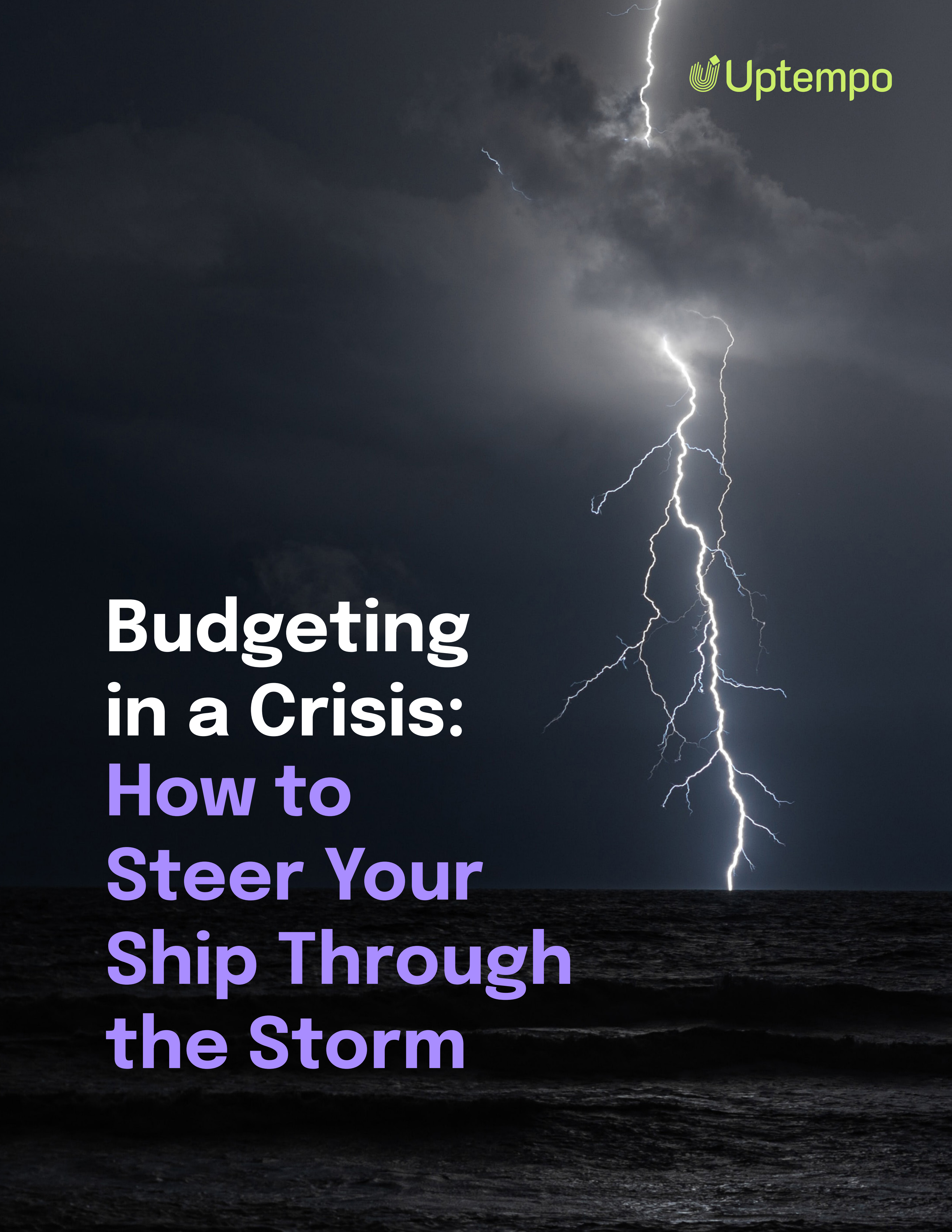
Uptempo



Budgeting in a Crisis: How to Steer Your Ship Through the Storm

Half of CMOs don’t understand how their budgets are invested.

