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Beyond belt-tightening: How marketing can drive resiliency during uncertain times

During tough times, marketing is often the first to be trimmed, but that's a shortsighted approach. Instead, companies can invest in marketing as a key to long-term growth.

by Julien Boudet, Marc Brodherson, Kelsey Robinson, and Eli Stein

With the economy still sending mixed signals, it's no great surprise that companies are feeling skittish and cutting costs. Unfortunately, the marketing budget is often the first to go. In December 2022, we surveyed nearly three dozen chief marketing officers (CMOs) of major North American consumer companies. On average, they told us that their company boards demanded an 8 percent reduction in marketing expenditures over the previous 12 months. In some cases, marketing budgets were cut by as much as 10 to 20 percent. One large public company even slashed its marketing budget by more than 20 percent.

We believe these marketing cutbacks are shortsighted. During times of economic uncertainty, marketing is more important than ever. Instead of trimming, companies can empower their CMOs to adopt an investor mindset.[1] By eliminating inefficient spend and reinvesting it in high-growth areas, resilient marketers will weather pending storms while also creating opportunities to rebound stronger.

In this article, we explain why it can be a mistake to target marketing for cost cuts, how resilient leaders can take an investor approach to marketing, and the most effective way for marketers to get started.

[1] "Marketing's moment is now: The C-suite partnership to deliver on growth," McKinsey, June 20, 2019.

Marketing should be at the table, but not be the meal

Rapidly changing consumer sentiment and escalating costs have made the past three years challenging for marketers. Shoppers are continuing to trade down, seeking greater value during uncertain economic times.[2] Eighty percent of consumers we surveyed in March 2023 said that they're changing their shopping behavior by changing the quantity or pack size of what they buy or switching brands or retailers to find lower costs.

In the meantime, marketing costs have been climbing. Respondents to our December CMO survey said that the average cost per click was 20 percentage points higher in 2022 than in 2021. And with economic headwinds and disruptive market dynamics, margins may also be declining. As a result, many companies have been quick to target marketing costs. We often see companies following an unwritten rule: if they're strapped for cash, they'll stop investing in areas—such as marketing—that don't generate an obvious direct return on investment.

However, a cost-cutting mindset for short-term gains may backfire and have serious long-term consequences. Instead, a better and smarter approach is to develop a growth mindset. History shows that a long view can pay off. In a 2019 *McKinsey Quarterly* article, "Bubbles pop, downturns stop,"[3] our colleagues found that during the Great Recession of 2008, companies that drove growth during tough economic times achieved above-market total shareholder returns (TSR) for the following ten years (Exhibit 1). On average, the cumulative TSR of these companies grew 150 percentage points more than that of

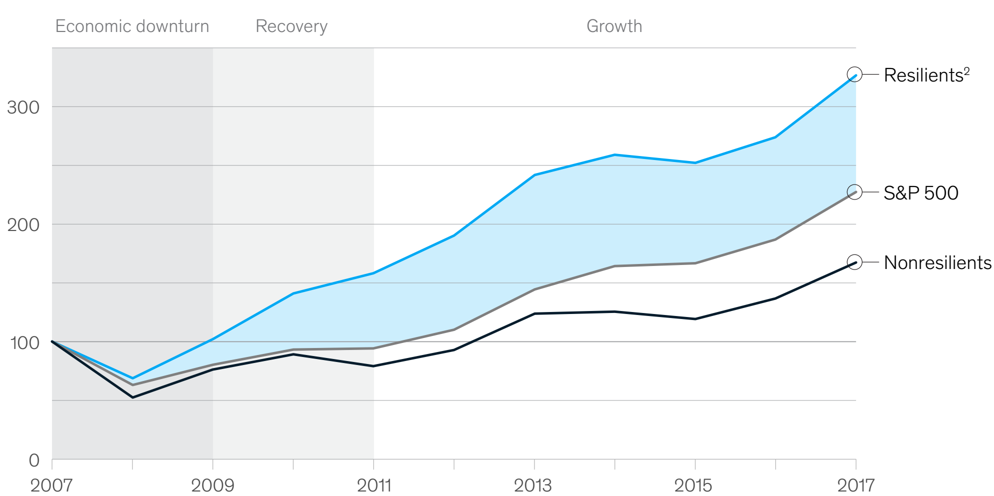
[2] Tamara Charm, Nancy Lu, and Kelsey Robinson, "US consumers send mixed signals in an uncertain economy," McKinsey, April 28, 2023.

[3] "Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 21, 2019.

