

INCREASE OPERATIONAL MARKETING EFFICIENCY

HOW TO CUT MARKETING COSTS WITHOUT LOSING MARKET IMPACT

Confronted with declining turnover and profits resulting from the world wide economic crisis most companies choose a common and well-known approach: top management goes for overall cost cutting through reductions in budgets and immediate cancellation of investments. One immediate target in the line of fire is marketing-spend, with the Marketing Director and his or her team reviewing all expenditure to identify saving potential. Normally they end up with the obvious solutions: trying to pressurise their creative and media agencies to accept lower commissions and rates. The effect usually isn't very large as these budget components have already been well negotiated and established at the lowest possible levels. But as further savings are expected (and needed) there remains no choice but to reduce the level of marketing activity as well as partly reducing its quality. The sad result is a reduced level of marketing effectiveness, sometimes even the loss of "share of voice" and most significantly a weakening of brands.

„Traditional way of Marketing Cost Cutting“ leads to reduced market impact and the weakening of brands

> Some marketing professionals choose a different approach: focus on the "non-creative" marketing processes

A few marketing professionals have learned from mistakes in the past and have consequently started to screen the whole marketing value-chain. Here the focus is on 'non-creative' marketing spend where companies can save up to 30% through detailed analysis and cost saving implementation. Some of the savings achieved can even be reinvested into market relevant activities. In an environment where competitors might also need to save on marketing spend this can lead to an increased "share of voice" despite the crisis.

Cost saving potential within the operational marketing-value-chain

> Strict separation of the strategic, creative and operative marketing processes

The new approach is based on a strict separation of strategic as well as creative* marketing on one hand and non-creative marketing activities (or operational marketing activities) on the other:

- **The creative and strategic part of marketing** consists of activities around the development of marketing ideas and concepts for products as well as positioning and communication concepts and needs (for example: brand positioning, media strategy, consumer insight generation, brand concepts, advertising campaigns). Success in this area will depend upon the strategic and creative approach and the ability to constantly rejuvenate.
- **The operational, 'non-creative' part of marketing** concentrates on all activities around the production and implementation of marketing concepts, campaigns and activities (for example: purchasing, printing, production of marketing materials). Additionally reviewing the depth (and also how often the market research data needs to be purchased) of consumer and market insights which are really needed might prove beneficial. Compared to the strategic and creative part of marketing, freedom should be a lot more restricted in this area – success is defined by standardised processes similar to industrial production where high volume and repetition results in higher efficiency.

> The Dilemma

Marketing teams mostly focus on their strategic and creative skills, which account for 75 to 85% of their time. At the same time operational marketing costs account for up to 80% of total marketing investment but are often not focused upon. Even worse: the strategic and creative focus of the marketing team often reduces their abilities concerning operational excellence and especially in respect of efficiency.

Marketing knows about strategy and creativity. Cost saving is not their heritage

In the past this lack of operational efficiency – resulting in cost inefficiency – was often accepted as long as the strategic and creative approach was good and creatively excellent marketing teams could be built and retained.

> Key levers to achieve operational marketing excellence

A prerequisite to achieving an acceptable level of operational marketing efficiency is to analyse the whole marketing value-chain instead of starting single cost-saving efforts and to develop a clear understanding of the following marketing efficiency drivers:

- 1) **Ensure full transparency** about internal and external operational marketing processes, marketing tasks and cost structures.
- 2) **Define cost saving objectives** with respect to the operational marketing budget.
- 3) **Streamline** all contracts with external companies according to, **standardised marketing purchasing criteria**. Screen all existing contracts to determine whether they fit the established criteria and decide on how to handle mismatches.
- 4) **Achieve purchasing advantages** through **bundling of company-wide marketing procurement** (economies of scale).
- 5) **Review and optimise briefings and task descriptions** for external support. If possible, switch to lower cost specialists for certain topics and jobs.
- 6) **Examine** the possibility of **outsourcing marketing activities** that are currently handled in-house.
- 7) **Market research**: evaluate current investment in terms of the depth of information required and how often this information is really needed.
- 8) **Development or use of state-of-the art technology** for efficient communication with suppliers (ie. online platforms).
- 9) **Find partners** (not direct competitors) **to increase order volumes** through joint purchasing and thus achieve **economies of scale**.
- 10) **Make operational marketing excellence part of controlling and reporting routines**.

Success levers for operational marketing excellence and cost optimisation

> How to handle internal resistance concerning change and cost savings

Reviewing operational marketing costs can lead to resistance within the marketing team, with such costs often having gone unchallenged for some time. It is possible that service agreements with suppliers are based on out-dated personal preferences or relationships or on long-standing, but unchallenged accepted practice or terms. Often the resistance to change will be based on concerns around quality issues and the dangers to the brand if suppliers are changed or have to work for lower fees.

Resistance to review and change is to be expected

It should be made clear that the efficiency improvement is fully focused on purchasing and production – creative freedom and output would not be touched at any stage. The length of relationship with a supplier is arguably less relevant because of this focus – fast and efficient implementation based on exact briefings is what counts.

No loss in the quality of marketing campaigns or market impact to be expected

> The cost saving results will win over non-believers

With a holistic approach to optimising the cost structures of marketing operations the cost-savings can be dramatic. International corporations and also mid-size companies are typically able to reduce the marketing costs by 5-7% in the first year. Against one example based on a marketing budget of £7m this represents savings of up to £500k.

Certain budgets such as production and print often see cost savings of up to 30%. Sometimes companies decide to reinvest these savings into increased media coverage, for example.

With turnover and profit decline a major issue for most companies in times of worldwide economic downturn, operational marketing costs will receive increased attention in many marketing departments.

Those who recognise how to realise the efficiency potential of their marketing value chain at the same time will emerge from the crisis much more strongly.

Substantial saving
potential given.
Reinvestment possible.

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