

How to Build a Marketing Budget

What percentage of gross sales should you budget for marketing? Is 2 percent enough? Is 10 percent too much?

Despite what you may have heard, when it comes to your marketing plan and budget, there is no one-size-fits-all solution. The accurate answer to the question about how much you should budget for marketing is “it depends.”

Most businesses pass through four stages—introduction, growth, maturity, and decline—and the marketing budget you need will vary depending on what stage your business is in. The most reliable way to figure out how much you need to spend on marketing is to crunch the numbers using key metrics from the previous year.

Your company history isn't the only factor to consider. Perhaps you're committed to adding sales training to improve your close rate, or maybe you're considering hiring a superstar performer. Or maybe you think your average job size may increase because you have a new designer who you think may help attract higher-end buyers. All of these variables can go into the plan in a calculated way when you're setting a budget.

REVENUE TARGET

Let's walk through some sample calculations in a simple scenario (see “Marketing Math,” right). Imagine you're running a \$1 million company and that you're feeling optimistic about 2015. You're in growth mode, so you want to figure out how much you need to spend for marketing to generate more revenue.

The first step is to set a revenue target. Let's imagine that, with the economy growing and housing values increasing, you think you can generate an additional \$200,000 in revenue. That's a 20 percent increase ($\$200,000 \div \$1,000,000$), and puts your projected revenue for 2015 at \$1.2 million.

JOB SIZE & TOTAL JOBS NEEDED

With a revenue target established, the next step is to figure out how many jobs you will need to meet

MARKETING MATH

REVENUE TARGET		
\$1,200,000		2015 Revenue
\$200,000		Added vs. 2014
AVERAGE JOB SIZE (2014)		
Total revenue	÷	Number of jobs
\$1,000,000	÷	50
Avg. job size		\$20,000
ADDITIONAL JOBS NEEDED (2015)		
Additional revenue	÷	Average job size
200000	÷	\$20,000
Add'l jobs needed		10
Total jobs needed		60
CLOSE RATIO (2014)		
Number of sales	÷	Number of leads
50	÷	175
Close ratio		28.6%
LEADS NEEDED (2015)		
Total jobs needed	÷	Close ratio
60	÷	0.286
Leads needed		210
COST PER LEAD (2014)		
Marketing spend	÷	Total leads
\$30,000	÷	175
Cost per lead		\$171
MARKETING BUDGET (2015)		
Leads needed	x	Cost per lead
210	x	\$171
Marketing budget		\$35,910

This example uses average job size, close ratio, and cost per lead from the previous year to build a marketing budget tied to current revenue goals.

your revenue goal. In this basic example, if we assume that your company performs the same way it did last year, the simple answer is that you will need to sell 20 percent more jobs than last year.

But things won't always be so simple, so let's look at the formulas involved; they will come in

handy later when you run “what-if” scenarios. To estimate the number of jobs you will need to sell, you'll need to know average job size. This is a simple matter of dividing last year's total revenue by the number of jobs you did last year. If you did 50 jobs last year, average job size would be \$20,000 ($\$1,000,000 \div 50$).

When you divide your revenue target by average job size ($\$1,200,000 \div \$20,000$), you discover that you need to sell 60 jobs to reach your goal (that's 10 more than last year).

LEADS, SALES, & CLOSE RATE

There are no sales without leads, so you need to know how many leads you will need to sell 60 jobs. Unless you're the best salesperson on the planet, you won't sell a job to every lead you pursue. Again, looking at historical numbers can help here. Let's say that to sell 50 jobs last year, you started with 175 leads. That's a close rate of 28.6 percent ($50 \div 175$).

Assuming no improvement in the quality of the leads you get, and no change in your ability to make the sale, your close rate will stay about the same. In that case, to sell 60 jobs you'll need 210 leads ($60 \div 0.286$). (You can change those assumptions later in a “what-if” scenario.)

COST PER LEAD

The final step is to figure out how much you need to spend to generate those 210 leads. Again assuming that this year's cost per lead will be the same as last year's, you'll need to spend almost \$6,000 more than last year to get 210 leads.

In a future column, I'll take a look at how changing one or more of the variables can affect these calculations and further inform your marketing strategy. **PR**

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