Exhibit 1

Resilient companies performed better in the decade following the 2008 downturn.

Cumulative TSR performance,[1] index (2007 = 100)



[1]Calculated as average of subsectors' median performance within resilient and nonresilient categories; n = 1,140 companies; excludes financial companies and real-estate investment trusts.
[2]Resilient companies defined as top quintile in TSR performance by sector.
Source: S&P Global; McKinsey analysis

their relative sector peers. Additionally, about 70 percent of these companies became and remained top-quintile performers in their sector. In other words, in moments of uncertainty, growth is the key to establishing strategic distance from competitors.

United Airlines offers one recent example of this kind of growth-oriented thinking. During the early part of the COVID-19 pandemic, United doubled down on branding. Instead of playing it safe and reducing investments as people slowed down on air travel, United Airlines launched its biggest ad campaign in a decade. According to Maggie Schmerin, United's head of global advertising, this helped the company forge ahead. Our analysis shows that over the past two years, United has experienced growth in the number of passengers and the number of passenger miles flown.

Companies might do well to borrow a page from this book. Trimming marketing may be tempting because there's an assumption that consumers don't want to spend in tough or uncertain times, but, in fact, our research shows that despite the current macroeconomic uncertainty, consumer resiliency is still strong. Consumer savings have increased by more than $4 trillion since late 2019, and continue to grow, especially among high-income earners.[4] Consumer spending has also bounced back since the early part of the pandemic and, in some categories, has even rebounded beyond prepandemic levels (Exhibit 2).

The historic long-term success of companies investing during downturns, plus consumers' intent to spend, presents a golden opportunity for bold companies to focus on growth. Marketing can be a key driver for success.

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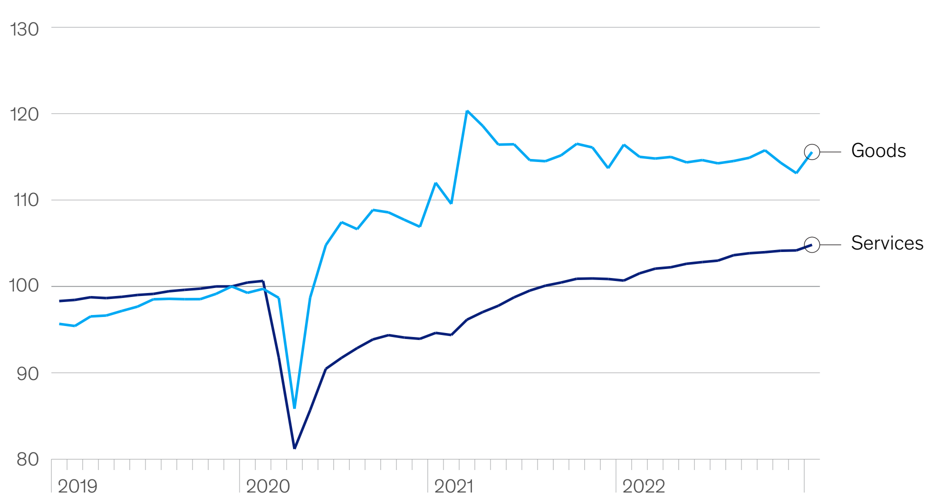
[4] "US holiday shopping 2022: 'Tis the season to be (cautiously) optimistic," McKinsey, October 21, 2022.

Exhibit 2

Consumer spending is higher than it was before the COVID-19 pandemic.

US consumer spending on goods and services, inflation adjusted, index (Dec 2019 = 100)



Source: US Bureau of Economic Analysis; McKinsey analysis

The investor approach to marketing

When marketing leaders are asked to cut costs during challenging economic times, they often tighten their belts by evenly trimming across the board—say, for example, by cutting 10 percent from each marketing channel. Most believe they can manage any such cost-cutting directives. The vast majority of CMOs who responded to our December survey said that they are confident about their ability to deliver savings, perhaps by simply spending less.

What they're less confident about, however, is delivering growth. Two out of three respondents to our survey said that they're feeling nervous about being able to slow spending *and* outgrow competitors at the same time.

There is a way forward, however. Instead of focusing too much on deep and blunt budget cuts, companies can take an investor mindset view, with a more granular approach to marketing dollars: cutting back where they're currently overspending but also investing more where there's greater potential for longer-term ROI. We think successful companies could find savings of 10 to 20 percent by eliminating inefficient spend. If they then reinvest those savings in more efficient efforts and targeted campaigns to drive 5 to 10 percent growth, they can create distance from their competitors.

