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Intelligent Budget Cutting

1. The Lowdown

Marketers everywhere are at one time or another challenged to do more with less. In fact, many might describe their organizations as locked in a seemingly endless cycle of budget revisions throughout the year, mostly cuts. When faced with a mandated budget cut, you have essentially two choices. You can make the cuts the common-sense way you always have and then hope to recapture funding during the next cycle, or you can recommend cuts in a strategic framework that will ensure, at the very least, the true "cost" of your proposed cuts will be recognized (and perhaps even reversed somewhat).

2. Why do I need to know about it?

It's natural to feel that budget cuts signify marketing's "losing the battle" of establishing its value in the overall mix of company investments. What's important is to focus on "winning the war" by establishing a new set of objectives:

1. Achieve the required short-term budget reduction goals.
2. Clearly identify the expected short-term negative impacts on revenue or margins.
3. Minimize the long-term negative impacts.
4. Gain credibility for thorough, objective analysis.
5. Establish the groundwork for subsequent budget discussions.

These five goals now become the measures of success. Your new plan should be to emerge from this experience with the wisdom, credibility, and strategic foundation to win in the future.

3. Where to start?

When faced with budget cuts, there are four strategic frameworks that have proven to be helpful to stimulate smart, creative thinking:

a) Portfolio management of products, channels, or geographies

b) Customer portfolio management

c) Marginal returns analysis

d) Decomposition matrix

Most companies find one or more of these frameworks applicable on the basis of how their business is structured: what information they have available; the company culture; the credibility marketing has with finance; and/or the amount of time they have to make reduction decisions.

Product/Channel/Geography portfolio management
This framework focuses on looking across products, channels, or geographies to identify candidates that are more/less worthy of marketing investment.

There are three principal steps in the portfolio management process:

1. Evaluate each product/channel/geography along relevant performance dimensions (e.g, relative performance, relative opportunity, relative marketing and sales leverage)

2. Link evaluation scores to a recommended spend more/less strategy.

3. Compare the recommended spend strategy to the actual marketing spend strategy to identify misalignments.

Customer portfolio management
The second framework for strategic budget cutting is largely the same as the first, but the unit of analysis is customers (or customer segments) instead of products, channels, or geographies.

Marginal returns analysis
The marginal returns analysis framework uses an "S" curve as a starting point to help focus the discussion on where budget cuts are likely to have more or less impact, based upon the potential marginal return of increments/decrements to each budget item. In a classic "S" curve, initial return on marketing investment is steep as returns grow exponentially, followed by slowed and eventually ceasing growth.

Decomposition Matrix
A decomposition matrix is a way of decomposing proposed budgets to identify the specific factors driving a company's shareholder value, in the process determining which cuts have the most leverage and which would have the least negative impact on shareholders.

4. The thing to remember is…

Regardless of which strategic approach to budget cutting you take, there are a few keys to success to include in your process:

- Define and think about your cutting objectives first, then revisit them often. Pay particular attention to the objective about "credibility" and ensure your approach will be judged appropriately instead of simply deconstructed for flaws.

- Establish the right baseline assumptions when estimating the cost/benefit of the cuts.

- Construct your business case carefully and work to cultivate cross-functional support. Enlist assistance from colleagues from finance and other non-marketing functions to ensure analytical rigor and maximize the probability of acceptance.

Remember that once the budget gets cut, you and your team will have to work effectively with whatever remains, and the time horizon might be several years. So when pressed to cut, do so strategically to ensure that you have the resources and credibility to succeed when the crisis passes.

Related Resources

Interested in learning more about intelligent budget cutting? Sign up for complimentary (ANA members only) Webinar series, April to June 2009, with Pat LaPointe.

About MarketingNPV®

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