AICPA® PCPS
Private Companies Practice Section

Developing the Right Marketing Budget for Your Firm

Original content provided by The Whetstone Group, Inc.

DISCLAIMER: *This publication has not been approved, disapproved or otherwise acted upon by any senior technical committees of, and does not represent an official position of the American Institute of Certified Public Accountants. It is distributed with the understanding that the contributing authors and editors, and the publisher, are not rendering legal, accounting, or other professional services in this publication. If legal advice or other expert assistance is required, the services of a competent professional should be sought.*

INTRODUCTION

Marketing budgets are often a source of quandary and frustration for accounting firms. Some firms admit to having no marketing budget. A majority of CPA firms that do track marketing expenditures struggle with what constitutes a marketing expense, and others wonder how to measure if they are spending at the right levels and if they are spending on the right activities. Almost every firm questions if they are getting the right (or any) return on their investment.

These challenges in marketing budgeting are often symptoms of greater issues with the marketing and sales activities in many firms. While to some extent it is subject to the chicken and egg principle (is a firm's challenge with budgeting due to issues in marketing and sales, or are issues in marketing and sales the result of the lack of a budget?), it's clear that there is a direct relationship between a firm's effectiveness at marketing and sales and their ability to evaluate, develop and track a marketing budget.

The Whetstone Group, Inc. has developed this whitepaper to assist firms in:

- Understanding the relationship between their business development strategy and their marketing budget;
- Exploring the relationship between marketing and sales—and how that affects a firm's budget;
- Determining the appropriate level of spending for their firm;
- Wisely allocating dollars to the right activities;
- Calculating return on their marketing investment.

SECTION 1 – WHY BUDGETS ARE IMPORTANT

It seems obvious that having a budget is a good idea. For those firms that have never had a budget, or that have had a "default" budget—meaning they look back at year end to determine how much they should spend the coming year—are missing out on some of the key benefits that having a budget affords.

1. *Control spending*
   The fundamental purpose of a marketing budget is to give firms control over their marketing spending. A budget enables firms to put aside a set amount of money that they would like to invest in growth and manage the way that money is spent each year. It precludes the open checkbook policy that causes firms to end up spending too much (or in many cases, too little) on marketing and sales activities.

2. *Avoid random and ad-hoc marketing activities*
   Creating an effective budget requires some marketing planning to take advantage of the best opportunities for growth. This ensures marketing dollars are being spent in a manner that supports your firm's growth strategy. Without a budget and this forethought, firms often struggle to reign in their spending. These same firms almost always find themselves engaging in one-off marketing activities that may or may not support a firm's vision for growth.

3. *Leverage investments*
   A by-product of developing a marketing budget is the ability to leverage marketing investments by creating activities that support each other. For example, investing in an advertisement in an industry journal can also support an investment in telephone lead generation that is also focused on that industry segment.

4. *Measure results*

Without a marketing budget it is impossible to measure the return your firm is generating from its marketing investments. Measuring results is critical in determining which activities you should continue to implement, and on which activities your firm should not waste your people's time, in addition to the out-of-pocket dollars you're spending.

5. *Ensure the proper balance between marketing and sales*

Firms need to implement the right mix of marketing and sales activities to be successful in meeting their growth goals. By evaluating your firm's marketing budget you can get a feel for how your firm's business development efforts are divided among marketing, transition and sales activities to make sure the mix is appropriate based on your firm's goals.

SECTION 2 – GETTING STARTED

So, what's the best way to get started? It's important to understand that effective marketing budgets are tied to well-developed marketing plans. To craft the right budget for your firm, it is essential for the money you agree to allocate toward your marketing and business development initiatives be closely tied to the growth goals and strategies that you have outlined in your firm's marketing plan.

Let's say for example that your firm has decided it wants to grow the Biotech niche by 25% next year. It will work to achieve that targeted growth by focusing both on existing clients and prospects. It will use a combination of strategies including tradeshows, seminars and social media – specifically the firm's existing blog and LinkedIn to build the brand and develop its leads.

Look to the goals that your firm has identified in its marketing plan to guide the type and amount of resources to be allocated in your marketing budget. See example below.

Goal 1:	Grow Biotech niche by 25%	
Strategies:	Tradeshows, seminars and social media – existing blog and LinkedIn	
Tactics:	Participate in Annual Conference	
	Booth	$ 5,000
	Pre-event mailing	$ 500
	Sponsor breakfast	$ 2,500
	Nook giveaway	$ 150
		$ 8,150
	Host Quarterly Seminars	
	Pre-event mailing	$ 500
	Food/beverages	$ 1,200
	Materials	$ 500
	Facility	$ 1,000
		$3,200 x 4 = $12,800
	Blog	
	New design/layout	$ 1,000
		$ 1,000
	Total	**$21,950**

It will be important to work through this exercise for each goal and corresponding strategies included in your marketing plan to determine the proper expenditures that will be needed to achieve your goals.

(You can find **Marketing Plan** and **Budget worksheets** located the **Client Acquisition section** of the **Practice Growth & Client Service Center**.)

SECTION 3 – MARKETING & SALES

It's also important to understand that there is a significant difference between marketing and sales. Although it is common practice for CPAs to use the two terms interchangeably, they are two completely separate and distinct disciplines with different purposes.

