



## Survey: Marketing Spending, as Percentage of Revenue

One question we hear from clients fairly regularly is "How much does the average company spend on marketing as a percentage of revenue?" So, we collected some information on that question.

The question "marketing as a percent of revenue" was asked in three different surveys conducted. These were broad-based surveys, and the only filter on the respondents was whether they were senior executives; C-level, Owner, President, VP, etc. A cut-off of \$100 million was used to differentiate between large and small companies.

A "reasonableness" filter was applied to the data; throwing out a few of the highest and lowest numbers that seemed unreasonable or unlikely that might unduly skew the results. (While some non-mainstream companies may be spending 50% of revenue on marketing, it's not a common case, and therefore they were deleted. We also disregarded a couple below 1% that seemed either inaccurate or unreasonable.)

Answer:

**Companies with \$100 million in revenue or more, allocate an average of 13.8% of revenue to marketing. Companies with less than \$100 million in revenue allocate an average of 8.7%.**

The results from the three surveys didn't vary much more than a point on either of those answers, so I feel like they are reasonable numbers. A small company has fewer resources and typically is more operations focused than marketing focused, so it makes sense that they spend less as a percentage of revenue than large companies do.

If we want the answer for all companies; on average, regardless of size and position in the market, **U.S. companies spend 9% of revenue on marketing.**

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## What Percentage of Your Revenue Should You Spend on Advertising?

Far too often, small companies base their advertising budget on how much they feel they can afford. While a growing company shouldn't spend more on marketing than profits warrant, haphazard budgeting for marketing can be counterproductive over time. Instead, it's usually best to allocate a specific percentage of revenue for advertising.

**The percentage of your revenues that should be spent on advertising will be influenced by the following factors:**

### 1. Your type of business.

If you market to the public, you're going to have to spend more than if you market business-to-business. Though television, newspaper, and radio advertising can be expensive, it's often vital for the ongoing profitability of a retail store or local service provider. While the actual percentage will vary among businesses, **it's common for a new or growing company to spend 10 to 15 percent** of the year's anticipated revenue on advertising. As a business becomes better known, this percentage could be trimmed. But when doing so, owners should monitor revenues closely every three to six months to see if reduced ad budgets result in reduced revenue.

**B2B advertising is usually more targeted than business-to-consumer advertising and can make use of direct phone calls, lower-cost industry-specific journal advertising, highly targeted direct mail and catalogs.**

In either case, it's important to experiment with the percentage you allocate to advertising. Don't be caught in the knee-jerk reaction: *"I'd never spend 10 percent (or 15 percent) of my revenue."*

If you're spending 7 percent now and find upping that to 15 percent increases your revenue by 25 percent, you've come out ahead. Similarly, you may find that decreasing your percentage doesn't significantly affect your revenue. In this case, however, monitor revenues carefully to make sure they don't fall off gradually over time.

### 2. Your location.

Clearly, a store located in the heart of a bustling city will need to spend a lower percentage than one out-of-the-way. **A successful business may spend no more than 2 to 5 percent of its revenue on advertising** while the same type of business that's well off the beaten path or in an area with more direct competition may spend 10 to 15 percent.

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### 3. Your competition.

If your main competitor showers the newspaper with ads every week, you may find yourself at a disadvantage if you stick your head in the sand. **If you're just entering the market and/or want to take business away from an established company, you'll need to spend a higher percentage.** If an established business has become complacent and doesn't advertise, your aggressive marketing can be highly successful in a relatively short time. This is especially true if you're in an area of growing population, in which new customers are entering the market area continually.

On the other hand, if you're the established business and find that new competitors are using extensive marketing campaigns, you may have to up your percentage to maintain market share.

### 4. What you can afford.

A small company should not spend more on advertising than its profits demand. But in certain instances (such as when an aggressive new competitor is taking business from you or when you expand geographically or through new lines of business), you may have to temporarily increase the percentage to keep up. This could mean allocating more for marketing and less for other areas of operation.

Whatever type of business you're in, your business plan should contain provisions for your marketing budget. Ideally, it should be stated as a percentage of your anticipated yearly revenue. Start-up companies and companies revising their business plans should consult with their business advisors and **seek counseling from industry associations or industry experts regarding the ideal percentages in various situations.**

### Other Important Factors and Methods

Deciding what percentage of gross revenue is a common method to budgeting, but a company must also create a realistic budget that meets the business objectives.

Another method of budget determination is to start with the business goals and mathematically work backwards to find out how much you need to achieve those goals.

For example: A goal of an extra \$100,000 in sales means;

1. How many/ what kind of sales are needed (to achieve that number)?
2. How many leads to achieve those sales?
3. What marketing tools (frequency/reach) will be required to achieve those leads?
4. How much will it likely cost to generate those leads?

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Although this example is simplistic, it can work for a variety of business goals such as awareness, brand recognition, penetration into a market, etc. By quantifying the business goals first it will make the process easier.

I have encountered situations where once the budget was determined, the company could not (or would not) pay for it. This helped them be more realistic with their business goals for the year as well as their expectations from the marketing program.

The first step should be to evaluate your goals and determine what you want your marketing plan to accomplish. Brand Awareness, Brand Building or simply 10% increased sales.

Any "tried and true" formulas are outdated. They're based on marketing academics that are decades old. What (and where) you allocate for marketing depends on your business, your customers, your location, and your industry. And, remember advertising is not marketing - and many small businesses can't afford to do it effectively. We will make sure to put ROI measurements in place, and some tracking or other metric so you can tell if the ad or promotion is being effective and adjust accordingly.

"What percentage of a company's revenue should be allocated to executing the marketing plan?" The answer: 100%. EVERYTHING you do is marketing - so look at what you need to do from a total business perspective and that will drive your budgeting."

The biggest mistake you can make is to create a marketing budget that you do not fully integrate into your total business plan. Marketing includes product development, operations, personnel and management, finance, marketing and advertising. Until you get your mind around that concept, you will continue to make one of the most common errors in business development.

#### About the Author

David Hickman is a Partner at The Still and has over 25 years of marketing and advertising agency experience. He has directed several national ad agencies in New York and Atlanta as a Vice-President, Creative Director, Art Director or Marketing Director.

#### About The Still

An intellectual property creation, marketing, and media consulting firm, The Still handles all aspects of your company's branding and positioning efforts. The Still provides media metrics analysis, marketing audits, and market research, as well as marketing execution and idea creation. See [http://ideadistillery.com/Concentrating\\_Marketing.html](http://ideadistillery.com/Concentrating_Marketing.html).

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