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Introducing The Strategic Budget Allocation Process

Realigning marketing spend as strategic goals evolve is critical to sustained business success, but can be challenging to implement due to inertia from previous decisions

Although strategic budget allocation can be viewed as a standalone process, it is most effective when deployed in conjunction with marketing and campaign planning

The Strategic Budget Allocation Process supports an annual realignment of investment against strategic objectives

When a spacecraft visits with the International Space Station, careful strategic planning is required to apply a limited amount of fuel to reach the destination. Early in the trip, large investments of fuel are burned to make major changes in acceleration and direction. Once the ship has reached orbit, inertia causes it to continue on its current path indefinitely, until a decision is made to actively change course. As the vehicle closes in on its goal, specific directional decisions are required until a trip that covered thousands of miles concludes with tiny adjustments in the final inches.

As marketing plans are finalized, marketing organizations must strategically focus their resources. This starts with large budget allocations to address key objectives, followed by precise spending choices. In this report, we introduce the Forrester Strategic Budget Allocation Process, a six-phase process that marketers can use to improve the strategic focus of marketing spend through a series of cascading budget allocations that target specific marketing goals.

A Process For Implementing Strategic Budget Allocation

Strategic budget allocation focuses marketing investments on the basis of organizational objectives (see "Marketing Budgets: The Strategic Allocation Model"). It breaks away from traditional budgeting processes, which focus on fixed annual budgets by departments or functions, to enable meaningful changes in spending from period to period in response to shifts in audiences and buyer needs and the corresponding campaign strategy. It breaks the inertia of previous spending patterns and reduces unfocused spending and unnecessary delays in budget planning.

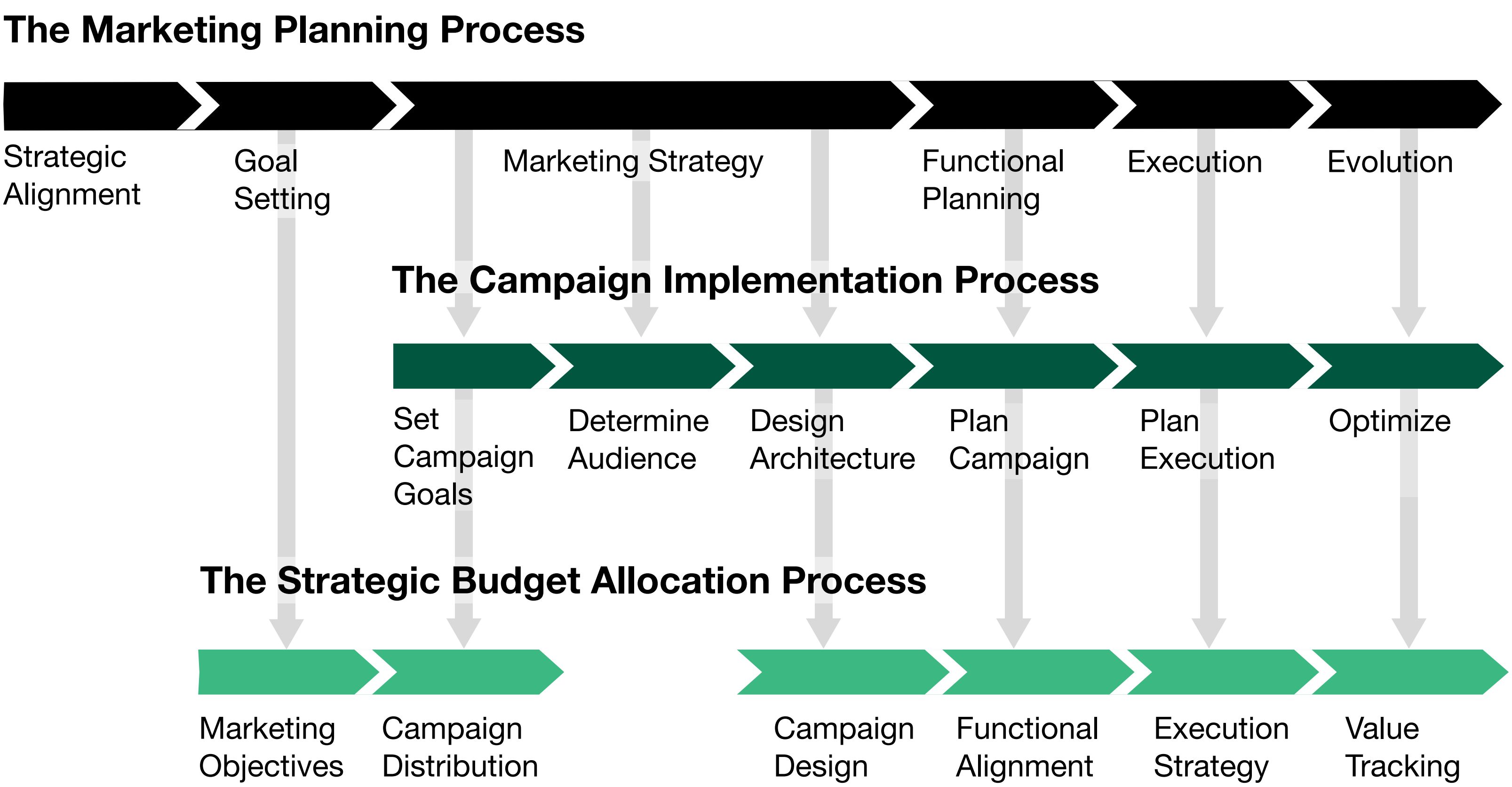
The Forrester Strategic Budget Allocation Process defines six phases that marketing and marketing operations leaders can use to implement strategic budget allocation. The process begins with a top-down approach to budget planning, using business objectives to allocate high-level spend against goals. Allocations progress through a series of investment decisions until the execution stage, in which the focus shifts to bottom-up execution planning inside each spending pool.