Gartner

This disconnect has only been exacerbated by the economic downturn we are in.

INTRO

Marketing budgets began tightening and reducing in 2019, and since then have been in a steady state of decline. With the current economic climate, marketers’ budgets are increasingly under scrutiny.

As our budgets shrink, the need to make every dollar count grows more acute. Marketing was previously held to the mandate of improving company growth—some organizations may now be concerned with just staying alive. And their investment decisions are about to become the definitive factor.

Unfortunately, 61% of marketing leaders aren’t able to estimate the impact of their marketing spend because they aren’t confident in their own data.[1] Our mission at Uptempo is to bring confidence to every marketer, which is why we’ve created this ebook to guide your team through this next unpredictable phase.

You’ll learn:

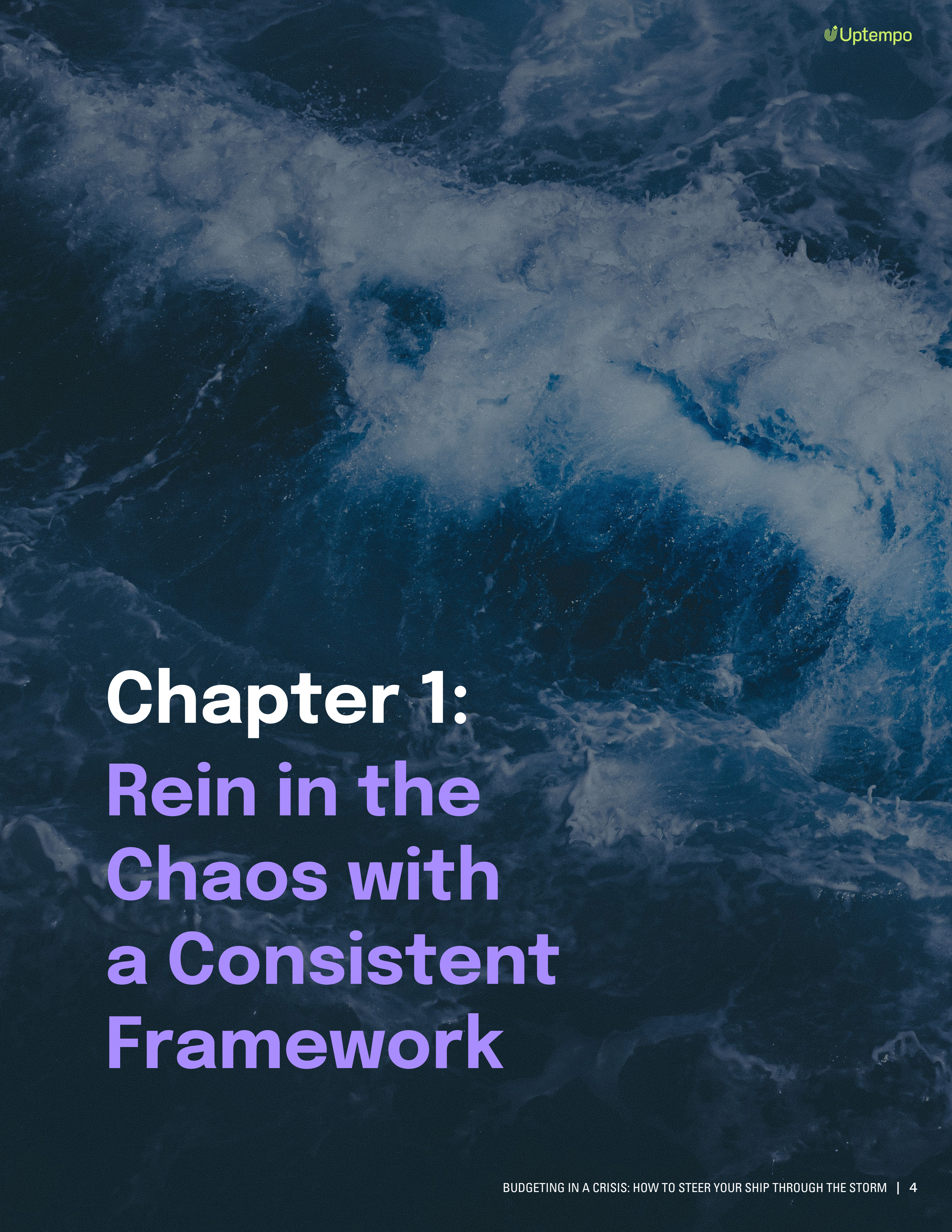
- The best way to structure a budget for your organization.
- How to build out your marketing budget (including a cheat sheet).
- How to prioritize and select investments during a crisis.
- Three common marketing investment mistakes to avoid.
- How to create an agile budget with scenario planning.

