Too many cost reduction programmes fail to deliver in the longer term. The Marketing Factory looks at the key steps to delivering cost transformation.

Sustainable cost transformation in marketing procurement

Marketing Procurement   Marketing Effectiveness   Shared Service Procurement

Driving down cost is at the forefront for many businesses; the ones that are able to maintain a lower cost base are more able to invest cash back into marketing, helping them to out perform their rivals. This growing emphasis on cost management in marketing is now considered by many industry leaders to be a competitive advantage.

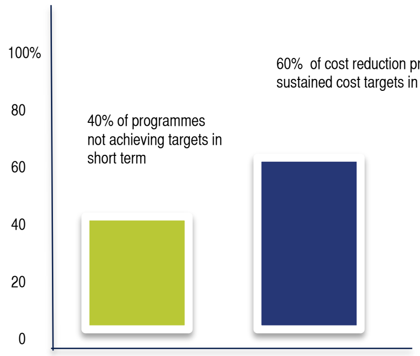
Whilst cost management is vital in all areas of business, marketing spend should be at the forefront of this transformational process for many companies as it often forms the second largest area of spend within the business. Most companies have embarked upon some form of cost reduction programme, but a recent survey by the Marketing Factory shows 40% of all programmes fail in the short term and this rises to 60% in the medium to long term.

So why do some companies manage to deliver sustainable results whilst others fail time and time again?

In order to better understand the reasons behind success and failure we examined a range of internal and external data sets and conducted a wide ranging survey of over 100 European companies to help understand their attitudes towards cost reduction programmes as well as the success/failure factors encountered. All of these companies initiated cost reduction programmes between Q4 2009 and Q4 2012 and were able to clearly identify whether cost savings targets had been met, in what timescale and whether the cost reductions achieved were still in place.

The responses showed some remarkable results, with a wide variance of companies overachieving as well as a number dramatically missing targets, deadlines and key milestones.

Figure 1. Source: Marketing Factory 2013 Survey & Client data sets



"Cost reduction programmes often fail because the base assumptions are just that, assumptions. Benchmarks and externally validated data are essential to delivering long term sustainability"

The study revealed a number of interesting results. Over the period from 2010 – 2012 the majority of companies undertook cost saving initiatives covering marketing spend. Of those that were completed (not all of them were), 40% failed to see a sustained cost reduction over the short term. This figure rises to over 60% when looking back over programmes started at the beginning of the study. 20% of all respondents also indicated that initiatives failed completely in the short term due to lack of internal stakeholder engagement.

The respondents cited a variety of reasons for the failure, however most acknowledged that a fundamental shift in how they look at cost reduction was needed.

Of the organisations that managed to deliver cost saving programmes on a longer term basis; what were the conditions and actions that make them stand out from the rest? To establish the core criteria for success we delved deeper into the survey results and followed up with a number of key respondents.

From this further examination of the survey and interview results we were able to determine not only a pattern in how they implemented the changes but also the commonality in how they work as organisations. These traits can be applied to organisations both large and small and should consistently deliver transformational results.

Our study showed that five key areas need to be addressed when developing costs saving programmes.

Key focus areas

- Accountability and leadership – nominated stakeholders both internally and externally;
- Base targets on external market data not internal data or assumptions;
- Target areas where engagement is available and business strategy allows input;
- Understand the potential outputs and define robust metrics and KPIs; and,
- Measure and implement feedback with internal and external stakeholders.

Accountability and leadership

Companies that were able to demonstrate repeatable results showed dramatically better leadership and the ability to challenge perceptions, as well as having the courage to make significant organisational changes in order to implement and deliver transformational programmes. This style of leadership, which should not be mistaken for a culture of mandating changes, was also coupled with a high degree of empowerment and accountability for the programmes.

In a number of cases we were able to clearly identify where key internal and external stakeholders shared accountability and developed new robust KPIs to assist in programme delivery. This internal accountability lay not just with procurement but also with other key business decision makers, making the programme far wider in scope.

Benchmarks and external market data

A majority of respondents in the study, where programmes failed, suggested that they put in place arbitrary savings targets based on a percentage reduction of spend levels. In almost every response they did not consider external benchmarks, market trend data or other significantly externally defined metrics.

The converse was almost universally true with the programmes that succeeded. Management that looked externally to their own organisation not only benefited from benchmarks and trend data in their own sector, they were also able to access cross sector metrics, giving them a broader view on the industry as a whole.

Targets

Defining the scope of engagement and prioritising areas where senior marketing stakeholders were sympathetic proved to be vital. Areas of marketing that were deemed to be strategically important were high on the priority list, however greater planning and senior engagement were required.

Where areas of high cost or sensitivity were tackled, the opinion was spilt as to how to initiate the programme. In a majority of cases organisations who had strong leadership favoured bringing a wider group of stakeholders on board to define a consensus but with an overriding direction from the senior leadership team.

Where the leadership was not as involved in the programme the results tended to take longer to achieve and the scope was noticeably diminished. Anecdotally we can also see that this approach also utilised more internal resource to deliver against savings metrics.

Outputs and Metrics

Results show that a clear definition and agreement of the outputs prior to the project should start with agreement from all senior stakeholders.

Metrics should not be limited to how savings are defined but should include detailed analysis of how processes and operations work in order to fully understand how the cost base is built up. This process helps organisations to understand the full scope of potential cost reduction.

Where metrics and measurability are complex, a number of organisations relied heavily on external suppliers and stakeholders. The caveat proposed by a number of successful respondents was that they felt these externally suggested metrics should also be validated by external sources to counter any supplier bias that might be present.

Feedback

Developing a robust feedback loop with both internal and external stakeholders provides both parties with an opportunity to develop and deliver sustained results.

Indications show that as time progresses programmes without feedback suffer from inertia either through personnel or priority changes. Our own experience, over and above that of the survey, also suggests that this is true. Having a high level of transparency right from the front line, where costs are being incurred, to the senior stakeholders is important to ensure that not only the numbers are being measured in the correct manner, but that the KPIs remain valid over the medium to long term.

Conclusion

In order for programmes to work on a longer term basis they need to be more inclusive in scope. Utilising a mandate from senior stakeholders will enable results to be delivered in the short term, however the drive to longer term transformational programmes requires a far deeper approach.

Stakeholders from all sides need to understand the programme and feel that they are benefiting from it and that the targets being set are achievable.

Further to this, the programme needs to be flexible in its approach. Conditions will change over time and the KPIs and programme scope need to be flexible enough to accommodate this.

The Marketing Factory helps clients to get the most from their marketing investment through the use of best in class marketing procurement and marketing effectiveness tools.

Our guiding principal is that our results must be measurable and our clients can use our work to help them transform their marketing spend.

Who we work with

Our clients are bold, talented and ambitious and have the open mindedness to work with us and challenge the status quo.

Our work helps management teams make big decisions, helping their organisations to be come more efficient and in turn make more money.

How we do it

Making changes in marketing investment often means organisational and process changes. Making a broad recommendation is more often than not, not enough.

We work with our clients to understand their needs and put forward only practical, actionable solutions.

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