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# Marketing Budgets Demystified

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The mystery isn't whether or not a business needs a marketing budget. Most savvy business owners and marketers already know that budgets help establish parameters for spending, project revenue, monitor return on investment and set benchmarks for future marketing endeavors.

Instead, the mystery often lies within figuring out how to create a marketing budget in a landscape that is rapidly shifting. It used to be that the bulk of a marketing budget was entwined with a marketing plan that focused on traditional efforts, like direct mail and collateral print materials. What's more, it was fairly standard practice for the marketing budget to be the first to see cuts when a business's revenue slowed. Today, however, more dollars are being spent online than ever before through e-mail marketing and social media and decision makers are thinking twice before putting marketing dollars on the chopping block.

Clearly, marketing isn't what it used to be and neither is the budget; but what still holds true amid the evolution is that budgeting takes research, planning and measurement to be successful. What is your business doing with your budget to ensure success in this new landscape? Read on to learn the basics of successful budgeting, to see where you're business falls in line with other benchmarks and how to implement a budget that works.

### A man, a plan, a canal, Panama

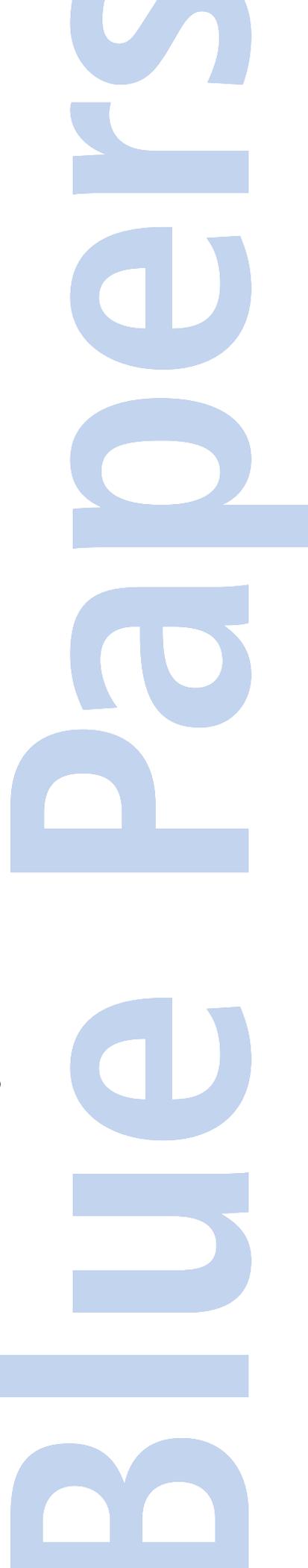
A budget is a plan for coordinating resources and expenses over a period of time by assigning costs to goals and objectives for specific activities.<sup>1</sup> Therefore, the best marketing budgets are entwined with a marketing plan and timeline and relate specifically to desired outcomes. Not only are budgets that are based on plans easier to implement and measure, they are much easier to make the case for. While many budgets are created and approved by campaign, budgets are also created with a fixed cap and then broken down by tactic. Either way, here's the scoop on where you should stand ...

#### The magic number

Generally speaking, marketing standards for most industries indicate that the overall budget number should work out to be two to ten percent of the overall projected revenue for the coming year of a business-to-consumer company. Some businesses base this percentage on past gross sales, per unit sales, seasonal allocation or projected cash flow. Other businesses boost or slash the percentage

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<sup>1</sup> McElreath, Mark P. "Chapter 8: How to Budget and Perform Cost-Benefit Analysis." *Managing Systematic and Ethical Public Relations Campaigns*. 2nd ed. Madison: Brown & Benchmark, 1997. 275-79. Print.



rate based on the size of a business and the industry within it operates. For example, according to the Counselors to America's Small Business (SCORE) and the U.S. Small Business Administration (SBA), retail and pharmaceuticals can exceed this two to ten percent and hit upwards of 20 percent during peak brand-building years.<sup>2</sup>

There are a few other approaches, too, besides setting aside a percentage of revenue. One such additional option is finding the magic number based on the previous year's marketing plan and budget results. Some companies replicate the trends or the positive results of a previous budget, while others simply add a percentage increase. Of course, a business may not have trend or history data. In these cases, the budget is truly rooted in developing the estimated costs of completing a tactic within the campaign.