> “It is critical that marketing leaders take action now to help mitigate the inevitable risks to those budgets.”

Ewan McIntyre
VP Analyst
Gartner for Marketers

We’re in uncharted territory, and although we’re not in the same boat, we are facing the same squall. Together, we can weather the storm and come out strong.

GRAB A LIFE LINE, AND KEEP READING.



Chapter 1:
Rein in the Chaos with a Consistent Framework

CREATING CONSISTENCY ACROSS MARKETING TEAMS

Before you throw good money after bad, step back and assess all the moving pieces in your budget. It's surprisingly common for marketers to operate in silos, with each team using separate processes (or none!) to manage their marketing spend. Chaos results when there's a lack of consistency among all these budgets, and the world has enough chaos to deal with at the moment.

The best way to gain control of all the budgets is to bring them together with an agreed-upon hierarchy or structure.

WHAT IS THE BEST WAY TO STRUCTURE MY BUDGET?

There are five main structures for your marketing budget.

Type of Budget Structure	Who It's Best For
By Business Unit or Product Line	Companies operating in multiple industries use it as a top level structure, with a secondary level of classification according to region or type of marketing activity.
By Region	Companies where spending patterns differ drastically by region, with sub-budgets lining up within the regions.
By Functional Area or Campaign Framework	As non-executive marketing roles often align to function, this is a convenient way to essentially organize by teams. It's commonly used as a structure within a hierarchy based on region, business unit, or product line.
By General Ledger, Cost Center, or other Finance-Specific Structure	Reconciling with financial systems. While this can work for some organizations, accounting codes are generally too broad to adequately capture marketing activities.
Using a Combination	Companies that require multiple budgets that roll up into each other. For example, a consumer packaged goods company may organize by product line, but each of those rolls up into an overall hierarchy according to region.

PRO TIP

Have your budget hierarchy mirror the marketing organization itself. How are the teams of people organized, and how do they align around investments? Structure the budget as naturally as you can, based on how funds are allocated. This creates an intuitive structure, for a better marketer experience. are five main structures for your marketing budget.

> "Coming from a world of spreadsheets to a tool that actually allows me to have visibility and insight into what's going on in the world is invaluable. Transparency drives better decisions."

Helena Lewis
Senior Group Manager for Global Marketing Operations and Technology, NI

> I was shocked when I opened Uptempo to look at the high level estimates and it was literally within $5000 of where we're predicting it being for these budget shifts. The finance software we use for all of our internal budgeting is more rigid and doesn't have the flexibility of Uptempo. With Uptempo, I just popped in new columns and I have a new summary showing the previously committed numbers and then the impact to the new total. The budget owners don't have to adjust the whole budget and we have a view of the new total in one spot.

Finance Analyst at multinational company that provides secure application delivery

WHAT NOT TO DO

When the budgeting cycle (typically a fiscal year) resets, most marketing organizations simply iterate on last year. But if you just rinse and repeat, your budget suffers. McKinsey found marketing organizations that recycled plans were often allocated similar budgets year to year[2]. In other words, there was no room to grow.

