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An essential marketing tool in a downturn: Spend management

Marketing spend management can play a critical role in weathering a downturn and catalyzing future growth. Here are four essentials for doing it well.

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Spend management—the rigorous tracking and active management of the way marketing dollars are spent—is hardly the most glamorous component of marketing. But its impact can be game changing.

That fact is particularly important as companies react to the downturn ushered in by the COVID-19 pandemic. As the primary means of consumer engagement and driving business value, marketing is front and center for how companies need to respond to the downturn, especially in terms of building up cash reserves and driving revenue response. A crucial tool for that is better management of marketing spend. When done well, spend management can free up as much as 20 percent of a marketing budget (even more within specific areas) and serve both as a foundation to weather the storm and a catalyst for future growth. Effective spend management enables agile decision making within days, allowing marketers to rapidly redeploy funds where they matter most.

But spend management means far more than trying to squeeze an additional five percent out of agency fees. The best approach to spend management also offers the CMO flexibility to innovate and deliver, but it requires a fundamental rethinking of how a marketing organization works.

Based on work with more than one hundred companies across different industries, we've found that marketing organizations that get the most value from spend management do four things well. Even more important, their big leaps in efficiency came from embracing the full suite of changes.

These are the four pillars of marketing spend management:

1. Think through which services you really need

Double down on what works. Marketers need a clear picture of the impact of their spending on the bottom line. This is more important now than ever, when consumers' daily lives are fundamentally changing as new digital habits emerge and take hold. To figure out where spend is having the greatest impact, marketers have to commit to a granular understanding of where their target consumers are and whether the money they're spending is really reaching them. Between 36 and 42 percent of digital ads, for example, traditionally haven't met basic "viewability standards," either because they appear "below the fold" or aren't visible long enough.[1] And this is hardly just a digital problem. One large retailer, for instance, found that roughly 40 percent of the customers receiving its circulars exhibited little behavior change as a result of the distribution. In fact, for this audience, the cost of distribution was greater than the incremental sales the circulars produced. The company used its granular data to drill down and identify both responsive and nonresponsive customers. By eliminating distribution to those it didn't want to reach, the company freed up millions in cash to reinvest in more efficient channels (such as digital targeting) and to double down on customers most responsive to its circulars.

Create a flexible and iterative statement of work (SOW). Although most marketers sit down annually with their agencies to review the SOW, these documents are often a poor representation of the work that actually gets done. Throughout the year, as new business priorities emerge, additional work is added to the SOW. At the same time, work that no longer needs to be done is completed anyway because it was part of the original SOW, creating unnecessary spending. These variances are likely to be even more pronounced during the current crisis. To address this issue, we recommend developing SOW blueprints on a rolling basis instead of annually, crafting the next-quarter SOW with a high degree of clarity and the SOW for the quarter after that with semi-clarity. This allows the scope to shift according to changing needs, but in a way that's more organized, less wasteful, and better aligned with broader marketing objectives.

Tailor your agency's account team. Although an agency's senior account personnel are invaluable for thought leadership, many CMOs say they rarely interact with these executives, who are often still

[1] "H1 2018 media quality report," *Integral Ad Science*, February 2019, intergralads.com.

billed to a client account. Typically, it is junior personnel who drive the day-to-day work on the account. The key is to engage the senior account personnel at the right moments. To address this imbalance, marketing organizations should adjust their staffing to match the right people with the right work, flexing senior staff up or down as needed. This should be evaluated regularly as part of the quarterly SOW process. For example, agency executives on a large pharmaceutical account were instrumental in setting the strategy for the launch campaign for a new drug. Then, when the campaign entered its second year and became increasingly tactical, the proportion of junior team members increased while that of senior account personnel ramped down. This helped manage costs and created an agency team better suited to the work at hand.

2. Change the way the work is done

Companies that can quickly identify the inefficiencies in the way they work will likely come out of this storm with an improved operating model. Some companies implementing work from home as a means of stemming the COVID-19 outbreak, for example, are identifying inefficiencies that were hidden through large in-person meetings even as they navigate the challenges of working together when people can't be in the same location.

Embrace faster decision making. People who work at agencies have all heard the stories: the commercial that's finally gotten everyone's approval after months of work, only to face eleventh-hour feedback from the CMO; or the online campaign that gets ping-ponged back and forth as everyone at the agency tries to satisfy the competing visions of different marketing leaders. Not only does this "difficult client" behavior cost more money, it also slows down creativity and marketing output at a time when everything needs to speed up.

