Marketing spend management

Creating a path to sustainable marketing efficiencies

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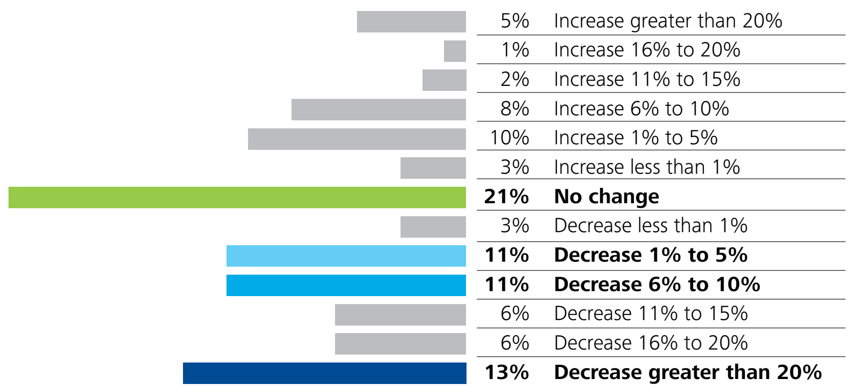
Heightened pressures on marketing: How to do more with less

Marketers are consistently being asked to do more with less these days. In a CMO Council survey of over 750 marketing executives from every continent and representing almost every vertical industry sector and company size, 37% of respondents reported that they still feel the sting of a flat or tight budget from years past, while 50% will increase investments in new product and program launches to spark new sales opportunities, many Marketing executives are looking for ways to fund the new growth opportunities through funds freed up through greater marketing efficiencies.[1] Over the past few years, Marketers are being challenged to look beyond the “low-hanging fruit” to cut costs in areas that are typically left untouched, while maintaining or even increasing performance. Many Marketers are facing senior management’s mandate “to drive top-line growth and expand (or at least retain) market share” and need to find ways to accomplish increasingly aggressive growth goals without a commensurate increase in budget and headcount. More than ever, efficiency is joining effectiveness as a tool that Marketers must wield in order to be successful.

Given this seemingly impossible task of trying to squeeze more return from an ever shrinking denominator, many leading Marketers are turning to a proven concept used in other operational areas — strategic sourcing and the on-going management of a company’s procurement of goods and services. The concept of spend management has been around for decades as a means to identify sustainable cost reductions, while maintaining or improving quality and service levels, but historically Marketing and Procurement have not always worked collaboratively to identify and drive efficiencies.

What has driven this gulf between Marketing and Procurement? Sometimes, there are structural differences at work (Marketing and Procurement are often not even operating in the same building), sometimes there are differences in perspective (Marketing is often viewed as a “top line” activity, and thus not appropriate for the “bottom line” focus of Procurement), and sometimes a combination of both.

Percentage change in market budget form 2008 to 2009



Source: Deloitte 2009 CMO Council State of Marketing Study

While Marketers have started to re-evaluate agency contracts and in some cases have made drastic changes as a result (CMO Council study cites that for CMOs who made agency changes in 2010, “35 percent point to the lack of value added thinking as the primary reason for the break”[2]), there still is a lot of room for further improvement and many Marketers still feel nervous about changes in well-established agency relationships.

This reluctance often stems from perceived risk — as the guardians of brand integrity, Marketers are hesitant to tamper with existing agency relationships for fear it might compromise marketing objectives or undermine brand strength. However, there are many options to help mitigate the risk, and successful collaboration between Marketing and Procurement can pay off by uncovering significant spend efficiencies, while establishing more transparent relationships.

As marketing goods and services (in particular agency services) often represent a significant share of external spend, many organizations are starting to take a fresh look at marketing spend management as a means to generate ongoing value, and — when done right — to achieve both: sustainable marketing efficiencies, while growing marketing and brand objectives.

