



Setting a Marketing Budget

Marketing – recruiting new customers and keeping existing customers – is a key driver of business success, regardless of industry. For developers in a soft real estate market, an effective marketing strategy is even more crucial.

To reach your customers and make those vital sales, your marketing budget needs to be up to the task. After all, if you don't invest appropriately in getting the word out, it doesn't matter how much money you have poured into your product – your target market won't be there to buy.

Just how do you determine the best marketing budget for your needs?

A. Things to Consider Before Setting Your Marketing Budget

Your Industry and Competition

Since the object of any business is to increase market share, spend some time researching your industry – who are your competitors? How do they advertise or spread the word about their products or services? Do Google searches on them, check out their websites, or even talk to colleagues at other companies if appropriate.

Remember to evaluate those competitors who may be outside of your geographic region but share your market niche. For example, if your new luxury property is in Florida, your potential customers will likely be interested in several high-end semi-tropical or tropical destinations. How are developers in the Caribbean and Hawaii marketing their resorts?

A Return on Investment Focus

Investing in marketing is like investing in retirement; the more you invest, the greater your return over time. Rather than paring down your marketing budget to its barebones minimum, decide how much you want to grow your business in a set amount of time, and increase your marketing budget accordingly.

Your Business Goals

Think about where your project is in its lifecycle. What are your short-term and long-term goals? Certain milestones in the development of a project require an increased marketing investment. Start-up and re-branding efforts especially call for expanded marketing efforts to meet your business goals.

Planning for the Unexpected

Say a hurricane tears through your project before Phase II sales begin – once the damage is fixed, advertising and public relations campaigns would inform buyers that the homes are ready. Or maybe the Travel Channel is featuring your property in a "Top Ten Beach Resorts" segment; you'll want to highlight that honor with strategic travel media placements. By establishing a contingency fund equivalent to about 10% of your marketing budget, you'll be prepared for unexpected but crucial expenses.

Defining the Scope of Your Budget

The best way to track the return on your marketing investment is to target your marketing budget specifically for advertising, promotions and public relations activities. Try to avoid bloating the budget with overhead expenses such as office and personnel costs so you can accurately gauge the performance of your marketing campaigns. It is much easier to track a targeted budget of \$1 million than a diffuse budget of \$2 million that includes a percentage of organization-wide costs.

Now you're ready to establish your marketing budget. But first, here is a rundown on what not to do!

B. Common, Flawed Budgeting Methods

From challenging sales forecasts to uneven cash flows, the pressures of running a company can often relegate the essential function of marketing to an afterthought. Random advertising, public relations and promotion activities are frequently funded by a random budget. The following three budget types are often used when a marketing plan is lacking.

Last Year's Marketing Budget

Many companies choose this method out of convenience. Since the budget was approved last year, why not just increase each line item by a few percentage points to reflect inflation? While simple, this type of budget does not link marketing expenditures to marketing plan performance, so there is no direct way to determine return on investment.

It is not uncommon to find that the most expensive line items in a prior marketing budget – trade shows, national media placements – didn't even deliver significant sales leads, yet they are recycled for next year for lack of a better idea.

Budget as a Percentage of Sales

Another widespread strategy is to approach the marketing budget as a percentage of last year's sales or next year's sales forecast. Once again, this approach makes for easy math. The problem is, it's backwards. Marketing drives sales; sales do not drive marketing. By artificially limiting the marketing budget to past revenues or a projected future sales number, organizations that choose this approach run the very real risk of limiting their future growth.

Say your company will begin selling vacation homes in Phase II of your resort development in the next fiscal year. You anticipate revenues of \$3 million and plan to allocate the equivalent of 5%, or \$150,000, to marketing Phase II. What happens if sales fall short of the forecast? By the logic of this method, you would decrease marketing spending – right when you should increase your marketing investment to boost sales.

Matching the Competition

Matching the budget of your competitors may seem like a good idea, but think again. As with the percentage of sales and last year's budget methods, matching the competition can deliver a general ballpark figure, but it can also lead you seriously astray. How will you know if your competition is conducting poor, adequate or exceptional marketing?

A 2003 U.S. Bank report on failed businesses found that insufficient marketing contributed to the collapse of roughly 64% of the companies surveyed; poor marketing, financial practices and management were named as the three primary drivers of business failure.

Even among companies that survive or thrive, there is huge variation in the proportion of revenues invested in marketing. Depending on the industry, niche and place in the business cycle, companies generally spend between 1% and 12% of their estimated revenues on marketing.

Ultimately, your marketing budget should be set by your specific marketing plan.

C. The Best Budgeting Method: Start with a Plan!

Basing your marketing budget on your marketing plan takes time, research and knowledge, but it is more than worth your while – and your investment.

A good marketing plan will profile your industry, niche, customer base and competitors. It will evaluate your current marketing efforts and show which points of contact with potential and existing customers offer the most return on investment. It will provide the framework through which you can identify your marketing goals for the coming year and set performance benchmarks to measure whether or not you accomplish your goals. The goals then form the basis of your budget so you can maximize your marketing dollars.

For many business owners and managers, developing a marketing plan and budget is a daunting process. This is where an advertising agency can really help.

Your agency, especially if it is one that specializes in your industry, can easily guide you through the process. They have years of experience in working with clients to design the most effective plan and budget, and can provide marketing research that infuses a level of detail well beyond the reach of most businesses.

For example, you might already know that your customers are affluent Gen Xers and Baby Boomers. Your agency can deepen your customer profile by finding that most of your customers are married, are of an average age of 47, and earn a median dual income of \$121,000. At the top end of your customers' financial spectrum, two-thirds of U.S. millionaires work for themselves and are the first generation in their family to have achieved wealth (RoperASW).

The kind of detailed information that results from agencies' market research, and the expertise agencies have in applying that information to marketing campaigns, will dramatically improve your marketing results.

Fresh Creative is a communications and design firm that specializes in real estate development and hospitality properties. We use strategic process and experience to develop comprehensive solutions that create distinctive impressions.

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