MADISON TAYLOR
Marketing

PILLAR

MARKETING BUDGET

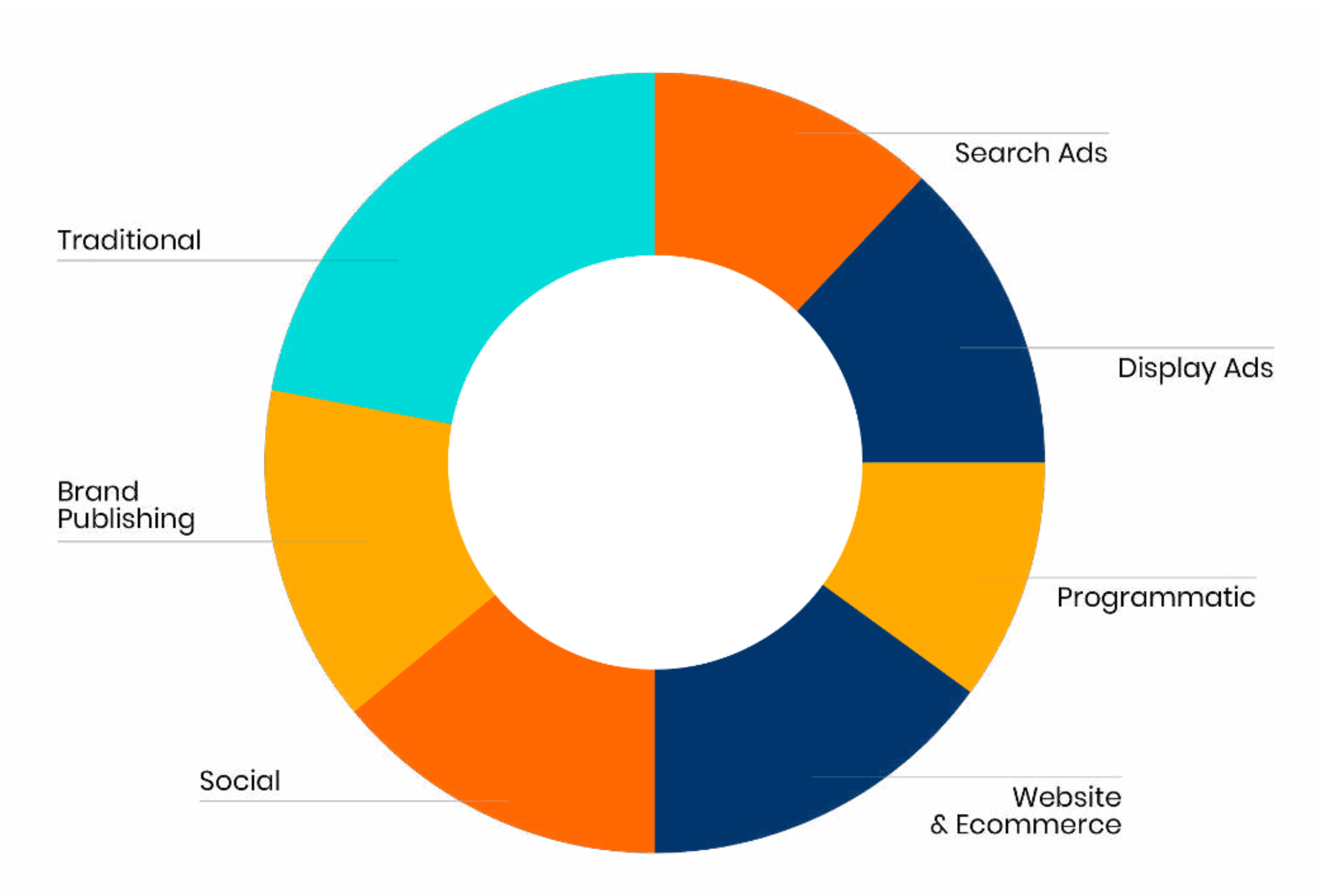
INTRODUCTION

MARKETING BUDGET

Marketing is a moving target. Your goals, channels, campaigns, and audience will change on a constant basis. You might find that your customers aren't who you thought they were — Remy Martin cognac has been around for almost 300 years, but when rapper Fetty Wap mentioned them in a song in 2014, their whole approach changed.

