

The Marketing Effect: Plotting a Course through Recession

In a downturn, cutting the marketing budget is often a knee-jerk response - and a big mistake. New analytic tools help to focus spending and maximize success.

By Thomas Meyer, Jesko Perrey, and Dennis Spillecke

Let's cut back on Marketing." This idea is sure to get a lot of attention these days in the boardrooms of FMCG manufacturers and retailers. The sector accounts for a huge share of advertising spending. As a consequence, marketing is one of the biggest cost blocks for companies in these industries. And then there's Marketing's notorious weak standing when it comes to quantifying return on investment. If you look at the profit-and-loss statement with the cool eye of a Chief Financial Officer, Marketing jumps out at you as an expense you can quickly reduce. As Neil Sussman, Marketing Director at the diamond giant *De Beers*, put it: "When you say we need to save X million, then the easiest, immediate place to get it is Marketing. It is unspent and uncommitted."

Saving in the crisis – Cutting ad spend as a panacea?

In previous economic downturns, advertising spend in Germany has plummeted. After the Internet bubble burst in 2001, total advertising revenues fell sharply for two years in a row before the market recovered in 2003 (Exhibit 1). A similar development is taking shape now. Although ad sales increased in 2008, there are many signs that the expected decrease in 2009 will be more dramatic than the drop at the start of the decade.

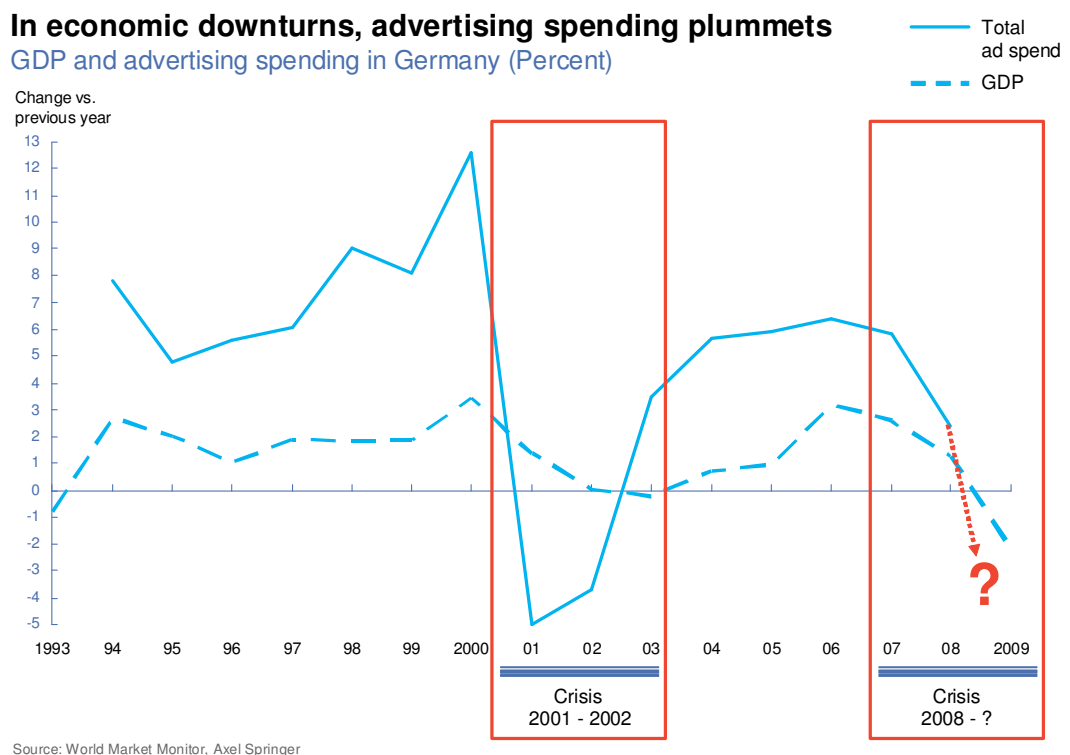
But are radical budget cuts the right recipe for bringing a company through the crisis and coming out in a stronger position? Not at all, says John Quelch, a professor at Harvard Business School: "Companies that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at lower cost than during good economic times."

