

# Budget Cut:

## A case study for belt-tightening times

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*Note: This case study summarizes the kinds of budgetary actions that can be taken during tough times to preserve and protect the integrity of the public relations function.*

The VP of corporate communications had fought to keep his budget and department intact during the recession, but it was not to be. He had to find a 15 percent savings in his unit before the start of the coming year and reduce salaries and benefits by \$70,000. Firing staff was something he didn't want to do. He had hand-picked the practitioners reporting to him. His employees worked well together and were productive. There was an easy-going camaraderie that he hated to destroy. He wouldn't fire the best-paid of his subordinates because that person single-handedly ran a key function. He didn't want to fire the junior because she was one of the most promising communicators he had ever hired. One secretary was leaving, and he would not replace her, but that left him \$35,000 shy of the target for wages and benefits. He wondered if he should talk to his employees about his predicament because it would shatter morale, but then, morale would be hurt sooner or later when he laid off someone. A line-item budget document was lying on his desktop already covered with pencil marks. A budget analyst had apportioned time to activities as well as expenses. What should he do? He decided to involve the team in resetting priorities. Perhaps if they worked together, they might find answers.

### Details, details

The budget document was almost too detailed to be useful. (See budget example.) The left hand column is the line item number for accounting tracking. Numbers are expense lines. Alphanumerics are wage/benefit lines based on time spent on projects. These were estimates since managers did not fill out time sheets (a situation the VP of communications decided to change in coming months by running his department like an internal agency.) The Item column lists line items the budget is tracking. The VP knew he could collapse some of these categories and he would. For now, he wanted detail. The Budget column gives the dollar figure for the item for the coming year. This was the column to be cut. The YTD column gives the expenditure versus this line item as of the Year to Date. Since he was at the start of a new year, the column was blank. The Percent column gives the percentage of the budget spent Year to Date. This too was blank. The final column – Percent of Total Budget – is the column where he

and his team would work. They had to add up percent cuts until they reached or exceeded the target number of 15 percent. No one was eager to cut the budget, but the VP gave them a pep talk – one filled with hope and an implied warning of what he would be forced to do unless the team found ways to reduce it.

He asked his team to follow certain rules in making budget-cut suggestions:

- **Start with stakeholders.** What did they need to know from the company during the coming year. Plan backwards from the audience and not forward from the budget.
- **Focus on activity not history.** Make legacy programs fight for their life. The VP promised to resist departments that wanted useless programs to continue.
- **Consider all costs as variable.** The VP believed there were no costs that could not be changed in the budget, just costs that were harder to slash than others, such as salaries and imputed cost of rent.
- **Use the Pareto Principle:** Identify the 20 percent of items that take 80 percent of the budget expenditure. It was quickly apparent that four departments made up 63 percent of total costs – the VP's salary and planning expenses at 11.2 percent, marketing support that equaled 24.7 percent, corporate media relations at 14.4 percent and events at 13.2 percent. If he added in the staff writer's department, the total rose to 70 percent – close enough. These were the functions that needed the closest inspection. (He noted visible nervousness among the managers of the targeted departments.)
- **Once big expenditures are taken care of, look for smaller savings.**

## Strategy first

The VP asked his team to state succinctly which stakeholder group needed to hear what messages and what actions the corporation expected from stakeholders. His managers agreed with the annual plan's goals and objectives for customers, employees, media, corporate communications and crisis planning. The VP then asked how many communications platforms were needed for effective communications. This sparked discussion verging on vitriol as each manager sought to protect his department. The VP cut off argument by reminding his managers of goals and objectives and of the need to find 15 percent budget savings. He noted that employee wages and benefits made up 52 percent of the total expenditure in the department but he would prefer not to cut there if he could avoid it. His managers got the message and started brainstorming ways to cut back.

- His employee communications manager suggested dropping the printed employee publication and putting it online in pdf format. She suggested

that newsletter writing be split between herself and the staff writer, thereby dispensing with the need for a freelancer. She added that the newsletter could be designed using a Microsoft Publisher template, which would get rid of the need for a design studio.

- The web manager suggested enhancing the daily blog on the intranet instead of monthly employee pdf newsletters. He said it could become the wire service of the company. The employee communications manager protested that this would not be enough. Many employees still did not read the blog and relied on the publication. She produced the latest circulation study to back her point. After discussion, the employee communications manager agreed that the department would start migrating employees to the blog through promoting its immediacy in the newsletter. "Get daily updates from 'Company Corner at URL.'" Since she wrote the blog, she felt she could repurpose some of her postings to the employee publication and reduce writing time.
- The events manager suggested dropping two of five trade shows because they weren't productive. This was bound to be controversial with marketing but the events manager's statistics showed that three trade shows reached 80 percent of the company's customers. The other two combined reached only 10 percent more. Dropping the trade shows would allow them to cut back on agency fees and expenses and travel. In addition, time saved in dropping the trade shows could be used to supply marketing with an e-mail customer newsletter.
- The staff writer suggested cutting back on the number of feature articles for trade placement and using that time for the customer newsletter. The events manager and staff writer agreed that the newsletter would concentrate on how the company's customers were using its products. The staff writer also suggested using content in multiple ways. For example, a speech could be turned into an article, a media pitch and a blog posting. The department had done this informally for a long time but it would save time if it concentrated formally on multiple uses for content.
- The corporate communications manager and staff writer suggested simplifying the annual report and 10K by cutting pages devoted to the CEO's letter and division reports.
- The manager of marketing media relations support suggested narrowing marketing mailings to reporters and concentrating on fewer industry analysts. He further suggested killing the press kit and putting it online for download. (He had been wanting to get rid of it for years, but marketing wouldn't let him.)
- The corporate media relations manager suggested expanding business media contact to counteract the ongoing recession. He said he could use the marketing manager's unused time. He said he didn't feel that he could cut anything in his department because there was a strong need to communicate to shareholders to bolster the company's stock price.

