
Your Goodguys Guide to:

Setting your marketing budget

Marketing connects your business with existing and future customers. Most businesses grow through word-of-mouth, but what happens when this plateaus? What should you spend on marketing to grow your business further?

Before deciding on budget, we need to clearly define both what you want to achieve from your marketing strategy and how much you're willing to spend on achieving those objectives. We can then select which activities will help to achieve your objectives within budget.

1. WHY HAVE A MARKETING BUDGET AT ALL?

Many businesses we meet have an 'ad-hoc' approach to marketing spend, simply responding to marketing needs and opportunities as they come along.

- Setting aside a regular marketing spend will allow you to:
- plan ahead, ensuring that you maximise your return on investment;
- deliver consistent marketing which will have greater effect;
- make informed choices about the best places to spend your budget;
- avoid unexpected costs; and
- avoid running out of cash halfway through the year.

Those businesses without a budget tend to market themselves on a 'stop-start' basis. This approach is usually ineffective and exhausting. Consistency, realistic and manageable budgets are key to delivering effective marketing campaigns.

2. IS MARKETING AN INVESTMENT OR A COST TO YOUR BUSINESS?

Do you see marketing as a cost, or are you prepared to invest to grow your business? If you do want to achieve real financial growth and grow your presence in the market then you will definitely need to set aside the necessary investment required to deliver it.

You reap what you sow; those businesses that set aside a realistic and regular marketing spend see consistent levels of growth.

3. WHAT ARE YOU TRYING TO ACHIEVE?

Your marketing budget will dictate the extent of your marketing activities. A lower marketing budget will help to maintain awareness and visibility, whereas a higher spend will allow your business to grow and gain market share.

4. HOW MUCH SHOULD YOU SPEND ON MARKETING?

There are no simple mathematical formulas by which you can set your marketing budget. Many factors need to be considered, including:

- i. the maturity and size of your business;
- ii. your current share of, and position in, the market and where you'd like to be;
- iii. your turnover and existing financial commitments;

(Continued overleaf)

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- iv. how competitive your industry is;
- v. how much your competitors are spending on marketing;
- vi. how quickly you want to grow, and by how much;
- vii. whether you're a risk-taker or tend to make more conservative decisions;
- viii. whether you wish to market existing products or services or wish to introduce something new;
- ix. whether your marketing will be business-to-business or business-to-consumer;
- x. customer value; and
- xi. whether your marketing fundamentals are already in place.

If you can't afford to spend lots of money on your marketing activities, do bear in mind that it is likely to take longer for you to achieve your goals. How quickly do you want to bring new business in?

Your marketing budget needs to be both affordable and sustainable for your business. A realistic marketing budget should be around 8-10% of turnover; the CIM (Chartered Institute of Marketing) quotes 10-15%.

i. IS YOUR BUSINESS NEW OR ALREADY ESTABLISHED?

If your business is new, your marketing spend needs to be higher to increase awareness of your brand. Established businesses that want to actively grow should have a budget around 10% of their annual turnover, depending on your sector and your ambitions.

ii. YOUR MARKET SHARE

You may have been in business for a long time but haven't seen your market share grow significantly in that period; your identity needs to be more visible which will require some upfront investment and ongoing, regular marketing to increase awareness. Even for brands already benefiting from sizeable market shares, to maintain that will need a significant marketing spend to fend off competitors. Define your goals; where do you want to be in five years and what do you need to do to get there?

iii. YOUR TURNOVER AND FINANCIAL COMMITMENTS

We know that there are many calls on a business' finances. Your marketing budget will need to be realistic both in terms of what you want to achieve and what you can afford; overspend and you will face difficulties elsewhere in the business, but underspend and you won't see any results.

iv. HOW COMPETITIVE IS YOUR INDUSTRY?

The competitiveness of your product or sector affects how effective your marketing is. Reaching your target audience in a competitive sector is likely to require a higher marketing budget.

v. YOUR COMPETITORS

How active are your local and online competitors? Is your marketing budget realistic in comparison to how much your competitors are spending on marketing and promotion?

vi. HOW FAST DO YOU WANT TO GROW?

Businesses that are looking for faster growth should have a higher budget, allowing for additional marketing. You have to invest more money to make more money.

vii. YOUR ATTITUDE TO RISK

We all take different approaches to risk; you may be willing to take the plunge and invest much more in your marketing, allowing you to enjoy greater rewards but potentially drawing cash away from other areas of your business. On the other hand, you may be very careful about what you spend and wish to spread your costs more evenly.

viii. YOUR PRODUCTS AND SERVICES

To market new products and services will require a different approach to the marketing activities and spend used for marketing an existing offering. Products and services new to the market require a larger investment to gain traction and market share.

ix. BUSINESS OR CONSUMER CUSTOMERS?

Whilst we can market effectively to both businesses and consumers, 'business-to-

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consumer' marketing tends to require a greater marketing spend to achieve the same results in the same timeframe. More expensive media may be used in order to reach a much wider target audience than a business market.

x. **WHAT'S THE REAL VALUE OF A TYPICAL CUSTOMER?**

The likely cost to attract a new customer needs to be factored in when setting your marketing budget. Have you ever worked out the value of a typical customer? Not just the sale value of their initial transaction, but the lifetime value based on their repeat purchases and how long they remain a customer. What is an acceptable investment in marketing, both in cost and time, of acquiring each new customer?

xi. **ONE-OFF 'GROUNDWORK' COSTS**

Most businesses aren't ready to market from day one. Chances are that some groundwork needs to be done first; here are some important points to consider:

- Is your brand proposition clearly defined (your 'why')?
- Does your visual identity (your logo and corporate branding) communicate your brand effectively?
- Are your website and other digital platforms relevant and up to date?
- Is your marketing collateral (factsheets, brochures, stationery etc) up to date?
- Are your products and services well-presented, packaged and priced attractively?

Spending on marketing without getting the essentials right first could prove to be both costly and time-consuming in the long term, both in terms of reputation and presentation.

We work with our clients to make sure that a business is 'ready to market' before any promotional campaigns are implemented.

5. MONITOR & MEASURE

Once a marketing budget has been set, it is important to monitor and measure the return on investment. For example, what impact did a particular marketing activity have on sales, and how much did that activity cost?

We'll closely monitor which activities result in the highest financial returns for your business. With monthly reporting, regular reviews and meetings you'll always know how your marketing strategy is performing.

6. MARKETING BUDGET

DOS

- set a realistic marketing budget that you can commit to and which will help to realise your growth plans;
- be consistent. Don't stop and start marketing activity depending on monthly sales or how busy you might be;
- be patient. Marketing takes time and effort to gain traction. Think long-term!

DONT'S

- set a budget based on 'what's left in the pot this month';
- stop marketing, or cut the budget, at the first sign of success. Keep at it!
- bury your head in the sand. Be aware of what your competitors are doing; their marketing directly affects how you should position yourself and how effective your marketing will be.

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