ADVICE FROM CHIEF MARKETING OFFICERS:

How to cut your marketing budget during an economic downturn

It's a long-held truism in our industry that when companies need to cut costs, marketing budgets are among the first to be slashed. However, during the COVID-19 pandemic, we saw this trend begin to shift, thanks in large part to our increased reliance on digital technology, and advances in marketing analytics.

Today, marketing budgets have reset to pre-pandemic levels, and marketing is often seen as a revenue driver, not a cost center – but that doesn't mean it's safe.

As we enter another period of economic uncertainty, many marketing leaders are feeling a sense of déjà vu, and looking back at more recent history for the playbook, rather than 2008. While the advertising industry seems to be bracing for a downturn, with some sources forecasting drastic cuts over the coming years if consumer spending doesn't turn around, marketing spend isn't slowing among some of the world's top consumer brands. In fact, total ad media spending is expected to continue its 13.2% growth trajectory year over year in 2022.

So, how are today's CMOs thinking about and preparing for the period ahead? What would they do if given no choice but to tighten their belts?

We asked them:

If your CEO and/or CFO approached you tomorrow and told you to cut 15% of your department's total budget for the next 12 months, what would you cut and how?

The CMOs we posed this question to have "been there, done that" – and come out the other side with invaluable lessons to share.

They not only bring a breadth and depth of experience that could prove helpful to marketing leaders in all industries, but they're already having the tough conversations at a high level and preparing for what could be on the horizon.

Following their lead will help you make smart, strategic choices for your organization and team, so you can emerge an even stronger leader.

Here's what our CMOs recommend.

1 Take an honest and unflinching assessment of where you stand.

Our first CMO presides over the marketing budget of a multi-billion-dollar global cosmetics company. She shared her step-by-step plan for gaining the clarity needed to move forward with confidence:

Align and prioritize

"First, make sure that there is alignment regarding the key initiatives that are expected to drive the top line and bottom line next year. Then prioritize the key marketing support needed for the coming year," she says.

Analyze performance

"Second, review all performance analytics, KPIs, and other important metrics to understand which programs, content, and campaigns met or exceeded goals to understand what is working best and why." Look at each expense area individually to determine where efficiencies can be achieved.

"Review the performance of any agency resources to determine if you're getting all of the value-added creativity, support, and service that you expect," she says. "I'd also freeze all hiring, and review staff performance and skill sets to ensure that our best talent is fully leveraged – and our underperforming staff have a clear understanding of the level of performance that is needed and expected."

With the review process completed, you will have the best information available to guide your ability to identify where and how best to make budget reductions. This might include realigning or reducing staff and making other cuts."

Your organization is counting on you to make shrewd decisions, and this data will ensure you're making the best possible choices.

2 Make the tough decisions to reduce non-essential spending.

Another CMO led marketing for a popular direct-to-consumer apparel brand. "As a DTC company, my first priority would be to protect the budget that touches consumers," he says. "Then, I typically look to my vendors to help us find efficiencies."

Reduce vendor spending

For vendors who are replaceable or not otherwise integral to marketing operations, this CMO demands at least a 20% reduction in their fee structure. Same for any vendors whose products or services are under-performing, or don't align with the key initiatives identified earlier.

"Over time, marketing budgets can get bloated as we add services and analyses (e.g., competitive pricing studies, media allocation modeling, and creative testing)," he says. "It pays to regularly take a hard look at the value they add, but especially when facing recessionary pressures. If a program, tool, or analysis helps you make better decisions, deliver better-quality creative, or is a proven ROI builder, keep it. If there's any question about its value contribution, cut it."

Our retail automotive services CMO also advises looking for ways to bring your most essential services and products in-house, especially if the result allows you to build something even more valuable and customized than any vendor could provide:

> "Several years ago, we cut $1 million in fees by taking our CRM program in-house. We achieved the requested budget reduction, but more importantly, generated a much stronger result by focusing on the best elements of our former program."

The reality is, not every vendor is essential, and some may need to tighten their belts, too, if they wish to keep you as a customer. This is where vendors who are true strategic partners – or aspire to be – can demonstrate their value.

Reduce nonessential travel and conferences

Our former DTC apparel brand CMO also recommends cutting nonessential travel and events. "One of the first things I do is eliminate unproductive trade shows and industry conferences. If its ROI is questionable, it has to go," he says.