Yet another approach is one that sets aside a dollar amount within the marketing budget per customer, ultimately serving as incentive to marketing team members to be aggressive in developing efforts that create conversions.

Ultimately, the approach a business chooses will relate specifically to the overall plan, strategy and desired outcomes, as well as what the c-level executives are comfortable with. You have to spend money to make money; it's just a matter of "how much."

### **The breakdown**

Within the parameters of the magic number, it varies by marketing plan how dollars are spent. Marketing budgets typically approach a standard online and offline ratio—roughly 55 percent of marketing dollars in a budget are allocated to offline marketing efforts while 45 percent is allocated to online marketing efforts.<sup>3</sup>

With that said, this ratio is changing and as the economy continues to improve and technologies continue to become more effective and more measureable, so too, does this ratio and the percentages of marketing budgets allocated to various tactics.

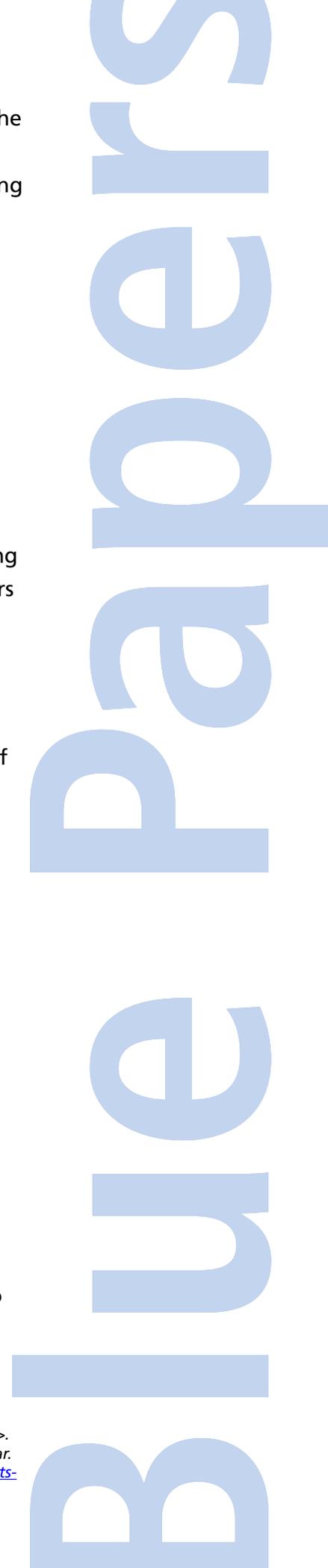
According to a recent study from the American Marketing Association (AMA) and Aquent, marketers plan to decrease the percentage of resources devoted to

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<sup>2</sup> "Setting a Marketing Budget | How to Set a Small Business Marketing Budget." *Business Web Design Firm | Online Marketing Company | Branding Agency*. Web. 10 July 2010.

<<http://www.imageworksstudio.com/client-lounge/articles-tips/setting-a-marketing-advertising-budget.html>>.

<sup>3</sup> "Marketing Execs Dish on Budgets." *MarketingPros: Marketing Resources for Marketing Professionals*. 2 Mar. 2010. Web. 10 July 2010. <<http://www.marketingpros.com/charts/2010/3444/marketing-exec-dish-on-budgets-social-media-and-favorite-gurus-brands-publications>>.

