# How much to spend on marketing, and how to spend it

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Small service businesses, which characterize many Canadian accounting firms, are staffed by less than 40 people. Observations suggest that small accounting firms with less than 10 staff are commonplace. With sales estimated to be less than $2 million, the question arises, how much should a small service business allocate to marketing professional services? In any business, bills must be paid, and payroll met before any other considerations. For a small business generating $1 million to $2 million in sales annually, a marketing program is more of a luxury and second thought than an obligation. And, it is usually carried out by one or two of the principals.

As a general rule, small to medium-sized enterprises (SMEs) allocate around 1% to 5% of their projected annual sales to marketing. The 5% number (widely proclaimed in academia and industry) is very general, and can vary significantly depending upon a myriad of internal and external factors of a business. Small businesses marketing directly to consumers are likely to pay at least 5% and perhaps much more to persuade consumers, who are not loyal to the company and focused on low-cost only, to buy their product or services. Businesses marketing to other businesses may spend much less than the 5% because the marketplace may be mature, populated with clients who not only want, but need the product or service. In general, the smaller the business in sales, greater is the cost of marketing as a percent of sales. And, for some small businesses in a very competitive mature market sector, the cost of retaining existing customers may be much higher than the cost of generating new sales. Fixing a percentage of sales to a marketing program for small businesses is extremely difficult, but a place to start is 5% of annual sales. Once a budget is established, then it becomes even more challenging to allocate proportions of the budget to tasks designed to implement a marketing plan and generate sales.

Consider the small business generating $2 million in sales. If that company was able to set aside 5% of its revenue for marketing, it would have $100,000 to implement a marketing plan. This raises another observation that small businesses are unlikely to have a marketing plan. Even if they had $100,000 to spend on marketing; without a marketing plan with tactics for implementation, the money may not be spent where it could be most effective. It is more likely that a small accounting firm with less than 10 staff would not have anything near $100,000 for marketing. The reality is, when bills are paid, payroll met, taxes paid and revenue set aside for profit, very little cash is left to allocate to marketing and sales. If a small business of less than 10 people were able to undertake a marketing exercise, and if it had a budget of $25,000, that would be a significant amount of money to generate new sales. This works out to be less than 2% of sales. Deriving a percentage of annual sales is comprised of an educated guess within the context of historical expense data and anticipated sales. Just over $25,000 is 1.7% of $1.5 million of sales.

For small businesses, the budget allocated to marketing does not include the payroll cost for time spent by staff involved in marketing and sales activities. These tend to be incidental costs to marketing. The marketing program of a small business is typically described in the expenses of a financial statement as, "advertising, promotion and marketing." This very general entry catches sponsorships of community events or teams, printing brochures, advertising, networking events, and tradeshows. Starting with a number like $25,000 or $50,000 and then allocating proportions to tactics of a plan would give the principals of a small business the framework for implementing and measuring the effect of a marketing program. Having a budget allocated to a marketing plan to implement tactics designed to generate sales would make the expenditure of any limited budget far more effective and a solid investment. The budget of a marketing plan would detail the "advertising, promotion and marketing line entry. That's when a small business can actually estimate the costs of the tactics of a marketing program as a percentage of the marketing plan budget, and then assess return on investment of the tactics. Defining return on investment becomes even more complicated. Is it leads, converted leads to sales, number of requests for proposal received…? It can be very challenging to define the measure of success of the marketing program.

To maximize the return on small budgets for marketing, some businesses leverage their marketing budget with the marketing plans and activities of industry and professional associations; and with guerrilla marketing techniques. This is why it is very difficult to set general rules for percentages of sales for marketing budgets. If a company is launching a new product, and the sales in the first phase are expected to be low or none, then by definition, there is no budget for marketing. Then what? Some companies can have a large impact on their market with a very tiny budget through contra work with suppliers, associations, and sometimes friendly competitors. Booth space at tradeshows can be shared between a small association and its members. Members are able to have a presence at the show while supporting the association to which it belongs. Successful small businesses will also use limited resources for direct e-mail campaigns using software such as Constant Contact; public relations activities using well-written news releases and appearances on local cable television; using methods of customer experience relationship to keep the 20% of customers who generate 80% of sales; writing and publishing editorials with useful and relevant content; volunteering for speaking engagements; ensuring that all content and social media sites and Web sites are rich in detail, information, and knowledge; hosting Webinars; and making sure that their Web sites are optimized and interactive with their client base and marketplace.

Small businesses should have a marketing plan and budget that is based on its business plan. Any business should have a way of tracking the costs of the marketing effort and measuring the plan and budget against performance. Sales generated by existing customers must also be included in the performance measurement. Not only does the marketing plan and budget account for new sales, but elements of the marketing plan contribute to the retention of and sales to existing clients. For most small businesses, it is repeat business with existing clients that keeps them in business. Sales to new clients help the company grow. It is important to measure the success of the marketing plan and budget, or the marketing function is a waste of money. The cost of marketing is an investment that must help generate enough work to keep the small business in business.

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