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# Zero-based productivity—Marketing: Measure, allocate, and invest marketing dollars more effectively

Taking a zero-based budgeting approach to enterprise-wide marketing costs can uncover new opportunities and spur more-informed spending decisions.

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Marketing is critical to growth and consumer engagement, and its costs can account for more than 10 percent of revenues in many consumer-facing businesses. Yet few companies have fundamentally changed how they measure and assess marketing's impact—often resulting in budgets and programs that are close cousins of years past. And few marketers are confident about identifying the real return on investment (ROI) of their marketing spending, or the impact of trade-offs.

This apparent paradox derives from a time when the bulk of the marketing budget was concentrated in above-the-line channels such as TV and radio, which are characterized by more limited measurability of outcomes than are typical of below-the-line activities such as search-engine marketing. And, since most companies build budgets based on the previous year's spending levels, it has taken a long time for deep discussions of marketing ROI to reach the boardroom and become an executive-level priority.

In recent years, the proliferation of technologies that can process massive data sets, combined with the growth of digital advertising channels—which are inherently more measurable—has unlocked more opportunities to assess the performance of marketing investments. New tools enable companies to measure audience levels in detail, across all touchpoints and creative executions. But even though analytical tools have become more widely available, our experience suggests that many companies still adhere to old approaches generating limited insights. In fact, more than 60 percent of Fortune 1000 chief marketing officers claim that they cannot quantify the marketing's short- or long-term impact, whether on specific audience growth or brand preference.[1]

To gain a more detailed view of marketing and sales expenditures, organizations must overcome several barriers. First, marketing budgets are often separate for each business unit and country, which limits visibility and comparisons. Second, the multitude of spending categories can make it difficult to identify the highest-value opportunities. Last, companies tend to use agencies to manage, or at least intermediate and analyze, a significant share of their marketing spending. While companies may ask for "big new ideas," in the end it often proves easier for both the company and the agency to stick with an update of last year's plan. All of these challenges are underpinned by an entrenched, reactive mind-set when it comes to setting priorities and budgets.

These very obstacles, however, also make marketing and sales spending categories especially ripe for cost savings and reinvestment elsewhere. Zero-basing marketing—a comprehensive approach that extends zero-based budgeting principles to marketing categories across the enterprise—can uncover opportunities for savings worth 10 to 25 percent of spending in certain categories, and these funds can be reallocated to higher-value areas.[2] In fact, with the rare exception of industries or specific companies that are in an irreversible state of decline, a well-executed reinvestment in high-ROI opportunities will deliver a greater return than banking the savings will. A recent McKinsey survey revealed businesses that are methodical about investing funds unlocked through zero-based budgeting (and other programs) into growth—either proven winners or future products and services—outperform the market.[3] Often, more than 50 percent of these savings can be achieved in the first 12 months of a zero-based productivity effort, allowing for a very rapid reallocation.

## Gaining a granular view of spending and opportunities

Zero-basing marketing requires commercial leaders to pause and ask five critical questions.

### 1. How do we understand what is driving marketing costs?

The many marketing spending categories that exist are driven by different factors. To thoughtfully reduce, reallocate, or increase marketing spending across various categories, it is essential to establish a baseline where every dollar can be linked to a driver (or set of drivers) that determines why that money is being spent.

For instance, we separate media spending into two categories: working and nonworking. The former is shaped by the reach, frequency, and quality of the advertisement the company deploys to engage consumers; the latter is determined by the amount of creative, production, and research activity performed to create assets such as ads, videos, or emails, and is not directly driven by how many customers will see or react to the asset. Therefore, the logic by which each of these media spending categories will be assessed is very different. In most cases, this approach would go one or two levels deeper to identify much more granular factors.

Establishing a common currency, where every dollar spent can be compared against others and decisions can be linked back to objective drivers, is fundamental to zero-basing marketing.

### 2. Based on bottom-up analyses, what are realistic but ambitious targets for our company?

Companies need clarity about the fundamental drivers of their value creation, but often the drivers are not consistently understood or thoroughly applied when the strategy is developed. Business value is created by improving return on invested capital or top-line growth (for example, increased market share, positive market momentum, or a combination of both). Hence it is crucial to set targets that are consistent with the life stage of each area of the business in relation to consumer demand and preferences. These targets need to be defined through bottom-up analysis of revenue pools and growth drivers.

For example, the leadership team at a fast-moving consumer goods company could consider reallocating marketing dollars from products in its portfolio that have sizable market share in a low-growth category to products with the potential to gain share in high-growth categories. Although this action sounds intuitive, companies with cost-plus budgeting often don't have a culture that enables conversations about such resource allocation.

Zero-basing marketing is required to establish the lines of communication across business units and functions as well as the cadence for growth discussions. These efforts help to avoid underfunding areas with limited potential and instead free up resources to invest in high-ROI opportunities that might be overlooked, or left with the crumbs after the demands of historically larger business areas have been satisfied.

### 3. How can the organization establish the right conversations to identify opportunities?

Marketing leaders have to work very closely with finance and other functions on resource-allocation decisions. As mentioned before, marketing teams should set clear targets for growth and market share based on value-creation potential.

