts.

Companies in virtually every industry, therefore, face a similar situation. The first task is to understand the effectiveness and efficiency of marketing spend across all channels, products, geographies, marketing objectives (e.g., acquisition versus retention), marketing messages (long-term brand-building, short-term offers), and customer segments. What is the incremental return for each incremental marketing dollar in each of these potential areas to spend it? Once they have this granular understanding, managers need to optimize marketing spend across the various levers, as shown in the exhibit, in order to meet their short-term and long-term business goals in areas such as sales, share, and brand equity or, given the realities of the current financial climate, cut spending where it will adversely impact these objectives the least.

Understanding the effectiveness and efficiency of marketing spend requires a coherent framework that takes a broad, strategic view of marketing. The impact of spend can be quantified through careful analytic modeling using available data, such as spend across various levers, and relevant outcome metrics such as sales, new customers added, share of wallet, and

Optimal allocation of the budget across marketing levers



brand equity. But world-class analytics alone are not sufficient. The analytic results need to be integrated with detailed financial information into a broader business context and against specific business objectives. In addition, line managers should be empowered with easy-to-use tools (so-called decision-support systems) that enable them to simulate the impact of potential spend scenarios on their key metrics as part of their ongoing marketing allocation activities. Turning the right data into the right information, combined with the right structure for acting on this information, is the key.

This marketing optimization approach has proven effective across a wide range of industries serving both consumer and business-to-business markets. We have seen gross profit improvements of at least 5% through a combination of tactics: squeezing more sales out of the same overall spend by reallocating spend, cutting spend, and/or increasing spend for certain levers.

Putting Theory into Practice

Consider two recent cases. While the customers and the marketing levers were clearly different for the two companies, both used similar methods to quantify the dynamic relationship between marketing spend and customer response and to identify opportunities to optimize spend to drive results.

High-technology products and services

This company had typically long B2B sales cycles, and marketing spend was designed to influence customers throughout various stages of the sales process. Oliver Wyman used advanced modeling techniques to quantify the impact of each lever in generating leads as well as in closing sales at the end of the funnel. As shown in the exhibit, different levers had different impacts at each stage. Armed with this information, the client was able to simulate potential scenarios for reallocating spend, such as more on direct marketing and less on events, and to pursue an appropriate course-change in marketing strategy that would ensure that marketing dollars were being allocated to the highest return areas. If short-term financial pressures necessitate

What would happen if spend on a lever is cut by 10%?

Marketing lever	Impact on leads	Impact on sales* (\$ millions)
TV	-0.5%	-\$1
Print	-1.7%	-\$7
Internet	-1.1%	-\$2
Direct marketing	-3.0%	-\$12
Events	-1.0%	-\$20

* Including the indirect impact of reducing the leads in the pipeline

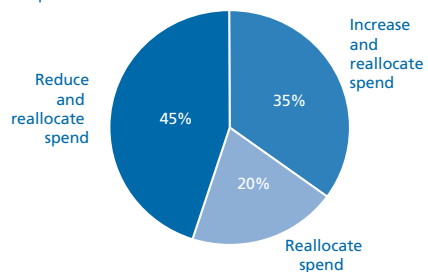
cuts, this client now knows where the lowest-return (though still positive) dollars are being spent and thus where they would reduce spend first to hurt the least.

Consumer entertainment and packaged goods

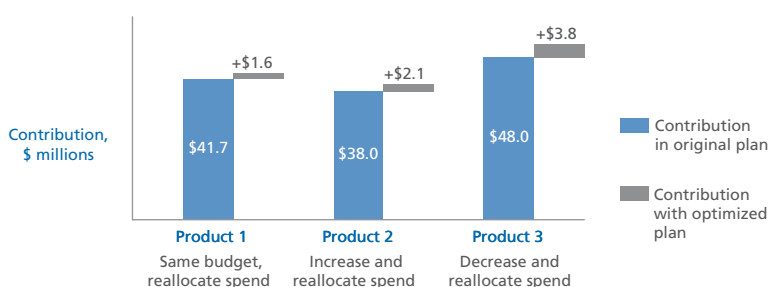
A major film studio wanted to understand how to optimize marketing spend and allocation for their various major DVD titles, 20-30 releases each year. There was pressure from corporate to cut marketing spend for all products, while the marketing team countered that they were under-spending relative to competitors. Oliver Wyman's analysis revealed a much more nuanced picture: The studio needed to cut and reallocate spend for some products, actually increase spend for other products, and simply reallocate the existing budget for others into the most productive levers at the same spend levels. Armed with a user-friendly "what if" simulator, manag-

ers are now able to make surgical decisions about marketing spend levels and allocation across time periods and media. As shown in the example of a few selected titles below, this precision enabled the firm to reallocate existing spend on three products—at the existing budget, a higher budget, and a lower budget, respectively. And again, if tactical cuts are mandated for short-term financial reasons, the marketing team will be able to easily identify the lowest-return elements of spend, thus offering up reductions where they will be the least painful. For any CFO, CMO, or business unit head, this must be preferable to blind cuts across the board.

Marketing spend recommendation
% of products



Incremental contribution after optimizing spend



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