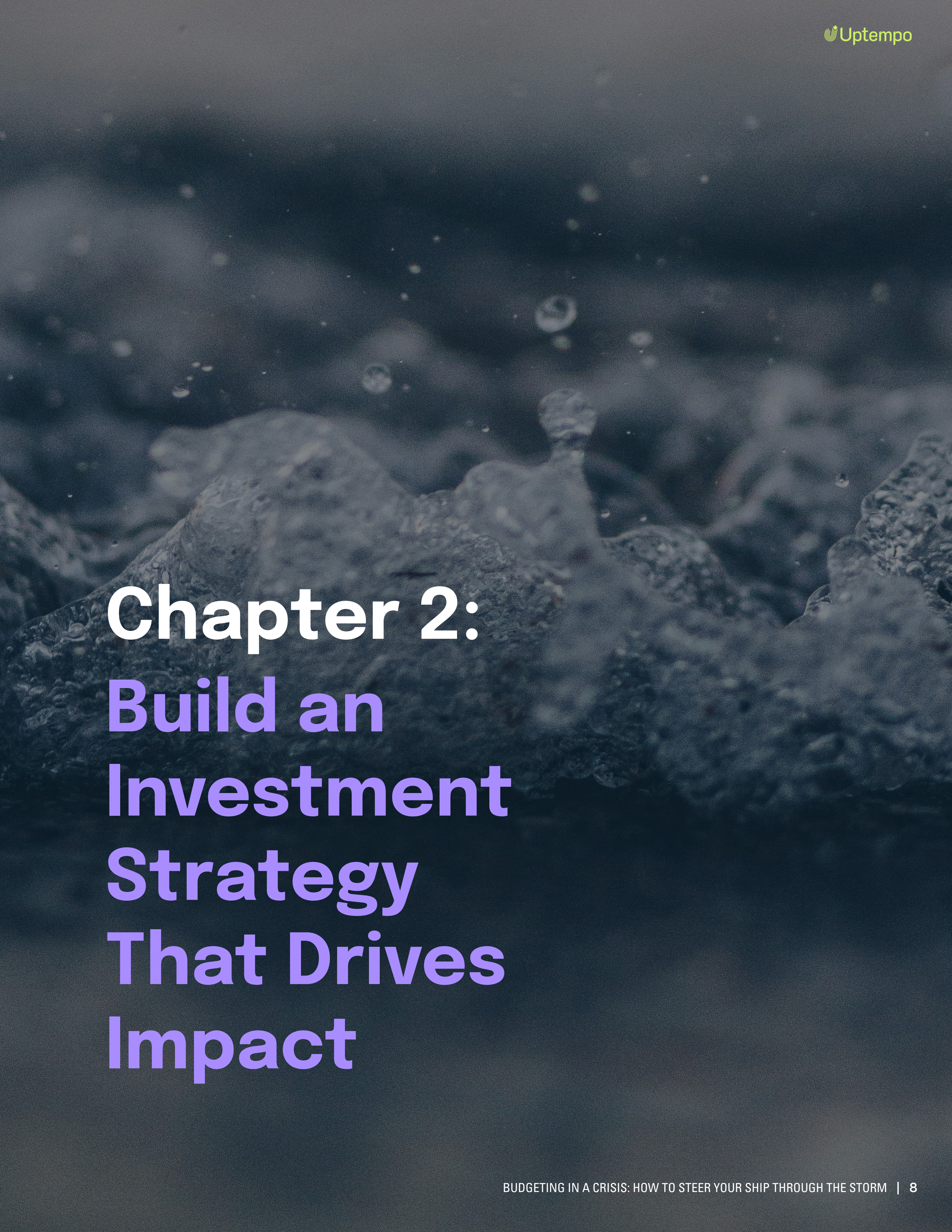
In today's world, reusing last year's budget is no longer possible. What worked previously may not work in the current market landscape, so it's best to start fresh based on your team's new strategy. Otherwise you're building your marketing budget on a sinking ship.

WHERE DOES FINANCE FIT IN?