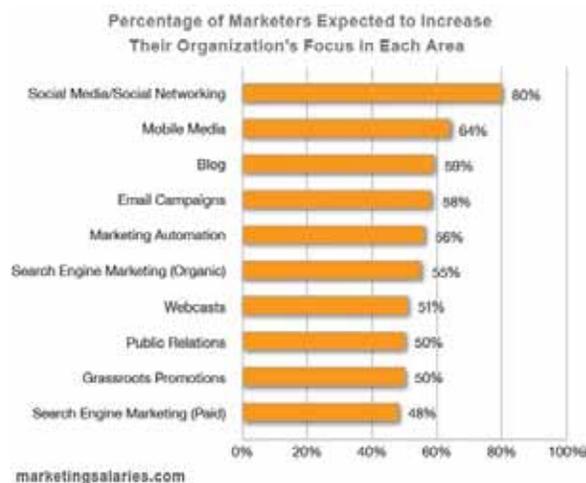


traditional marketing efforts throughout the remainder of 2010<sup>4</sup>:

- 34 percent of marketers are devoting fewer resources to newspaper advertising
- 30 percent are devoting fewer resources to consumer magazines
- 25 percent are slashing radio advertisement buys
- 24 percent are cooling off on trade magazines
- 22 percent are spending down on television ads

According to this same study, half of all marketers used social media and social networking sites in their marketing efforts and that level is increasing throughout the remainder of the year, upwards of 80 percent.<sup>5</sup>

The graph below depicts how marketers intend to continue to increase the percentages spent on online tactics:



In another recent study conducted by AMA and Duke University's Fuqua School of Business found that nearly one-fifth of all marketing dollars will go to social media within the next five years.<sup>6</sup> According to this research, roughly 5.6 percent of a current marketing budget is being allocated to social media, compared to 3.5 percent last year and a projected 17.7 percent of an overall marketing budget within the next five years.

<sup>4</sup> "AMA Salary Survey: Marketers Cautiously Optimistic." MarketingProfs: Marketing Resources for Marketing Professionals. 12 July 2010. Web. 12 July 2010. <<http://www.marketingprofs.com/charts/2010/3773/ama-salary-survey-marketers-cautiously-optimistic>>.

<sup>5</sup> "AMA Salary Survey: Marketers Cautiously Optimistic." MarketingProfs: Marketing Resources for Marketing Professionals. 12 July 2010. Web. 12 July 2010. <<http://www.marketingprofs.com/charts/2010/3773/ama-salary-survey-marketers-cautiously-optimistic>>.

<sup>6</sup> "Marketing Budgets Spiral Toward Social - EMarketer." Market Research & Statistics: Internet Marketing, Advertising & Demographics - EMarketer. 2 Mar. 2010. Web. 21 July 2010. <<http://www.emarketer.com/Article.aspx?R=1007540>>.

Another aspect all budgets consider is personnel costs, but there is also change taking place in this portion of the marketing budget, too.

The AMA found that despite signs of a continued recession in the remainder of 2010, 53% of marketing professionals have seen an increase in salary from the previous year. This is also a factor when including out-of-house marketing staff within a campaign budget for your business or organization.

Essentially, these numbers indicate the shift of priority in marketing tactics. If your organization is not on par with these budgeting trends, you may wish to take a step back and review your marketing plan and budget, forward and back. Chances are, and depending on your audience and your scope of business, if your competitors are spending more online while you're spending more on direct mail, something's amiss. Use research like the above data to help pull your marketing plan and budget together to aim in the right direction.