Advertising in the crisis – What the anticyclical approach can do

History confirms John Quelch's view. For example, in an economic downturn at the end of the 1950s, *Procter & Gamble* used an innovative campaign to build the share of its toothpaste brand *Crest* from 9 to more than 30 percent. The success of the campaign was rooted in a simple mechanism: if advertising volume in a market falls because competitors are economizing, the share of voice (share of consumer contacts) increases significantly for the companies that maintain their spending. For example, if a producer of non-alcoholic beverages had invested EUR 20 million in advertising in Germany in 2007, its share of voice would have been 6.6 percent. Then, when the industry's ad spend fell by 8 percent, the contact share for the

same amount of spend would have increased to 7.1 percent. And if ad spend in 2009 falls again by 8 percent, an increase in spend by just 10 percent would lift the beverage company's share of voice to 8.5 percent. Falling advertising volumes have another effect as well: they put pressure on the media and media service companies to lower advertising prices. Companies can take advantage of this shift in power. A. G. Lafley, CEO of *Procter & Gamble*, has already announced tough negotiations: "This media environment is a big 'O' opportunity for us, because we're the biggest advertiser in a lot of these countries, and we just go in and tear up the contract," Lafley told analysts in December 2008.

Exhibit 1



Winning in the crisis – Setting priorities, optimizing spending

Other companies would do well to take advantage of the current market shifts. Plus, in turbulent times like these, Marketing can provide important steering functions with beneficial effects not only during the downturn but also afterwards. For example, implementing efficiency programs can increase a company's profits in the short term, while the effective use of marketing resources can sustainably improve its long-term competitiveness. There are a number of effective levers you can use to optimize marketing return on investment (MROI). Marketing managers should focus on five main points:

► *Set the right priorities for investment:* Companies often change their priorities over time, shifting to another brand or channel mix, for example, but without adjusting their budget allocations. With a marketing spend allocation model, managers can steer and optimize spending transparently in line with financial, strategic, and customer-related criteria (Exhibit 2). As a result of improved targeting, a company or business unit can reallocate up to 20 percent of its marketing budget to the fastest-growing segments or product lines and align the budget allocation with the company's overall objectives.

► *Communicate messages effectively*: The downturn has heightened consumers' price sensitivity. Advertisers thus have to consider whether their brand message is still relevant or needs adjusting. With *BrandMatics*, McKinsey has developed a set of methods for identifying the most compelling content for a given target group. The tool helps you select the message that highlights what's special and valuable about your product from the customer's perspective and that your company can deliver with credibility. In practice, optimizing the brand message results in much higher conversion rates in the buying funnel (see also *akzente 2/08*: "BrandMatics Advanced").

Companies that learn how to use their marketing spending more effectively in times of economic crisis gain a sustainable advantage