Seizing the opportunity, and doing it right

Our experience has shown that close collaboration between Marketing and Procurement to increase the management of marketing spend leads to sustainable efficiencies, but only if carefully planned and executed. In particular, companies embarking on a marketing sourcing program should consider several proven success factors that will help to drive tangible and sustainable savings:

1. Collaborate with the experts
2. Bring savings back to the top line
3. Data and analytics are your friends
4. Not all categories are created equal

1. Collaborate with the experts

Traditionally, Marketers have led agency sourcing and on-going marketing cost reduction efforts as a vertical, often as a natural extension of their relationship management duties. However, Marketers will often be the first to admit that they lack formal sourcing and negotiation training, something that's typically not in their job description. Procurement, on the other hand, does this for a living and offers valuable skills, experience and tools that can truly complement Marketing's content expertise. Leading companies like Procter & Gamble[3] and Verizon[4] have successfully employed Marketing sourcing efforts as common practice since the late 1990s, building talent within that straddle expertise in both Marketing and Procurement. More recently, other companies such as UPS, Volkswagen, and Home Depot have followed suit in creating Marketing departments with Procurement expertise and vice versa.

Typical marketing responsibilities

- Identify potential suppliers
- Select supplier
- Obtain SOW/quote
- Review/approve SOW quote (creative outputs and activities)
- Approve invoice
- Evaluate supplier performance

Typical procurement responsibilities

- Issue RFI/RFP
- Evaluate supplier response
- Negotiate terms
- Execute contract
- Review/approve SOW quote/rates
- Evaluate supplier performance
- Monitor compliance

2. Bring savings back to the top line

With marketing budgets under fire, the last thing most Marketers want to do is engage in a sourcing program that will reduce their budgets even further. Therefore, a key to successfully fostering collaboration between Marketing and Procurement is to make sourcing about helping Marketing to find additional funds for brand re-investment, and to measure the return, or savings from these investments. This means establishing agreements between Marketing and Procurement to ensure that Marketing will be able to reallocate some of the savings generated by a sourcing program to put back into measurable top line-generating activities. "We are fully committed to investing the savings from marketing efficiency back into the brand to ensure further brand growth" stated the Head of Marketing of a large US spirits manufacturer as part of a strategic marketing efficiencies initiative that identified 6% savings from simply re-negotiating rates and implementing tighter controls over marketing spend. As a leading practice, the reinvestments in top line growth can be directed towards marketing activities with proven MROI — Marketing Return on Investment.

3. Data and analytics are your friends

More and more Marketers understand the value that tracking spend data brings, but find it surprisingly difficult to obtain reliable spend information, even though this information is exactly what is required to drive efficiency and – more importantly – honest long-term vendor relationships. For many of our clients getting a handle on what is being spent in different categories, by whom and with whom, is a critical first step to improving the management of marketing spend. We have found that conducting deep dive analyses with key suppliers (often enabled through a detailed Request for Information, or RFI) provides a treasure trove of data that can help to identify efficiency opportunities. Having this detailed information on hand and easily accessible helps Marketing and Procurement to make intelligent decisions about strategies for managing spend and generating sustainable efficiencies.

What is an RFI?

When utilized with existing suppliers, an RFI is a formal request for a supplier to provide specific information regarding the goods and services it provides with the intent of gaining a better understanding of how costs are broken down and where there are opportunities for increased efficiency. Typically an RFI includes:

- Overview and strategy of supplier (e.g., structure and financial overview, products and services offered, etc)
- Markets in which the supplier specializes and sales history with your company (e.g., top customers, top competitors, rates, sales history and projection by product and service)
- Geography and equipment/technology (e.g., locations, history, size, employee compositions, print and production capabilities, differentiators vs. other suppliers)
- Detailed breakdown of annual spend by type (rate/hour and number of hours by job title; list of pass-through costs, with line item detail where appropriate; mark-up applied to pass through costs; miscellaneous fees; annual bonus)

When to utilize an RFI

- Category has not been formally sourced/negotiated in several years
- Desire to consolidate management of a supplier that serves multiple business units
- Significant market changes have occurred
- Formal Request for Proposal (RFP) is being considered
- Desire to identify pass-through costs for goods that can be provided by preferred suppliers (e.g., print, media)

4. Not all categories are created equal

Given the traditional reluctance of Marketing to engage with Procurement, ultimately the burden of proof must be on Procurement to demonstrate the value it can bring. Procurement must overcome the perception of taking a “one size fits all” approach to Marketing categories, viewing Marketing as no different from sourcing “widgets.”[5] In order to overcome this perception, Procurement professionals must take a more nuanced approach and start from the understanding that not all marketing spend categories are created equal. For example, while commoditize goods (e.g., print and promotional items) can be optimized through a competitive bidding process led by Procurement, creative categories (e.g., creative agencies) can be best optimized via Procurement facilitation of the sourcing process, including benchmarks, best practices, tools and negotiation strategies. For Procurement to get in the door and build credibility, it is critical to differentiate its level of involvement — as well as the appropriate sourcing strategies — based on the type of marketing category. In particular, for more strategic categories such as agencies, Procurement should emphasize that their role is not to dictate supplier selection but often to help identify efficiencies with existing agencies, for example by benchmarking hourly rates against market rates, or instituting project-based vs. retainer relationships. For more commoditized categories like print and premiums, Procurement should take a more active role in leading the sourcing and may utilize competitive bidding to lower unit prices and negotiate volume discounts, as well as help Marketing standardize specifications.