One of the most difficult moving targets to hit is budgeting. If you don't spend enough on marketing, you'll lose ground to your competition and miss out on business that you could otherwise get. If you spend too much, you could be wasting your money. And if you spend your marketing dollars on the wrong campaigns or the wrong channels, you could be misusing funds.

In this article, we'll dig into where marketing budgets come from, how to decide where to spend them, and how to measure whether your spending is working. Let's dive in.



CHAPTER 1

WHY MARKETING IS A CRITICAL BUDGETING ITEM

Marketers sometimes find themselves in the unenviable position of having to convince people that what they do is necessary. Many executives see marketing as window dressing, so it's the first budget item to get slashed when belts tighten in an economic downturn or a recession. That's a big mistake.

According to a 2009 study in Harvard Business Review, marketing during a recession is just as important as marketing in prosperous times, if not more so. But there's a catch — it has to be done much more carefully. From the article:

> *"Marketing expenditures in areas from communications to research are often slashed across the board—but such indiscriminate cost-cutting is a mistake … Companies that put customer needs under the microscope, take a scalpel rather than a cleaver to the marketing budget, and nimbly adjust strategies, tactics, and product offerings in response to shifting demand are more likely than others to flourish both during and after a recession."*

The fact is that marketing isn't just a side effort to the more important business of creating and selling a product — it's the entire reason your business keeps the lights on.

Marketing is Food, not Medicine

Inexperienced companies and executives tend to think of marketing as medicine — you don't take it until something goes wrong, then start marketing, then stop the dose when the problem is fixed. Having trouble converting web page visitors? Prescribe a four-week course of marketing and see how you feel.

Instead, think of marketing like food — you need it every day, you start to suffer if you don't get enough of it, and quality is just as important as quantity. Is your budget tight for this month? You can't just stop eating to cut back. **No matter what, your company needs marketing**.

Coca-Cola is probably the most recognized brand in the world — in every country, on every continent, a red field with a white wave on it means the same thing. Yet Coca-Cola spends billions of dollars a year on marketing.

Small companies know how important it is to spend on marketing, too — if you ever want to get noticed, you have to get your name out there. It's the companies in the middle that lose sight of the importance of ongoing marketing.

The Importance of Marketing

If you've ever picked one brand of olive oil over another because you like the look of the label, that was marketing. If you downloaded one piece of software over another because its website was easier to use, marketing gets credit for the assist. The fact is, you're marketing your product whether you try to or not, by merely putting it out in the world.

So why do the most successful companies in the world — companies like Apple, Nike, Coca-Cola, and McDonald's — spend so much on ongoing marketing?

- Reputation rot: if you stop telling people about the developments in your company, their impression of who you are and what you do freezes. Even now, if you took a survey of everyone who's ever heard of you, you'd probably find that their impressions are years out of date.

  That's why Chevy has spent millions on ads where "real people" learn how reliable Chevys are. It's why Dominos put so much effort into rebranding (to enormous success). And in a fast-paced digital world, it's imperative to avoid falling behind.

- Shaping your customer base: the people that buy your product might not be the ones you thought you'd be selling to when you launched. And as your company and its offerings have grown and evolved, you might find that you're not selling to the same people in year ten as you were in year five. Ongoing marketing keeps the world abreast of how your company has changed so your customer base can evolve alongside it.

- Keeping demand high: as the saying goes, good enough isn't good enough. Sure, you have enough business to keep things running smoothly at the moment, but what if you lose a big client? Can you fill that gap quickly? Ongoing marketing keeps leads coming into the top of the funnel so you can pick the best customers, grow when you want to, and have a safety net to fall back on if you need it.

- Planning ahead: marketing isn't just about getting business this month or this quarter — it's about planting the seeds for next year and the year after that. Your future is uncertain no matter what you do, but marketing can help lay the groundwork for future success.

