Anatomy of a Measurable Marketing Budget: Acquisition, Retention and Value Growth

by Laura Patterson

The end of the year is rapidly closing in. As the CEO or member of the C-Suite (COO, CFO, etc) you are focused both on securing business before the quarter ends and preparing for the coming year. One of the critical housekeeping items that comes with the next fiscal year is the budget for each of your organization's primary functions, including the marketing budget. If you are like many organizations, this was a year of severe belt tightening and one of the places you may have significantly reduced this year was marketing. As you prepare for next year which many experts expect to also be fraught with challenges, we would like to offer a new approach for how you should ask your marketing team to develop the marketing budget.

As a member of the leadership team, we hope you subscribe to Peter Drucker's management principles, including the principles that "the purpose of business in to create a customer" and that "there are only two basic business functions: marketing and innovation."When you combine these principles with Phil Kotler's (a renowned marketing professor at the Kellogg School of Management) perspective that "marketing is the science and art of finding, keeping and growing profitable customers," you can gain some insight into a new way to allocate marketing resources. For if the purpose of marketing is to find, keep, and grow profitable customers, essentially the organization is giving marketing resources to invest on its behalf for the purpose of customer acquisition, customer retention and customer value growth.

Even so, as we work with companies on their next year marketing plan and budgets, one aspect of the market budgeting process continues to stand out; budgets still remain structured around programs, media types and/or channels instead of allocating resources against these three specific business outcomes marketing's initiatives are expected to produce. This trend continues even though many marketing programs are more integrated and multi-part than ever before. The cross-channel interdependencies add to the complexity of both the budgeting and measurement processes. Because it's difficult for the leadership team to relate the money for various marketing mix elements to business results, it's relatively easy to understand why marketing organizations this year faced budget reductions and the imperative to just do more with less. It's time to ask those who prepare your marketing budget to relate the various elements in the mix to these three specific business outcomes.

This means those responsible for the marketing budget need to understand two things. First, all marketing programs should in one way or another be designed to find, keep, and grow profitable customers. And second, if all marketing programs and their associated activities (advertising, direct marketing, PR, etc) should be financially linked to these three objectives. As a result, marketing resources and dollars should be allocated into three buckets:

- those deployed for finding new profitable customers.
- those deployed for retaining existing profitable customers and garnering their loyalty (referrals, etc).
- and those resources deployed for growing the value of profitable customers (such as increasing the usage or number of products/services per customer).

We realize allocating the marketing budget around find, keep and grow isn't an easy accounting change. Most financial systems are built around accounts and subaccounts. And advertising, PR, events, etc. have become established accounts associated with the marketing budget. Submitting a budget around find, keep and grow is going to create angst with the financial systems. But the angst is worth it if you can finally relate marketing investments back to business results.

If you decide to embrace this new approach, ask your marketing people to implement these four initial steps to establish a budget using the find, keep, and grow approach.

- Establish measurable marketing objectives around customer acquisition, retention and value growth.
- Develop programs to support each objective and link every program to one of these objectives.
- Identify every element in the marketing mix and its associated dollars for each program. This is going to require that you have historical data related to program results and program costs.

- Identify any data, tools, processes, systems, skills needed to achieve each objective and any dollars associated with each of these.

Once the marketing programs are aligned around find, keep and grow, ask your marketing team to do four more things:

- **Allocate –** now that there are a set of measurable objectives and the investment required for each is identified, marketing and the leadership team can engage in a conversation about priorities and focus. Once the priorities are clarified, you can create an allocation model to allocate the marketing budget based on the priorities and the performance targets for each.

- **Tally–** Based on the allocation model, have marketing create a budget table that includes every cost for each program and objective with a sub total by objective, then a sub total against find, keep and grow.

- **Monitor –** As programs are implemented, it will be important to monitor how well the programs performed against the committed targets and budget in order to be able to make course corrections as needed. Monitoring will required your marketing team to track and measure the impact of marketing programs and to track and measure the execution of a marketing program. Tracking program execution means your team will need to be able to track all the people both internal and external, and all the steps, including approvals, to understand the total cost of program execution. Understanding and communication all of these cost components will be as important to establishing ROI as knowing the revenue impact. It may become evident that a particular strategy and/or program aren't working but another is and it may be necessary to terminate one program and then decide whether to eliminate these resources or reallocate them to another program or department.

- **Report –** A fundamental part of being accountable is reporting. Ask your marketing team to regularly report on the status of the investments and the return on these investments. Being able to sort and report on the budget quickly is going to challenge many of the capabilities and tools marketers use today so your team may need some new and better tools.

These eight steps will help you and your marketing team be able to connect marketing investments to what matters to business - revenue and profit. To do your marketing team needs to understand the key business outcomes you expect them to impact so they can make clear connections between marketing efforts and business outcomes—down to individuals and activities. The stronger the correlation is between people, programs, and marketing performance, the more insight you will have as a member of the C-Suite into how the marketing investments helping the organization achieve its goals.