## Development and implementation

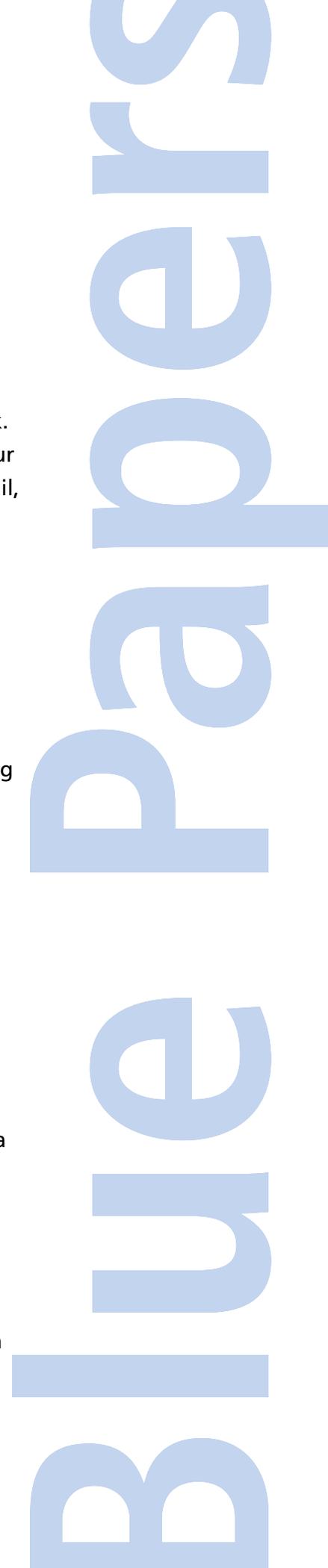
Just like a budget should be rooted in a plan, the plan, in turn, needs to be created based on objectives and goals, target audiences and affiliated tactics. After taking a look at benchmark statistics in order to garner an idea of what your business should be prioritizing in terms of spending, map out the marketing plan in a timeline and begin calculating the expenses necessary to execute each tactic within the plan.

In many cases, budgets are determined from the top down ... senior level executives determine the amount of resources allocated to the marketing department, often with little input from the department itself or knowledge of a marketing plan.

In other cases, often with nonprofit organizations and smaller businesses, marketing budgets are created from the bottom up. This approach can lead to more realistic budgets, assuming that the marketers implementing a plan have a keener understanding of what marketing costs.

A mix of both of these approaches works best. A budget limit is set by the top-down and the actual budget break down and allocation is set by the bottom-up in order to integrate with a marketing plan. Marketers are free to explore any marketing option that is predicted to be strategic, successful and feasible within the parameters of this magic number.

Next up ... how to present your marketing budget. There are many different forms a marketing budget can take. Here are two options of to consider:



### Option one: Budget by significant business unit

In this option, the income statement of the budget is divided into two sections: revenue and operating expenses. The primary purpose of this option is to document cash flow into and out of a unit, not necessarily to just outline projected expenses. Actual and budgeted numbers are shown and typically, with this type of budget, the goal isn't to bring the project in under budget but instead to accurately estimate costs without variance.

		Current	
	Actual	Budget	Variant
	<i>Revenue</i>		
Professional Staff: Account 1	\$2,000	\$2,000	\$0
Professional Staff: Account 2	\$10,000	\$9,100	\$900
Vendor Services: Account 1	\$23,400	\$23,400	\$0
Vendor Services: Account 2	\$34,515	\$34,281	+\$234
Total Revenue:	\$69,915	\$68,781	+\$1,134
	<i>Operating expenses</i>		
Administrative Costs	\$2,200	\$2,200	\$0
Program Costs	\$800	\$1,000	-\$200
Other Costs	\$2,500	\$2,500	\$0
Additional Costs	\$200	\$300	-\$100
Total Operating Expenses:	\$5,700	\$6,000	-\$300
Income Statement Balance	\$64,215	\$62,781	+\$1,134

*Source:* Fictitious data, for illustration purposes only

### Option two: Narrative budget by activities

By far the most popular marketing budget layout, this option's focus is on the details of the marketing plan and related expenses as opposed to the variance in numbers. In this option, it's all about estimating the bottom line and offering detailed explanations of where money is projected to go. This set up ultimately works to tie the plan and the timeline together with resources.

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Tactic and tools	Goal	Estimated Cost
Create and distribute e-mail newsletter	1: To Educate stakeholders	E-mail marketing Service for one year: \$600  Staff time (copywriting/design/list cultivation/distribution): 60 hours per year @ \$100 per hour  <i>Total estimated activity cost:</i> \$6,600
Create and distribute a monthly direct mail piece	2: To Create Awareness Among New Audiences	Mailing list services: \$5,000  Postage: \$2,300  Materials: \$7,000  Staff time (copywriting/design/coordination): 120 hours per year @ \$100 per hour  <i>Total estimated activity cost:</i> \$26,300
<b>Total</b>	<b>\$32,900</b>	

*Source:* Fictitious data, for illustration purposes only

## Measurement

Measurement is a necessity in monitoring the impact that marketing efforts have on overall business revenue within a fixed period compared to another time period, such as a past quarter or year. However, just like the landscape of the marketing plan is changing so, too, is marketing effectiveness.