One important way to speed up decision making is to move from a linear hierarchy to a decentralized, agile model in which cross-functional teams are given highly focused tasks and clear key performance indicators (KPIs), such as click-throughs or open rates. Instead of waiting for approvals and input, these agile squads, which should include agency partners, have the ability to make their own decisions. An agile model is ideal for marketing that will benefit from multiple iterations of testing and learning, such as display ads and email promotions. Adopting agile can be bumpy at first—companies have to let go of top-down decision making—but it's important to stick with it, since it can dramatically shorten time to market.

Create an anti-redundancy culture. There's not much glory in rerunning last year's successful back-to-school promotion or repurposing photos from shoots done three years ago. Clearly the current crisis requires companies to rethink how—and where—they connect with consumers. But that shouldn't mean automatically discounting anything that was done in the past.

To help manage the evaluation and reuse of content pieces, marketing organizations need to have a robust asset-management platform for managing and reusing photos, videos, and other content. Just as important, they need a culture that rewards people, both internally and externally, who use it. To promote this anti-redundancy culture, marketing leaders should champion responsible spending decisions and highlight them as a valuable part of an ROI mindset.

Work with finance to reform the annual budget process. Instead of letting finance dictate spending based on the previous year, CMOs need to effectively articulate their strategy and objectives for the coming year and let that guide the budgeting process—especially given how much uncertainty there will be for the foreseeable future. Budgets set purely on previous-year spending create incentives for inefficient behaviors, such as instructions for agencies to spend millions of dollars so that funds won't be "taken away" in next year's budget. Resetting the way money is allocated and moving toward a fit-to-purpose budget prevents wasteful spending and empowers CMOs to set their own agendas.

Continuously demonstrate the value of marketing. For CMOs to have these kinds of empowering discussions with finance, it helps if they are what we call "unifiers." These CMOs forge collaborative bonds across the C-suite and have the trust and support of other leaders. This is, in part, because they are obsessed with "impact"—tracking and communicating the value of every marketing investment—and because they make sure everyone has a crystal-clear view of the value marketing dollars generate. Instead of using marketing-specific benchmarks like reach and frequency, they speak in a language other members of the C-suite can understand, using common metrics such as ROI, customer lifetime value (CLV), and net promoter score (NPS), to name a few. In doing so, they help win support for marketing's agenda and produce better decisions about where marketing dollars are spent.

3. Optimize where the work is done

In 2018, 78 percent of companies reported having an in-house agency performing functions that normally would be outsourced, up from 42 percent in 2008.[2] Marketers are clearly re-evaluating how their capabilities are distributed across their organization and within their large ecosystem of agency partners. Still, many marketers remain unclear on what they should in-house and what should remain with the agencies. Trying to build up flexibility while thinking through the ethical questions around contractual obligations needs to be part of the decision-making process. In our view, the primary goal of insourcing is the strengthening of core marketing muscles.

Bring business-critical activities in house. Although there is no single model dictating which functions a marketing organization should handle itself, "in-housing" usually makes the most sense for activities that require a deep knowledge of the business, greatly accelerate the speed to market, or allow the business to leverage a specific capability for a competitive advantage. This could mean high-level work, such as the small marketing strategy team that helped the CMO of an apparel brand engineer a brand shift toward a more premium image. In-housing could also be used for high-volume, fast-turn activities, such as the programmatic digital-media buying that a telecom company did cheaper, better, and faster itself. Many companies have also chosen to do their own centralized development and maintenance of the tech stack in order to have greater control over their customer data and a more direct connection with customers.

Create the right ecosystem of agencies. Most CMOs we speak to don't believe they are getting best-in-class capabilities from their agencies, whether it's in media buying, segmentation, analytics, or marketing technology. These poor performance assessments can often be traced back to the pitch process. RFPs that are too vague or are conceived in a vacuum can result in a misalignment of client expectations and agency capabilities. The solution is to create a detailed view of the overall agency ecosystem and establish clarity on how each agency fits together in a cohesive model. Detailing this overall vision allows marketers to select the right agency to fill a specific role and integrate it seamlessly into the broader agency ecosystem. High-quality output does not require exorbitant cost, and filling these roles in a fit-to-purpose manner allows marketers to manage their spending without sacrificing the quality of their marketing.

Defining the overall ecosystem vision not only facilitates a high level of agency performance but also cuts down on waste. Especially at larger companies, it's not uncommon to find multiple contracts existing with the same agency, or for multiple agencies to all be doing the same work. One leading telecommunications company, for instance, had 13 separate agencies all working on email marketing across only three business units. Consolidating these activities at one agency not only produced savings, but also led to a more

[2] "The continued rise of the in-house agency," Association of National Advertisers, October 2018, ana.net.

cohesive execution, with fewer handoffs and a more consistent quality of work.