Finance and Marketing must work together as partners if they want to drive growth for the organization. With that said, unless your team is forced to, we don't recommend adopting a finance-centric structure for your marketing budgets. There are two big differences in the way these departments organize and think about spending.

Problem #1	Problem #2
Marketers look at spend according to what they're trying to achieve, whereas Finance sees things in terms of general ledger accounts or cost centers.	**Marketing is focused on future results and impact, whereas Finance focuses on cash flow—a more immediate consideration.**

For example, Finance sees a $1 million invoice from an advertising agency and thinks, "wow, that's a lot for one agency." In contrast, marketers know it's a prepayment for an entire campaign's worth of advertising spend, spread strategically across a variety of different channels and regions. Finance has one general ledger account for advertising, but Marketing allocates the $1 million across a number of line items in their budget—or even across multiple budgets.



Chapter 2:
Build an Investment Strategy That Drives Impact

TOP-DOWN VS. BOTTOM-UP BUDGETING

Before you hammer out an investment strategy, nail down your budget structure. There are two basic approaches to marketing budgets: top-down and bottom-up.

Top-down budgeting is based on marketing investment targets that are set by the CFO and/or CMO.

Bottom-up budgeting is based on the individual marketer's laundry list of programs and activities they'd like to spend money on.

TOP-DOWN

- Leadership sets investment targets that divide dollars into several big areas of spend according to functional area of marketing or by cost center
- CMO communicates targets to the directors of each of these areas
- Directors divide their spend in the best way for their specific team
- Individual marketers on the various teams populate their budgets with programs and activities they feel are the best use of their allocated dollars

BOTTOM-UP

- Leadership sets investment targets that divide dollars into several big areas of spend according to functional area of marketing or by cost center
- CMO communicates targets to the directors of each of these areas
- Directors divide their spend in the best way for their specific team
- Individual marketers on the various teams populate their budgets with programs and activities they feel are the best use of their allocated dollars

PRO TIP

It's best to employ a hybrid approach, where everyone meets in the middle. Start with top-down target setting, followed by building a bottom-up activity plan. This approach gives marketers the autonomy to plan their budget the way they feel is most appropriate, while staying true to the overall priorities set by marketing leadership.

CHEAT SHEET - A STEP BY STEP GUIDE TO BEST PRACTICES OF BUILDING OUT A MARKETING BUDGET

Imagine your marketing team just received its spend targets from the top-down budgeting process undertaken by leadership. Now that you know how much money you can invest, it's time to make some decisions.

- List all the activities your team wants to execute along with estimated costs, and organize them into relevant groupings. Don't forget about previous commitments!
- Start populating your budget only with what you believe fits into your spent targets. For each line item, note all the information required for reporting purposes, such as vendor, target audience, product line, region, CRM campaign, etc.
- Step back and assess: does it align with your targets? What can you take out, and what should you leave in? What will the impact of those decisions be?
- Send your budgets off for marketing leadership to assess. They're looking for two things:
    1. Compliance: Did all the teams plan the way they should have? Do their budgets align with their investment targets?
    2. Performance: Do the planned investments adequately support overall corporate objectives/goals?
- Marketers and leadership go back and forth making adjustments until the budgets are approved.

> "We can land our budget within 0.5% of plan every quarter. We know exactly what we are spending, where, and when needed we can reallocate spend to ensure we meet our plan."

