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MASTERING MARKETING



How Much Should I Spend on Marketing

As I review more business plans and engage in entrepreneurial coaching sessions, I'm seeing more detailed marketing plans, engagement strategies, and attention to marketing materials. Those are all good business components. But, I almost never see a line item in their budgets for marketing costs. Plans and support materials are great, but how much will these things cost and where is the most effective use of your marketing funds? Not being intentional about developing the budget that will support your marketing plans is like purchasing a car and not determining if you have enough money to buy the gas to run it.

Marketing efforts have a direct bearing on your revenues. Without a solid budget, you can accidentally over spend on marketing costs or under spend

and lose valuable time during the market season to capture sales. So, how do you determine how much of your budget to assign to marketing? Ten percent is often the number most cited by industry experts. But does that apply to your business? A 2014 Chief of Marketing Officer (CFO) survey conducted by the American Marketing Association and Duke University found that the averages for marketing investment as a percentage of revenue varied by business type:

- ▶ Business to Business (B2B) Product Businesses: 10.6%
- ▶ Business to Business (B2B) Service Businesses: 10.1%
- ▶ Business to Consumers (B2C) Product Businesses: 16.3%
- ▶ Business to Consumers (B2C) Service Businesses: 10.9%

So while 10% maybe the right number for some businesses, it may not be right for yours. It really depends on your target audience and the products or services you're marketing.

Developing Your Marketing Budget

Developing a marketing budget requires you have a good handle on your numbers. You may be tempted to simply estimate your revenues, subtract the cost of production and salaries, sock away some profits and then whatever is left is available for marketing funds. This is not such a good idea. When you are working around estimates, it is impossible to create a realistic marketing budget. While income and expenses fluctuate each month, you need to organize your information around the total “reliable revenue” or the minimum amount of money your business makes each month. Then subtract your expenses. **A realistic marketing budget will be based on the income that exceeds expenses, not the total revenue.**

Where to Spend Your Marketing Funds

Once you’ve determined how much money you have to work with for marketing, you need to decide where you’re invest your time and funds for the best return. Factors that will weigh in your decision include the size of your marketing budget, your target audience, and you’re previous experiences.

Divide up your money based on your goals. What marketing efforts have worked well for you in the past? If you’re trying to keep the ball rolling with your current customers and products, then you have a good indicator of your expenses based on your previous sales. But, if you’re introducing new products or try to reach a new sale demographic, then this category will require more investing to reach potential sales. This re-affirms that repeat customers are your least cost marketing investment.

Since you don’t know if the new marketing channel will work, place a dollar limit on this portion of your marketing budget. Develop a detailed description of all your target customers and then a list of where they will intersect with your marketing message - websites, social media, directory listings, community events, etc., these channels are where you should invest your marketing dollars.

Regular Reviews

Marketing strategies and budgets are not a “once and done” task. Take time regularly to review which of your marketing efforts are working and which are not. Ideally, you should be able to tie revenues back to each advertising source. Develop a means of tracking customer response to different marketing campaigns. Review your revenue stream to determine if your marketing budget needs to be revised. Work your marketing plan and carefully consider any dramatic changes.