

# BUILDING BETTER MARKETING BUDGETS

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It's that time of year again – time to prepare budgets for the new calendar or fiscal year. And this year marketing professionals are dreading the process more than ever. Corporate budgets are being squeezed and marketing executives are kept up at night trying to justify their expenditures – and their existence. However, budgeting process doesn't have to be painful, if it is given some thought and consideration.

## ***Metrics and the Marketing Budget***

The budgetary process is something we "creative" marketing folks sometimes fear, and as a result do not spend enough time thinking about it. However, the marketing budget plays a pivotal role in laying a foundation for a successful marketing plan. A detailed marketing budget should guide marketing planning activities, track effectiveness of those activities, and most critically, link the marketing program to the firm's business results.

Once you understand the goals around your marketing strategy, and have determined what activities you're planning to undertake, you are much better prepared to establish a budget. In fact, the budget and marketing implementation plan becomes part of your final strategic marketing plan document, and is the roadmap you follow throughout the year.

A general guideline for using the percentage-of-revenue budgeting approach is 8-10%<sup>1</sup> of revenue should be spent on marketing, with approximately 5% of that going to labor (either for a department, or outsourcing to a marketing firm). What percentage you use is determined by a number of factors:

- How mature is your market?
- How much education do you have to do?
- How well known is your company in your industry?
- Are you a new or established business?
- How much brand awareness do you have to do?
- How fast do you intend to grow?
- Slow and steady, or double-digit growth?

A marketing budget can play an important role in helping firms analyze their total revenues spent on marketing programs. Budgets help evaluate and determine the priority of marketing activities. They can also help develop marketing concepts into tangible marketing activities with measurable results. A properly designed and implemented marketing budget can be an integral part of an organization's effective marketing program.

## ***Make Metrics Your Friends***

Consider this statement from Albert Einstein: "Not everything that can be counted counts, and not everything that counts can be counted." Marketing programs have always been tough to measure, and determining what to measure is even tougher. In study after study, marketing executives consistently report that one of their greatest professional challenges is measuring and managing marketing impact and assessing marketing's return on investment (ROI). Today, marketing executives are devoting more attention to ways in which they can link traditional marketing variables, such as market share and

customer awareness, to hard-core financial concepts, such as a company's stock price or return on investment.

A good place to start is to keep metrics simple and customer focused, not product focused. Successful measurements vary with a company's profit model, however some common metrics to start tracking are:

- Customer acquisition cost (sales + marketing)
- Lifetime worth of a customer (revenue)
- Expandability of annual consumption (wallet share)
- Customer churn rate (loyalty)

### ***Realistic Marketing Metric Tools for Mid-sized Companies***

You don't need to implement an expensive marketing dashboard tool to start measuring return on your marketing investment. Listed below are some technologies and tools you probably already have in-house that can be used to start measuring marketing impact.

#### ***The Spreadsheet and the Database***

Start by designing a spreadsheet and/or a database to keep track of individual marketing efforts and the leads and sales they generate. Each marketing function should be itemized with individual marketing activities. Make sure you include fields to track the dates of your campaigns, campaign descriptions, the number of leads generated and sales made. Once you have a central storage location for this information you will be able to make queries to glean the information you need to make wise marketing decisions.

#### ***Divide and Conquer***

Do you measure the results of your marketing campaigns? Do you know how effective each of your individual marketing tactics is? You should. Knowing which marketing tactics generate specific leads and sales is a simple way to start measuring what is working as an effective marketing mechanism and what is not.

#### ***Ask Questions***

When you or your staff speaks with a prospect on the phone make sure you ask how they heard of your business; was it from an e-newsletter or an ad in a trade magazine? Asking questions is a simple way to gather valuable information that many mid-sized businesses overlook.

#### ***Data, Data, Data***

The idea is to gather as much information as you can about which marketing mechanisms generate the best (and worst) response, who is responding and why they chose to respond.

Once you have this information you will be better able to think like a future client, cater your marketing material to their needs and generate more leads and sales.

<sup>1</sup>Tackling the Marketing Budgeting Process, Go-to-Market Strategies.