

## A Better Logic for Budgeting

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Extraordinary advances in computer technology, satellite communications, and the Internet revolution have had a major impact on the globalization of business in the last decade. Global companies have seen the harmonization of systems, vocabulary, product, and advertising.

There are two sides to this. On the one hand, the temptation of 'one size fits all' or 'head office knows best' is very hard to resist in terms of control, efficiency, and organizational streamlining. On the other hand, local knowledge, expertise, and drive provide a competitive advantage. The savvy CEO will hire people in the markets who have passion, intelligence, and commitment, and that usually means wanting to do things their own way.

This paradox is not easy to resolve. In some multinational organizations, global and regional teams add significant value, providing clear direction and support to local markets. But in many companies, head offices play a much less clear role. They may trot out a few innocuous corporate neatness projects to justify the existence of the staff and to look good in globalization presentations. But abstract theoretical organization concepts and vision statements do not really drive behavior change. In the jealously guarded and secretive real world, power plays happen in the local markets, out of sight but not out of mind, weaving around the slalom posts of corporate guidelines.

### An Easier Target

So what is the answer? Well, there is one part of every business that is a passion for marketers. It carries massive weight outside of the marketing function, and it is probably the biggest or the second biggest line item on the profit and loss calculations for a consumer products company. In other words, the media budget.

Can you use your media budget to drive change? Many would see this as a non-starter. Media is a world of acronyms and jargon, station deals, and cost per thousands. How can such a technical marketing topic enable organizations to achieve both the levels of integration and local empowerment that they seek? The secret is to treat the media budget as one single, central budget.

In many businesses, planning is carried out pretty much according on the basis of silos, as (over) simplified in figure 1:

The role at the corporate level is a simple one — setting the top-down targets for the numerous business units or brand groups. But the reality is that, in most businesses, dramatic improvements in overall media/marketing ROI can be achieved by moving the allocation of media up a level. Under this philosophy, the allocation of spend is not the end result of a target setting exercise, it is on the basis of maximizing the achievement of group objectives. Turning a grass roots exercise into a centrally driven process can drive major improvements in profit. Figure 2 illustrates how this can be achieved by moving funds towards those business units best able to deliver strong returns:

Of course, real life is rarely this simple. But these sorts of opportunities almost always exist. Grasp them and your marketing ROI (and thus, ultimately, corporate profitability) can take a significant step forward.

### Strategic ROI

To most rational marketers, the principle seems sensible. The challenge is making it happen. To draw an analogy, at the time of the U.K. governmental election in 1992, a piece of research asked voters, "Do you think some taxes should be raised to fund better health and education provision?" Well over 50% said yes. The next question was, "Do you think your taxes should be raised to fund better health and education provision?" 1% said yes! Here, we would see similar trends — strong support for the movement of funds from the worst to the best performing business units; dogged resistance when people find they are one of the losers.

As such, once the principle of a single media budget is established, the task is to set up ways to measure the value of supporting different business units, brands, regions, and countries so that the money goes where there is the highest strategic return on investment. We emphasise the word strategic — it's not simply a short-term financial exercise. Strategic value should be calculated using financial and non-financial measures, focusing not just on the short-term return today but also where long-term brand health will be generated.

There are three secrets of success to such an initiative. First, it has to be handled with CEO-, or at the very least board-, level oversight. From that level, there is a need for stated clarity on the priorities for the business today, where it is going, and how getting there can be measured. In other words, a balanced scorecard of metrics to allow objective and value-driven decisions. Money is allocated to those parts of the business that are delivering well against today's targets and driving the fastest towards achieving the vision.

People hate to lose their budget, no matter how laudable the destination, so the CEO must be careful in choosing measures of strategic value because they will have unleashed unlimited local creativity and cunning towards pushing these metrics higher.

This brings us to the second secret of success — avoiding the numbers trap. Left to their own devices, media folk and their agencies will fall back on what they know best — numbers. They will design the most all-encompassing, mathematically formidable allocation model and pepper it with a few acronyms to keep any inquisitive counter-agents at bay. This will be death to the project.

A purely numbers/model-driven process will inevitably divide your business into two camps — bemused winners and acrimonious losers. The danger is that winners will take this as confirmation of what they knew all along — they were doing a great job and everyone else is the problem. Rather than be a driver of change, it will be a re-enforcer of the status quo, a recipe for complacency. The losers, on the other hand, will want to discredit the model and derail the process. They will complain bitterly about how the global market does not account for unique factors in their market. So again, rather than driving change, it will create hostility and de-motivation.

