Bridging the Gap: Winning the Marketing Budget Battle
By Laura Patterson

People and money are both scare resources, especially in tough economies. I suspect that for many marketers 2009 will go down as one of the toughest years when it came to resources.

Marketing organizations in every industry faced reductions in headcount and budget. And many marketers found themselves spending more time working on budget changes, invoice tracking, and reports than actually implementing programs. For some of our customers, the leadership team came in every quarter or more frequently to shave dollars from the marketing budget.

It can be a little hard to understand why marketing budgets remain at risk when you think about the role marketing plays. Most business professionals believe what Peter Drucker once said—that the purpose of business is to create a customer.

And Phil Kotler, a renowned marketing professor at the Kellogg School of Management, is credited with this well-known statement: "Marketing is the science and art of finding, keeping, and growing profitable customers." Therefore, it's easy to see why Drucker posited there are only two basic business functions: marketing and innovation.

So if marketing's job is to find, keep, and grow profitable customers, then marketing is the very heart of business. Essentially the organization is giving marketing resources to invest on its behalf for the purpose of customer acquisition, retention, and value growth.

Yet the budget has always been a battle for marketers, who compete with every other part of the organization for dollars. We struggle to justify and manage our budget. Why is marketing the "obvious" cut? We believe it has a lot to do with how most marketers justify and allocate their budgets.

As we've worked with customers on their 2010 marketing plans and budgets, one aspect of the budgets we've reviewed continues to stand out: they still remain structured around programs, media types, and/or channels instead of allocating resources against the specific business outcomes marketing's initiatives are supposed to produce.

This trend continues even though many marketing programs are more integrated and multi-part than ever before. The cross-channel interdependencies add to the complexity of both the budgeting and measurement processes.

Because it's difficult for the leadership team to relate the money for various marketing mix elements to business results, it's relatively easy to understand why they might approach marketing with a budget reduction request and the imperative to just do more with less.

And because many marketers can't specifically relate the various elements in the mix to specific business outcomes, they're left with complying.

Those marketers who are able to prove the value of their marketing investments and analyze which programs were effective and efficient are in a better position. But if you haven't quite made this transformation to performance driven marketing what can you do to win the budget battle in the next fiscal year?

Perhaps we can use our role as a way to allocate our budget. If all of our marketing programs are designed to support marketing objectives developed to find, keep, and grow profitable customers, then all our programs would roll up under these objectives.

And because all of the programs and their associated activities (advertising, direct marketing, etc.) could be linked to these objectives, we could actually allocate our resources and dollars into three buckets:

1. Those deployed for finding new profitable customers.

2. Those deployed for retaining existing profitable customers and garnering their loyalty (referrals, etc.).

3. Those resources deployed for growing the value of profitable customers (such as increasing the usage or number of products/services per customer).

How might this change the budget conversation?

Now when the leadership teams wants to reduce budget, the first questions isn't about which activity or activities to change, but rather, the impact of the reduction on finding, keeping, and growing profitable customers. This is a more strategic conversation and begins to help clarify the priorities of the organization for marketing. How much money does the company want marketing to invest in acquiring new customers versus retaining and growing the value of existing customers?

In addition, this conversation provides both insight into priorities and focus as well as strategy and programs. For example, if the decision is to allocate more dollars to acquire new customers, this will have direct implications on the strategy (segmentation and product) and programs marketing will create and implement.

But if more dollars are being allocated to retaining and growing the value of existing customers, this will certainly affect the strategies and offers marketing will apply to the various customer segments.

Allocating the marketing budget around find, keep, and grow isn't an easy accounting change. Most financial systems are built around accounts and subaccounts. And advertising, PR, events, etc. have become established accounts associated with the marketing budget. Submitting a budget around find, keep, and grow is going to create angst among your financial colleagues.

But it will also serve as a catalyst for a more meaningful conversation around marketing's role in the business and begin to engage your financial colleagues in exploring how to look at marketing resources differently. This won't eliminate the challenge marketers face in regards to budgeting processes and tools. And even if you end up with a hybrid budget, you will have changed the conversation.

These four initial steps are essential to establish a budget using the find, keep, and grow approach:

1. Establish measurable marketing objectives around customer acquisition, retention, and value growth.

2. Develop programs to support each objective and link every program to one of these objectives.

3. Identify every element in the marketing mix and its associated dollars for each program. This is going to require that you have historical data related to program results and program costs.

4. Identify any data, tools, processes, systems, and/or skills needed to achieve each objective and any dollars associated with each of these.

Now that you have your programs aligned around find, keep, and grow, you will need to do four more things:

1. Allocate. Since you have a set of measurable objectives and the investment required for each, you can engage in a conversation with the leadership team about priorities and focus. Once the priorities are clarified, you can create an allocation model to allocate your budget based on the priorities and the performance targets for each.

2. Tally. Based on your allocation model, create a budget table that includes every cost for each program and objective. Include a subtotal by objective, then a subtotal against find, keep, and grow. Marketers no longer can just track gross costs of people and programs.

3. Monitor. As you begin implementation, it will be important to monitor how well the programs performed against your committed targets and budget in order to make the necessary course corrections. Monitoring will required you to track and measure the impact of marketing programs and to track and measure the execution of a marketing program.

   Tracking program execution means you need to be able to track all the people (both internal and external) and all the steps (including approvals) to understand the total cost of program execution. Understanding and communication all of these cost components will be as important to establishing ROI as knowing the revenue impact.

   It may become evident a particular strategy and/or program aren't working but another is. It may then be necessary to terminate one program, then decide whether to eliminate these resources or reallocate them to another program or department.

4. Report. A fundamental part of being accountable is reporting. Every marketer should embrace reporting on the status of the investments and the return on these investments. When times are tough, be proactive and recommend where reductions would make sense. Then execute on these reductions quickly and efficiently.

As we deploy more tools, programs, and channels, we will generate more data, and as a result, more reports that have to tie everything back to the budget. Being able to sort and report on the budget quickly is going to challenge many of the capabilities and tools marketers use today. Most marketers are still in the era of the spreadsheet; it may be time to look for better solutions.

These eight steps may not enable you to keep all of your resources, but they will change the perception that the marketing budget is discretionary. As marketers we must be able to connect marketing investments to what matters to business—revenue and profit.

To do this, we must make clear connections between marketing efforts and business outcomes, down to individuals and activities. We must be able to slice and dice our data to improve our targeting and programs.

The stronger the correlation is between people, programs, and performance, the less budgets will be at risk. Welcome to the decade of marketing accountability!