Budgeting for Marketing & Sales in a Soft Economy

White Paper in a Glance:

We are currently experiencing a soft economy and therefore corporations will be faced with reduced or negative growth and will seek to adjust expenses to maintain profitability. In an effort to avoid excessive reductions in headcount, senior management is likely to reduce spending in marketing and sales. The rationale for this action tends to be multi-faceted but it gravitates to an inability of marketing and sales to credibly demonstrate a relationship of cause and effect (ROI) between spending and revenue/margins.

Given current events, there may be little that can be done to stave off these reductions; therefore, the issue becomes one of how to best manage this cycle. Essentially, there are two alternatives: (1) hunker down and wait for better times or (2) proactively seek to establish cause and effect relationships that will ensure effective resource allocation in the future. This white paper outlines the limitations of current budget processes and identifies areas that marketing and sales can unilaterally and/or collectively pursue to strengthen their rightful leadership position in the corporation.

Fallacies of the Budgeting Process

The budgeting process, for most organizations, is driven by historical relationships between expense, revenue, and margins. Based on this premise, the budgetary process begins with pegging revenue/margins and then extrapolating expense based on historical ratios with adjustments for:

- Pricing
- New products/services
- Initiatives, programs, and projects that will be implemented during the planning horizon
- Inflation
- Regulatory constraints

Each function then takes this input and creates a budget that reflects these guidelines. With the exception of the non-recurring and/or new budget items, all other line items are extrapolated on a percentage basis adjusted for productivity improvement (where appropriate). This process often proceeds quite mechanically without a great regard as to how results will be accomplished because there are often many iterations before the final budget is accepted (sometimes this occurs well into the actual fiscal period).

This budget journey typically encompasses a period of 3-4 months and drives an internal focus that has little connection to the marketplace. Further, the burden of budget creation is often compounded by a demand for a high level of line item detail; the rationale being one of seeking higher credibility and accountability. Unfortunately, the effect is often quite the opposite; more detail drives more attention to the numbers versus the meaning of those numbers. Further, the process tends to create a fiefdom mindset where the focus is to protect one’s turf as opposed to identifying the most productive use of limited resources.

The Issue

The fundamental issue is that the planning and budgeting process pegs a revenue/margin target and then backs into expenses to match these objectives by adjusting functional budgets. This approach works arithmetically but it totally ignores the processes that create demand and deliver value. These processes typically cross functional lines, so the integrity or quality of performance is a composite of how each function adjusts its resources. To make matters worse, marketing and sales often experience disproportionate budget cuts due the following rationale:

- Senior management desires to cut programs rather than head count.
- Open territories can be covered by spreading the accounts over adjacent sales reps.
- Competition is likely to make similar adjustments so competitive parity is retained.

Marketing and sales inherit these decisions because they have not demonstrated an ability to link spending with incremental revenue/margins in a credible cause and effect relationship. Once the spending reduction decision is made, marketing and sales options are limited to:

1. Hunker down and wait for the economy to improve.

Or

2. Embark on an initiative to create tools that will lead to establishing a clear cause and effect (ROI) relationship. Then use these tools to justify appropriate spending in the future.

Option No. 1 is really not a strategy at all but rather a hope for a better day. Option No. 2 embraces the notion of breaking the cycle of arbitrary reduction and limited accountability. Clearly, Strategy No. 2 is one of taking a leadership position and is positive for the organization as a whole.

Marketing Tactical Support for Strategy No. 2

In general, the tactics for marketing include seeking internal sources of inefficiency that can be eliminated relatively quickly before pursuing areas that are more complex and have longer lead-times. The idea is to protect key spending areas while working to improve overall productivity and create the ability to justify spending across the board. Tactics include:

1. Identify potential sources of a quick return
   a. Consolidation of vendors
   b. Consolidation of fractional positions
   c. Outsourcing non-core work
   d. Elimination of redundant or obsolete collateral
   e. Improve management of sample and collateral inventories

2. Process analysis

   Some process inefficiencies may fall into Tactic No. 1; however, it is more likely that process improvement will require more time to analyze. Marketing and sales

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functions are often reticent to embrace process disciplines because they impute limitations on creativity with the process word. However, process is a necessary discipline to eliminate waste while ensuring effective prioritization.

a. Process analysis must focus on relevance, value add, resource constraints, and cycle time. This step represents the initiation of a commitment to understand and quantify cause and effect.
b. Inclusive to the process analysis is decision making. It is not uncommon for middle management to spend the majority of their time in meetings resolving priority and coordination issues. Often these time sinks are caused by flaws in the way processes have evolved over time.

3. Establishing Program Accountability

Depending on the industry, the complexity of the marketing channels, and the customer buy process, it may not be practical to establish a cause/effect (ROI) relationship for 100 percent of the programs employed by marketing. However, the creation of credible tools sends a message to the organization and opens the door for dialogue and understanding.

Sales Tactical Support for Strategy No. 2

Tactical steps No. 1 and 2 described for Marketing apply equally well for Sales. In particular, sales functions need to focus on defining their *sales process*. Sales organizations typically adopt tactical techniques such as Consultative Selling, Spin Selling etc. but fail to define how they want the sales person to **manage** their territory. Without a universally understood sales process, sales people will follow their own instincts and the sales function will represent an amalgamation of as many sales processes as there are sales people. An amalgamation will dilute the ability to coach sales people because there is a lack of best practice or vocabulary to describe best practice. Similarly, topics such as account targeting and time utilization will be compromised. In a soft economy, sales management must focus on coaching to ensure sales people are targeting the right opportunities and leveraging their time.

The definition of a sales process also leads to an improved ability to establish effective methods for territory loading which can improve productivity by as much as 10 percent. In addition, this analysis yields a formula for calculating the value of each incremental sales person which is foundational to the budgeting issue.

Marketing and Sales Alignment

The relationship between marketing and sales is often characterized as gasoline and matches. Under the best of conditions there is often an uneasy truce and when the economy is soft there is often an escalation of conflict relative to resource contention. Each function views the other as receiving an inappropriate level of funding (in the context of perceived effectiveness). This stand-off gets in the way of establishing tools that would help both functions justify an ROI for their spending.

The framework for marketing/sales alignment is *customer profitability*. An understanding of customer profitability leads to a more informed discussion regarding targeting, customer value needs, and positioning. These are the very same topics that divide marketing and sales and contribute to waste and dilution of competitive strength.

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In addition, customer profitability provides focus and accountability that can lead to the very tools both functions need to demonstrate cause and effect. It is a deadly embrace; both functions can survive working on these issues independently but the value of synergy is inescapable.

About the Author

Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader in the Customer Relationship Management (CRM) and e-Business industries. Mr. Petersen has held senior level management positions with systems integration and end user organizations and is the Managing Director of GSP & Associates LLC, a consulting firm dedicated to helping organizations leverage and justify their investment in CRM related technology.

Mr. Petersen is the author of seven books:

- *High-Impact Sales Force Automation: A Strategic Perspective*
- *CRMS: ROI & Results Measurement*
- *CRM Leadership and Alignment in a Customer Centric World*
- *ROI: Building the CRM Business Case*
- *CRM Best Practices: Self Assessment*
- Making CRM An Operational Reality
- The Profit Maximization Paradox: Cracking the Marketing/Sales Alignment Code

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