David Cohen
Head of Business Planning
Palo Alto Networks

HOW TO CREATE IMPACT WITH YOUR INVESTMENTS AMIDST CHAOS

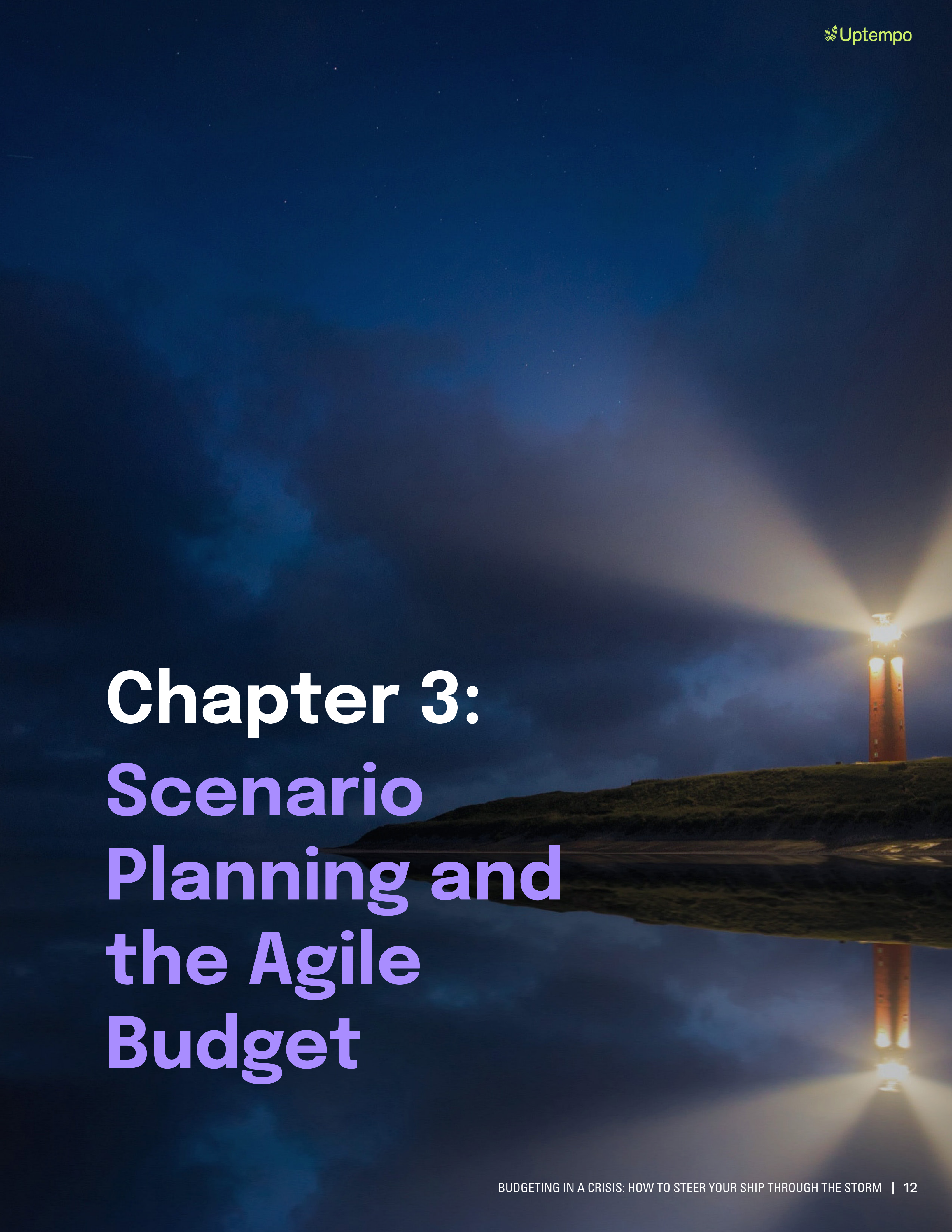
Even during economic uncertainty, marketers are tied to the mandate of moving the needle and driving impact for their organization. To achieve results with different or fewer resources marketers need to make smart investments. Choosing the right investment was already an area marketers struggled with: 63% of marketers cannot determine which investments drive maximum ROI.[3]

The first place to start is with your budget itself. Recent global economic disruptions exposed deeply buried (and some not so deep) issues within marketing budget processes. You can't survive the storm unless you fix what is broken now. We all need to step up our game, so it's critical to evaluate what technologies are going to make an impact today—and in the future—to improve your marketing organization. Focus on improving critical business elements like financial management and strategic planning, that set the foundation for other growth programs.