CHAPTER 2

HOW MUCH TO SPEND ON MARKETING

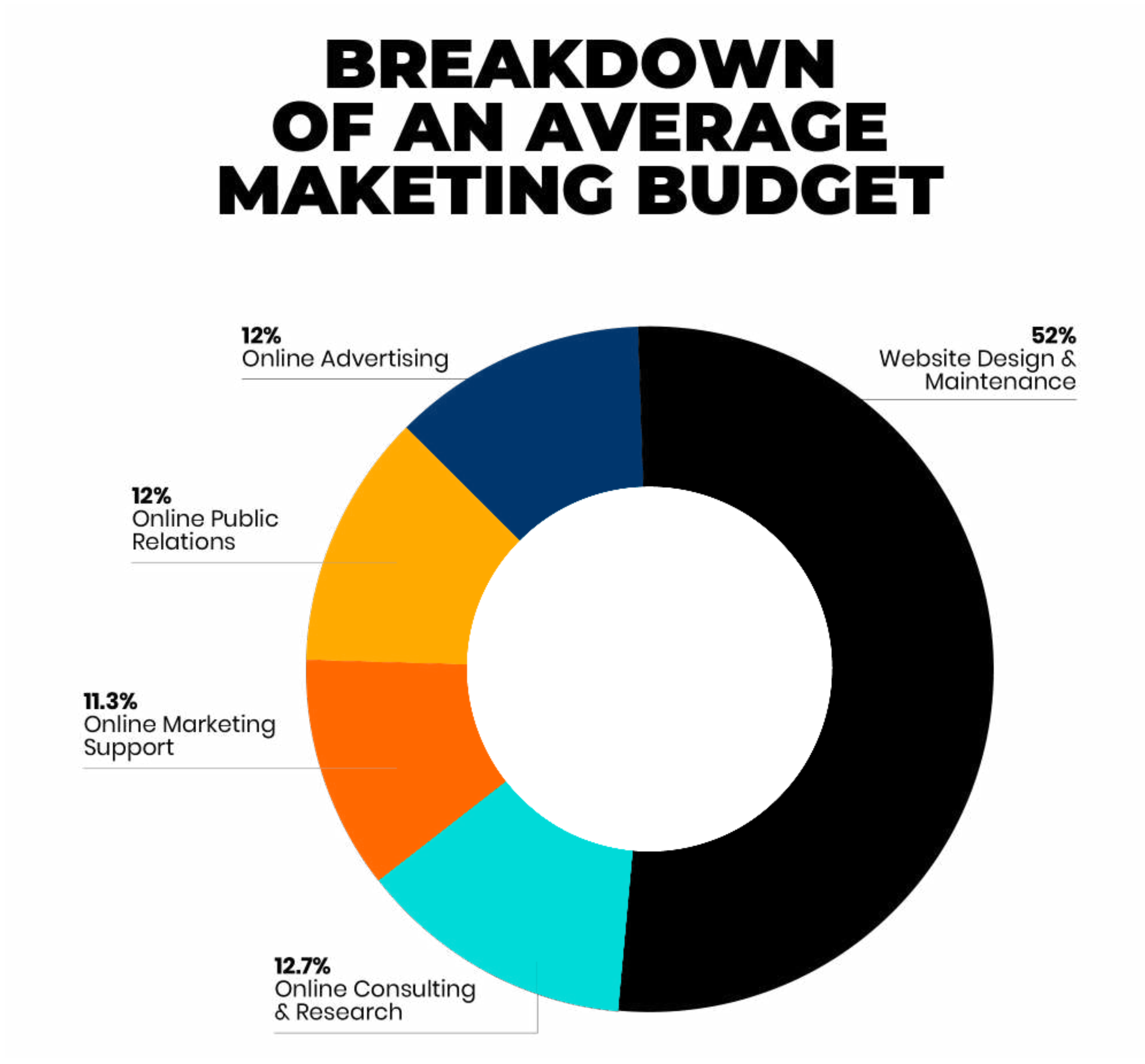
It's one thing to realize the importance of a continuous, dedicated marketing strategy, but it's another thing entirely to put your money where your mouth is. For companies that have been handling their own marketing rather than hiring a professional agency, sticker shock is not uncommon when it comes to marketing budgets, so companies end up under-spending and not seeing any useful returns. When you're building a marketing budget, there are a few things to consider.

The Ten Percent Rule

The ten percent rule is what it sounds like — **most companies spend somewhere in**

the area of ten percent of their revenue on marketing. Of course, that number varies quite a lot between industries and even between companies, but ten percent is an excellent place to start.

If you're trying to get started with marketing for the first time, or you're shopping around for an agency, keep that number in mind.