Each phase includes a validation step for comparing decisions against business objectives and available benchmarks. Issues identified in validation may result in revisions to previous allocations, allowing for an iterative process within an efficient, managed structure. The final phase extends throughout the year with ongoing tracking and reallocation of spend if necessary.

There are three prerequisites for the Strategic Budget Allocation Process:

- **An established hierarchy for marketing planning and measurement.** To properly align budgets to business strategy, an organization must be able to distribute spend within a structured marketing planning hierarchy. This hierarchy must reflect both marketing

Forrester's Three Nested Planning Processes



strategy and regional or business unit structures, as well as track results at each of those levels in the final phase of the process (see "Introducing The Campaign Measurement Framework" and "Gaining Clarity: The Program Taxonomy").

- **Marketing KPIs aligned to the planning and measurement hierarchy.** Allocating budget strategically requires a set of aligned marketing objectives that ladder up to the planning and measurement hierarchy. Key objectives for each area (e.g., revenue generation) should combine to achieve the high-level goals for the marketing function. Although each area is expected to have goals that do not ladder up to the organization at large, marketers must understand the relative priority of achieving those goals with limited resources.

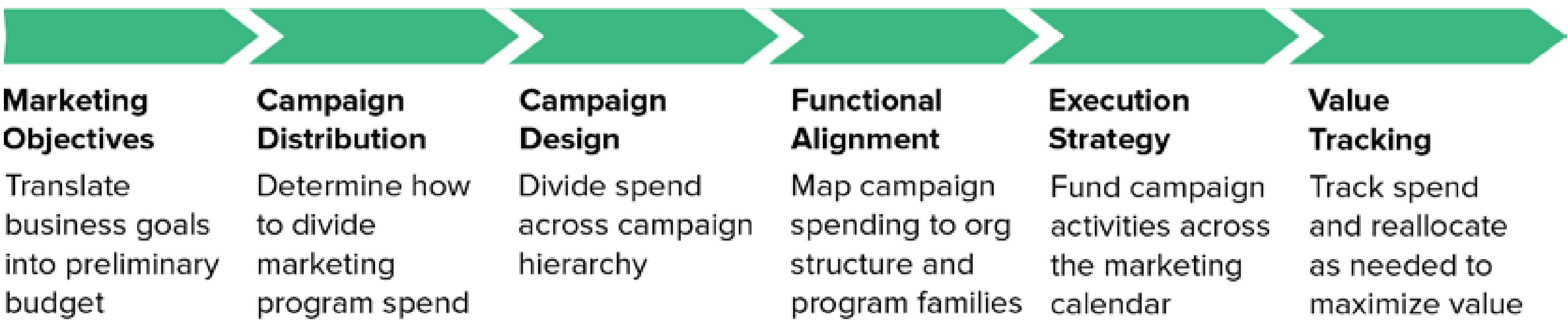
- **Alignment between marketing and finance.** To successfully implement this process, marketing and finance must closely track budget and spend. Key data points to track may include targeted segments, program family classifications, functional teams, tactic metadata, the position of each activity in the planning and measurement hierarchy, or common regional and business unit breakdowns. Marketers must work with the finance team to ensure that a process is in place to flag budgets and matching spend.

Although strategic budget allocation can be conducted as a standalone process, it works best when it is implemented as the third step in a series of interconnected and nested planning efforts that starts with the Marketing Planning Process and continues with the Campaign Implementation Process (see "Introducing The SiriusDecisions Marketing Planning Process" and "Introducing The SiriusDecisions Campaign Implementation Process"). Each of these related processes contains budgeting steps that make up the six phases of the Strategic Budget Allocation Process.

Phase One: Marketing Objectives

The first phase focuses on arriving at a top-level fiscal-year allocation for the marketing function that is

The Strategic Budget Allocation Process



broken into personnel and program pools. It aligns to phase two of the Marketing Planning Process: goal setting. Typically, the CMO and leaders from product management, solution marketing, and customer marketing are the key contributors in this initial phase. The marketing operations team provides support throughout all phases of the process.

The leadership team uses an estimate of the organization's total budget for the next year (most likely based on an increase or decrease from the previous year's total). Next, the team splits that allocation into the following pools:

- **Personnel.** This amount represents the full cost of personnel and most fixed marketing costs, which includes all people-related costs (e.g., compensation, benefits, training, travel — unless the travel is related to a specific marketing program). The accounting functions in most organizations manage capital depreciation and amortization outside the marketing allocation, so those budgets may be omitted.