Then, rather than trying to understand the absolute spending on TV campaigns, for example, teams should compare saturation levels and gross rating points (GRPs) per message to find opportunities. Instead of oversaturating a target group (which often means underspending against a different target), funds could be redirected to a program with more weight behind it that can drive greater growth. Similarly, in digital channels, companies must get very granular to understand reach, frequency, and conversion—and identify specific saturation thresholds. In this way, the discussions become more structured and fact based, allowing changes in direction to be clearly supported and communicated—while also aligning marketing spending more tightly with strategic priorities.

These conversations must also reflect two important differences between the zero-basing of marketing spending and traditional cost-reduction efforts. First, among the most basic zero-basing initiatives for driving savings is straightforward demand reduction:

stopping low-ROI spend by eliminating the spend from the budget. Second, zero-basing shifts the budgetary burden of proof—from the finance function or cost-reduction team to justify cuts, to the business to justify spend by proving the ROI that the spend will achieve. This change encourages (and, fundamentally, enables) marketing teams to bring forward their ideas and link them more tightly to the commercial strategy.

### 4. How can an organization reallocate funds among the different cost types to ensure it is maximizing ROI?

Commercial leaders very often have all the data they need to assess the relative productivity of various spending categories and their coherence with consumer needs and competitors' positioning. Zero-basing marketing compels managers to rely on factual information to achieve consensus. With data-driven insights, generic statements such as "We should spend more in digital" or "We should continue to invest most of our money in Brand A because it's our power brand" either become more meaningful or are exposed as myths.

Companies can then make better spending decisions—for example, by allocating less to above-the-line campaigns and more to personalized communications through digital channels or customer-relationship-management (CRM) campaigns. In some situations, the ROI from a secondary in-store display might be greater than that of a price promotion. Such zero-based assessment provides commercial leaders with the tools to shift their spending.

### 5. What is the best way to track funds freed up in other areas to enable growth?

A zero-based approach establishes a consistent terminology for spending and investment, making ROI and budget discipline the common ground for decision-making. At a global manufacturing company, for example, the CEO used the same cost-management tool that had been tracking budgets and spending for zero-based budgeting to plan, track, and monitor growth initiatives. The change resulted in more transparent budgeting decisions about which initiatives to finance, and an ability to track and redirect resources during the course of the year to ensure optimal spending. The company achieved the target ROI.

More important than the tools and methodology used, however, is personal commitment on the part of marketing leaders. Commercial executives must provide marketing managers with full ownership of their respective cost areas, along with targets to achieve in the form of ROI, and where relevant, savings and reinvestment. Establishing a governance mechanism to track progress of these owners against their commitments is a fundamental step to ensuring that growth targets are met.

## Impact of zero-basing marketing

One EU-based consumer-packaged-goods company launched a zero-based productivity program with the goal of redirecting funds from marketing and sales categories to support of new growth initiatives. The management team was skeptical of the cost savings it could achieve, since these categories had been scrutinized already.

As a first step, the team created a database of more than 50 spending categories across business units and regions. It then applied industry benchmarks to set targets for each category. Using this detailed information, the team identified cost-savings initiatives, including removing some components from the media agency contract (reducing overall agency fees), and cutting packaging design costs. The zero-based approach created new budgets and a proactive cost-management process for each category.

The impact was significant: a 15 percent increase in spending efficiency, with more than 70 percent of the opportunities coming from nonworking media levers. More important, the process helped to instill an ownership mind-set among marketing and sales managers, enabling cost-reduction efforts to be sustained beyond the initial stages.

In another case, an online gaming operator was in a period of stagnating revenue growth while marketing costs—mostly for digital channels—were increasing year on year due to market inflation and increasing competition. With profitability coming under pressure, management was compelled to take a hard look at the cost of acquiring new customers in relation to their value. By mapping all of the marketing activities and their contribution to new customer acquisitions, and then linking them to the behavior and economics of the customers acquired, executives were able to rank their spending categories in order of effectiveness.

They were stunned by the results: 15 percent of their marketing was destroying value by bringing in low-value customers at a negative ROI. In the space of three months, marketing leaders cut spending in those areas and used the savings to finance high-potential channels. One such channel was programmatic media buying, a methodology that allows the marketing function to precisely target specific customers using personalized messages and offers based on their behavior. With the savings, the function was also able to build a rich data set comprising third-party sources of data such as social media activity.

It has never been more important for companies to reassess their level of marketing spending, where funds are allocated, and ROI by category. From greater access to data (directly and through media agencies) to in-house capabilities to measure the performance of marketing activities, companies have a range of tools and support at their disposal. All that remains is for marketing executives to use those tools to embrace a more analytical, granular approach to spending decisions.

[1] *The CMO survey: Highlights and insights report*, American Marketing Association, Deloitte, and Duke University's Fuqua School of Business, August 2017, cmosurvey.org.

[2] A repeatable process that replaces an emphasis on existing structures or historical practices with a strategic lens to rigorously review every dollar in the annual budget, manage monthly financial performance, and build a culture of cost management. For more on zero-based budgeting, see Ronald Falcon, Kyle Hawke, Matthew Maloney, and Mita Sen, "How absolute zero (-based budgeting) can heat up growth," January 2018, McKinsey.com.

[3] Kabir Ahuja, Biljana Cvetanovski, Jesko Perrey, and Liz Hilton Segel, "Building an engine for growth that funds itself," May 2018, McKinsey.com.

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This article is the second in a series about using the principles of zero-based budgeting to improve spending decision-making across an enterprise.