Agency Perspectives – Issue 19
August 2017

The Secret Formula for a Marketing Budget

Balancing tools, time and resources to hit the magic number

Lou Covey | President & CEO, Footwasher Media

About the Author

Lou Covey calls himself a professional communicator with more than 40 years experience in political, education, technology, environmental and business journalism, public relations and marketing communications. His one regret is he never learned to type properly.

Determining a marketing budget can be frustrating. Are you investing enough? Are your marketing dollars being applied in the most efficient way? How do you know if what you're doing is working?

There are subjective answers that are easily disprovable from one budget period to another. What worked last year isn't necessarily going to work this year. What works for one type of client may not work for another.

For about 40 years, I've watched companies struggle with this. While using a marketing automation platform helps in terms of proving ROI of campaigns, it doesn't tell you how much to invest at the outset. Over the past 10 years, however, I've discovered that there are two simple equations that can take a lot of the guesswork out of the process. Here they are:

$$1 = 10 \quad | \quad T = \$$$

So, what the heck am I talking about? Let's take a step back...

The Marketing Budget Dilemma

Figuring out the value and the cost of marketing efforts is elusive – and it often gets put on the back burner as a result.

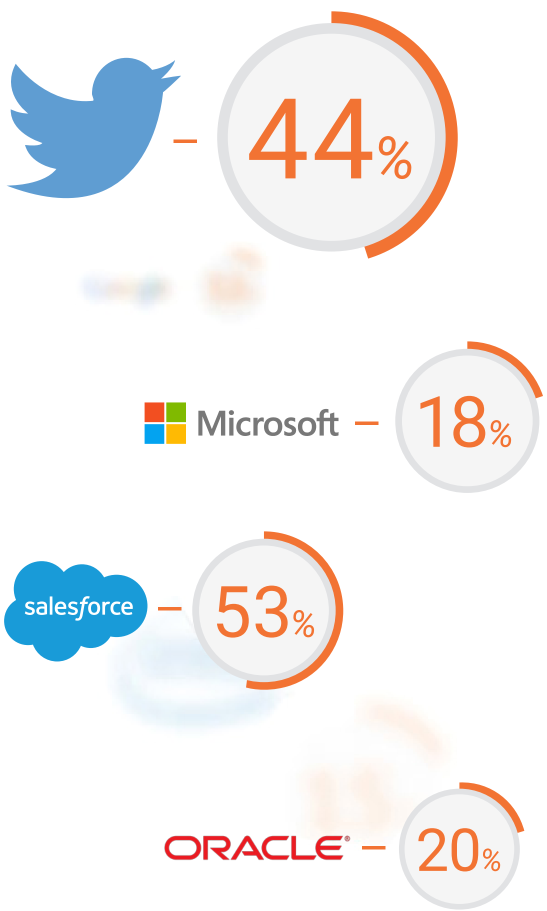
A lot of companies tend to have a love/hate relationship with marketing:

- They **love** to talk about how wonderful their brand, products and services are, and to see them advertised in print and video.
- They **hate** that their audience often doesn't seem to identify with or buy in to the brand narrative they've created.
- They **love** buying marketing tools and services so they don't have to hire experienced marketing staff.
- They **hate** paying for these tools and services when they don't have experienced staff who will be able to learn how to use them.

Many companies – and indeed prospective clients – claim to have large marketing budgets. But more often than not, the lion's share of those budgets is actually in sales, not marketing. There's a good reason for this. Sales have an obvious impact on the bottom line. Marketing, not so much.

Companies know they need something called 'marketing,' and as soon as they figure out why, they'll happily invest in it. But until then, figuring out the value and the cost of the effort is elusive – and it often gets put on the back burner as a result.

Marketing Budgets of Major Public Companies



Still, the benefits of marketing are clear. All successful companies invest a significant amount in marketing tools and services. A Gartner/CMO Magazine report from 2015 showed major public companies spend more than 10 percent of their total revenue on marketing.

This is not a new occurrence. We have seen several reports over the past 10 years that show the value of investing in marketing, and we even ran our own study at Footwasher Media five years ago, which looked at how the semiconductor industry approaches and invests in marketing.