Traditionally, return on investment (ROI) is used in hindsight to defend a budgetary allocation and to fine-tune the budget moving forward. ROI in its simplest form is profit divided by investment. ROI should be calculated by tactic or

activity within a marketing plan. Then, numbers such as total number of pieces, impressions made, responses elicited, conversion rate (website visits garnered from an effort or sales gained after an activity) and redemption rate (of a coupon or discount code) are factored in.

For example, to calculate the ROI of a newsletter, a marketer might make a calculation based on the following factors and formula<sup>7</sup>:

- (A) The total costs of the marketing campaign (either by overall budget or line item activity within the budget)
- (B) The total number of direct mail pieces (newsletters)
- (C) The response rate from the newsletters
- (D) The conversion rate
- (E) The average amount of sales per person who bought something based on the newsletter

The ROI =  $((B * C * D * E) - A) / A$

For many business, social media ROI can be measured in a similar way to traditional efforts, based on impressions, click-throughs, conversion rates and more. Dell Outlet™ and P&G®, for example, are able to directly correlate sales to social media efforts through the use of coupon codes and campaigns limited to social media channels only<sup>8</sup>.

For everyone else, however, it's not always so cut and dry if only because social media ROI is qualitative in nature. The very lifeblood of social media marketing efforts, and really much of modern content marketing, is truly about relationships and engagement. What exactly is the mathematical formula to measure this?

Forrester Research® just released a report dedicated to exploring the social media ROI calculation. In it, Forrester analyst Augie Ray offers what Forrester calls a “balanced scorecard for measuring ROI of social media” based on their research findings<sup>9</sup>.

This scorecard considers metrics from four perspectives of a social media marketing tactic and argues that marketers seeking to only measure results in one

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<sup>7</sup> “Marketing Profs FAQ: How Do You Calculate the Return on Investment for a Direct Mail Campaign?” MarketingProfs: Marketing Resources for Marketing Professionals. Web. 10 July 2010. <<http://www.marketingprofs.com/Faqs/showfaq.asp?ID=137&CatID=10>>.