Ultimately, getting Marketing and Procurement aligned and working together helps both functions success. Marketing is able to increase transparency in its relationships and generate efficiencies that can be re-invested in brand growth, and Procurement gains credibility as a strategic value-driving function.

Make vs. Buy

Though Make vs. Buy is a concept typically reserved for materials, it is an increasingly important savings lever for Marketing services as well. As organizations take a holistic view of their external costs and where to deploy resources, many are deciding to in-source certain activities and outsource others. For example:

- A leading global spirits company recently evaluated its agency activities and costs and decided to shift more creative production-related work (e.g., simple designs) to its internal agency, which offered a 10-15% cost advantage
- A top wine producer and retailer assessed whether to continue procuring printed materials on their own and decided they could realize more than 15% savings by completely outsourcing print procurement. Promotional item BPO providers, such as InnerWorkings and Integrated Merchandising Systems, offer a compelling value proposition and have developed an impressive list of blue chip clients

The key to making an informed Make vs. Buy decision is conducting a detailed total cost comparison of the two options over the course of several years, taking into account hidden costs such as implementation and ongoing internal management. As the examples above indicate, a carefully considered Make vs. Buy decision can lead to real savings.

Subcategory	Price			Demand		Process		Working capital	
	Unit Price	Price volatility	Volume rebates	Spec. Standard	Project-based work	Pass-through costs	Governance	Inventory cost	Payment terms
Print	✓	✓	✓	✓			✓		✓
Racks/display	✓	✓	✓	✓			✓		✓
Premiums	✓	✓	✓	✓			✓		✓
Creative design	✓				✓	✓	✓		✓
PR	✓				✓	✓	✓		✓
Packaging design	✓				✓	✓	✓		✓
Media buying	✓						✓		✓
Redemption fulfillment	✓						✓		✓
POS storage fulfillment	✓						✓	✓	✓

Getting started

Once Marketing and Procurement agree to start on a marketing efficiency program, it is critical that they take the time to plan out the program and identify the right core and extended team members prior to launching the program. Beyond team leads from Marketing and Procurement, the core team should include representation from Finance as well as IT, as process changes may impact how systems are used. The extended team should include representatives from major brands/business units, plus representatives covering cross-brand/BU categories such as Market Research.

In addition to the cross-functional collaboration, it is pivotal to carefully plan the key steps to launch and implement a marketing efficiency initiative. A standard strategic sourcing approach, such as Deloitte's six-step methodology, is effective, though the specifics of each step will be different for Marketing compared to more traditional spend categories.

Six-step strategic sourcing methodology

1 Assess opportunity

- Develop team charter
- Identify stakeholders
- Document spend
- Stratify spend
- Identify and prioritize spend opportunities
- Communicate team scope

2 Assess internal supply chain

- Identify demand drivers
- Perform specification review
- Perform specification gap analysis
- Perform specification standardization review
- Perform supplier specification review
- Identify all related Total Cost activities
- Map current process steps
- Evaluate effectiveness of the current process
- Determine Total Cost of process
- Benchmark Total Cost and identify process opportunities

3 Assess supply market

- Identify potential sources of supply
- Evaluate industry(ies)
- Identify viable sources of supply
- Perform supplier assessments
- Perform supplier comparisons
- Identify supplier opportunities

4 Develop sourcing strategy

- Reconfirm scope
- Determine desired outcomes
- Compile opportunities
- Brainstorm process enhancement and supply strategies
- Assess the feasibility of strategies
- Draft action plan
- Communicate strategies

5 Implement sourcing strategy

- Develop supplier solicitation strategy
- Implement supplier solicitation strategy
- Conduct supplier negotiation
- Develop process enhancement strategy
- Obtain final approvals
- Award contract