Where Your Company Stands

The next thing to consider is that your marketing spend will change whether you're just starting out, trying to shoulder your way into a crowded industry, or setting a new course in a space that hasn't been established yet.

In general, you'll have to try a lot harder to get noticed than to stay noticed. Once you've started to achieve some recognition in your industry as an expert and a leading option in your field, you can begin to dial back your ongoing marketing spend a little.

Don't get caught napping, though. If your competitor launches a new product and ramps up marketing spend accordingly, you'll have to do the same to stay at the top of people's minds. If a newcomer to your industry starts making waves, you'll need to respond. And if you change something about your product, launch a new product, or run a promotion, you'll have to market specifically for that — and budget accordingly.

Level of Competition

A big part of deciding your marketing budget will come down to the level of competition in your industry — both the number of competitors and their scale. Obviously, in some sectors, there are juggernauts. If you're in the business of enterprise computer software, there's no point in trying to out-spend Microsoft.

But other industries are flooded with competitors that are of a similar size to you, sell a similar product at a similar price point, and target similar people. If that's the case, your marketing budget will have to be higher to avoid being drowned out in the crowd.

According to The CMO Survey, consumer packaged goods (food, beverages, cleaning products, cosmetics, etc.) spend the most on marketing — nearly a quarter of their revenue — due to the enormous amount of competition and relatively low differentiation in that space.

At the other end of the spectrum are industries like transportation, energy, and manufacturing. Those industries tend to be dominated by a few big players and aren't as consumer-facing, so the need for flashy ad campaigns is significantly reduced. A company like Caterpillar can spend its entire marketing budget on a few major trade shows and some targeted LinkedIn ads and reach everyone it needs to.

Return on Investment

Finally, your marketing budget will depend on an obvious factor — how well it's actually working! If you put $1,000 into a social media campaign and make $5,000 in sales back, why limit yourself? Spend twice as much to reach twice as many people and make even more back.

Of course, the ROI of your marketing efforts isn't usually that cut-and-dried. Different channels will generate different returns and returns will fluctuate over time. You'll also hit a ceiling with any marketing effort, after which pouring more money into it won't necessarily help you bring in more revenue in return.

But the simple lesson is that if your marketing is working, keep spending! You'll more than make your money back, and you'll be growing your business in the meantime. Salesforce spends almost 50 percent of their revenue on marketing, but it's working — they've grown from around 10 percent market share to nearly 20 percent in just four years. In other words: if it's not broken, don't fix it.

CHAPTER 3
WHERE TO SPEND YOUR MARKETING BUDGET

Once you've decided how much to spend on marketing, digital and otherwise, you'll need to determine how to spend it. There are a practically infinite number of channels, platforms, and strategies to keep in mind when deciding how to spend a marketing budget, which can be seriously overwhelming. Should you spend on social media ads to drive traffic to the site? Or should you spend on improving the website itself?

Keep in mind: strategy and spending have sort of a chicken-and-egg relationship. Sometimes, budget dictates strategy — if you only have $10,000 to spend on marketing, then a Super Bowl commercial isn't in the cards for you. On the other side, sometimes strategy can dictate budget — if you need a new business website, you're going to want to pay top dollar for it, even if that's a more significant piece of your revenue than you were expecting.

Basing Your Spending on Company Goals

Company goals are as diverse and variable as the companies that set them, but they'll dictate a lot about where your marketing budget gets spent. Before you allocate any money, take the time to consider what your most important objectives are and how to focus on those goals. Let's talk examples!

- Increasing sales or profits — if your immediate goal is to increase revenues, maybe to fill a gap in your quarterly goals, your strategy should be to stick to what you know. Find the channels that have proven to have the best ROI in the past and put more money into those.

- If you spend $500 on Facebook ads and bring in $1000 in business from those ads, scale up! Spend another $500 or $1000 on those ads. Eventually, you'll see a point of diminishing returns on your most profitable channels — those returns aren't infinite — but until you find that ceiling, scaling up your profitable channels is a great way to step up sales.

