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Guidelines for Establishing Your Marketing Budget

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GUIDELINES FOR ESTABLISHING YOUR MARKETING BUDGET

Even in recessionary times, it is wise to keep the marketing budget intact. Yet, it's often the first thing to be cut when times get rough. However, it's been proven that cutting back on marketing will mean losing out on even more profits.

Companies often struggle to determine how much money to allocate for their branding and communication needs. The results of marketing campaigns can sometimes seem intangible, so it can be difficult to justify the cost. But creating a link between product and customer is essential, and marketing is the main way to establish that relationship.

There's no doubt that marketing is key to the success of most business ventures. Setting aside money specifically for it is essential, but how should the size of the budget be determined? Here are some simple guidelines to follow when mulling over your marketing dollars.

BEFORE YOU BUDGET, ASK YOURSELF A FEW QUESTIONS

- Who are the customers you're trying to reach through advertising and marketing?
- What stage of business are you in? Do you need to attract new customers, or create a strong brand that keeps the old ones coming back? What are your objectives?
- How often do you need to reach your audience?
- What do you think is the most compelling way to reach them? Through what medium?
- How much do you think your competitors are spending on marketing?
- How much have you spent in the past, and did you get results?
- How much can you realistically spend?

Answering these questions will help you pinpoint the specifics of what you're seeking from a marketing campaign. From these answers, you can research the costs associated with specific tactics, and frame out the numbers on paper.

2 MAKE SURE THE DECISION-MAKERS ARE ON YOUR SIDE

Communications professionals at corporations often complain that upper management doesn't understand the value of marketing. It's important to get everyone on board with the idea that a marketing budget should be treated as an investment, not an expense.

Even in recessionary times, it is wise to keep the marketing budget intact. Yet, it's often the first thing to be cut when times get rough. However, it's been proven that cutting back on marketing will mean losing out on even more profits. It's important to make a strong argument for the marketing dollars—make sure all players realize the value of communication. Consider proposing three tiers of a marketing budget: one that's an absolute minimum, one that is perfectly on target and one that proposes a true reach.

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GET THE FORCES BEHIND YOU

Below are some methods for creating effective marketing budgets. Since there is no one formula that fits every company's needs, consider all of the options and test the numbers.

- **Percentage of past sales.** To form your marketing budget, check with industry groups to find out marketing and advertising averages. Adage.com provides annual updates of advertising to sales ratios for 200 of the largest ad-spending industries (link to http://adage.com/datacenter/datapopup.php?article_id=119881). Say the average spent on marketing in your industry is 9 percent of sales. Consider using 9 percent of the previous year's annual revenue in sales for your marketing budget.
- **Percentage of future sales.** As with the previous option, go with the industry flow, but figure the percentage against the amount of revenue your company is projected to generate next year.
- **Blank slate creation.** Often the most realistic way to go, this budget is created by simply tallying up the cost of all communication ventures that you'd like to pursue. Determine the specific undertakings you'd like to employ (radio advertising, public relations, development of marketing materials, etc.), and tally the costs. Base the budget for marketing expenditures on the total.
- **Competitive approach.** To compete head-to-head with your competitors or surpass them in brand awareness, a competitive-ad spending report will come in handy. TNS Media Intelligence (link to <http://www.tns-mi.com>) offers very useful and comprehensive spending reports, which may show how your competitors are promoting their brands (print, TV, radio, Internet) and where they are spending their money (names of publications, Web sites, networks, etc.). And most importantly, the report will tell how many dollars are being spent during the course of the previous 12 months—great info for planning your own budget, or at least using this as ammunition when justifying your proposed investment.
- **Affordable method.** This method isn't optimal, but sometimes necessary. It can provide you with a realistic budgetary figure. Once you have decided how much money will go towards product development, operations and all other major costs, the remaining funds are allocated towards communication needs.
- **Random allocation.** Not always recommended, but often practiced. This budget simply takes shape when management randomly picks a figure.
- **Frame up your past budgets.** If your goal is to double your current audience, make your future marketing budget twice the size of your past marketing budget.
- **Plan based on expected payout.** Establish the expected sales, losses and costs associated with your new product or campaign. A payout plan will determine the investment value of the advertising and marketing efforts. More marketing money will be spent at the launch of the new endeavor, with each year's marketing dollars being based on expected returns.

All of these budgeting methods have merit. Your company's communication objectives are of the utmost importance, so make sure than any budget allows room for all marketing and communication goals to be met.

Industry	SIC Code
AGGRESSIVE ASBESTOS, MISC. MINER.	3290
ACCIDENT & HEALTH INSURANCE	8321
ADVERTISING	7310
ADVERTISING AGENCIES	7311
CULTURAL CHEMICALS	2870
CULTURE PRODUCTION CROPS	100
CURIER SERVICES	4813
REPORT, SCHEDULED	4512
D.HEATING,REFRIG EQ	3585
VT & RECREATION SVCS	3721
T PARKS	7900
OTHER FINISHED POS	7996
ACCESSORY STORES	2300
ME SUPPLY STORES	5600
GAS STATIONS	5511
RIDE-NO DRIVERS	5500
SVCS,PARKING	7510
X DIAGNOSTICS	7500
INS.ACCIDENT	2080
GARDEN RETL	2083
PRINTING	2780
WKS,WATER	2781
EC	2782
TV STATION	2783

To form your marketing budget, check with industry groups to find out marketing and advertising averages. Adage.com provides annual updates.

How to Compete on Budget

If you want to compete head-to-head with your competitors or surpass them in brand awareness, a competitive-ad spending report will come in handy.

A good marketing budget should always mirror the goals of the organization—no matter how aggressive or conservative they may be.

4 TAILOR A BUDGET THAT MAKES THE MOST SENSE (OR CENTS)

You can use as much of the previous information as needed when creating your marketing budget. But ultimately, you'll need to customize a plan for growth that's the best fit for your company's short-term and long-term needs. For instance, if you're a small, startup biotech company, you may need to spend a higher percentage of your total operating budget on marketing and building buzz, versus an established hospital or pharmaceutical brand that may already have a great amount of market penetration and brand awareness. Nevertheless, a good marketing budget should always mirror the goals of the organization—no matter how aggressive or conservative they may be.

5 REVIEW THE PROCESS ANNUALLY

Marketing budgets shouldn't be static. Just like the rest of a company's projections, a new marketing budget should be considered annually to ensure that the spending is realistic. Review the success of the past year's budget, and apply what you learn in order to make future budgets more efficient.

Need help establishing your marketing budget?

Contact Maricich—we're here to help!

For more information about our agency, contact Mark Maricich at (949) 223-6455, mark@maricich.com or visit us at www.maricich.com.

About Maricich Communications

Maricich is a brand communications firm with a special purpose. We're experts in marketing lifesaving brands—those that play an important role in saving lives or restoring quality of life. We are a branding, advertising, public relations and Web development agency focused on promoting products and services in healthcare, medical, pharmaceutical and safety categories. Headquartered in the Orange County / Los Angeles region, our agency is known nationally for award-winning, strategic and creative work. Let's build your brand and save lives—together.

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