Don’t work your “non-working” too hard.

Evolving how marketing executives think about managing their marketing budgets and driving fiscal accountability.

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How much non-working spend is too much or too little? The most controversial topic among brand advertisers, C-suite executives and agency leaders is no doubt the infamous working and non-working spend ratio. It often makes the headline in investor calls when the CFO or CMO announces major cuts in non-working spend, leading to budget reductions or reinvestment in media budgets. At the core of this discussion is a fundamental desire by marketing leaders to demonstrate both a responsible and efficient use of their marketing spend in an increasingly cost-cutting business environment.

Simply stated, non-working spend is often referred to as the cost of producing marketing content, as opposed to media spend distributing it. In theory, advertisers are better off when non-working spend is managed tightly so it is as low as possible, ensuring most of the marketing dollars are being used to drive performance (aka working spend).

As many other large brand advertisers like P&G and Unilever have done previously, food group Kraft Heinz recently announced in its earnings call that it’s cutting “non-working” spend. Georges El-Zoghbi, COO, said:

> *“We expect 2016 will be a strong marketing year for us, including a further shift of our advertising spend from non-working to working media, with our goal of increasing working media to at least three-quarters of our marketing budget.”*

In 2013, Unilever’s CFO told analysts that he expected to find more than $470 million in marketing savings that year, in part from reductions in “non-working media,” or what the company spends on such things as agency fees and commercial production. It led to the subsequent consolidation of agency resources, followed by many other brand advertisers looking to right size.

Considered the necessary evil of marketing

Budget owners often think of non-working spend as a necessary evil and frequently attempt to cap this type of expense or look for ways to reduce it without sacrificing the quality and effectiveness of the work itself. The lower the amount of non-working, the better. The idea is pretty intuitive and easy to understand from a conceptual perspective. However, in practice, the concept has many flaws and can often lead to disastrous outcomes if misunderstood and misused. Tom Finneran, 4A’s EVP of Agency Management Services, summarized it well:

> *“The notion of effectively controlling marketing costs by capping agency and production spending and any other ‘non-working’ expenditures to invest in working media dollars may in fact be penny wise and pound foolish, given the dynamics associated with today’s marketing environment.”*

Let's get the record straight about how much non-working is too much or too little: how brand advertisers should think about managing their marketing spend more efficiently and what they should consider when allocating their budgets.

Understanding the concept of "working and non-working."

Working spend represents the amount of marketing budget allocated to the actual distribution and optimization of marketing content across different channels of communication (TV, print, outdoor, digital, etc.). Non-working spend is pretty much anything that doesn't fall into "working spend" as defined previously but is essential to enabling "working spend" activities to take place. "Non-working" spend is often associated with the budget allocated to pay for agency talent (agency fees), assets and other costs associated with developing and producing content. The ratio of working to non-working or vice versa is the metric used to determine how efficient the advertiser is at managing its budget.

Why is the notion of "working and non-working" so controversial?

If I got paid a dollar every time I've heard the question "what is the right ratio?" I would already be retired on the exotic and sunny French-speaking Caribbean island of St. Barts. Instead, I am here in beautiful and rainy Seattle, still answering that very same question from anxious clients looking to justify their budget to the CFO or CEO. They are not to blame. They are craving data to show that they are spending wisely.

They are pushing their organizations to adopt zero-based budgeting to force these discussions and more rigor where some may think they have become complaisant. CMOs no longer can rely on the ancient 15% commission rate formula that made justifying budgets much easier but encouraged agencies to promote higher paid media budgets.

The reality is that there is no real industry benchmark for working vs. non-working. Here is why:

1. Most clients have their own definition of what they consider "working" and "non-working." Comparing your marketing spend allocations to another brand might be like comparing apples and oranges.
2. Different brands have different go-to market strategies, various approaches to production and content development, and different ways to allocate their media mix. For example, some clients rely heavily on paid media while others invest aggressively in owned and earned media such as the company's website properties, brand content vehicles or social platforms. If an advertiser is shifting spend from mass-reach paid advertising channels to a more content-rich, highly targeted, high-rotation type of execution, it will spend more in production and agency fees, but it doesn't mean that it's a bad thing in that context. Establishing benchmarks between companies with such diverse approaches to marketing strategy and execution is highly questionable.

