ADVERTISING, MARKETING, MEDIA, ANALYSIS, OPINIONS

Darren Woolley | Mar 13, 2020

Can zero-based budgeting spiral marketing budgets to zero?

Yes, ZBB gets employed merely to slash budgets. However, argues the founder and CEO of TrinityP3, marketers should not necessarily be fearful of the process itself, which can provide value if used properly.

There are two main reactions when the conversation with marketing turns to the topic of zero-based budgeting or ZBB. The first is a glazed look of resignation that this will mean hours of finance type meetings and some sort of cut in the marketing budget, or a look of fear, usually found in the eyes of those marketers who have been put through the process previously.

Let's get some myths out of the way up front. Zero-based budgeting is not new. Developed by Peter Pyhrr at Texas Instruments in the 1970, (yes, last millennium), the approach was not developed to reduce budgets, but to ensure the company was investing in areas where there was a return on that investment.

The methodology for ZBB is different from traditional budgeting. Traditionally, you take last year's budget and negotiate the increase or decrease based on a number of factors including business performance, the strategic plans or the economic outlook etc. While ZBB assumes you start at zero and build up the budget based on the work required and the benefit or return on that investment.

The point of zero-based budgeting is not to end at zero, but to start there and build up. So, why do so many marketers associate ZBB with reducing their marketing budget to zero? The answer is two-fold. First is the way ZBB is often sold and implemented by major consulting firms (and we have been on the receiving end here). Second is the challenges marketers will often have in calculating a financial benefit or return on investment for much of what they invest in when it comes to advertising and media.

Let's take a look at these separately. In the past decade, the number of major consulting firms expanding their remit into marketing has increased. Many have invested in marketing subject matter experts, deepening their insights and understanding of the marketing discipline. What has not changed is the way that most of them sell the value of their projects to the CEO and the CFO.

There are only one of two value propositions in regard to marketing. You either increase financial performance to increase revenue and profit or decrease cost to deliver savings. When it comes to ZBB, the original purpose was to link investment to outcome and eliminate waste, therefore improving return on investment. But when ZBB is sold as a cost minimizer and a savings generator, then it changes to become just that—a budget slasher.

If the consultancy can get a million dollar in fees approved, it would need to generate a significant multiple of that fee in savings. Therefore, the ZBB process become focused on delivering cost reductions and therefore budget reductions.

We were engaged by a marketing team to help them as they worked with one of the major consulting firms, engaged by the CFO to implement ZBB across the organization. Now it was marketing's turn. It was clear up front that the consultants were solely interested in reducing cost and not looking at improving return on investment by the way they framed their analysis of the marketing budget. Rather than any reference to ROI or ROMI, they were using spend benchmarks such as working to non-working ratios (The ratio of media investment to all other associated costs) and marketing FTEs per dollar invested. The irony is that they were applying the same working to non-working ratio benchmarks to paid media and owned, earned and shared media costs. In other words, a totally inappropriate approach that would significantly and fallaciously reduce the marketing budget.

The marketers were grateful for our advice. The consultants began to refuse to meet with us or respond to any of our questions, so we had to hide behind the scenes.

So, how do consultants get away with this approach? It is easy to justify their fees based on projected savings (10% to 15% of total marketing spend is a rule of thumb, I am told). But equally it is the fact that many marketers are unable to provide justification for their advertising and media activities in the form of return on media and marketing investment. This is a big issue with a zero-based budgeting approach. An issue that, depending on the category and the strategic objective, can be difficult to solve.

However, this does not mean that marketers should be fearful of ZBB. It does provide a unique opportunity to review and analyze many of the activities that accumulate year after year on the marketing plan, consuming

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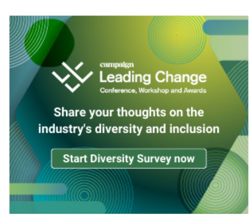

budget that you could be using to innovate the marketing approach or at the very least testing and learning about new opportunities. Because the bottom line is ZBB is not about reducing budgets, it is about apportioning your budget where it will have the greatest impact for the organization. Unless of course it is simply being done to deliver savings.

Darren Woolley is the founder and CEO of marketing consultancy TrinityP3.

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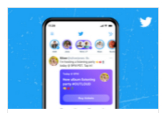
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