The CMO of a top-ranked business school agrees with finding ways to cut travel, "soft costs," and other nonessential expenses – as long as these aren't at the expense of her team's continued education.

"I try to avoid cutting any personal development expenses because, just like our students, we use downturns as precious time to invest in one's skills, which ultimately increases their value to the organization," she says.

Don't reduce ad spend if you can help it

Our business-school CMO also feels strongly about not reducing media spend unless absolutely necessary.

> "If I were asked to cut my budget, as has certainly happened before, I would cut media and advertising as a last resort ONLY. We should be following the revenue, after all, and, if we're doing our job, we are proving our ad dollars' value via a defensible ROI," she says.

"Marketing and advertising should be driving revenue and not be considered cost centers," she continues. "This mindset always kills me! We move the needle and fill the funnel. Accordingly, we keep a tight handle on measurement. What you measure counts. And if it's demonstrably impacting revenue, it's the last thing an organization should cut. At all costs."

Our retail automotive services CMO agrees, and looks for ways to rebalance media spend rather than cut overall. "In my business, traffic is paramount," he says.

"Consequently, I would cut back on top-of-funnel programs to help achieve the needed reductions while ensuring bottom-of-funnel, traffic-driving programs are properly funded."

The key is having the data to back up these decisions.

"We track Return On Advertising Spend (ROAS) religiously and put hard thresholds in place beneath which we won't invest," he says. "I would target media that are at or barely above the threshold for reductions or elimination altogether. We do this pruning regularly and use the recovered budget to fund new media channels that test successfully."

Testing is critical when consumer behaviors and purchasing habits are in flux. "Pausing these media tests is the last resort for reductions because you always want to have a pipeline of new successful media channels to drive future business," he says.

Any CMO knows that maintaining awareness with your customer base is critical, even (perhaps especially) when revenue is expected to slow. But nowhere is this more evident than in the direct-to-consumer model.

"Any marketing expense that touches consumers and shapes their experience of the brand should be protected," our former DTC apparel CMO says. "Plus, that mindshare will be nearly impossible to claw back from your competitors when you start advertising again."

Realign your headcount.

Staff reductions are usually one of the last places any department leader wants to turn when faced with financial hardships. Sometimes they're unavoidable – but as we've seen in the last few years, they can be difficult to come back from. When the market normalizes, you won't necessarily be able to staff up adequately to meet rising demand (and rising salaries). That cautionary tale is still unfolding; from supply chain issues to labor shortages, we need only look around us to see the effects of this in action.

But if budget cuts do require a change in staff, there are different ways to approach this, and philosophies differ. Our business-school CMO prefers to first review and potentially end the contracts of any freelancers not fully utilized. She then looks for ways to better leverage her full-time employees or help them improve performance if needed.

If required, our DTC apparel CMO would eliminate any full-time roles that are "nice to have" but whose primary duties can be carried out by existing staff. Then, he'd use contract talent to help cover any remaining personnel needs.

> "Many skilled marketers prefer to freelance now anyway, so that flexibility no longer comes at the expense of talent, experience, or high performance," he says.

