

DISPATCHES™

Insights On Brand Development From The Marketing Front

Sunday, June 14, 2009

WHATEVER HAPPENED TO HIGH-SPEND (TESTING)?

At a recent client training session, one of the senior client leaders asked the following question: “Instead of getting your brand ready for an annual cut in brand spending, have you ever considered making the case for *increasing* your brand’s spending?” He then proceeded to provoke the participants’ thinking by walking through a real case history within the company in which his team was faced with a forecast that was almost 20% under what the Sales Force was planning to deliver. He explained that, in that situation, his Marketing Team had no choice but to figure out some ways to make up the volume shortfall (about \$10MM). And, in such a position, he said, they were compelled to request additional marketing funds to test for some possible solutions to the shortfall—and to do so in a pretty short timeframe.

The Team ended up testing a way to reach a segment of the market that the Sales Force was not going to be calling on; they convinced the Chief Marketing Officer to give them \$600M in incremental funds for the test (which was internet-driven), and in short order produced \$1.8MM in incremental sales from this segment...or, a three-dollar return for each one-dollar spent. You can imagine what results like these then led to: the CMO approved another \$2.5MM investment in the brand in expectation of roughly a +\$8.0MM incremental volume (which the brand did deliver).

While it’s true that in this case the brand was forced—out of necessity—to seek incremental marketing funds, this story nevertheless represents an example of “high (or at least higher) spend testing.” And, when we heard it we were not merely motivated by the happy ending; we began to wonder whatever happened to what used to be an expected, annual marketing plan element: to test how high is up when it comes to major marketing strategies and their initiatives. No one it seems, these days, includes a high-spend/investment-spend test of key initiatives in their plan presentations to senior management. On the contrary, most marketers appear myopically focused on ways to retain the same level of funds they secured the year before. In fact, many are so wary of seeing what funds they **do** secure being taken from their brand budgets by the end of the first quarter (for, you know, a senior management “make-plan” reserve fund) that they front-load as much marketplace spending as they can get away with. How did budgeting and selling the brand’s annual marketing plan go from being what should be a bullish, *offensive* effort--based upon marketers’ confidence in the strategies and tactics they are recommending--to such an inherently *defensive* one?

We have some hypotheses about the answers to this question:

1. **Marketers, including many senior ones, lack the skill-sets and/or methodologies to measure return on marketing investment.** A couple of years ago we cited a Chief

Marketing Officer survey in these *Dispatches* in which nearly 75% of those CMO's interviewed agreed with the statement that they "lacked confidence in their ability to understand the impact of marketing on sales." And only 20% of those same CMO's agreed with the statement that "they are satisfied with their ability to measure marketing ROI." If you cannot measure marketing ROI, or even if you can somewhat but have no confidence in the results you're reading, well, you probably are not exhorting (let alone expecting) your brand teams to recommend investment spend tests.

2. **Annual marketing plans in many organizations have become much less strategic and much more tactical.** We have the opportunity each year to see a variety of our clients' marketing plans; they are more and more compilations of "quarterly or trimester activity packages" that will be released to the Field, rather than strategic templates that link the brand's Positioning to its Marketing Objectives and its Key Driver Sub-Objectives and Strategies...and ultimately to its Major Tactics. Perhaps this evolution in annual marketing plan content reflects an even bigger one: namely, that a good many marketing organizations nowadays are operating more typically with Project Managers than with Brand Managers. Sound investment spending demands sound strategic thinking ahead of it—it's the cleverness of the strategy *along with* the bigness of the marketing idea that lends the confidence to even consider spending more on something.
3. **Virtually no one—including senior marketers and senior staff executive types—is thinking about their brands' marketplace spending as of two kinds: *maintenance and investment*.** Marketing dollars, whether labeled as "A&P Support" (for Advertising & Promotion) or CME (Consumer/Customer Marketing Expense), are too easily regarded from year-to-year in a lump sum, as if all dollars were equally valuable. But the truth is that every marketing organization spends some portion of its CME in *maintaining* a certain level of volume and share and a certain portion in *growing* volume and share. Really smart, disciplined marketing leaders insist that their brands identify what amount of the proposed budget is required to sustain the brand's business and what amount is needed to grow that business—even if the absolute amount each year changes very little. Actually, these same smart marketing leaders will go even further: with the help of internal analyses, they will pre-identify and classify each type of spend as "Maintenance Spend" or "Investment Spend." So, for example, a brand may require five trade features (reduced price and display allowances) each year just to hold its volume base; these five are "Maintenance Spend" for that brand. But funds to support two additional trade features behind a new line extension for the same brand are, for that year, "Investment or Growth Spend." Without these kinds of spending concepts in place, it is little wonder that few annual plans recommend any high-spend testing.
4. **Far too many marketers have been conditioned to keep doing the same things that they did last year.** Even with a major new launch coming, it seems so many marketers are encouraged by their organizations (especially Sales!) to keep on keeping on, and not

to allow anything to drop from the brand program. In such an environment, you can sure understand why high or investment spending would not be top-of-mind with most marketers. There seems to be an unwritten code of “what works” for our business and no one is encouraged to press the boundaries of that code...to see how much *better* even that something might work with more force behind it. What was Einstein’s famous definition of insanity? *“Doing the same thing over and over and expecting different results.”*

BOATS & HELICOPTERS:

Does your organization do any high-spend or investment-spend testing to see how much greater a brand’s volume, share, and profit results might be? We hope so. If your annual plans often include a proposal for testing the upper limits of, say, a new Communication Strategy and its Campaign Idea, we applaud you. But, assuming the notion of high-spend testing is something new and different for your brand and your company, here are just a few thoughts on how you might at least get one started:

- Take one of your team-consensus best new ideas—line extension, promotion, PR, advertising—and do some in-depth interviews with likely consumers and customers. See if you can’t get an indication from them just how appealing the idea could be.
- Use that as impetus to outline an in-market test of the idea at two spending levels: “normal” and “2 or 3X”.
- Keep the cost of these tests reasonable by limiting the geography and the timeframe for reading it (say, 13 weeks).
- **Ensure you have the full cooperation of your marketing intelligence/research team so you can truly read some results—results not clouded by other variables.**
- Propose covering the cost of the high-spend test by taking 50% from another “base budget” item and 50% via incremental funds from senior management. Also propose what sales results you expect and secure agreement on what would constitute an appealing ROI.

Here’s the best part: once a brand has a high-spend test success (with a demonstrable ROI), annual marketing plans will never be quite the same.

Richard Czerniawski & Mike Maloney

Contact information on the following page...

Richard Czerniawski

.....
430 Abbotsford Road
Kenilworth, Illinois 60043
tel 847.256.8820
fax 847.256.8847
.....

reply to Richard:
rdczerniawski@cs.com or
richardcz@bdn-intl.com

Mike Maloney

.....
1506 West 13th Street, #17
Austin, Texas 78703
tel 512.236.0971
fax 512.236.0972
.....

reply to Mike:
mikewmaloney@cs.com or
mikemaloney@bdn-intl.com

*Please forward any comments regarding the newsletter to Lori Vandervoort at our
Central Division Offices of BDN International, 800-255-9831 or 620-431-0780.*

loriv@bdn-intl.com

BDN *International*

© 2003 Brand Development Network (BDN) International. All rights reserved.