The numbers have remained consistent within industries over recent years, although there are differences between industries. For example, the most successful B2C software companies on average dedicate 15 percent of revenue to marketing, while leading companies in the semiconductor industry spend just a little more than 5 percent.

However, our study showed that when companies fall ***below 5 percent,*** they experience slow growth or no growth at all. For example, the Electronic Design Automation industry, which serves the semiconductor and electronics systems industries, saw tremendous growth up until 2000, when the major players began reducing marketing budgets below 5 percent of revenue. In 2000, the total industry revenue was $3.8 billion. Last July, the industry reported total revenue for the industry at $3 billion. So as their market shrinks, they continue to believe they are doing well.

For every dollar you put into your marketing budget, you will see a return of $10 in revenue. This is an observable fact.

But as the actual numbers show, there is a direct correlation between a company's success and its investment in marketing. Going back to our first equation **(1 = 10)**, we've found that for every dollar you put into your marketing budget, you will see a return of $10 in revenue, by default. This is an observable fact. We've found that even mediocre marketing programs will most likely see this kind of return.

Spending more, however, does not automatically mean you will see more revenue. It all depends on how you spend the money. There are reports that companies like Twitter and Salesforce put a lot more than 10 percent into their marketing, but as we have mentioned, those numbers usually include sales infrastructure.

Let me reiterate: Sales is ***not*** marketing. If your marketing budget includes sales, and it stands at 10 percent, your actual marketing budget is more likely around 3 percent. This creates a classic conflict between sales and marketing staffs. Marketing blames Sales for being incompetent, and Sales blames Marketing for being clueless. In the end, the real blame lies in the C-suite for not properly allocating resources.

It's not just about money. It's about *time and resources*, too.

No matter how much you spend on the right tools and services, if you put little or no strategic thought into your marketing and just emulate what your competitors are doing, you'll see minimal ROI. Take the real estate industry, for example.

We have been doing some significant work with real estate agents in the past two years, and to their credit, they generally spend money on the right marketing tools and services. The problem is that most of them don't actually use the tools, and they often regret having spent that money because they don't see the ROI they hoped for. Very few agents actually use their resources effectively, which ends in them wasting a great deal of time.

You can have all the latest marketing gadgets and tools, but without the knowledge to use them, they are as useful as a bag of rocks.

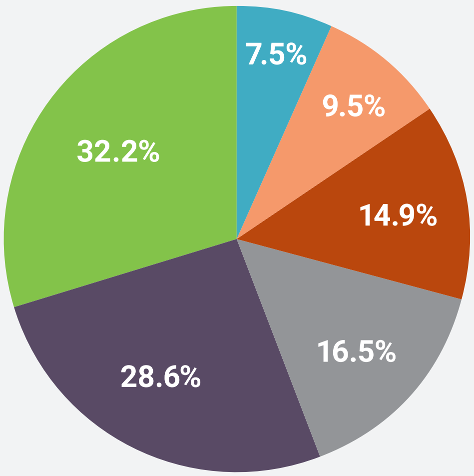
Just spending the right amount of cash is not the complete answer. You can have all the latest gadgets and tools, but without the knowledge to use them, they are as useful as a bag of rocks. And that brings us to our second equation...

Time Equals Money (T = $)

Personnel is an integral part of the budgeting process, so when you are looking at how much money you are budgeting for marketing, factor in the time it takes for people to learn and use the tools and services you invest in.

For example, let's look at marketing automation. Many companies in several industries are adopting software and services like SharpSpring, but few are getting maximum results. Company managers often seem to think that simply having a platform in place is enough to drive sales.

Challenges to Marketing Automation Success



- Lack of process/tools to measure success through analytics
- Lack of people who can link platform to marketing processes
- Platform insights not highly relevant to decisions
- Does not offer sufficient insight
- Overly complex platform/interface
- Platform does not arrive when needed

We worked with a leading supplier of processor technology that had hired the editor in chief of a major publication to take over its strategic content program. He was deeply experienced in marketing automation, and we asked him to compare what it was like using the software in two such different industries.