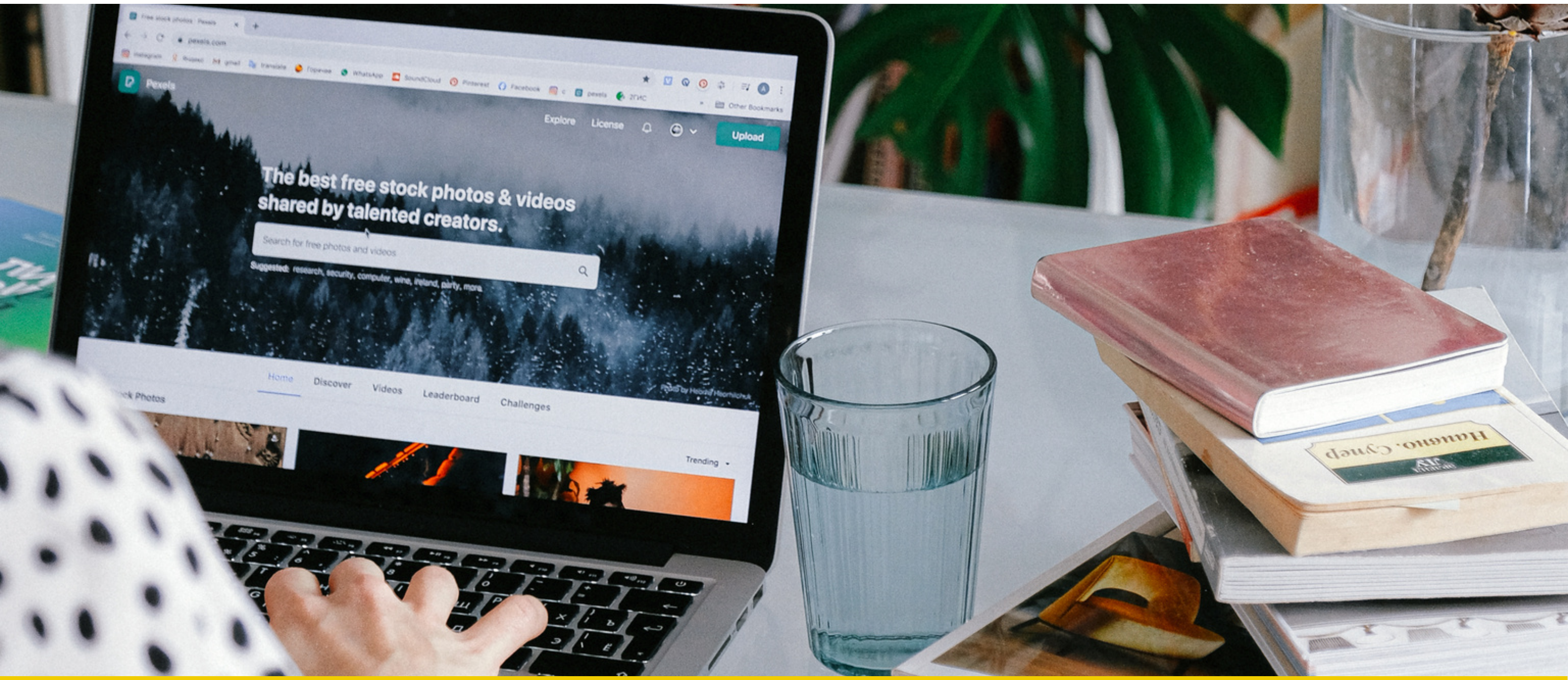
Don't be afraid to explore on-demand options, too, such as creating a stable of freelance talent with different areas of expertise. These contractors can be trained in your brand messaging and creative standards so they're ready to jump in as required. These unique staffing models are often very cost-effective while delivering high-quality marketing solutions and results.

And if a staffing cut seems unavoidable, consider payrolling. This solution allows companies to keep their current staff members while a provider like Freeman+Leonard manages their payroll and benefits. As a result, your team's salaries are shifted from the marketing budget to another cost center while avoiding staff reductions.

The bottom line? There are more choices available to employers than ever before. No matter which approach you take, think carefully about how each current team member contributes to the team and which roles or skills your organization needs to succeed. Whether you choose to supplement with specialized contractors or upskill your existing team (or both), keep your eye on the long-term future, not just the conditions you face today.

3 Repurpose and reuse existing assets.

Being resourceful with your existing assets is the final piece of advice from our cosmetics brand CMO.



"I would then ask my team to determine how we might best reuse, refresh, or repurpose proven content to decrease production costs and agency fees," she says.

After all, why not benefit from all the great work you and your partners have already done? What has already been produced that generates results and is still relevant – and how can you breathe new life into it for this next chapter?

Rebalancing is key.

If you, too, are tasked with trimming your marketing budget, we hope the guidance of these CMOs provides a framework for those tough decisions. With data guiding you, it becomes easier to protect your highest-ROI marketing costs, and rebalance or redistribute your budget where needed most – positioning you for maximum growth and profitability when the market shifts (or even before!).

Whether shifting media weight from upper- to lower-funnel tactics, or creating more flexibility on your team, sometimes it's not so much about how much you're spending but whether you're spending it on the right things, to the right degree.

At Freeman+Leonard, we partner with marketing leaders like you every day. With decades of experience, we've navigated our share of choppy economic waters, and helped hundreds of clients do the same.

From helping you reduce overhead and leverage the right mix of permanent and freelance staff, to ensuring you're paying for performance, our consultants will guide you every step of the way. It's our privilege to play a role in your success in any market conditions. We're not just a staffing company – we're strategic partners and consultants to our clients.

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(800) 278-7782
contact@freemanleonard.com

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