To further illustrate that point, now consider the following two companies:

BUDGET CONSIDERATIONS	COMPANY A	COMPANY B
BUDGET ALLOCATED TO PRODUCING (fees, production, research, etc) AKA "NON-WORKING"	$25M (25% of total spend)	$28M (28% of total spend)
BUDGET ALLOCATED TO DISTRIBUTING (media activities) AKA "WORKING"	$75M (75% of total spend)	$72M (60% of total spend)
OWNED AND EARNED MEDIA VALUE	$5M	$35M
TOTAL BUDGET	$100M	$100M
PAID + OWNED/EARNED	$80M	$107M
TAKE AWAY	Effective "non-working" to spend ratio ($80M in paid and owned/earned media divided by $25M) 31%	Effective "non-working" to spend ratio ($107M in paid and owned/earned media divided by $28M) 26%

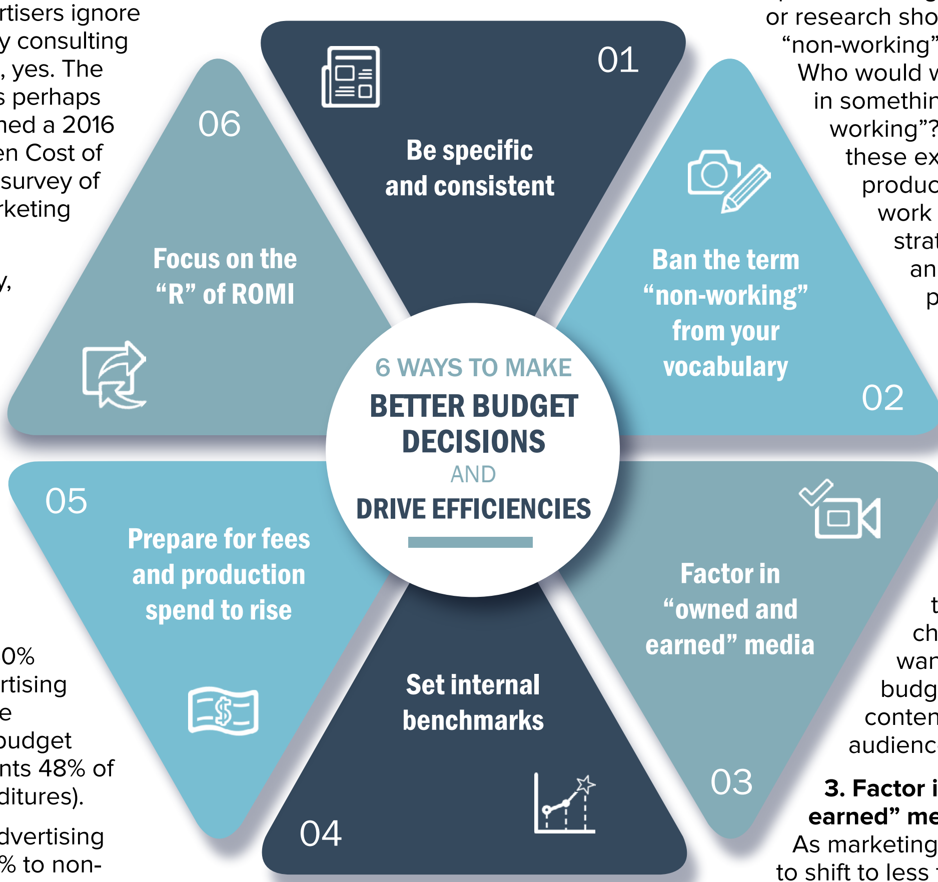
Company A might look like the most efficient of the two at first glance, ignoring the owned and earned media value with only 25% of its spend on producing vs. distributing, compared to 28% for company B. However, when factoring both paid and owned/earned media when comparing its spending allocated to producing assets, it shows that company B is far more effective, despite spending more than company A.

Most consultants would agree with that statement and have publicly stated that working and non-working spend analysis is obsolete and borderline dangerous.

Is there a hidden cost of marketing?

You occasionally hear of advertisers looking to restructure their budget to land an 80/20 “working to non-working” ratio as mandated by upper management. The 80/20 rule is used in many areas but it doesn’t lend itself to a meaningful or rational approach in marketing budget management. No more than 70/30 or 60/40. Name your poison. So should advertisers ignore any figures published by consulting firms? For the most part, yes. The only worthy reference is perhaps Percolate, which published a 2016 study called “The Hidden Cost of Marketing,” based on a survey of 300 U.S. enterprise marketing executives. The results:

- In their methodology, non-working spend includes all costs necessary to produce content and measure its effectiveness, namely assets, legal, tech, agencies, design and employees.
- The average non-working spend can take up more than 40% of the average advertising budget or 20% of the average marketing budget (advertising represents 48% of all marketing expenditures).
- The most efficient advertising budgets allocate 24% to non-working spend.
- The ratio of non-working spend varies by discipline: 50% for traditional advertising, 43% for brand publishing and 42% for social, programmatic and website/ecommerce.
- Most advertisers agree that non-working spend has increased or increased significantly.
- To control their non-working spend: 47% create better internal creative workflows and processes while others provide team training (33%) or leverage technology (26%).