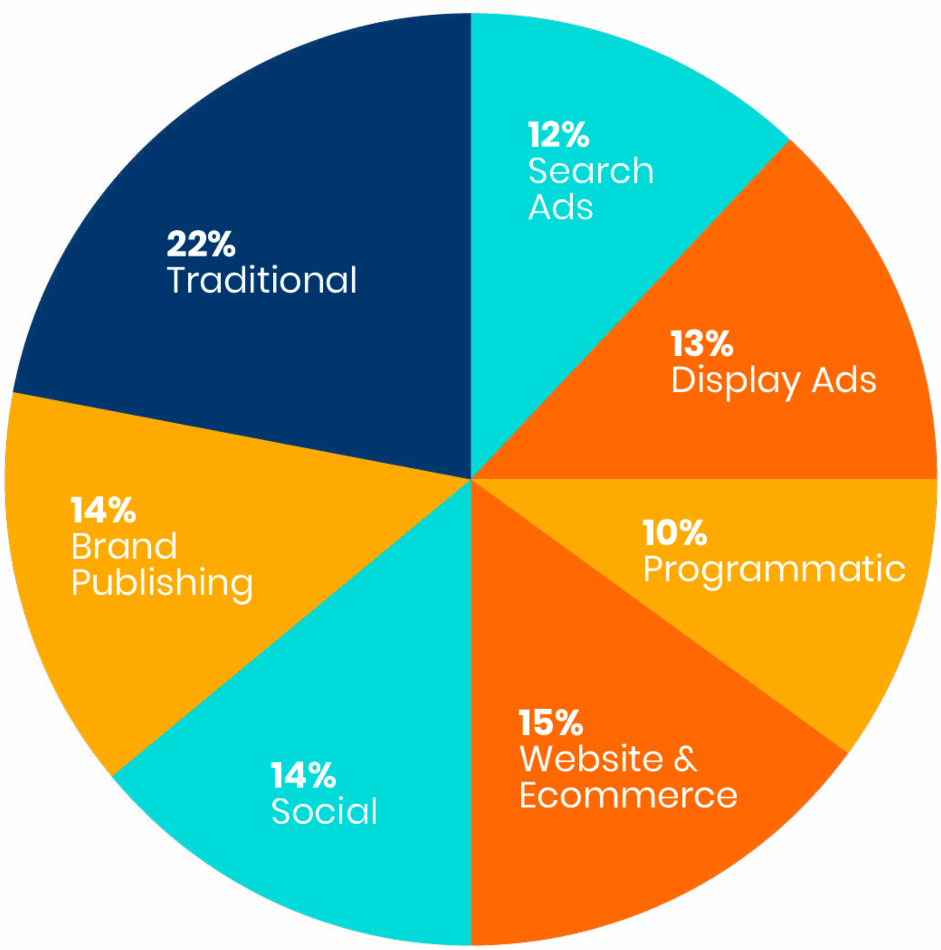
- Building awareness of your brand or expanding your market — building awareness is all about getting your brand in front of as many people as possible, and that means you can't just market to the people you already know. Sending emails to people who are already on your list won't grow your audience.

- Paid social media posts are an excellent way to get your brand and messaging in front of new people. You can target your audience by location, interests, job title, company, or any other defining quality that you think prospective customers might have. By boosting to an interested audience, you can really broaden your reach.

- Launching new products and services — launching a new product is a lot like expanding your market in the previous example, with one key difference: your existing customers are the best place to start. Data has shown time and again that happy customers are more likely to make purchases when it comes to new products, so an email campaign announcing the new product might be your best bet.

- But don't forget about new customers! Your new product isn't going to have the exact same target market as your existing offerings, so focus on the differences that make the new product unique and seek out prospects that fit those descriptions. Maybe your new product is engineered for bigger companies or different segments — start there.

The Average Marketing Budget Allots 48% to Advertising



For each of those goals, there will be a different point of emphasis when it comes to your marketing spend. Obviously, you don't want to put all your eggs in one basket — just because you're launching a new product doesn't mean you can neglect your existing customers.

Instead, think of each of your business goals as having a baseline marketing spend that you need to maintain. You'll always be putting a certain amount of money toward sales, awareness, and customer relations. Your goals will dictate the spikes in that budget — the extra capital that you allocate to particular channels and strategies on a monthly or quarterly goal.

CHAPTER 4
BUILDING A MARKETING BUDGET

So you're starting to get a handle on all the different ways you can spend your marketing budget, and you want to get down to brass tacks and start laying out how to spend your money. Here's how to get started.