Here are three ways to take an investor mindset toward marketing in the current economic climate.

1. Fuel growth by applying CFO rigor to marketing spend
Since marketing dollars can often be slashed more quickly than other cost drivers, it's no wonder that CMOs feel great pressure during downturns to be effective and efficient. To achieve this, they should aim to deeply understand how their marketing dollars are spent and the commercial impact of these expenditures. Then they'll need to figure out where to trim fat and reinvest that capital into targeted pockets of growth. Doing so will enable marketers and CFOs to partner on quantifying marketing spend, demonstrate ROI, and link value to the business.

Get granular to find the 'bad revenue' to cut. Rather than simply making cuts across the board, marketing leaders should delve into budget details and performance for both product marketing and consumer marketing to figure out what's being spent on different kinds of channels, types of media, market segments, and geographic areas. This can help leaders identify significant pockets of inefficient spend that propel "bad revenue" with insufficient margin to merit the investment. This spend can then be reallocated to more efficient marketing channels or dropped to the bottom line as savings. For even more competitive rigor, companies may also want to consider reformatting their marketing data so that it can be consistently compared with other companies' spending profiles. When looking at consumer-level margin impact from marketing, ask what portions of your investments are not attracting profitable customers.

Analyze both working and nonworking spend. Working spend is what's allocated toward the distribution and frequency of advertising to reach consumers, while nonworking spend is the amount allocated toward the creation and production of that marketing content. CMOs need to rigorously look at both: they might find there are some obvious places to trim. For example, many companies have found significant gains by revisiting their marketing supply chain and agency model. They have moved low value-add activities—such as translation or image manipulation—to lower-cost providers that are sometimes offshore. They've consolidated overlapping agency relationships and selectively insourced where they already have in-house expertise.

For example, a global telecom that overhauled its agency model reallocated its spending to great effect. It had previously spent billions of dollars on advertisements each year—keeping a roster of expensive agencies on retainer to come up with big, bold ideas, turn those ideas into advertising campaigns, and execute on scaling those campaigns across different markets. Once the telecom understood what it was spending and where, it revamped how this work got done. It retained the larger agencies for inspiration and ideas, saved budget by developing an in-house agency to craft campaigns, and established a new set of partnerships with agencies that could execute low-cost advertising production tasks such as resizing images or translating ads into multiple languages. The revamping of its agency model took a couple of years for the company to complete, but it led to $65 million in annual savings.

2. Make more of what you've got

These uncertain times can provide CMOs with ample opportunities to rethink ways to protect and stretch their marketing dollars. This comes down to obsessing over ROI and value creation, ultimately reshaping where and how investments in marketing are being made. From what we've observed, best-in-class companies are unlocking 2 to 5 percent of growth by rethinking these key areas.

Embrace speed. During challenging times, companies often favor moving slowly and steadily, minimizing risk, rather than making changes and learning from mistakes quickly. But with consumers changing shopping behavior in a shifting economic climate, speed and responsiveness are essential, and marketing ought to keep pace with rapid test-and-learn cycles. In this fast and furious world, companies can set up and empower a marketing "win room"—a small, cross-functional team that meets regularly—to learn about customers changing behavior in real time, make decisions quickly, and adjust rapidly if needed. Today's marketing win room should have a scrum master to keep things moving; draw from leadership in analytics and channel operations; include designers and writers from creative functions; and incorporate legal, compliance, and finance. The win room can also employ agile principles by holding a daily stand-up meeting and operating in biweekly sprints to quickly identify blockers, encourage rapid testing, and create shared accountability.

Get smarter about tech investments. These days, technology is an integral part of modern marketing; over the past few years, according to market research company eMarketer, spending in marketing technology has risen by 12 to 21 percent annually. At many companies, investing in marketing technology has become an objective in and of itself, with such investments outpacing the development of use cases to deploy it. That means that the tech, unfortunately, sits there, underutilized.

For example, a couple of years ago, one large consumer company spent tens of millions of dollars to purchase a suite of marketing cloud services that included data storage, content storage, and measurement and decision tools. But the company's marketers weren't aligned with IT about what they needed the tech to do at that moment. The company purchased the tech for a hypothetical, potential future scenario—but that future never arrived, and the tech now sits there, unused.