Obviously any potential investment should align to your team's strategy. The step that takes your marketing activities to the next level is aligning potential investments to company goals. Marketing should always use company goals as a North Star to direct their activities. If not, they risk pursuing goals that are at odds with corporate goals and fail to justify the positive impact they made to the business. Marketers end up concentrating on marginal activities and fail to act on programs that drive more impact. In a regular quarter this is risky, but in this climate it's downright dangerous.

3 COMMON MARKETING INVESTMENT MISTAKES TO AVOID

1 Not capturing original planned investment amounts	2 Forgetting marketing activities that carry over from one budget period to the next	3 Not allowing enough time for the review process
Marketing budgets usually undergo many modifications, but it's even more frequent when dealing with a changing economic uncertainty. Too many organizations overwrite the original entries as they make changes. They lose the ability to look at metrics such as plan vs. forecast (to help stay on budget) and plan vs. actual (to see how accurate the budget planning was).	Subscriptions, retainers, and pre-paid vendor agreements are non-negotiable pieces. Failing to include them in the budget will create confusion in a best case scenario, and an overcommitted budget in a worst case scenario.	Two week cycles are typical when building and approving a budget. The full process can take two months, and longer if the numbers have to be approved by a board of directors. Don't assume the process will change just because we're in a period of economic change. It will be a tighter time frame due to the need for quick action, but you should still account for a review and approval process.



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Chapter 3: Scenario Planning and the Agile Budget

LOAD YOUR BUDGET WITH AN ARSENAL OF WHAT-IF PLANS

These times are so unpredictable, the smartest way to plan your budget is to build in multiple options. Arm yourself with scenarios A, B, and C so that as budget shifts - even at a high level - your organization can move quickly. You have no control over the current market, but an arsenal of back-up plans will empower you to act quickly and decisively. Need to pivot all the way to plan G? You're ready to go!

Start by categorizing all of your investments as high, medium, and low risk. Think of back-up plans for each, and establish a few replacement scenarios for high and medium risk situations. In the case of an economic downturn:

HIGH RISK
Travel, events, and high-cost campaigns

MEDIUM RISK
Anything involving partners or influencer marketing

LOW RISK
Anything digital or community building

Back-up planning can take a few different forms, in some cases an entire budget is going to be transferred, which happened with in-person events during the pandemic. And this was no insignificant number: on average events make up 23.4% of program spend[4]. Ideally, your organization has a view into what alternative programs can drive the needed results. If you don't have the necessary ROI insights, focus on quick-test projects that will improve overall insights into impact.

Another way to look at back-up plans is to imagine that your budget gets slashed by 10%—what would you do differently? How about 15%? Budget cuts might mean simply scaling back on activities, but they could also result in reallocating funds to another program if the cuts are so significant that the smaller investment won't drive impact. Look carefully at all your programs and decide which ones can still run on a smaller scale or with different resources and which would need to be axed.

The final piece of scenario planning is bookmarking a portion of the budget as a slush fund for flexibility as the situation continues to progress. Keeping a slush fund is especially important now. But how much is appropriate to keep? You need to strike a balance between having enough funds to offer value, without hindering your active budget. Five to ten percent of your total budget should be enough to make a difference without holding your team back from creating impact.

> "Literally, I just pivoted my laptop in a meeting (when we were still physically present) and I showed it to the CFO. And it was 'ok, problem solved – let's move on!' The budgeting was never the issue because we had the answer literally at the tip of our fingers."

Jeremie Audran
VP Performance Marketing & Operations
Skillsoft

REALLOCATIONS AND TRANSFERS

Reallocations and transfers pop up frequently when managing a marketing budget, and they're bound to be prevalent during a period of economic uncertainty. These terms sound like synonyms, but they refer to very different procedures.

