

9. Financial consideration

9.1 budget

Failure to properly cost and budget your marketing plan could lead to problems. While insufficient funding for such items as equipment or staffing may immediately come to mind when budgeting for the whole business, it's the lack of a properly constructed marketing budget that dooms many marketing plans and campaigns. A marketing budget is the marketing plan written in terms of costs.

Marketing plan budgets are usually created a year in advance. There are a number of elements to include in a marketing plan budget. Start by getting others involved in the process. Determine what marketing services other departments like sales and research and development need. They may have certain projects they need completed in the coming year. Also, expect some ad hoc requests to arise during the year. Therefore, allocate an extra 10 or 15 percent to your marketing budget.

Include employee salaries and expenses in your marketing budget, including estimated bonuses, commissions, health and dental benefits, and tuition reimbursements. Plan your expenses on a monthly basis throughout the year. That way you can make adjustments if you are exceeding your budget toward the middle or end of the year.

Marketing research will likely be another large part of your budget. There are two types of marketing research you may use: primary and secondary research. Secondary research includes existing information in the form of reports and statistics. Primary research includes marketing research you conduct yourself or through marketing research agencies, such as phone and Internet surveys and focus groups.

Your advertising and marketing communication expenses also will need to be included in your marketing budget. In addition you need to determine all the types of advertising you will use.

Distribution includes fees you will incur from shipping products to wholesalers or retail stores if you run a manufacturing business. Track the rates of envelopes and postage if you sell products by mail or the Internet. Include any sales or merchandising promotions you execute in various channels like store outlets. Sales promotions may include coupons or rebates. Merchandising programs can include displays and point-of-sale materials, which are large signs used to promote

products in store aisles.

9.2 Budget methods

It's important to remember that even the most accurate of budget projections is still only an estimate. Most of the time, your actual spending will be way off from your budget. The real benefit isn't about accuracy, though. The real benefit of having a budget is that it gives you something to work from—a starting point. From there, you can make better decisions about the rest of your marketing.

Nine methods of budgeting:

1. Percentage of revenues

This is by far the most talked about method of determining your budget. This method works by taking a fixed percentage of your revenues (that's every penny your company brings in) and allocating that amount for marketing. The most commonly used numbers are 5-10% (generally for bigger businesses), 20% (used more for small businesses), and 2-5% (very large companies). Picking the percentage that works best for you will probably take some trial and error.

2. Percentage of net sales

Similar to taking a percentage of revenues, this determines your marketing budget as a fraction of your net sales. This method is a little bit less aggressive than the last method, since you exclude expenses from your calculations. As with the first method, this method will take a lot of trial and error to find the percentage that works well for your company. **Cons:** It's a broad generalization that isn't very accurate.

3. Everything you can afford

In the realm of fast-growing small business, this is definitely one of the most popular answers. The idea is to set aside the money you need to keep your business alive (presumably your family too), and throw everything else at building popularity. Proponents of this budgeting method will say that it helps grow your business quickly. If you choose to budget with this model, make sure you understand the risks you're taking.

Cons: It's risky. Most small businesses should not even think about this type of marketing budget unless they have a significant amount of backup.

4. A hair more than the competition

This method is simple in principle: find out how much your competitors are spending, and use just-a-bit more than that to market your company. The reality of doing this is a lot more difficult than it seems, since it can be very hard to find out exactly how much your competitors are spending. **Cons:** It's hard to find out what your competition is spending.

5. Desired customer growth

This is a great way to determine your budget if you have a specific number of new customers as your goal. It does, however, take a lot of information to implement properly. First, you have to figure out how much it costs to get a new customer. Then, you multiply that cost by the number of new customers you want to acquire. The result is the amount you'll need to budget in order to hit your target.

Cons: This method depends on having accurate data to begin with. It also ignores the immeasurable benefits of branding and image marketing.

6. Industry specific

A lot of industries have specific projections as to the amount you'll need to spend on marketing if you want to make it. The best way to get these numbers is to find an association or organization that represents your industry and ask them for some averages. Once you have the averages, you can refine the actual costs based on your own situation and experience. **Cons:** The industry average is going to include major players, so this budget could be way out of reach.

7. Spend nothing, market for free

You might be amazed at how many people think it's a good idea to spend nothing on marketing. While I don't think it's possible to launch a company without spending *anything at all* on marketing, you can actually come close. At the end of the day, though, it usually comes down to this—if don't want to spend any money on marketing, then plan don't plan on making a lot of money. **Cons:** It isn't actually free; you'll end up spending a lot of *time* on marketing if you follow this budget.

8. Desired market share

This is another quick calculation that can give a relatively accurate budget, so long as you have good data to start with. The projection is based on a goal of attaining a certain percentage of your market. The first step is to accurately define your market, the second step is to estimate the total marketing expenditure of anyone else competing for that market, and the last step is to take a specific percentage of

that based on your goal. You're left with a number that is a rough estimate of how much you'll need to spend to hold on to your target market share. **Cons:** It's tough to get good initial data, and it involves a lot of calculation.

9. Objective/task oriented

This is a general model that works by setting out objectives, planning out the tasks required to complete your objectives, and then estimating the cost for all of those tasks. It can work wonders for companies who have a lot of measurements and information about their business processes, and who have very specific objectives they want to reach. **Cons:** You need to have an understanding of what objectives are important to your company, and the ability to link them with tasks. This method can require a lot of calculations.

9.3 Budget considerations

A marketing plan budget is much more than a rough statement of your intentions to spread the word about a product or service. It looks at how the available finances will be shared amongst competing initiatives. There must be an expression of the total marketing budget as a percentage of sales. This gives an idea of how much of the available funds are dedicated to the marketing effort and places the activity into perspective. There must also be a further division of these funds into more specific expense categories.

While a marketing plan encompasses a much broader scope, a marketing plan budget typically focuses on the money aspect of your marketing initiatives.

Therefore; it is important to consider certain aspects of the budget:

1. The cost of attracting new customers.
2. The cost of converting interested parties into paying customers.
3. The cost of retaining existing customers.

Specific initiatives may be set up to take care of each of the three objectives outlined above. Newer businesses may need to focus on the first two objectives by using more knowledge-based advertisements; while more established companies may need to direct more funds towards retaining customers or staying in the minds of customers.

For further consideration a budget must consider these expenditures:

- Television advertisements
- Radio advertisements
- A social media campaign

- Print advertisements in local newspapers and magazines
- Brochures and flyers
- Business cards
- Promotional material such as t-shirts, hats or pens
- Discounts and other price incentives such as referral programs

Part of the marketing plan budget also has to be spent on paying for recurring expenses or the cost of actually running the department. For instance, the salaries of marketing staff and the cost of undertaking the research necessary for bringing the plan to life cannot be ignored.

The marketing plan budget should be closely monitored to ensure that it delivers value for money. There should be a tracking mechanism to highlight the expected results from each initiative set up alongside the money spent and the actual results achieved. This way it would be easy to tell which initiatives should be continued and which should be stopped