Lastly, while agency and partner ecosystems have consistently included remote partnerships, COVID-19's impact on work from home is forcing a new normal on distance collaboration. As marketers, even agile teams, get more used to working remotely, the addition of offshore partners can increase the efficiency of capabilities like digital production and photography. As personalization continues to significantly impact advertising, there will likely be a need for on-demand low-cost production.

Establish a clear client-agency relationship model. This may sound like an obvious point, but it's crucial to establish a model that defines explicit terms of the client-agency relationship, such as who will make the decisions at each step of the process and how the agency and client will interact. There should be a process or system that allows anyone at an agency or within the marketing organization to step into the account to see who is doing what, what progress has been made, and what outcome is expected. Designating a lead agency to serve as the coordinating body across the ecosystem and an internal leader to steer the integration efforts not only creates accountability; it also eliminates infighting among agencies and wards off overlap.

4. Pay the right price

Know exactly what you're spending. There's a good chance you have more agencies working for you than you think. The typical marketing organization maintains roughly 100 active partner contracts at any given time, including many of which marketing leaders aren't even aware. In our experience, this sheer volume makes it difficult for organizations to track their spending; most have either incomplete or inaccurate data. But making smart decisions about spending requires transparency. To get better visibility, companies need both a robust spend taxonomy (often 60 different classifications), a tech stack capable of tracking it, and disciplined operating models that ensure the accuracy and completeness of the data. While many marketing organizations choose to outsource this job to agencies, keeping spending data in-house is a better way to maintain clarity on everything you're spending.

Arm yourself with comparable price data. You wouldn't buy a house without knowing the price of other properties in the neighborhood. Similarly, you shouldn't negotiate contracts with marketing partners unless you understand what other companies are paying for similar services. Such due diligence can yield millions of dollars for reinvestment in high-priority initiatives. This process can happen in a few ways. For media buying, it can mean hiring "mark-to-market" auditors or giving the task to a marketing-ops or procurement manager who can help hold agencies accountable for their rates. For agency fees, understanding market rates for similar services and gaining insights on cost drivers via "should cost" analyses can provide transparency about fees and leverage for obtaining better rates. One pharmaceutical company, for instance, worked with a benchmarking firm and found that their agency fees were 20 percent too high. They negotiated to cut this overage in half. Such due diligence not only frees additional funds, it signals to agencies that the client will be carefully managing costs on a detailed level.

Give agencies a reason to go the extra mile. Without a link between performance and compensation, there is little incentive for agencies to provide outstanding service. At one financial-services company, for example, the primary creative agency was consistently earning margins of 18 to 20 percent, even though the company rated their performance as only "two out of five stars" in their year-end assessment. We believe the way to address this discrepancy is through a reevaluation of agency compensation models. Where it makes sense, this involves basing as much as 20 to 50 percent of total fees on performance and offering an extra payment of 10 to 25 percent above the base rate for exceptional work. This provides incentives for the agency to listen to the client's needs and perform above expectations. It can also facilitate robust conversations about both internal and external marketing performance, helping ensure that everyone is hyperfocused on the bottom line and not just going through the motions. In the case of the financial-services company, they moved their agency to a tiered pay-for-performance structure tied in part to a core business objective: opening new accounts. When the company, with the support of its agency partner, delivered on its new-account goals, the agency received an extra margin of 18 percent.

Solicit regular and robust pitches. Despite the effort required, agency pitches consistently yield value from both price and capability perspectives. Launching an RFP for top agencies every three to five years keeps agency partners honest about rates and gives marketing organizations a chance to learn about cutting-edge capabilities that will help them evolve with the market. It gives agencies and clients a chance to develop a relationship while keeping their roster current. Importantly, this pitch process is more about building capability and selecting the right agency partner than it is about cost. In many cases, even when marketing organizations choose to keep their existing agency, challenging it (and being willing to let it go) pushes the agency to sharpen its offerings and keep up with changing needs. Although switching comes with inevitable onboarding costs, it is warranted when more attractive fees and access to better capabilities outweigh the costs. Choices about agency partners are often the most important decisions a marketer will make. Getting them right and ensuring they continue to be right is critical to the success of any marketing organization.

Most of these levers for becoming a lean marketer are not complex or new, yet they are often sidelined amid the myriad complex challenges marketers now face. Taken together and in conjunction with a renewed focus on rigor and transparency, they represent a powerful approach to enabling marketing organizations to achieve their broader marketing vision. We believe that CMOs and other marketing leaders who can implement these lean marketing actions can play a leading role in ensuring their businesses successfully navigate the downturn and position them to succeed when customer demand returns.

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