

Take Stock: Aligning Marketing Investments With Growth Objectives

One of the most powerful tools to help accelerate business growth is an annual inventory of all the spending that's undertaken throughout the enterprise to increase revenue.

A robust growth investment inventory can effectively identify opportunities to reallocate spending to the fastest growing customer segments or more profitable channels, or to address key issues in the business. Its power lies in its comprehensiveness: When the full range of growth investments are made transparent to corporate leaders, they can be assessed and reallocated based on how well they fit the most important priorities in the business.

As powerful as they are, however, growth investment inventories are underutilized. Organizational structures present one barrier. Plus, setting up a framework for, and actually executing the inventory itself, are also difficult (although it gets easier each time).

But the rewards make it worth the effort.

In Prophet's work with one of the world's largest agricultural products companies, for example, we found that more than \$1 billion was being spent annually in the U.S. on stocking allowances to incent distributors to list new seeds. The magnitude of the investment was invisible to corporate growth leaders because these allowances were buried in more than 100 brand and sales territory budgets. Analysis indicated that less than half of that allotment measurably affected distribution. Ultimately, the company redeployed those funds to more productive uses, such as improvements to brand communications and new product development, with little impact on distribution.

One of the barriers to broader utilization of growth investment inventories relates to the way P&L management is typically set up—with investments typically divided into functional and regional categories that obscure spending priorities.

A major manufacturer of floor care products made significant progress in prioritizing marketing investments in its European division by shifting from 15 country P&Ls to a Pan-European P&L for each major product category. It then conducted an inventory of marketing

spending categorized by brand building versus incentives versus distribution building. This pan-European view of growth investment spend immediately revealed that high-margin new product launches were being robbed of important advertising and consumer marketing support by unprofitable trade incentive programs (designed to maintain sales volume) for mature, low margin products in the line. Spending was reallocated with an immediate positive impact on profitable revenue growth.

Functional silos are another barrier. Most functional leaders prefer to keep the details of their spending priorities hidden from their colleagues in the mistaken belief that as long as each function manages its part, the whole will succeed. They typically feel little hesitation to bring requests for additional spending to the other functional leaders but priorities within "base" spending are rarely shared.

We know one large U.S. insurer that broke down these silos by categorizing all spending, regardless of department, by whether it had a demonstrated, directional, unclear, neutral, or negative impact in accelerating growth. This cross-functional categorization has opened the door to an improved dialogue between functions, better resource prioritization, and a process of testing and learning to better understand which investments drive growth.

Gaining such insights on the drive to profitable growth requires hard work and discipline. However, the task grows easier with each repetition. Creating the framework typically involves five steps:

- 1. Access detailed records of investment spending.** We find that most modern ERP systems provide more than adequate spending granularity.
- 2. Create the categorization framework.** A robust inventory categorizes each investment along multiple relevant dimensions. For example, a single business may need to understand spending by channel, customer size, end user target, product type, and investment purpose (short-term incentive vs. brand building). We find that five to seven dimensions are practical for most growth investment inventories.

3. **Categorize investments by dimension.** This often requires the assistance of line managers who understand the purpose of the spending and can assign each investment to the proper category. A central organizing team is usually required to keep the categorization consistent.
4. **Calculate investment by dimension.** The key in this step is to incorporate relevant outside data to make the calculation meaningful. For example, the growth rates by channel compared to the growth rates for spending by channel may indicate that spending is not being reallocated fast enough to the fastest growing channels.
5. **Draw implications.** Review and discussion of the completed inventory by the cross-functional management team will create a fact-based dialogue that can help break down functional silos and improve resource deployment.

A leading manufacturer of home improvement products recently conducted a growth investment inventory that led to a 50 percent increase in brand advertising to

better support new products and accelerate growth. The inventory was conducted in six weeks and relied entirely on existing financial and annual planning data that was re-categorized by trade channel, consumer segment, type of home renovation, investment purpose, impact on awareness, consideration, or purchase, and in-store versus outside-the-store impact.

The inventory gave the leadership team a straightforward set of comparative benchmarks to facilitate their decision-making. They spotted opportunities to reduce spending in the “builder channel” that had grown out of proportion to its potential to drive growth and to increase investment among renovators in support of new product launches. The inventory also generated a roster of investments that required further testing because their impact on the business was unclear.

As the economy continues its recovery, businesses need to ensure they’re investing appropriately, in ways that will make their money work harder and keep them firmly on the path to growth. Growth investment inventories are an indispensable tool to guide this journey. ☺

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