A&M INSIGHTS

GROWING BRANDS IN AN INCREASINGLY ZERO BASED BUDGETING DRIVEN ENVIRONMENT

The challenge: sleep-walking into the brand death-trap

Consumer brands aren't going away. However, without the right focus on maintaining and building healthy brands such businesses risk dying step by painful step. None of this changes in our increasingly digitized, omni-channel world, except it just goes faster. However, a heavy focus on costs at the expense of maintaining strong brands also risks destroying value, often irreversibly. There are many examples in the public domain and across consumer brands businesses.

Zero based budgeting (ZBB) is a great way to bring discipline to the way an organisation allocates its finite resources. However, many businesses have, year-on-year, reduced their marketing budgets following a ZBB driven planning process. This is often because the marketeers haven't been able to defend their investment plans by demonstrating what works versus what doesn't.

Current brand health as measured by 'brand equity' studies shows what consumers think about brands, but doesn't provide any line of sight to reveal which activities are driving this.

Global brands are also being increasingly challenged across categories by new 'local and authentic' brands. These new brands, enabled by social media, proximity marketing and new business models are taking share and disrupting global players. Craft beers, sustainable fashion and vapes are good examples and there are many others. Global players often respond by acquiring and investing in these smaller brands, which in turn can then result in reduced support for their power brands. This makes it even more important to know what works versus what doesn't.

Challenges around brand health are compounded by the shift of spend to digital activation with as much as 50 percent of marketing spend commonly diverted.

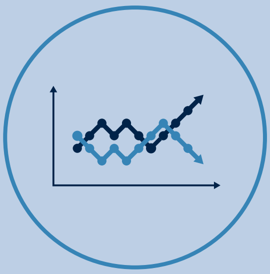
Over several years, our research across the food, beverage, personal care, household and tobacco sectors shows that the decline in brand support is particularly severe in the food sector.

Looking back 10-15 years, branded food businesses were typically spending c. 10 percent of revenue on brand support and investing a similar amount with their trade customers. Today that spending profile often looks like 3-4 percent on brand and 15-16 percent+ in trade.

Our research also reveals that brand support has held up better in non-food categories. Spending has remained largely unchanged over the same period for personal care products, declining only slowly for beverage and household products. In tobacco meanwhile, we see the opposite trend. After years of regulatory constraints on marketing tobacco brands, the major players are establishing new marketing capabilities and programmes to support next generation products (vapes and e-cigarettes) and learn what marketing activities work versus what do not in the new category.

The challenges around brand health are compounded by the shift of spend to digital activation with as much as 50 percent of marketing spend commonly diverted, which, evidence suggests, is often less effective in brand building. The combined result is that brand equities erode, both volume and pricing suffer, and the weakened brands become ever more expensive to support in store and on-line, eventually becoming irrelevant to both consumers and retailers. It's a vicious circle that many consumer brands businesses are experiencing, especially those operating in lower margin categories such as food where the competitive pressure from private label alternatives is becoming ever greater.

If you don't know what marketing works versus what doesn't, ZBB can spell death to brands. A ZBB approach is particularly prone to eliminating slow-acting but important brand-building investments that don't translate into near-term sales, but that come back to bite later with a vengeance.



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Brand marketing basics: forgotten at our peril

Growing strong brands requires relevant innovation along with effective and efficient marketing. Effective and efficient marketing in turn requires doing the right things well. According to marketing academic Byron Sharp[1], there are seven dimensions to brand building:

1. **Continuously reach all [relevant] buyers of the category**
2. **Ensure the brand is easy to buy**
3. **Grab attention and focus on brand salience**
4. **Respect existing associations that make the brand easy to notice**
5. **Use sensory cues to get noticed and stay top of mind**
6. **Avoid unnecessary changes, whilst keeping the brands fresh and interesting**
7. **Keep the brand easy to buy and avoid giving excuses not to buy, for example through pricing or poor business behaviour.**

None of these are rocket science – but so many businesses just don't do them – or do them badly.

A&M uses advanced **Market Contact Audit (MCA)** techniques to understand what works versus what doesn't across all consumer touchpoints and all channels – ATL, BTL and digital. This establishes a common currency in terms of brand experience and quantifies the returns on marketing investments – exactly what's needed when pre- and post-evaluating brand related spend in a ZBB environment. Through this, we build on the creative treatments and consumer touchpoints that work and redirect spend away from those that don't.

[1.] Source: Byron Sharp, Professor of Marketing Science at the University of South Australia. Author, How Brands Grow

Doing these things well requires insight into what works and what doesn't in the category, across all seven dimensions of brand building to drive learning and continuous improvement and make the case for the right brand building investments.

Focus on brand health: a continuous improvement mindset is key

No one gets everything right first time around. The MCA based approach brings the disciplines and analytical platform needed to make such learning and continuous spend effectiveness and efficiency improvement possible.

One very well-known global retailer found that they were under-supporting their brand which was therefore in decline, whilst wasting resources on unproductive price discounting. They were able to put more investment behind the brand while reducing costs and improving profitability. Likewise, a global brewer was able to free up 10-20 percent of non-working marketing spend across a dozen markets, without adversely impacting the top-line, to invest in innovation and other growth initiatives.

Immediate opportunities to free up non-working spend are taken and working brand spend is optimized over the long-term to sustain and transform brand health. Vicious circles of decline can be transformed in this way into virtuous circles of brand-led profitable growth and value creation, with potentially higher spend with strong ROI underpinning accelerated revenue growth.

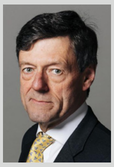
If marketeers can demonstrate what marketing activities work in terms of creative, consumer touchpoints and resulting returns on investment, then ZBB thinking and effective brand building can go hand-in-hand.

How A&M can help

If you are concerned about how to understand and optimise the effectiveness of your demand generation and brand-building spend across all consumer touchpoints, then get in touch. Alvarez & Marsal brings enormous depth of practical commercial experience supported by analytical techniques that will underpin robust support for proposed brand expenditure that will satisfy colleagues and Boards alike.

The MCA approach and supporting analytical platform help identify and validate improvement opportunities in commercial spend productivity, create the required buy-in from management and commercial teams, enable you to deliver results at pace, and help embed and sustain the required changes in commercial working practices.

KEY CONTACTS



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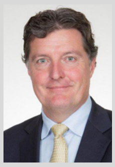

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With over 3500 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organisations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

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