Other companies have been in this situation. Marketing technology such as dynamic content analytics (which looks at the performance of an ad) and decisioning engines (which look at attributes of a consumer and decide what ads to show them) have been incorporated in many companies' tech portfolios. But we often see significant investments in these technologies underutilized due to lack of expertise or integration challenges. Marketers should be asking themselves whether they're leveraging the automated creative capabilities they're paying for. Best-in-class marketing organizations take an end-to-end view of their investment, focusing not just on the marketing or ad tech implementation but also on the adoption, usage, and impact from it. The best value will be unlocked through leveraging technology across multiple use cases, and adapting these use cases on a test-and-learn approach—not just making these technologies available and then hoping that the value will follow.

3. Invest in next-generation growth drivers
Meticulously evaluating budget and better utilizing current resources are ways to improve what marketing departments already do. CMOs can also fundamentally shift how they think about their marketing and value creation strategy. That can mean a dramatic reallocation of where to invest, as well as thinking creatively about new approaches altogether.

Go all in and recalibrate full-funnel marketing. Historically, marketing has been split in two. On one side is traditional brand building for awareness among large audiences, driven by broad-reach advertising, such as a televised Super Bowl commercial for a car. The other side is data-driven performance marketing to measure digital activity, such as that online ad for shoes that keeps following you around the internet. For many companies, this split is inhibiting growth aspirations, with many companies focusing too much on one side at the expense of the other. At best, marketing efforts are uncoordinated, reducing ROI. At worst, budget and impact decisions become contentious instead of fact based, as the two camps can sometimes engage in turf wars. This makes it challenging to allocate investments strategically.

Too often, companies focus on the bottom of the funnel—customer acquisition and loyalty—when they would be better off focusing on raising customer awareness at the top of the funnel for longer-term growth. A better approach is to embrace "full-funnel marketing,"[5] looking at marketing performance across the entirety of the funnel to capture existing demand and create new demand tied to both brand outcomes and commercial outcomes (Exhibit 3). If you're broadcasting a Super Bowl commercial for a new car, not only do you want to measure how it affects awareness of your brand, but you also want to know how it can lead to vehicle sales. Similarly, if you deploy a retargeted

[5] Jacob Ader, Julien Boudet, Marc Brodherson, and Kelsey Robinson, "Why every business needs a full-funnel marketing strategy," McKinsey, February 12, 2021.

Exhibit 3

Full-funnel marketing is more important than ever during uncertain times.

	Funnel stage	Focus areas	Typical advertising channels
Longer term (weeks, months, years) and harder to measure in closed loop	**Upper funnel** *(also called brand marketing or demand-generation marketing)* • Objective: awareness or brand affinity	• Brand awareness • Favorability • Intent	• Television • YouTube • Out-of-home advertising • Audio
Business impact	**Mid funnel** • Objective: consideration	• Traffic • Search volume secondary	• Digital video • Influencers • Display and social
Shorter term (days, weeks) and with easier, closed-loop measurement	**Lower funnel** *(also called performance marketing or demand-capture marketing)* • Objective: conversion and loyalty	• Incremental revenue • Retention rate	• Display and social • Paid search • Affiliates • Email and push

online ad for sneakers, you want to know not just how many people have clicked and bought those shoes but also whether more people have become aware of your brand. Full-funnel marketing is an approach that combines the power of both brand building and performance marketing through linked teams, measurement systems, and KPIs to deliver higher returns than approaches that target performance channels alone.

When thinking about reallocating investments for full-funnel marketing, many marketers will have the urge to make budget adjustments evenly across channels. But they should be more detailed and precise in how they measure incremental performance and outcomes. Those with a growth mindset will understand the long-term value of how marketing can encourage incremental behaviors and will invest to optimize marginal ROI. Knowing what informs and inspires their audience will allow marketers to make more effective decisions about which channels are performing and how to allocate budget accordingly.

One recent example of a successful full-funnel incremental approach is a luxury department store that aimed to measure the impact of its marketing in a more consistent way across its marketing funnel. Marketing execs knew that their banner ads led to purchases, but their margins were not what they wanted. They deployed sophisticated incrementality testing that would give them a sense of what might erode margins after sales and learned that a good number of people were returning their purchases. The executives were able to identify $50 million of potential incremental margin improvement by amplifying “mid-funnel” banner ads that drove both consideration and conversion, and by removing banner ads that drove excess returns.

