

Making Plans Count

At this point in the year, many large and otherwise sophisticated companies are doing “re-plans” of their annual plans. Of course, most companies are “re-planning” the plan that was just deployed six months or so ago, and not finalized until nine months ago. So within a year, companies are thinking and then *re*-thinking brand and portfolio objectives and strategies.

Sure, occasionally tremendous fluctuations of outside factors—factors that could not have been easily anticipated—can be the cause of the re-plan. But these are extraordinary events. For example, due to the Icelandic volcano eruption and cabin crew strike, British Airways has good reasons to re-plan. But for most companies, changes of such magnitude are rare, and the need for a re-plan should be just as infrequent.

The only logical conclusion is that the need for major re-plans demonstrates that there is something very, very wrong with the way we plan to begin with.

I don’t need to detail here the huge costs to companies stemming from bad planning: the many marketing dollars wasted amid the inevitable financial chaos as companies rebalance portfolios or the time that could have been spent developing innovations and executing with excellence spent instead calculating causals and justifying poor results. The point is to do something about it.

We are proposing three principles that not only improve planning, but also lead directly to more informed investment decisions across brands and portfolios.

1. Understand how much of your volume and revenue results are driven by controllable versus uncontrollable factors. By controllables, we mean factors such as marketing spending, product quality and benefit delivery, advertising effectiveness, pricing, in-store presence (including assortment, shelving and trade promotion), and the like.

Uncontrollables are factors such as competitive activity and general economic conditions as well as circumstances specific to particular businesses, such as the rate of housing starts, incidence of certain diseases or conditions, or the weather. Defining these factors—what they are and exactly how much they count—should be quantitative and precise. Today, we have the tools to decompose the impact of each variable, enabling both a granular view of what contributed to past volume and the basis for simulating future volume.

It is absolutely critical to make the distinction between factors that are truly uncontrollable and those that are simply out of control. For example, we can analytically determine the amount of volume we lose to competition or gain from advertising.

Three principles of smart planning can protect brand identity.

Those simple numbers are, however, often only a reflection of the relative power of what we, the marketers have, or haven’t done. Have we spent to optimal levels in advertising? Is the advertising strategy right and the execution persuasive? Are we losing to other brands because we are not offering the consumer a compelling value; that is, an appropriate benefit/price relationship?

The temptation that must be avoided during the planning (and, for that matter, the re-planning) periods is to rely on incomplete information and the justification of a number rather than an objective determination of why the number is what it is, and therefore what can be done to change it.

2. Demand that marketing plans maintain or improve the relationship between controllables and uncontrollables. The central question in a marketing plan should always be: *How can we maximize the impact of the controllables and minimize the uncontrollables?* Answering that question requires us to first examine each factor both individually and then also in combination with all the other factors. This latter point is important. Few factors operate entirely independently, yet we frequently use independent data points to evaluate them and therefore effectively act as though they are independent.

Further, each component of the marketing plan is seldom evaluated in terms of its impact on the overall brand strategy. For example, a leading over-the-counter pain relief brand recently revamped its entire brand proposition after several years of stagnant growth. The brand marketing team took a very broad view of the pain management market, and redefined a precise position in the market that the brand could own.

The new strategic position for the brand led to multiple changes in marketing strategy. These included increased advertising, the identification of new innovation opportunities, new pricing and promotion strategies, a more productive assortment of brand items and more relevant retail shelf-sets for the category. In total, this tilted the brand much more to controllable versus uncontrollable factors and therefore better and more predictable results. Without question, these results would never have been achieved if the marketers had just continued to make marginal adjustments to the prior year's plan.

This is where the rubber meets the road if we truly want to affect the predictability and reliability of our strategic and operating plans. Unfortunately, this is where there is frequently a breakdown in the planning process between what we *want* to happen and what is *likely to happen*. This is where plans become top-down plans jiggered to meet pre-determined financial goals instead of plans built up from a reliable, analytic assessment of consumer response.

And it's unnecessary. We have the analytic tools to simulate the likely results of a plan's ability to change consumer behavior and identify the volumetric and revenue impact for each factor and for the plan in total. We can then ascertain the controllable versus uncontrollable proportions.

If followed, this process can additionally isolate the *sensitivity* of each factor to the changes we are planning

(that is, *how* we intend to improve the relationship between the controllables and the uncontrollables). Thus, we should also be able to produce a risk assessment for each brand and each portfolio.

3. Be hard-nosed in assessing the investment in brands or portfolios that are tipped to uncontrollables and appear unable to alter that dynamic. Too often, marketing investment plans are built on what was spent before or what was done before. Individual parts of a brand or a portfolio are reviewed in isolation, separate from the rest of the portfolio.

In fact, however, if we have simulated plans with a real and comprehensive analysis of the underlying consumer dynamics, then we can make fact-based choices across all the brand and portfolio investment opportunities using the same criteria. Further, the risk assessments that are part of this process enable us to balance the portfolio plan not only in terms of forecasted returns, but also in terms of risk.

A brand that continuously has a disproportionate amount of its results dependent on uncontrollables is not a rational investment choice; these are brands that should be de-prioritized and ultimately eliminated.

Philips' decision to exit the television business in the U.S., while directing its investment resources towards profitable, growing, wellness-focused brands such as Avent and Sonicare, is an example of shifting a portfolio away from businesses driven by uncontrollables. This has allowed Philips to free itself from the dramatic, economy-driven swings of the television business to focus on its high-growth businesses with more predictability.

Continuing to invest in brands that are heavily dependent on uncontrollables is tantamount to playing the lottery with your financial returns. Management should insist on predictive, measurable plans, in which resources are focused against the parts of the portfolio where you control your fate. The benefits are both better plans and improved results. ■



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