Complete Media

MARKETING • ADVERTISING: **FULL CIRCLE**

How to Own Up & Cut Down on Your Marketing Spend

There are two types of budget cuts: the ones you have an obvious reason to make and the ones you're afraid to make. "Obvious reasons" might include the cash crunch your company is facing, for example. But if you're a growing startup with cash at hand, and you still don't often think about reallocating or making budget cuts, you may be allowing surplus and unnecessary cash burn to creep in.

Then, if you let this excess spending go on too long, you might lower your growth potential and make it harder to attract funding or outlast the competition.

Marketing is all about leverage, so spending money is important. But you need to have more gut than glut to grow a business. You need to own up to your marketing spend, and that requires "defending" every dollar to yourself before you can "defend" it to your company. You also need to think about revenue growth across the whole organization.

And sometimes that means prioritizing and cutting your own spending so the company can invest cash in initiatives with the highest and most predictable ROI across the company.

So, whether you're facing an immediate cash shortage or trying to get leaner, to extend your company's runway and ROI, here's a six-step process I've used and recommend, for identifying excess and pruning your marketing budget while staying on the path to growth.

1. Test a performance indicator.

Start by choosing one important key performance indicator (KPI) directly tied to revenue, to evaluate against your spending. For example, you could choose the number of website visitors, qualified sales leads or in-store coupon redemptions. Then, repeat the process as many times as you want to evaluate your spending against multiple KPIs.

2. Make two lists.

Make two lists labeled D and I, for "direct" and "indirect," and choose a specific time period. I prefer to use a three-month period. Include in list D all spending during your chosen time period that directly and measurably has impacted your KPI, and include in list I all spending that indirectly or indeterminately has impacted your KPI.

You can include time spent by people, or hard dollars, or both. For example, you might include in list D your spending on search engine marketing or promotional emails that are tracked all the way through to your KPI. List I might include spending on a new video or updating the look and feel of your current website.

3. Do the math.

Add up the total KPIs achieved from list D spending during your chosen time period, and assign them to list D. You should know the number of KPIs that came directly from the spending in list D, because by definition, list D will be directly measurable and tied to your KPI. If your list D marketing spend impacts your KPI in a future period instead of the current period, make sure you use the same future period, when you add up the KPIs from list D and from list I in the next step.

4. Do the math, Part II.

Add up the total KPIs achieved from list I spending by subtracting the KPIs in list D from all KPIs achieved in your chosen period. For example, if you had a total of 100,000 new website visitors during your chosen period, and 55,000 came from spending in list D, you would assign 55,000 KPIs to list D and 45,000 to list I.

5. Do the math, Part III.

Calculate the cost-per-KPI for both lists by dividing the total spending in each list by the total KPIs achieved from the spending in each list.

6. Reallocate, if necessary.

Consider reallocating or cutting back on your spending in list I if the cost per KPI on that list is higher than the cost per KPI in list D. If you're not sure exactly how much or where to cut, begin testing reduced portions of your list I spending in isolation against the benchmark in your list D spending. That way, you'll only be spending the minimum amount of money necessary to prove out your indirect spending decisions.

This six-step process is oversimplified and assumes you're always optimizing your direct and measurable spending against your KPIs. It also assumes that some portion of your marketing spend is hard to measure in terms of direct impact.

Keep in mind, however, that our increasingly connected world means fewer excuses for not measuring the direct impact of your marketing spend on key metrics. Make sure you always prioritize spending on measurement and analytics so you eliminate as many blind spots as possible. Remember: You can't manage what you can't measure.

Source: John Arnold in *Entrepreneur* magazine