Years of experience as a client has taught me that following these principles guarantees more efficient use of marketing budgets and improves the quality of decision making:

Six ways to make better budget decisions and drive efficiencies

1. Be specific and consistent:
Whenever you are looking at various expense categories and associated ratios to measure trends over time and make decisions about the level of efficiency desired, make sure you define each expense category in enough detail to make any discussion or decision as informed as possible. Consistency is key as well, especially if you are looking at data over an extended period of time.

2. Ban the term “non-working” from your vocabulary:
Stop referring to expenses associated with producing content as “non-working.” The amount of spend dedicated to production, agency fees, strategy or research should not be labeled as “non-working” or “unproductive.” Who would want to ever invest in something called “non-working”? If managed wisely, these expenses allocated to producing vs. distributing work should be considered strategically important and one of the most productive uses of a marketing budget. Not having the right amount of allocated budget there might seriously compromise the quality and effectiveness of the work distributed through various media channels. No one wants to spend massive budgets in sending poor content to the wrong audience.

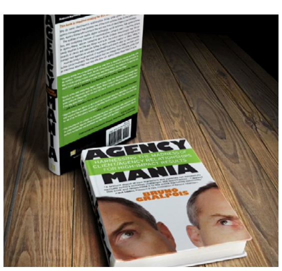
3. Factor in “owned and earned” media:
As marketing budgets continue to shift to less traditional media channels and digital spend, so do the opportunities for brands to engage audiences and create content and experiences that go far beyond paid media. As illustrated earlier, brand advertisers should incorporate the value of their owned and earned media channels into their spend allocation analysis to get a broader, more holistic understanding of what’s needed in terms of content development and production to support maintaining and feedings these channels. Only then will they truly appreciate the rightful allocation of their budget resources.

4. Set internal benchmarks:
External benchmarks do not work well when there is an inherent lack of industry definition or standard. The comparisons become futile and are often used as a validation exercise rather than a true attempt at discovering opportunities to better manage budgets. However, setting internal benchmarks makes excellent sense: it allows the company to evaluate how its allocations are changing over time and drive specific activities around efficiency that can be reported on accurately.

5. Prepare for fees and production to rise:
This is one of the most challenging parts of the discussion. It's very difficult for a CMO to explain to non-marketers at the C-suite level that boosting fees and production is desired to support the expanding volume of assets and content created to feed the increasingly fragmented number of media channels available to them. Yet, this is a reality for most brands that are exploring alternative means of reaching consumers and relying less on traditional media channels. Perhaps some of these channels are free (read "owned" and "earned" channels), but creating quality and high-performance content for those is not.

6. Focus on the R of ROMI:
Most companies focus on tightening marketing spend because it is based on a set of reliable expense categories that can be easily tracked and reported on. Although everyone wants marketing to be more ROMI (return on marketing investment) driven, the reality is that the "R" part of ROMI is much harder to define and measure. However, no one will dispute the fact that spending more to gain exponentially more is reasonable. Most CFOs would gladly allocate more spend to marketing if they could be ensured a certain return on their investment. Brand advertisers have more to gain by focusing their energy on ROI analysis than only spend analysis.

Next time you are conducting some type of spend analysis or are looking to drive greater efficiencies, consider agency fees and production activities as underleveraged sources of value creation and performance. Get your agency involved in that dialog around spend efficiency. Set joint objectives, and identify and actively address the many areas of waste and inefficiencies in your existing engagements. This includes identifying improvement opportunities in the relationship with your agencies and improving briefing and client work approvals that are often considered top inefficiency contributors. If you do, you are more likely to significantly improve the efficiency of your marketing budget.



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Bruno Gralpois is the co-founder of Agency Mania Solutions, a premier service and technology firm specialized in helping companies realize the transformational value of managed partnerships. Bruno is the author of best-seller "Agency Mania" and the former chair of the Association of National Advertisers (ANA) Client/Agency Committee and a faculty member of the ANA School of Marketing.

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