6 Institutionalize sourcing strategy

- Conduct vendor management
- Transition to new process
- Develop supplier relationships
- Implement operational changes
- Establish joint supplier/enterprise process improvement team
- Monitor and report savings
- Monitor and report performance

There are several areas in particular where a marketing efficiency program is likely to diverge from a typical strategic sourcing initiative (even within the marketing efficiency program different categories will flow differently, with more or less time spent on some steps than others) — understanding these in advance will help avoid some of the common execution pitfalls:

- Assessing the opportunity: Stratify spend
  Like all sourcing initiatives, one of the first steps with marketing efficiency is to collect and analyze spend by category, supplier and business unit. Due to the sheer volume and complexity of Marketing spend, however, cleansing the data can be tricky and take many weeks if not months. A critical initial step is to define the spend categorization. Marketers typically view their spend by marketing mix, product or campaign, not by market-facing spend categories, so it is important to gain agreement on how to classify the spend into market-facing categories. Then the spend data must be bucketed into these categories — a good rule of thumb is to try to classify 80% of the spend in each category instead of striving for 100% — and validated by the business owners.
- Assessing the opportunity: Identify and prioritize spend opportunities
  Equally as critical is agreeing on which spend is addressable or sourceable from an efficiency perspective. Marketing tends to have large chunks of spend that while part of the budget cannot be made more efficient — for example, most of the spend within Coupon/Rebate Fulfillment is simply pass-through costs of the coupons/rebates, and only a portion is the processing cost that can be sourced. Since the addressable spend is a major input into determining the potential benefits, if it is not accurately defined the benefit calculations will be incorrect, and you'll be off on the wrong foot.
- Developing sourcing strategy: Determine desired outcomes
  Given its impact on the top line, Marketing is by nature an extremely sensitive spend category, with quality and service often weighted above price in terms of criticality. This means that the sourcing strategies for Marketing will be different as well — not only will much of the sourcing strategy focus on re-negotiation with existing strategic suppliers, but also the ultimate goal will be focused more on obtaining "market" pricing from these suppliers vs. selecting the lowest cost supplier.
- Institutionalizing sourcing strategy: Implement operational changes
  Getting agreements that reflect market pricing is only half the battle. Marketing purchasing is a complex process, much of it done offline, and it is difficult to proactively manage whether correct pricing is being charged or preferred suppliers are being used. Often, the focus is on not going over budget vs. trying to get the same thing for less than the budgeted amount. Successfully institutionalizing marketing efficiency requires at least one dedicated resource who can work with Marketers to help make sure that negotiated savings are sustained. In addition, it is helpful to develop a "playbook" to describe clearly the policies and processes governing marketing procurement.

Removing excuses and taking action

While a growing number of companies have begun to recognize the importance of marketing efficiency, many have yet to reap the rewards of marketing sourcing. Companies may feel like they don't have the resources for a sustained marketing efficiency program or choose to pursue other "safer" category sourcing initiatives.

The reality for most organizations, however, is that there are no more good excuses left. Marketing is simply too large of a spend category to ignore, and the opportunity to deliver savings to fund brand growth is too valuable as a strategic initiative. Furthermore, given the fundamental changes going on in the marketing industry (e.g., changes in agency compensation models), the time is ripe to pursue a marketing efficiency program.

Taking action only requires the commitment to conduct a thorough analysis to understand the size of the opportunity. Many companies choose to work with a third party firm to help kick start the journey by providing analytical horsepower and an independent perspective on the type and magnitude of potential benefits. The results of this analysis can form the basis of an impactful and sustainable improvement in how marketing is procured — and the beginning of a mutually beneficial partnership between Marketing and Procurement.

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Endnotes

1 "CMO Council State of Marketing: Marketing Outlook 2011," CMO Council, www.cmocouncil.org.

2 "CMO Council State of Marketing: Marketing Outlook 2011," CMO Council, www.cmocouncil.org.

3 *Ad Age*. "Unmasking the procurement executive; while some really know marketing, many are simply focused on cost." Jack Neff. Oct 26, 2009. Vol 90, 36.

4 *Ad Age*. "Agency A-List; 1. McGarryBowen", Rupal Parekh. Jan 25, 2010. Vol 81, Num 4.

5 *Ad Age*. "Media agencies play musical chairs with top executives; Why the majority of leaders in the space have changed chiefs in recent past". Michael Bush. Oct 9, 2009. Vol 80, Nu, 33.