

CATALYST

the **MARXGROUP**

Business Strategy | Marketing Communications

October 3, 2004

Fantasy vs. Reality **Staying Sane During the 2005 Planning and Budgeting "Silly Season"** *by Tom Marx and Tom Herndon*

OK, you're in middle of your planning and budgeting season, right? A tad crazy making isn't it? Well, here's a metaphor that might help shed light on the craziness.

For those of you that follow Motorsports, particularly Formula 1, you might recognize the term "silly season," which occurs in the fall of every year. Silly season is when the F1 teams sign up their drivers for the upcoming racing season. It's THEIR planning and budgeting season, so to speak.

And, like yours, their process is not a linear one. First, the team needs to finalize its sponsor contracts. But the sponsor doesn't want to finalize their contract until they know if the team has signed their favorite driver. And the driver doesn't want to finalize his contract until he knows the team has appropriate funding from the sponsors. And until the top level drivers finalize their contract, the mid-and-lower level drivers and teams cannot make final moves, since they don't know which driver's are available.

The media feeds on the frenzy and the fans are constantly bombarded with news about it in magazines and cable TV. Everyone chases everyone else. Pretty silly, huh? Sound familiar?

How does this relate to you and your company's planning and budgeting process? Think about it. The driver is the marketing manager; the team is the sales manager; the sponsors are the CFO and CEO/president/general manager.

Each constituent wants accurate data before decisions can be made. The CFO wants the latest sales figures and projections through year-end. The marketing team wants a budget so they can begin the planning process. The sales team wants to know what products will be available, how they are going to be priced and when they will be launched.

All this gets complicated even further by what we call fantasy vs. reality. Fantasy is when someone or a group from upper management (Board) level declares a sales goal with little more grounding than "we need to do better this year" or "sales should at least double or triple this year." Reality is setting believable goals and sales projections, based on the serious consideration of sales gains (or losses) for the current year, competitors, looking at the pipeline, and developing a matrix of current clients, prospects and products available for go-to market.

For example, some industries, such as technology, can experience sudden and significant leaps in sales. We've all witnessed a software package or cellular phone going from zero to a million units within a short period of time. For most manufacturers and their distributors, however, sales are generally measured in incremental gains, with nominal increases from one year to the next.

In almost any sales organization a sudden leap in sales like this is not reality. In fact, unless management is willing to support sales with at least an aggressive – even breakthrough – marketing strategy that will dramatically alter the course of incremental growth, those sales goals that are based on projected (hoped for) sudden leaps in sales are more fantasy than reality.

What's worse, upper management, especially Boards of public companies, often puts pressure on the sales team to push the limits of potential sales growth. Unfortunately, the sales team succumbs to the pressure of these unrealistic goals and soon everyone believes these inflated numbers. Again, pure fantasy.

Meanwhile the marketing team is doing its own planning without the benefit of a hard budget number. This leads to a lot of speculative research and is particularly frustrating to your outside advertising and/or PR agency. How exasperating is it to begin work with budgets that later turn out to be lower than anticipated? The result is a lot of time-consuming and costly back-and-forth negotiating – all which could have been avoided if the process had started with a hard number.

We perfectly understand that budgets, as well as media schedules and other marketing activities, need to be completed in the fall of each year in order to allow planning for the coming year's events. And, it's during this "silly season" where we believe the problem of fantasy vs. reality exists.

First, let's explore some of the basic challenges. Then, we'll propose a path through the maze.

Challenges to the Budgeting Process

Here are some of the dilemmas you might experience:

1. The desire to increase sales faster/more than historical results indicate

This often comes from upper management wanting to satisfy the stakeholders, whether they are the owner(s) or the Board of Directors, or from management's desire to push the sales organization to a higher level of results.

2. Lack of comprehensive and accurate competitive analyses

Misinterpreting competitive pressures can lead to misrepresenting market share and sales projections.

3. Lack of understanding of market direction, especially trends vs. fads

When relating your products to market demand, you need to evaluate the difference between trend and fad. A fad will come and go. A trend lives on and creates longer-term value.

4. Inefficient collaboration between marketing, sales, finance and corporate management

Getting the various teams within an organization out of their silos and into the collaborative process saves time and is far more effective.

5. Wishful and hopeful thinking

Wanting, beyond all reason, to achieve certain sales numbers.

6. What other challenges do YOU have?

Click here and send us you list -- we'll fire back some useful navigation tips: therndon@themarxgrp.com

Navigating through the budgeting maze

In the words of my mentor, Lew Epstein, navigating through the budgeting maze "may be simple, but not easy." Simple -- because there is a kind of linear flow. Not easy -- because you're often faced with roadblocks that have been around forever.

Our recommendations for how to navigate the maze might not answer all the specific challenges you will be facing, but we have found some of the universal challenges stated above can be met by using the following process:

1. Do the research

This year, instead of operating from guessing, why not know how your company or product is perceived? How is your competitor perceived? What publications/stations/websites are your customers reading/viewing/surfing, and what type of information are they paying attention to? How does your product/company fit into those subjects that interest your customers the most?

2. Collaborate

Involve all key team members in establishing a sound strategy before executing tactics. We speak of this in almost every issue. Have everyone aligned about the strategy *before* you start on the tactical plan.

3. Project sales accurately

Instead of "fantasy" projections, be realistic and honest. You have the historical numbers. If you have been averaging 3.5% sales gains for the past 10 years, unless something spectacularly different is going to occur, then it is likely going to again be that level of gain.

4. Benchmark marketing results

Start the metrics at the beginning of the year, capturing gains in awareness, leads qualified, PR equivalency and sales ratios, and maintain the data throughout the year.

5. Get the budget first

No matter how much pressure is exerted, don't move forward with tactical allocation of funds until the budget is approved. It might appear you are saving time by designing a tactical plan before the budget is approved, and certainly this can be done at a high level, but say NO to any detailed plan. At the end of the process, you'll take less time, spend less manpower and get to the end of the process far more efficiently.

6. Do a reality check

Like everything else, marketing costs rise each year. Fuel costs more, tuition costs more, homes cost more -- so does marketing, especially media. A reality check of what the inflationary cost increases are will provide a baseline for planning. If media rates are up 4% and sales are up 4%, then the marketing budget should be up 8%.

7. Establish the deadline

Get everyone aligned on the final date for the tactical plan and work backwards to arrive at when the budget must be provided. And stick to it!

Remember READY-AIM-FIRE? Last year we had an interesting experience. We started on the planning/budgeting process with a client 45 days later than it traditionally has happened and we finished the process 30 days earlier than the previous two years. This happened because we first got the budget finalized (READY), then developed the plan (AIM) and then launched the initiatives (FIRE).

We saved a ton of time, everyone was on the same page from the beginning and now we have a solid plan based on real numbers.

Next issue of Catalyst: What to do AFTER the trade show.