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Insights On Brand Development From The Marketing Front

Sunday, June 6, 2010

ACCELERATE GROWTH

Recently we participated in a workshop with Ben Cook, Acumen Learning. Ben's role was to instruct marketers regarding "What your CEO wants you to know about the financial performance of your company." We instructed these same marketers on the implications for marketing and how to go about achieving key financial measures. Our program was titled "Marketing By Objectives" a take on the classic Peter Drucker practice of "Management By Objectives," which has provided direction for business executives for decades.

In Ben's portion of the workshop he posed the question, which we now pose to you. Which generates more profit: a dollar of growth or cutting a dollar of marketing spending?

When you're finished answering the question go to the next page to learn more.

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ACCELERATING GROWTH – PART 2

So, which generates more profit: a dollar of growth or cutting a dollar of marketing spending?

If you are like the vast majority of marketers who answered this question you chose “growth.” And, if you did, you are wrong!

The correct answer is “cutting a dollar of marketing spending.” How can this possibly be so? Let’s examine it:

- A dollar of sales has “cost of goods” associated with it. This would be materials and manufacturing costs to name a few. The amount varies by industry and company within a given industry. But, let’s assume that cost of goods are 25% of the sale, which for many industries is quite attractive (albeit health care can be significantly lower). When we subtract cost of goods we are left with 75-cents available for profit.
- However, there will be additional expenses associated with the sale. After all there will be a salesperson and her time, marketing related costs for advertising, promotion and the like. Let’s assume these to be 10% of that original dollar of growth. That amounts to 10-cents, which we must subtract from the 75-cents available when we deducted the cost of goods. Now we are left with 65-cents available for profit from that \$1.00 of growth. (You should be so fortunate.)
- On the other hand, when the CEO cuts your marketing funding there are no cost associated with the cut (provided you are not breaking any contracts that have penalties attached). So you net the entire \$1.00.
- The impact is that cutting one dollar will generate 35-cents (or more than 50%) more available for profit.

It looks like this:

	Sales Growth	Cut Expenses	Difference
	\$1.00	\$1.00	---
Less Cost of Goods (25%)	-.25	<u>0.00</u>	<u>(.25)</u>
Gross Profit	.75	1.00	.25
Less Cost of Sales (10%)	-.10	0.00	(.10)
Available for Profit	.65	1.00	.35

Now you understand why management will ruthlessly cut budgets in order to preserve profitability, and cash, when times get tough (as in the past few years and, maybe even, the next few years to come).

What does this tell us? Simply stated:

- Unless you can generate about \$2.00 in growth for every dollar you spend in the aforementioned example, it would be better for the CEO to cut spending in order to achieve the immediate bottom line profit goals for the company.
- It is also important to keep in mind that unless we can demonstrate what a dollar of spending will return in sales growth (i.e., return on investment or ROI) these marketing support funds are vulnerable to be cut from your budget regardless of whether these are promotion, advertising or medical congresses.
- We need to choose marketing mix elements and launch tactics that will *accelerate* growth rates.

None of which we have been talking about is dismissing the importance of growth. It is essential to the health and survival of the company. When we grow we generate cash to fund new developments. The growth of the company will attract talent. Everyone wants to work with a company or manage a brand that is growing. Life is sweeter. So are the rewards, both financial and psychological.

Instead we are making a clear case for marketers to understand what it should take to maintain or, better yet, attract marketing support funding – know what you need to do, and be able to demonstrate to senior management that your actions will accelerate growth.

By the way, this is no different than what senior management balances with stockholders. We are all familiar with dividends. Stockholders like them. They're rewards for growth. However, if the money to be paid out as dividends could earn more than the stockholders could get elsewhere then it would be in their best interest, and that of the company, to reinvest the funds in the business. It's that simple.

Likewise, if you can demonstrate that spending in support for your brand's tactics will generate more profit than cutting the same funding you will get what you need. In fact, we marketers not only compete outside the company but when it comes to receiving marketing support funds we compete internally as well. Management will support those businesses with the most promising growth. They will put their money on initiatives and tactics that will give them the most (proven) return on their investment.

One final note, if we do not know the ROI from our marketing support programs then we are not managing the business. Instead, it is managing us!

BOATS & HELICOPTERS:

1. ***Stop making excuses*** – We hear marketers reading us chapter and verse regarding why they are unable to measure the results of their activities. Well then if you can't get a handle on linking results with your tactics (as in "cause and effect") you'll be subjected to budget slashing. The fact of the matter is management doesn't know what they will be getting from their spending. As such, if they release funding for an activity that the ROI is unclear then this represents a gamble. Gambling is not a prudent way to run a business. So use your intelligence and creativity, and reach out to team members (internal and external) to find ways to measure results.
2. ***Be objectives oriented*** – We're talking hard numbers here. We're not just talking about

delivering a project on time. Instead, we are referring to achieving SMART “behavior” objectives. We’re getting at identifying and focusing on what customer behaviors (such as “switching”) are needed to achieve business goals (namely sales, market share and profits). SMART means that these should be Specific, Measurable, Achievable, Relevant to the business goals and, finally, Time-bound. Every initiative and tactic should be developed and chosen on the basis of contributing to the achievement of the business goals. Hypothesize regarding what tactics will have the greatest impact on stimulating profitable sales growth (as in motivating customer behavior).

3. **State your expectations** – How many incremental sales do you expect the tactic to generate? What will it cost? What is the cost per incremental sale? What is the return on investment? This is what needs to be done with each tactic before you conduct it and, even before you propose it to management. While you may not currently be able to state this with accuracy the mere pursuit of this line of inquiry will encourage you to think, explore and ultimately appreciate cause and effect. When the marketer understands cause and effect and can cause the effect then she truly understands and is managing the business.
4. **Inspect what you expect** – Since you’ve stated your expectations you have a basis for tracking performance. (If you don’t know how to do this go back to point 1.) Conduct a thoughtful and technically correct analysis of the tactic. Did you get the growth you anticipated? While we would all like to be able to answer this in the affirmative getting “no” for an answer is not a negative. It provides us with valuable learning and will spawn new hypotheses regarding ways to stimulate rapid growth. Importantly, memorialize your learning to contribute to organizational learning.
5. **Get started, now** – The single best way to do go forward is to run a small-scale test and measure the results. These have been referred to as “adaptive experiences.” Get funding to run the tactic in a limited geography then measure and compare the results against expectations. When we have conclusive proof that the tactic will accelerate growth then we can petition management for funding to execute it on a broadscale basis. If you have conclusive proof that the tactic will accelerate the grow rates and levels that we expected your management will fund it. After all, they know what they need to achieve bottom line profits.

Accelerate growth and create healthy profits.

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