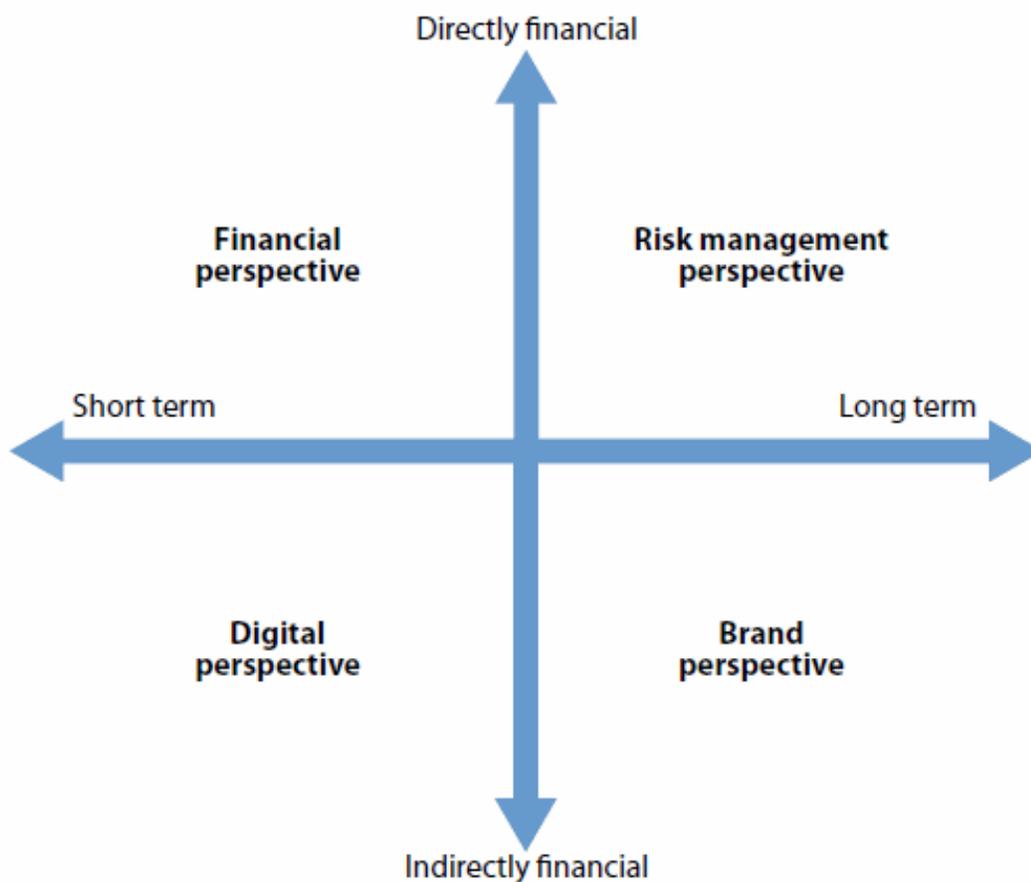
<sup>8</sup> Falls, Jason. “Forrester Report Offers Analyst Look at Social Media ROI.” Social Media Explorer. 21 July 2010. Web. 21 July 2010. <[http://www.socialmediaexplorer.com/2010/07/21/analyst-look-at-social-media-roi/?utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed: SocialMediaExplorer \(Social Media Explorer\)&utm\\_content=Google Reader](http://www.socialmediaexplorer.com/2010/07/21/analyst-look-at-social-media-roi/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed: SocialMediaExplorer (Social Media Explorer)&utm_content=Google Reader)>.

<sup>9</sup> Ray, Augie. “The ROI of Social Media Marketing: More than Dollars and Cents | Forrester Blogs.” Forrester Blogs | Making Leaders Successful Every Day. 19 July 2010. Web. 21 July 2010. <[http://blogs.forrester.com/augie\\_ray/10-07-19-roi-social-media-marketing-more-dollars-and-cents](http://blogs.forrester.com/augie_ray/10-07-19-roi-social-media-marketing-more-dollars-and-cents)>.

area are missing the big picture ROI:

- 1. Financial**  
What's the relation of social media marketing efforts to sales?  
Has revenue or profit increased or decreased?
- 2. Brand**  
What's the perceived consumer attitude about the brand?  
Has it improved?
- 3. Risk Management**  
Is the organization better prepared to monitor, take note and respond to attacks or problems that could impact brand reputation?
- 4. Digital**  
Has your business enhanced your owned and earned digital assets?  
Are you continuing to grow with your marketing plan and tactics in the online realm?

Ray also offered this infographic in his blog post that presented these findings, which helps to visualize the ROI measurement of social media efforts:



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If this all seems to complicated—and don't worry, you're not alone—there are many third-party tools like Radian6<sup>SM</sup> and Cision<sup>TM</sup> (which combines this with traditional monitoring services) that are already in existence and used by many major companies that monitor and calculate social media ROI for business for a fee.