- **Program.** This amount represents the remaining discretionary marketing budget, which will be subdivided in later phases. This constitutes the development and execution fund for all campaigns, as well as anything considered an expense item (including outside services).

To determine the proportion of budget allocated to each of these pools, marketers must balance the strategic importance of each objective with a realistic estimate of the personnel and program costs of achieving that objective on the basis of past marketing performance (also see "Tracking The True Costs of B2B Marketing 2020" for budget benchmark data that can be used to validate allocations for most of the phases in this process).

Phase Two: Campaign Distribution

The second phase determines how marketing leaders can further allocate marketing program spend into campaign and out-of-campaign budgets. This phase aligns with phase two in the Campaign Implementation Process: setting campaign goals. In this phase, the CMO is still a key participant, in addition to the marketing leadership and campaign teams.

- **Campaign spend.** This budget pertains to all expenses associated with campaign asset development, global execution, and field execution.

- **Out-of-campaign spend.** This budget includes all remaining costs, which are associated with activities that are not tied to specific campaigns (e.g., shared services, user conferences, special projects, corporate marketing, marketing operations). This includes marketing spend that cannot be specifically tied to any one campaign objective (e.g., agency retainers, website costs). The key distinction for out-of-campaign spend is that a hierarchy of campaign objectives cannot be used to allocate budget.

When making this allocation, marketers must decide how much funding can be assigned to out-of-campaign spend while still achieving campaign goals, using past performance as a guide. An organization focused on driving revenue through a highly developed campaign strategy may seek to minimize out-of-campaign spend, while another that depends on key out-of-campaign activities (e.g., an annual user conference) to drive business may need to carve out key out-of-campaign costs first. Once an organization has established a strong integrated campaign process, a typical allocation would be about 70% of the marketing program budget dedicated to campaigns.

Phase Three: Campaign Design

The third phase takes a deep dive into campaign strategy to allocate budget across campaigns, as well as within the campaign hierarchy on the basis of segments, geographies, or offerings. This phase aligns with the third phase of the Campaign Implementation Process (design architecture) and follows the definition of the campaign planning hierarchy and associated goals. Portfolio, demand, and customer marketing leaders and the communications team are key participants in this phase.

To estimate the budget allocation to achieve targets, compare the goals for each campaign or subsegment to past performance and strategic priority. When confronted with budget limitations that prevent fully funding all marketing objectives, an organization may need to iterate on allocation decisions at each phase of the process (see the “Revenue Engine Planner” and “The SiriusDecisions Marketing Contribution Framework Tool”).

Phase Four: Functional Alignment

During the fourth phase, the marketing leadership team, along with geography, business unit, and field team leaders, reviews choices made in previous phases to ensure alignment among global and regional needs, business unit requirements, and functional cost centers. If leaders uncover challenges with the allocation to date, this is a point of iteration and the team should revisit earlier assumptions to see if adjustments are required. This phase also takes a deeper look at campaign and out-of-campaign spend to allocate program budget across the four program families of reputation, demand, engagement, and enablement as well as operations.

Phase Five: Execution Strategy

The fifth phase shifts away from top-down strategic budgeting process to empower marketing execution teams to begin bottom-up planning. These teams use their assigned campaign and program-family–level budget allocations to build execution plans that achieve campaign targets. This phase of the Strategic Budget Allocation Process also aligns with the execution phases in the Marketing Planning and Campaign Implementation processes. The output of this phase should be a marketing calendar that breaks out specific programs and tactics, particularly for the early half of the year, along with the associated spend for each. Similarly, out-of-campaign activities should also receive more detailed spending plans.

Phase Six: Value Tracking

The final phase of the Strategic Budget Allocation Process is devoted to the ongoing activity of monitoring marketing performance and making adjustments to maximize value from spend. This phase aligns with the Marketing Planning and Campaign Implementation processes, and participants may include anyone involved in the previous phases.

The value-tracking phase begins with an evaluation of final budget allocations against the existing alignment of personnel. As business objectives drive changes in budgeting focus, marketing leaders may need to reallocate personnel to support this new direction. Because marketing execution takes place throughout the year, this phase includes an iterative process of evaluating results and releasing unused or underperforming funds to either shore up areas that are falling short of goals or maximize spend in the most efficient areas.

Key Takeaways

The marketing budget represents a major share of what drives the organization’s revenue engine, and changing the direction of budget planning can be challenging to implement across an organization. Leaders must set the expectation that past budget decisions may not align with tomorrow’s needs. Marketing leaders from all functions must be included in planning sessions where appropriate, and leadership must be transparent about the strategy behind decisions. Strategic choices that are made by marketing leaders after reviewing the best available data may still need to be adjusted as results are tracked. Therefore, ongoing measurement against objectives is critical throughout the fiscal year. Marketing leaders should be prepared to validate their budget choices at least quarterly to allow time for critical adjustments while the organization’s targets can still be met.