This leads us to the third success secret — a focus, above all, on the process that drives the conclusions.

### Seek Simple Models

Our solution may appear counterintuitive. Rather than seek analytical nirvana, the model has to be as beguilingly simple as possible. Depth of thought should go into its development, but the end result should be completely transparent with, at most, relatively few simple ratios relating individual performance to best in class benchmarks.

To many, the model is the heart of the solution — design the world's best engine room and hey, presto, the answer will emerge. To us, the answer lies in a transparent, engaging process. Black boxes may well produce the 'right' answer. But frankly, if the result is a mixture of bemusement and resistance, business results will still disappoint.

Thus, process (and a large helping of change management) is needed to alter behavior, to get management to participate, and to make the new rules stick. The debate must focus on business fundamentals, not media intricacies, so that it is seen as the application of common sense rather than intellectual gymnastics. All key managers should contribute to developing the rules, the metrics, and the process. The end result is therefore owned, shared, and bought into, even if the result itself is not one they like.

### Key Measures

Let's look at a typical situation that one might encounter when allocating media budgets for an international consumer-goods manufacturer. Management at both HQ and country level collaborate to decide on the factors for allocation, so that it does not appear that the criteria are imposed from above. The principles have agreed on the following factors:

- **Profit:** What is current profit performance?
- **Pricing:** What pricing delivery is this based upon?
- **Distribution:** What levels of on-shelf availability do we have?
- **Growth Forecast:** What are the real prospects for our business (with a clear rationale to back this up, not a reliance on the "growth fairy" waving her magic wand)?
- **Category Development:** How well has the category been managed and how defensible is it, therefore, to new entrants?

- **Image:** What are consumer perspectives of our brand?
- **Response:** How well does our advertising deliver sales and profit in each country for every dollar spent?

Metrics are determined, again, collaboratively. The results of the analysis are shown in the table below:

This analysis shows that the South Americans are the best performers. They have a strong trade and consumer base that translates into high category development indices and good profit margins. This ratio work confirms that they should be supported with high investment.

It also confirms that in Canada, the trade is unsupportive. We have fought numerous battles on price and this has had the effect of eroding margins and leading to commodity values. The future forecast is uninspiring. Until they develop a plan that meets action standards on trade distribution and effective marketing, their budgets will be directed elsewhere.

So far we have only confirmed existing perceptions. Mexico, on the face of it, has similar low scores to Canada. However, a major shelf-placement deal has been secured with the largest grocery retailer and the management team has developed robust plans to deliver aggressive growth. There is also a strong response from advertising spend.

Interpretation of the indices, supported by additional insights into the business, leads it to be characterized as an investment business. It lets them break out of the potential catch-22 situation of not being able to achieve a strong business without investment, but not having the investment resources because of the relatively poor business strength of today. And, given the Canadian position, these changes can be achieved in a cost-neutral manner, i.e., without increasing the size of the overall pot. In other words, we have achieved one of our key objectives, improving overall marketing ROI today. But have we truly achieved our aim of changing corporate behavior?

### Dynamic and Rewarding

If this process is maintained over time, we believe the answer is "yes." This process has created a dynamic, objective, and motivating reward culture. The best managers can think beyond the need to manage to a short-term country profit target all the time and can present aggressive plans for the future. Competition for the budget is a positive dynamic and a catalyst for change. And over time, this can act as a massive lever for change.

Simply, the Canadian management team knows that, if they are to regain access to substantial media funds, they have to fix their profit and pricing issues. And remember that, over time, the process drives an increasing pace of change as each part of the business seeks to move up the performance charts to get access to more funds. It is in this way that media and marketing funds can act as a force for wider change within the business, encouraging a real drive to change some business fundamentals as a conduit to enhanced marketing fund availability.

What we are talking about here is a hybrid between the theoretical work of process engineers and the technical world of econometricians and media gurus. Companies that practice smart globalization are doing this today. Equally, within geographies, the best businesses are using similar approaches to move media funds between business units and brands. When we've worked with companies and seen it done right, it can be a massive competitive edge for business. Today and in the future.



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