1. Go Where Your Audience Is

There's an old joke about a drunk man stumbling around under a streetlight. A police officer approaches him and asks what he's doing, to which the drunk man replies that he lost his keys. The officer asks, "where did you lose them?" The man replies, "across the street, but the light is better over here."

There's a real danger in the marketing world of becoming the man under the streetlight. Companies with a limited budget or limited marketing resources tend to spend their money where it's easiest to track — where the light is best. That means paid ads, PPC search results, and Facebook ads.

But while those ads are easy to buy, easy to design, and easy to measure, they're not necessarily the best way to reach the people you want to talk to. That's why buyer personas are so important.

What's a Buyer Persona?

We've advocated buyer personas for years — [they're the foundation of all your marketing efforts]. What is a buyer persona? It's a hypothetical customer of your company that you create based on who you think is buying from you and who would make the best fit.

When you create a buyer persona, you lay out everything relevant about them — job titles, income, age, location, demographic info, interests and hobbies, whether they own or rent their home, what kind of car they drive, and any of a hundred other potentially useful factors.

Included in that list is their internet habits. Do your customers use social media apps? Which ones? How much time do they spend on those networks? What time of day do they generally log on? Where do they get their news? What do they do for entertainment? Do they use a desktop, laptop, or mobile device?

How to Build Buyer Personas

How do you answer those questions? The first way is by asking your customers themselves, either directly or indirectly. The most direct way is to ask your customers. Send out surveys with their receipts, asking them how they found out about your product, what their buying experience was like, and so on. Ask them what's working and what they'd like to change.

To get a sense of your existing customers indirectly, you can also ask your sales team what patterns they've noticed. What features of your product are most appealing? What are the biggest reasons people don't close the deal? Who tend to be the best customers, and who tend not to renew their subscriptions or make repeat purchases?

If you're starting out and don't have enough customer data to draw real conclusions, start building personas from whom you'd like to see buying your products. If you make enterprise software, you probably don't want to sell to low-budget startups. If you make industrial manufacturing equipment, you don't want to waste ad money on people who can't afford it. If you offer a service in person, there's no point in advertising to people who live far away. And so on.

Even if you can't answer all of those questions for your real customers, you should be able to answer them for your personas. That way, you can tailor your marketing strategy, messaging, and placement to appeal to the right people — finding them where they are, not where it's easiest to look.

Negative Buyer Personas

Finally, it's worth your time to create a "negative buyer persona." This is a hypothetical customer that you don't want for any number of reasons. Maybe they can't afford your product, maybe they'll need too much help using it, maybe they live too far away, or maybe their budget is too small. There are many reasons that someone might not be a good fit for your company, and it's a good idea to spell them out.

Keep in mind that personas are fluid. You might build a persona and start marketing, only to realize that your customers aren't who you thought they were. Or you might find that you need multiple personas to encompass numerous distinct types of customers. That's fine! The important thing is that you're asking the right questions to find out how your customers are likely to interact with your brand.

2. Take a Look at the Competition

We mentioned competitor analysis above, but we're going to dive into a lot more detail about how to look at the competitors around you. Let's say you make data backup software geared at helping small businesses archive and preserve their internal data in the cloud. Here's what to do.

Categorize Your Competitors

First, divide your competitors into three categories: primary, secondary, and tertiary competitors.

- Primary competitors have the same audience as you, offer the same product, or both. There are several other data backup companies geared at small businesses, so these are the competitors you'll want to keep the closest eye on.

- Secondary competitors are in the same areas as you, but offer a higher- or lower-end version of your product or offer it to a different audience. In this case, companies that provide backup services for individuals or huge corporations would be similar, but they're not targeting the same SMB audience as you. Another example would be companies that install in-house data backups — they're not offering the same service, but they're solving the same problem and competing for your customers.

- Tertiary competitors offer related products and services to the same audience, so they might present partnership opportunities. In your case, a company that provides software for sending large files might be a good example. Keep in mind, though, that tertiary competitors can rapidly become primary competitors if they choose to expand — if the company that sends large files decides to offer archiving services, you suddenly have a new competitor.