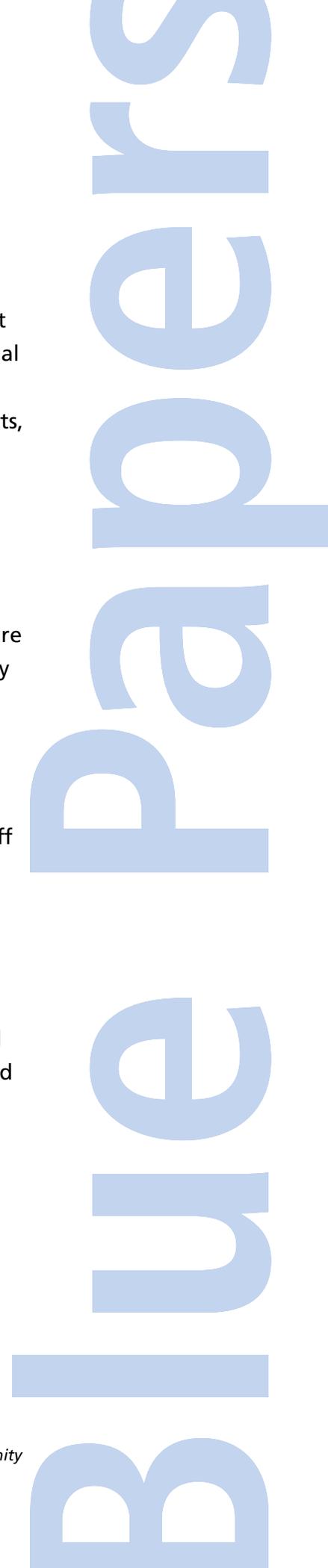
As ROI is measured on an ongoing basis, the marketing plan and budget will likely require altering based on the successes and failures of various tactics. Most experts say that marketing plans and budgets should be maintained on an annual basis, at minimum, with constant monitoring and review while ROI should be calculated on a quarterly basis at minimum. However, the launch of new products, service lines or changes in staff may be cause to revisit the original plan and budget on a more frequent basis, adding addendums and moving resources.<sup>10</sup>

## Top ten marketing budget tips

Aside from considering the recent changes to the marketing budget landscape, there are a few golden nuggets of marketing budgets that still ring true. Here are the top ten tips to combine with the above information in order to create a truly powerful budget that will see it through the year.

- 1. Be inclusive**  
Leave no stone unturned in outlining the costs associated with marketing tactics. Be sure to include the costs associated with staff time as well as the costs associated with purchasing, printing and distributing materials. Thinking about these expenses now will avoid surprise additions to the budget later.
- 2. Only show extraordinary expenses**  
Avoid including expenses in a marketing budget that are included in another budget. For example, while office supplies like pens and sticky notes are needed to execute marketing efforts, these are usually expenses included in an operational budget of a business, unless above and beyond what an office is typically stocked with. Don't take dollars from other expenses by including items that already have been accounted for.
- 3. Be affordable—and use the whole buffalo**  
This applies primarily to those businesses using a bottom-up budgeting process. Don't put time into a budget that a business

<sup>10</sup> "Developing a Marketing Budget for Your Small Busin... - Community Home." Community Home - Community Home. Web. 10 July 2010. <<http://community2.business.govt5/Small-Business-Matters/Developing-a-Marketing-Budget-for-your-Small-Business-Going/ba-p/8639>>.



can't afford. It's not likely to get approved and if it does, it risks getting cut down the road. Every marketer should develop a budget that is realistic, both in regards to the bottom line and in consideration to the plan. Furthermore, be sure to spend money on strategies and tactics that can serve multiple purposes.

**4. Don't confuse the budget gatekeepers**

Budget items should be self-explanatory and specific. Ambiguous line items run the risk of getting slashed if only because their need is not apparent or their purpose is too vague. Name items clearly and provide a one to two sentence explanation if necessary. Sometimes, it's also effective to associate each budget item directly with a goal or strategy.

**5. Target the right audience**

Eran Livneh, president of marketing firm MarketCapture, stresses that reaching the wrong people is an expensive mistake. "The biggest waste in marketing is spending money on activities that reach the wrong audience," says Livneh.

Marketing plans should be developed with target markets in mind and after conducting considerable research. While research often adds line items to a marketing budget, it always saves money in the long run.<sup>11</sup>

**6. Do your research**

Just as target audiences need to be researched, so do line item expenses. To be most accurate in allocating the appropriate resources to a strategy or tactic, find out what it actually would take to get the job done instead of estimating. Pick up the phone and call vendors for quotes and base expenses off this data.

