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Blowing the budget: analytics, risk and the race to overspend

For savvy marketing, the more information you have, the better, right? Not necessarily, says Miguel Ángel Canela. While investing in sophisticated tools for marketing analytics might yield more consumer insights, it also tends to inflate risks and drive ***over*spending.**

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It's hard to stick to budget, especially when it comes to marketing today. For management, there is long-standing concern about inflated marketing budgets, and about just what causes spending discipline to go out the window.

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According to research by IESE's **Miguel Ángel Canela** and Burçin Güçlü (PhD `14), experts may be barking up the wrong tree if they blame poor strategy decisions or a lack of financial accountability for blown budgets. Instead, too much information may be the problem.

When less is more: an experiment

Market research relies on a number of analytical tools to size up the state of the competition. In an experiment set in the auto industry, Canela and Güçlü separate "simple" from "complex" research tools and examine what happens when the more complex tools are added to the mix.

Simple marketing tools in this study were focus groups and concept tests — the latter based on consumer surveys or interviews. The complex tools were perceptual maps (i.e., renderings to help understand the competition from customers' points of view) and conjoint analyses (which estimate customers' underlying choice structures, what's most important to them, and which product attributes they prefer).

Only using simple tools led management to decide to stay on budget and move ahead as planned, for more efficient resource allocation. But when the complex analytical tools were brought in, management perceived greater threats from the competition. They tended to see risk all around, and respond, preemptively, by spending more on marketing.

Complex analytical tools may seem to give you a competitive edge — but often the added information just leads to overspending.

Information overload... to alarmism

In a competitive market, perceiving that a rival business is getting an edge is sure to make management nervous. And decision-makers may worry about the costs of *not* matching — or exceeding — rivals' marketing budgets.

Of course, outspending a rival on marketing can be smart in the right circumstances. The problems arise when management's perceptions of risk are awry. And Canela and Güçlü point out that, contrary to the neo-classical economic tenet that more information is always better, more sources of information can cause perceptions of risk to be inflated, prompting alarmist actions — i.e., overspending.

And this is a lesson that can be exported to other fields: after all, it's not just marketing managers who suffer from information overload. In a world where there is ever more and

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more data, what else might you be overreacting to?

Methodology, very briefly

The research is based on an experiment using StratSim, a management simulation game set in the automotive industry, in which the authors manipulated the availability of market research tools to then observe investment decisions made by 75 graduate students in a required marketing course at a European university. The students were assigned to teams and required to make strategic decisions in the face of different market research tools. In the rounds of the game, various simple or complex analysis tools were used. All participants completed surveys immediately after the simulation.

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