He said that in his time working for the magazine, he would get spreadsheets generated by their software 'that looked like a spreadsheet for a moon launch.' But when he joined the semiconductor company, the reports he received from the 'marketing automation manager' consisted of four columns of largely useless information.

The magazine employed a team of data analysts and content strategists to understand reader patterns, and this information was then given to the advertising and sales team to target high-profit leads.

At the semiconductor firm, however, the marketing automation manager had a full-time job as an admin in the sales department, and he was only able to put one hour per week into managing content flow and engagement. The company was spending around $30,000 a month in fees and subscriptions to the marketing automation software vendor, but they weren't using the technology to the fullest. The journalist ended up leaving that company for a similar job in another semiconductor firm, and he found the same problem there.

Lacking competent personnel degrades the ability of marketing tools and services to deliver ROI.

If you spend big money on marketing tools but hire inexperienced personnel to manage it (or don't devote any personnel to it at all), you won't get optimal results, and the tools will end up being a wasted investment. Lacking competent personnel degrades the ability of the tools and services to deliver ROI. A study released by CMO magazine in February showed that even market leaders, despite investing heavily in analytics tools, are not getting a significant return on their investment due to lack of training and personnel. And because they are not seeing the ROI, they are reluctant to apply analytics to almost 70 percent of their marketing programs.

Coming Up With That Magic Number

So when you are determining your marketing budget, you have to think about more than how much the tools cost. You also have to factor in the time you and your staff will have to put into the program, because **T = $**.

Let's look at how this plays out from a practical standpoint:

1. **Take a look at your marketing team and identify who is full-time and who is part-time.** Add up the hours they put into marketing, and then divide their salaries by the number of hours. That will give you the hourly time investment in the form of cash.

Coming Up With That Magic Number

1. Calculate your internal investments.
2. Calculate your external services investments.
3. Compare your total investments to your annual revenue.
4. Less than 10%? Increase your marketing investment.

2. **Then take a look at how much you spent last year on external services (events, tools, agencies).** Add this amount to your internal investments.

3. **Compare that total to your end-of-year revenue.** If you are right around 10 percent, then you did OK. If you made more, you are a marketing superstar. If you made less, something is wrong.

4. **Now, consider what you want to do in the coming 12 months.** Is that budget, including expenditures and personnel time, sufficient for driving you to your goal? If not, then you need to consider a greater investment. The question is, people or services? We think the answer is both.

If you hire experienced personnel but don't give them adequate tools, you won't get optimal results. Similarly, if you spend all of your budget on tools and services without bringing in experienced team members, or at least investing significantly in training, you will also be disappointed in those results.

The evidence is pretty clear that a modest investment in marketing tools and services offers a positive ROI, but you don't have to be spending a ton of cash to make it happen. It's all about finding the right balance and allocating your resources in optimal ways. Just because you don't think you have enough money to spend 10 percent (or even 5 percent) of your revenue on marketing services, that doesn't mean you don't have the *resources* to do it.

Want to read more on topics like this?

Check out our other Agency Perspectives articles.

See how adding marketing automation to your agency's services can drive revenue from existing clients and help you add new ones. Schedule a demo with a partnerships specialist to chat about your specific needs.

Get a Demo

SharpSpring

SharpSpring is the marketing automation platform of choice for more than 1,200 digital marketing agencies and their 6,000+ clients. Since 2014, SharpSpring has provided its powerful marketing automation solution to businesses around the globe. In the short time since its inception, the company has gained significant market share from industry leaders with its competitive pricing, agency-focused business model, and robust platform.

Visit www.sharpspring.com for more information.

FooTwasher Media Corporation

Over the past 20 years, Footwasher Media has helped dozens of companies establish and implement communications strategies in multiple industries with the understanding that communication skills are basic to all. Some of the industries Footwasher has served include semiconductor design and manufacture, electronics systems, enterprise software, real estate, insurance, non-profits, consumer services, and more.

Visit us at www.footwashermedia.com