Budget Reallocations	Budget Transfers
Money shifts within the same budget. You simply modify the line items within your budget, and that's usually all you need to do as long as the quarterly and annual totals stay the same.	**Money shifts between regions, teams, or functional areas. These can be messy and time-consuming, and usually require a strict procedure.**

Errors during budget transfers can lead to double-counting and other financial management headaches. To ease this burden, some marketing organizations allow marketers to transfer funds between budgets at their discretion, provided the amount is under a certain threshold and a record of the transaction is captured. In order to work, your marketing organization must have strong tools and processes that can handle budget transfers without triggering manual work. If your company allows budget transfers, but not discretionary trading we recommend advocating for it.

PRO TIP

It's best to employ a hybrid approach, where everyone meets in the middle. Start with top-down target setting, followed by building a bottom-up activity plan. This approach gives marketers the autonomy to plan their budget the way they feel is most appropriate, while staying true to the overall priorities set by marketing leadership.

> “We’ve successfully used committed / planning flags as a way to create an ongoing wishlist of demand gen activities that can be executed within the quarter. This becomes a great list to prioritize from, especially ” in a scenario where events budget frees up.”

Chief of Staff to CMO
Large Data Storage Company

ROI FOR PLANS A-Z

Marketers can’t help but think about ROI. But that’s almost impossible to measure in the middle of an economic crisis. There are too many changes to accommodate a complex ROI calculation made of a multitude of variables. Historical data doesn’t account for the context of the situation, so there aren’t any appropriate benchmarks. Marketers should be thinking about the performance of their programs, aiming to measure and optimize. The best that your marketing organization can do is create A/B testing as you go, or build in control tests and use those to measure lift as the weeks pass.

We talked about it before, but it’s important to say again: now is the time to prioritize marketing investments that create business impact. According to Harvard Business Review, the highest-performing marketing organizations tie every single budget line item to the overall priorities of their business[5]. Demonstrating exactly how marketing plans support the company’s big goals puts you in a better negotiating position if budget dollars are threatened. Our own research supports this claim:

83% of marketers who expect budget increases year over year are more likely to align marketing performance goals to their company objectives

– MPM Maturity Benchmarking Report [6]

The other piece of the ROI equation is balancing your activities between ones with short-term results and those that lay the foundation for long-term success. Quick wins are great, and absolutely necessary in this climate, but eventually this storm will pass and you can’t afford to only focus on the near-future. If your organization’s revenue (or potential revenue) has been impacted by the economic downturn, then the majority of spend should be focused on short term mitigation. It’s critical to support the retention and growth of any revenue in the current quarter and next. But you must maintain a certain level of brand spending to sustain your awareness in the market, and solidify your foundation for future growth.

WHEN FACED WITH ECONOMIC UNCERTAINTY, THE FIRST THING A MARKETER SHOULD DO IS RE-ALIGN THEIR BUDGET TO THE NEW REALITY.

Budgets don't just show where funds are invested: budgets are the ultimate expression of strategy for any marketing organization. They act as a crucial communication tool within the department and between Marketing and the rest of the company.

Unfortunately, when marketers head to their budgets, too many of them get sidetracked by flaws unrelated to the current instability.

Without visibility into budgets and proper scenario planning, marketers cannot act with the agility and speed this climate demands. Targets move rapidly during periods of flux. To survive and thrive, you must properly equip your marketing team for this uncertain economic climate. Start by creating a consistent framework and applying it to all of your budgets. Then employ scenario planning, because pivoting is the theme of the 2020s, and you'll be ready for anything when armed to the teeth with plans A-Z.

Budgeting doesn't need to be stressful or difficult. By empowering your marketing organization with our best practices, we can all weather the storm together.

CITATIONS

1. Three Things B2C Marketers Can Do to Build Better Budgets
2. Invest, Create, Perform: Mastering the three dimensions of growth in the digital age
3. Three Things B2C Marketers Can Do to Build Better Budgets
4. Marketing Through Uncertainty: Responses for the Coronavirus Crisis
5. The Ultimate Marketing Machine
6. MPM Maturity Benchmarking Report