Act Like a Customer

The next step is to examine their website, social media pages, and overall customer experience. What's the best way to see how they treat their customers? By pretending you are one. Look for info on their websites, contact a sales rep, take a look at their support documents, and see how easy it is to sign up, then compare that process to your own company.

How does the photography and imagery on their site compare to yours? Do their CTAs lead to useful, relevant content? Are you prompted to sign up for their email list? What kind of promotions do they run? Sign up to their newsletter, read a few blog posts, and abandon a product in the cart, to see how the company reacts.

Positioning and Pricing

While you're reading up on your competitors, take a look at what their major differentiator is — both according to them and from what you can see yourself. Are they offering faster upload and download speeds than you? More intuitive software? Better data encryption? More rapid restoration of data in the event of a catastrophe?

A lot of companies' major differentiator is price, so make sure you take stock of their pricing, too. Do they offer higher or lower prices than you? Do they offer discounts for long-term subscriptions that you don't? Do they run promotions more often than you? If you can do better than their pricing, great! If you can't, you'd better bring something to the table that makes up for the premium cost you charge.

See What Customers are Saying

Finally, comb through reviews on Google, Yelp, Facebook, LinkedIn, Glassdoor, and anywhere else you can find them to see what their customers are saying. Remember, good reviews and bad reviews are equally useful. Take stock of what positive features are mentioned the most in the positive reviews, and look for anything the negative reviews have in common.

Finding patterns can help you inform your positioning. If the positive reviews talk about the product and the negative reviews talk about customer service, you might win over customers by putting your superior service front and center.

CHAPTER 4
CREATE A MARKETING PLAN

When you know whom you're targeting and where your company stands in the landscape of your industry, you can start to put together a more concrete plan for how to make yourself stand out.

Building Around Goals

A large part of your marketing plan will be based on what exactly you're trying to accomplish with your marketing efforts. Like we mentioned before, marketing is food, not medicine. Keeping your current customers happy and keeping new leads moving through the funnel is kind of a given, so "make money" doesn't really count as a goal.

Instead, goals should be the things you want to do above and beyond the status quo. Your company might have strategic goals like hitting new revenue targets, signing a certain number of customers, or increasing traffic through an individual channel. You might have strategic goals like expanding into a new market, launching a new product, or repositioning your brand.

The Seven Ps

Since the 1960s, companies have talked about the "four Ps" or the marketing mix — product, price, place, and promotion. In today's modern, digital world where customer experience is so important, that idea has expanded to the seven Ps of marketing:

- **Product:** is your current product, service, or mix of products and services a good fit for your buyer persona and the market you're in?

- **Price:** are you competitively priced compared to your competitors and for what you're offering?

- **Promotion:** how are you calling attention to your product?

- **Place:** where is your product sold? Are you selling directly, through catalogs, at trade shows, online, in retail, or through joint ventures?

- **Packaging:** even if you don't have retail packaging, this encompasses your website, ads, and every outward-facing part of your company.

- **Positioning:** what makes you different from your competitors?

- **People:** who's responsible for carrying out the various aspects of your plan?

We've talked about these aspects already in the text above, but it can be useful to spell them out like this. The seven Ps will help you set specific goals, conduct a SWOT analysis, and examine your competition through an empirical lens.

CHAPTER 5
PUTTING IT ALL TOGETHER

By this point, you're probably feeling pretty overwhelmed by all the moving parts of a marketing budget and strategy. To be honest, that's kind of a good thing.

Creating a marketing budget and executing it properly can be difficult, complicated, and confusing. The truth is, every single company is going to have a different marketing budget. Everyone has different customers, different revenues, different goals, different targets, and different priorities.

To throw another wrench in the works, those factors can all change on a quarterly or even monthly basis.

That's where a marketing agency comes in. When you hire an agency, you usually pay a flat retainer every month for their services, and they handle the nitty-gritty of what that money is used for. They'll examine the ROI and engagement of every email they send, every ad they publish, and every web page they build, continually tweaking and adjusting to make sure they're getting the best bang for your buck.

Want to learn more about how an inbound agency decides how your money gets spent? Get in touch! We'll be happy to discuss your marketing needs and help you decide how to get the best return for your marketing spend.

303.500.3265
info@madisontaylormarketing.com

We are **innovative thinkers** and **boundary-pushers**.

5613 DTC Parkway, Suite 120
Greenwood Village, CO 80111