

Feng Shui in a Box

05/23/05

This question is about marketing budgets.

Dear Andi: We are launching a new gift product line, Feng Shui, (from China, using symbols as tools to direct positive energy and promote harmony and balance in life). It has a dramatically lower price point than our premiere gift line and therefore a wider potential market. What part of the marketing and PR budget should go to this? What overall percentage of a yearly budget should go to marketing? Thank you.

Let's take a look at what you need to spend, what results you need to produce, and how to put together a marketing budget. We'll figure out how to test and evaluate the profitability of your marketing campaign, so that you get optimum value for the dollars you spend.

A marketing budget is critical to support growth and expansion of any business. Most owners decide what they can afford, rather than estimating what they need. That's a mistake – too many businesses struggle with less profit than they could have, because they thought they didn't have the money to spend on marketing. Decide what you need, and figure out how to get it done. Typically, a business needs to spend 10% - 15% of overall gross revenue on sales and marketing. In the early stage of a business, marketing costs may

go as high as 30%, to support brand building. When introducing a new product, marketing costs can be as high as 50% of that product's revenue, to support the launch. Mature products may have marketing budgets as low as 5% of revenue, as momentum carries product sales forward.

Start with your goals. Define what you wish to accomplish. For example, you may want to increase overall sales by 20%, increase gross margin by 30%, increase net profit by 8%, and establish a sales mix of 50:50, premier line: new line. This will help define what your marketing budget has to support. If your new line is priced at 1/10 of the premier line, for every 1 unit sold of your premier line, you'll have to sell 10 units of the new line, in order to end up with a 50/50 mix of gross revenue.

Put together a wish list of sales and marketing activities, for each product. Consider advertising, direct mail, internet marketing, lead generation programs, trade shows, public relations, brochures, catalogs, sales force, and any other activities you believe will help create awareness and lead to sales. Assign a realistic cost to each activity. Start with a range – what you'd like to spend, and what you think you can afford.

Define your target markets for all your products. Categorize buyers:

wholesale, b-to-b, retail. **In each category** figure out:

- # of likely buyers
- quantity of purchase per buyer, for each product
- ways to reach those buyers, e.g. cable advertising vs. newspaper articles, vs. direct mail, vs. internet, etc.

Compare current customers to new target markets. The greater the difference in buyers, the more you can expect that the new product will need a new marketing approach, as compared to whatever success you've had with your premier line. This can get a little lengthy, so you may want to consider building a matrix in excel, to play out "what if" scenarios. Remember, you do need a mix of marketing efforts, and they need to be cross supporting. No single marketing effort will get you everything.

Do not put all your eggs in one or two marketing baskets. Diversify as much as you can afford to. For each new product/marketing effort, start with tests, until you are confident you can predict results. Test language, visuals, and vehicles. Figure out what produces results, and what doesn't work. Don't go with something just because you like it, or because you get a lot of inquiries. Go with the efforts that produce sales.

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Evaluate results by looking at gross profit. You can literally sell your way out of business, by focusing on sales revenue, and overlooking gross profit. Establish payoff ratios by dividing the cost of a marketing effort by the units produced x gross profit / unit. This should give you a comparison of cost /return, which you can use to evaluate test results for your various efforts.

Once you can predict with reasonable confidence, develop a roll out marketing campaign designed to hit your sales and gross profit goals, while falling within the sales and marketing budget limits you set earlier. Each marketing effort probably has an optimum range, where you get the best payoff on your investment. Prioritize the marketing efforts that appear to be most optimally productive. Track payoff ratios to identify what I call the "hump curve", the point at which you get optimum payoff from the marketing effort, for each product being marketed. Add together sales and gross profit results for all products, from all campaigns. Look at how well you cover your costs to produce the product and run the business, pay for sales and marketing, and make some profit, while moving a reasonable number of products.

If this sounds complicated, remember, it's a lot easier to hit your goals if you plan them out, upfront. And, it's a lot easier to

know if you're on track, when you have targets to shoot at.

Looking for a good book? Give this one a try: Marketing on a Budget, by Ros Jay, published February, 1998, part of the Marketing Toolkit series which is always good.

Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at www.AskAndiBlog.com. Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.

*If you are a business owner and you have a question or would like to discuss some aspect of your business, call **1.877.238.3535** or send an email to AskAndi@StrategyLeaders.com.*