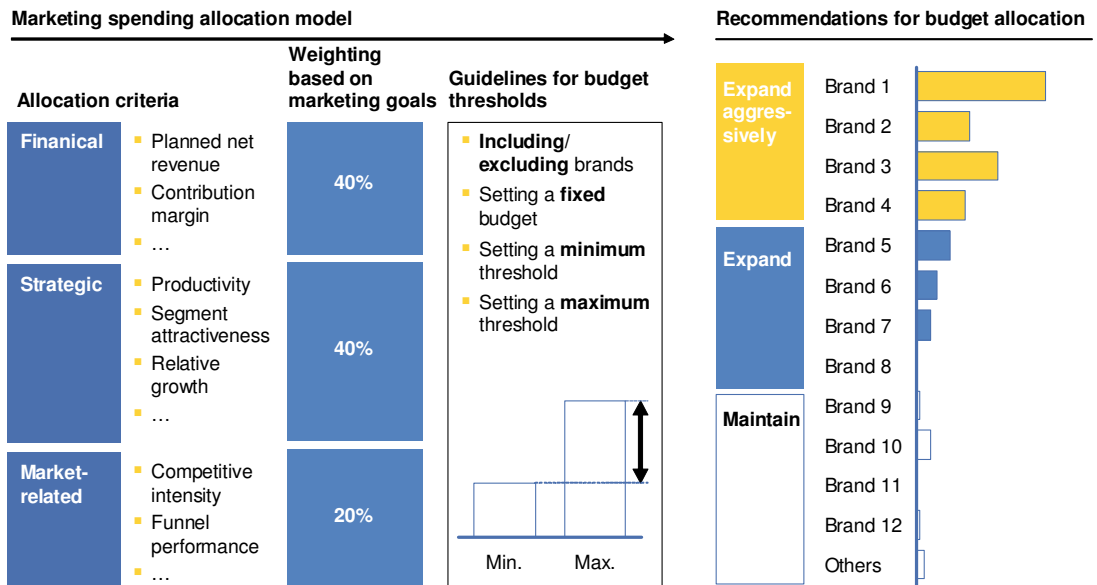
► *Optimize the marketing mix*: Choosing and weighting the importance of different advertising channels and promotional vehicles – this is still a big challenge for many companies. The RCQ model, which McKinsey developed jointly with marketing specialists at several universities, makes it possible to compare the relative impact of different media directly. For each targeted group of customers, it measures "Reach" (the number of customer contacts), "Cost" (cost per contact or per thousand contacts), and "Quality" (the contact quality of the channel or medium). Managers who have optimized their marketing mix using the RCQ model have seen advertising effectiveness increase by up to 15 percent (see also *akzente 1'07*: "Mehr fürs Geld" – "More bang for your buck").

► *Streamline processes*: In most Marketing organizations, the latent potential for efficiency gains is astonishing. *Dell* and *IKEA* both recently reported that they had achieved significant savings in their brand budgets, which, they said, came from consolidating their agencies and making their own processes leaner. Two analytical tools help: the first takes stock of the Marketing organization's internal processes (Marketing capability assessment), the second sheds light on external service providers such as media agencies and market research institutes (Marketing value chain mapping). Areas that typically need work are low-priority/overlooked in-house expenses and poor management of agencies. By comparing the expenditure of a given company or brand with a database of case studies, the Marketing function can identify and remove the useless items that are eating into the budget and thus reduce costs by 10 to 20 percent.

Exhibit 2

Decision variables for optimizing marketing budget allocation to brands

Consumer goods example



Source: McKinsey Marketing ROI

► *Design for efficient execution:* Applying best practices when executing marketing initiatives rounds out the optimization package. Many manufacturers and retailers set their media spending too high. Advertising effectiveness studies show that, with increasing contact frequency, the gain in recall begins to fall sharply at some point – depending on absolute frequency (the second contact is always much more valuable than the tenth) and the medium used (the marginal utility of cinema advertising decays much faster than that of radio). The best-practice examples that McKinsey has compiled for clients provide points of reference for reducing such overspending.