- The web manager suggested updates be moved to weekly from daily except for important news. The manager would use the freed-up time to assist corporate communications build more investor-friendly pages on the web site.
- The VP suggested that the department book its own travel with the authorized travel service to make up for the loss of a secretary.
- The VP insisted that the department would start tracking time in order to bill back to internal clients when necessary and to get a better sense of productivity. His subordinates did not like the idea.

### Internal testing

The VP of communications tested his subordinate's proposals with company leadership.

- Management agreed with the idea of dropping the printed employee communication in favor of a pdf that would be e-mailed and posted on the company's intranet. Management was skeptical about enhancing the blog, but was willing to reconsider if the employee communications manager could show increased readership.
- The Marketing VP strongly disagreed with dropping two of five trade shows. The VP of corporate communications held firm that he could no longer afford to pay for them and if marketing wanted them, it would have to absorb the charges. The Marketing VP appealed to the COO. The COO ruled that the company would drop one of the two trade shows and marketing would absorb the staffing and coordination costs of the other. This allowed the VP to cut 8.1 percent immediately from the marketing support budget.
- The marketing VP was skeptical about the customer newsletter. It wasn't the same as meeting customers face to face, and she felt that an e-mailed newsletter would be regarded as spam. She challenged the PR department to come up with something that her customers would be willing to read. The VP of corporate communications took the challenge.
- The CEO declined to cut back on annual report pages. The CEO felt investors needed to hear about what was happening to the company during the recession.
- The VP of marketing protested loudly over killing printed press kits, but the VP of corporate communications prevailed with a promise to place materials on DVD disks should reporters request them. The VP of corporate communications knew that most reporters would go to the web site and DVD costs would be minor.

- The cost savings of weekly versus daily web postings was not significant but management approved the idea of building more sophisticated investor pages with the cooperation of the investor relations manager.

### **Finding 15 percent**

With feedback from management, he convened his team again and evaluated the revised budget. It was clear that trade show expenditures were still significant and took a large percentage of marketing media relations support, agency time and the travel/entertainment budget. However, with removal of two shows from his budget, he could immediately cut the agency fee to 10 percent from 18.1 percent of the budget. He asked the corporate media relations manager to add another three percent from his agency budget. The corporate communications manager agreed. He had now to find 3.9 percent and to work with his employees to rearrange their time so they could support each other with fewer need of outside help from the agency as well as occasional use of freelancers. He realized that this was difficult on the vendors but it had to be done. With movement of the employee publication from print to online, he cut 2.5 percent from freelancer, design, print and distribution costs. Killing press kits and putting them online, another suggestion that marketing protested but lost, gained a little less than half of a percent. He was now just short of 15 percent savings. He scanned the budget. With fewer trade shows, there would be less travel. He cut two percent from the travel budget. He would put the extra savings into his contingency budget. If further cuts were needed in the department, he would reduce his contingency budget first before going back to the team. As for salaries, he reduced the total salary line by 2.5 percent and spread the cut proportionally over the professional staff through a reduction in bonuses. His staff understood and the reduction wasn't large enough to impact any one of them severely

### **Epilogue**

The VP of corporate communications rebuffed attempts to have his department take on new assignments unless he could charge them back to the group that asked for them. This did not sit well with line managers who reminded him that he was there to serve them. The VP explained that if he took on new work, he would have to hire more people, and he was unable to do that. He suggested line managers take up the situation with the COO whom he knew wasn't approving expenditures beyond the budget. The VP understood he would have to mend relationships with line managers once the company started to grow again. That was months away. As for changes in communications platforms:

- Conversion of the employee newsletter to pdf format worked well with little trouble. It is not as flashy in design as it used to be, but content is solid.

- Readership of the blog is climbing. Management has yet to be convinced that it can substitute for the newsletter.
- There was no significant impact on company revenues with the loss of one trade show.
- The customer newsletter is an open question. Some customers like it: Most seem to be ignoring it. There is tension between marketing, which wants to be highly promotional in the newsletter and the VP of communications who wants to take a journalistic approach. The two departments are trying to find a proper balance.
- There was no negative reaction from reporters over the loss of printed press kits. The feedback seemed to be that it was past time for the company to move the material online.
- Expanded investor pages are still being built on the company's web page.
- The web manager is still doing daily postings to the web site.

The loss of a secretary affected departmental efficiency for a time, particularly in the processing of travel and expense reports, but after a few delayed reimbursement checks, the staff caught on. Getting practitioners to track their time has been a struggle. Most forget to do it regularly and the VP listens to continual griping about it, but a software program has made the job easier.

Using careful management and intelligent budgeting, the VP kept the public relations and corporate communications function intact and functioning at nearly the same level as before. Unfortunately, many organizations avoid sound planning and budgeting and are unable to make budget cuts without severe pain and loss of efficiency. Tough times, however, can provide an opportunity to institute better management if one is prepared to make the leap.

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