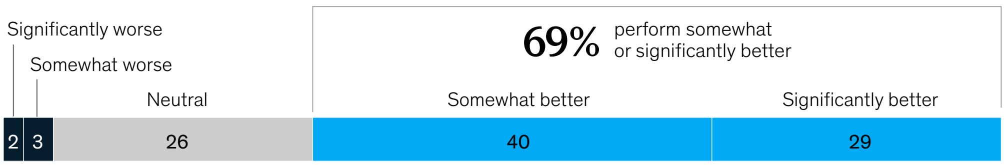
Lead with commerce media. With the potential to generate $1.3 trillion in enterprise value, commerce media—a new form of advertising that closes the loop between media impressions and commerce transactions and allows retailers and brand partners to reach people across the internet—is creating a paradigm shift in digital advertising.[6] With commerce media, marketers can connect ad spend directly to customer

[6] Marc Brodherson, Tiffany Chen, Jon Flugstad, and Quentin George, “Commercial media: The new force transforming advertising,” McKinsey, July 5, 2022.

Exhibit 4

Nearly 70 percent of advertisers see better performance with retail media networks than with other channels.

How retail-media-network (RMN) performance compares with that of other marketing channels,[1] %



[1]Question: How would you evaluate the performance of specific RMN placements/products vs other marketing channels?
Source: McKinsey Retail Media Network Survey (2022, n = 188)

purchases, improve ad targeting, and deliver better audience insights to brands. With this opportunity to go beyond business-as-usual marketing, companies can generate revenue directly from data monetization and marketing as a service.

Commerce media is expected to deliver more than $100 billion in revenue to US companies by the end of 2026. In the United States alone, more than 15 retail media networks (RMNs, or networks offered by retailers to third-party brands that allow them to show ads across that retailer's websites and apps) have been launched in the past two years.[7] So far, it's proven to be a successful way to market. In an RMN survey we conducted in 2022, nearly 70 percent of advertisers saw better results with RMNs than with other channels (Exhibit 4). Those results mean that even marketers that are faced with budget cuts still want to invest in RMNs. We polled RMN advertisers again in March 2023 and found that 25 percent of those who anticipated overall budget cuts still planned to increase spending in RMNs.

An example of successful investment in commerce media is a general-merchandise retailer that four years ago launched an RMN to connect brands with customers across multiple media channels. Since then, it reported reaching $500 million in net new revenue, supported by construction of a new data strategy and tech-enablement platform. This kind of value was driven by investing in a first-party data strategy (such as through loyalty programs), the kindling that fuels commerce media growth and that is becoming more complex in a privacy-first world.[8]

How to get started: A call to action for CMOs

Despite the unsteady macroeconomic picture, this should be a seminal year for marketers to unlock significant value for their companies, reinvest efficiency dividends

[7] Marc Brodherson, Jon Flugstad, Quentin George, and Jack Trotter, "Busted! Five myths about retail media," McKinsey, June 7, 2022.

[8] Marc Brodherson, Adam Broitman, Jason Cherok, and Kelsey Robinson, "A customer-centric approach to marketing in a privacy-first world," McKinsey, May 20, 2021.

for growth, and set the agenda for years to come. Marketing leaders can get there by taking the following four steps:

1. *Diagnose.* Quickly assess where your company and teams stand across the three investor mindset mandates: fueling growth, doing more with what you have, and investing in next-generation profit drivers. Where do you see the greatest opportunities for growth? Determine which areas are aligned with your current capabilities and company strategy, and define your priority areas to either get to par with peers or become a leader.

2. *Set a goal.* Plant a flag on marketing's contribution to the business in terminology that the CFO will understand. Align on a common definition of marketing-driven revenue and the methodology for measuring it and commit to it together. Approach the marketing investment decision not as a cost of doing business but as a business case that must be justified.

3. *Craft a plan.* Concretely define your top priorities, as well as the strategies and tactics you'll use to achieve them. What will it require to reach your goals, given your context? For many marketers, this will require rethinking not just the initiatives but also the people and capabilities required to succeed. More than one-quarter of the CMOs responding to our December survey identified marketing data and analytics as a top capability gap in achieving their goals. A lack of modern marketing capabilities—such as marketing technology fluency, measurement ability, digital-channel excellence, and full-funnel know-how—can hold many companies back.

4. *Act decisively.* Get the executive team on board and activate your team. Most critically this year, get CEO and CFO alignment on priority areas to go after, as well as the support and partnerships required achieve them. More now than ever, the CMO will need to unify the C-suite by bringing peers along the journey and implementing quantitative rigor, as well as bringing profit-and-loss accountability to growth decisions that were previously opaque.

While it's tempting to pull back, we believe that companies that double down on growth will not only rebound faster but will also emerge stronger as a result. These turbulent times are a defining moment for CMOs and marketing leaders to focus acutely on the right growth moves to capture bottom-line savings and reinvest in other high-growth areas. But it all starts with strategic choices and decisive action to drive the highest incremental growth. Q

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