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Marketing Budget

Since every business's marketing needs and costs vary significantly, there are no simple rules for determining how much you should spend on marketing your business. However, here are some common methods of determining your annual marketing budget. They are listed in my order of preference for local SME's in Perth.

1st – Client Profit Value Model

If you can figure out how much profit an average client is worth to your business in a year, this will give you a good idea of the value of each client.

If you have a target number of new customers as a goal, you can calculate how much you can afford to spend to acquire them. You take the amount of profit you'd expect to average from each new customer in a year, multiply that by the number of customers desired and then work out a percentage of that to add to your marketing budget. For example, lets say each customer was worth $1000 in profit to you per annum and that you had a goal of gaining 100 new clients in the year. If that was achieved, you would gain $100,000 in profit. On this basis, you could then allocate say 40% of this – or $40,000 – to a marketing budget for the year.

This is an exact way to budget how much you can actually spend to reach your goals but you'll also need to work out the cost of keeping the clients you already have. Bear in mind that it costs between 6 and 7 times as much to get a new customer as to keep one you already have!

2nd – Budget as a percentage of revenues

A common way that businesses set marketing budgets is by setting an amount based on a certain percentage of their total revenues or gross sales – normally this is somewhere between 2% and 10% depending on your industry type. For example, retail and business-to-consumer companies may need to spend more than 10%, at least in the initial years of operation. My view would be that if you are just starting out, as a general guide you should look to spend between 20% to 30% of expected revenue in your first year when you're trying to get yourself established. If you have an established business, this figure might be more like 5%. The benefits of this method is that it is easy to work out but involves a bit a guesswork, especially if you are just starting out or if the year ahead looks turbulent in your industry!

3rd - Benchmark your budget against your industry average

There are regular surveys undertaken which look at the average marketing dollars as a % of revenue spent in certain industry sectors, which should help you to benchmark. (eg Schoenfeld & Associates Consultants of Lincolnwood, Illinois conducted a survey that had TV, radio, electronics sector spending at 5.3%, Computer sector spending at 5.1%, Investment advice sector spending 8.6%). The beauty of this method is that you are basing your decision on actual data taken from hundreds of actual marketers BUT these are averages and will give you a guide only – your business and local market conditions will impact whether you need to budget the industry average or more or less.

4th - Competitor analysis

Working out what your key competitors are spending will enable you to budget to equal or better their amount. For example, if you asked your local media or advertising agency if they could draw up for you a media plan that made you outspend your competitor, this would give you a good idea of how much your competitor was spending. However, if your competitor does a lot of below-the-line advertising and marketing (eg niche e-mail marketing, direct mail, personal networking, etc). – you will not be able to get any concrete figures from these activities.

Finally some cautionary tips

- No marketing budget is perfect. Which ever method you choose, remember to build a contingency fund of between 10-15% because you can never predict what challenges and/or opportunities your business will face in the coming year
- Don't spend all of your money on just one marketing method
- Do spend your budget across various media (Your most cost-effective activities include networking, Internet marketing, word of mouth referrals)
- Set reasonable expectations – be prepared to wait a while before you see any reasonable return on your investment

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