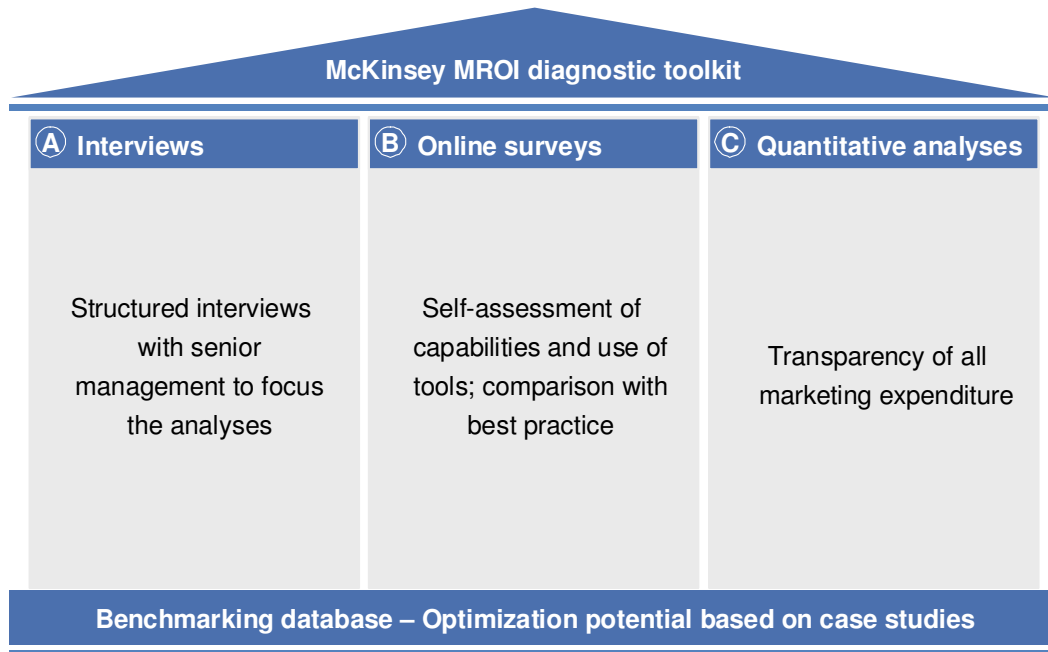
A toolset for marketing spend analysis

Benefiting from the full power of these optimization levers depends on using the right analytical tools. They help to spot issues and opportunities early and accurately. From interviews, online surveys, and statistics, McKinsey has developed a toolset that enables companies to save up to 20 percent of their marketing budget or increase revenues by up to 10 percent at current levels of marketing spending. Companies that use these tools in conjunction with data from McKinsey's benchmark databases can compile and evaluate their total marketing spend in the space of a few weeks (Exhibit 3).

With the toolset, management can identify ways to save up to 20 percent on marketing spending very quickly – without sacrificing impact.

Exhibit 3

Marketing spending diagnostic toolset



Source: McKinsey Marketing ROI

Given the current state of the economy, the diagnosis should focus primarily on three areas:

- ▶ *Weighing up the budget:* The path to setting an optimal marketing budget has three stations: First, determine where your company stands by analyzing market shares and share of voice versus competitors. Second, plan the investments bottom up while taking into account the defined marketing targets. Third, consider the experience other companies in the industry have had with increasing or decreasing their advertising spend in economic downturns. With the help of these three steps, the right amounts to include in the budget can be estimated relatively quickly and reliably.
- ▶ *Allocating marketing spend:* What is growing, shrinking, or stagnating? In today's uncertain climate, these are three critical questions Marketing managers should be getting answers to when it comes to spend allocation and priority setting. You should scrutinize channels and regions just as critically as product groups, brands, and customer segments.
- ▶ *Tracking down inefficient spending:* The final step is to examine all processes and spending that are not generating positive effects (non-working spends). Here, it is valuable to conduct cost benchmarking with other companies in the industry. In view of the new situation in the advertising market, Marketing managers should also monitor discount patterns and price changes closely.

Best-practice companies demonstrate that managers who use fact-based analyses and tools to steer their Marketing function from budget allocation to process management systematically can increase the effectiveness of their efforts by up to 20 percent. Marketing managers at FMCG manufacturers and retailers should make use of these possibilities now. Because charting an efficient and effective course for Marketing in the crisis doesn't just boost short-term profitability. It also opens up opportunities to strengthen long-term competitiveness.

Do you have questions or comments?
The authors would be happy to hear from you.
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