**7. Consistency is key**

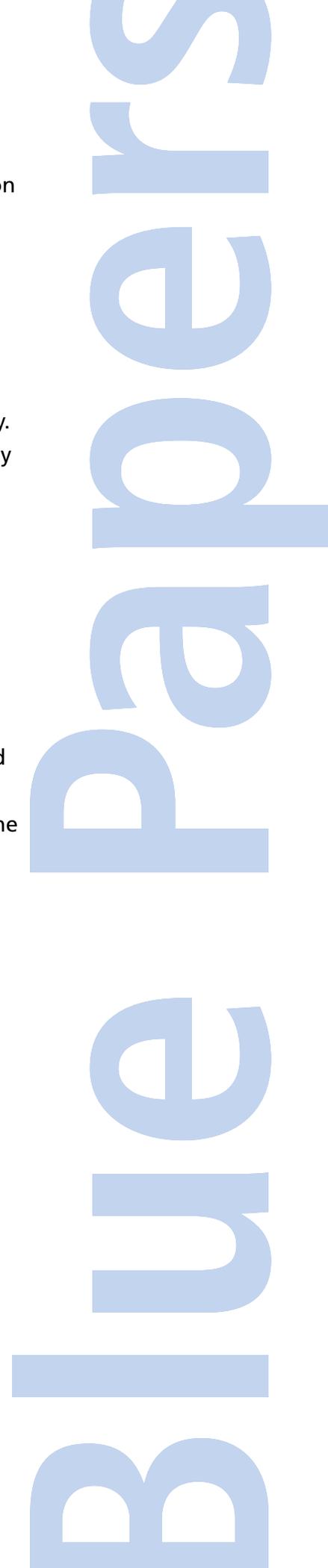
Make the marketing budget easy to follow by being consistent in the way it is presented. Use a table or a spreadsheet that is formatted with one font, organized on the decimal point and featuring consistent language and math.

**8. Keep the conversation going**

When creating the marketing plan and budget, make sure the

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<sup>11</sup> Livneh, Eran. "Top 13 Marketing Budget Wastes and How to Avoid Them." *MarketingProfs: Marketing Resources for Marketing Professionals*. 12 Dec. 2006. Web. 10 July 2010. <<http://www.marketingprofs.com/6llivneh5.asp>>.



strategies and tactics involved are set up to build off of one another. That way, the plan builds momentum by creating multiple impressions and opportunities to expound on a conversation. Follow up on sales leads, use social media to nurture relationships and emphasize customer service as a priority. Along the same vein, take into consideration certain marketing efforts that may only be effective when done multiple times in succession—such as radio ads. While it may be cheaper to purchase one radio ad spot, it's most effective to buy multiple spots over a period of time.

**9. Make sure website content is fresh and easily navigated**

At first thought, you might be thinking “What does my website have to do with my marketing budget?” Well, in most cases, marketing efforts and sales leads lead back to your website. A billboard or direct mail piece that drives audiences to a website that isn't easily accessible, navigable or current is a waste of budgeting dollars because visitors will be lost along with sales.

**10. Measure all efforts**

As Livneh points out, not knowing what you get for your money is a big mistake. If a business fails to measure the ROI of a strategy or tactic within a marketing plan and its budget, there's no way to show that a goal has been hit or missed and no way to argue for a similar allocation in next year's budget. Measuring ROI saves time and money—stop doing things that don't work and start doing things that are more effective.<sup>12</sup>

Regardless of the old school or new school approach, marketing budgets don't have to be mysterious nor do they have to be confusing. Put in valuable research time to see how much and where your business should spend and work with realistic numbers to stay ahead of the game. All in all, a successful budget is the key to a successful marketing department. There's no mystical element there, just good business.

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<sup>12</sup> Livneh, Eran. “Top 13 Marketing Budget Wastes and How to Avoid Them.” *MarketingProfs: Marketing Resources for Marketing Professionals*. 12 Dec. 2006. Web. 10 July 2010. <<http://www.marketingprofs.com/6llivneh5.asp>>.