Marketing is fundamentally positioning your firm in your market. Positioning means communicating your messages to your market in a way that cause them to understand that you are in the business of helping them solve their business challenges. Marketing activities include:

- Public relations
- Branding
- Advertising
- Materials development (brochures, service sheets, business cards, etc.)
- Promotional items
- Social media
- Sponsorships

Sales is fundamentally the closing of the deal. It involves activities such as:

- Sales calls
- Needs assessment
- Dealing with objections
- Proposal development/presentation
- Sales management

Marketing activities, implemented without sales, cause firms to invest dollars with little return. Engaging in sales activities, without the proper marketing activities on the front end, also result in little return as close rates will be low. Marketing activities are generally targeted to groups. Sales activities, especially in professional services, are one-on-one.

A balance of marketing and sales activities is the key to generating return on your marketing and sales budget. A number of business development activities can be both marketing and sales activities – effectively transitioning you from marketing to sales – when implemented with the proper follow-up to enable someone from your firm to engage in a one-on-one conversation with a prospect. Examples include:

- Seminars
- Direct marketing
- Email newsletters
- Tradeshows
- Involvement in community Boards or industry associations
- Referral programs

Again, follow-up is the critical element that transitions these activities from purely marketing activities to sales activities that could potentially generate revenue for your firm.

Allocation of Budget – Marketing vs. Sales

When you are developing a new, or evaluating a current budget it is important to look at the line items in the budget to determine if your investments properly position you to get a return (close a sale). You can analyze your budget with the following process:

1. Go through your budget line by line and determine if each activity is purely marketing, purely sales or could transition you from marketing to sales with the right follow-up. Label each line M (marketing), S (sales) or T (transitional).
2. Total the dollar value of the line items labeled M.
3. Total the dollar value of the line items labeled S.
4. Total the dollar value of the line items labeled T.
5. Calculate the percentage of total budget for each—M, S and T.

By their nature marketing activities require more out-of-pocket dollars than sales activities, and generally require a larger percentage of your overall budget dollars. The transitional activities fall somewhere in the middle. The *ideal* allocation among marketing, sales and transitional activities for CPA firms is:

Marketing – 45% **Transitional – 30%** **Sales – 25%**

What is more typical, though, is that CPA firms are far more heavily weighted toward marketing with little to no budget in transitional activity and a very small amount of budget toward sales activity:

Marketing – 90% **Transitional – 0%** **Sales – 10%**

If you find your firm in the latter category this may be the reason why partners and/or marketing professionals have the feeling that your firm is not getting the return on marketing investments that it should.

These percentages also need to take into consideration your firm's current market position. If, for example, you were starting a firm from scratch, or going through a name change, it is likely that for a year or so you will be doing more market positioning and brand building than you would if you were in a more established firm. In this case, more budget would be weighted to marketing activities. If your firm has been engaged in a lot of marketing over the past couple of years, but has had little follow-up activity to transition to sales, you may decrease the percentage of marketing spending since you are presumably positioned and allocate budget to taking advantage of previous marketing investments through more transitional or sales-oriented activities.

SECTION 4 – GENERAL GUIDELINES FOR BUDGETING

One of the most frequent questions firms ask about their marketing budgets is "How much should we be spending?"

Most industry sources like the AICPA and the Association for Accounting Marketing (AAM) indicate an average marketing budget of between 2-3% of the firm's gross projected revenues, with the actual average being 2.5% for firms in maintenance mode. If your firm is in aggressive growth mode you should find yourself in the 3-3.5% range.

The 2.5% number above does not include marketing staff. Also, if your firm has not had a marketing budget, or if your marketing budget has been significantly less than 2%, it may be easier for your firm culturally to gradually work its way up to a budget in the recommended range by budgeting 1.5% this year, 2% next year and so on. The important point to remember is that firms that do not make any investment in growth will lose ground each year by virtue of and the natural attrition of the client base due to those things that are out of your control such as mergers, changes in leadership or clients going public. Developing a marketing budget allows firms to understand what they are investing, and evaluate if their investment is appropriate.

Most firms do not include individual partner business development hours in their marketing budgets, although they track those hours. It is possible to calculate return on investment on those hours if a firm chooses to do so. However, the marketing professional or other non-partner responsible for managing the firm's marketing budget should not have to be responsible for managing the allocation of partner business development time.

Focus is critical to the success of your marketing efforts. When firms contemplate how to make the most of their marketing budget the answer is always that frequent and consistent marketing to a smaller, focused market will generate better ROI than fewer marketing activities to a broad, general market.

Dividing the Budget

The budgeting process is directly related to how your firm is organized for growth. After making the initial decision about how much to invest you must decide how to divide the funds. There are typically three portions:

1. The portion retained for firmwide marketing activities This includes items such as branding, advertising, website, sponsorships, etc. These are activities designed to improve the firm's name recognition in the market. (Anywhere from 30-50% of the total budget)

2. The portion allocated to niche teams The size of this portion is determined by the size of the niche practice (i.e. the % of the firm's total revenue), its growth goal (aggressive growth vs. maintenance mode), the size of the team (number of team members involved in implementation of the team's marketing plan, and the team's name recognition among its target market (which can differ from the firm's overall brand recognition). (Anywhere from 15-35% of the total)

3. The portion allocated to individuals Most firms have a number of individuals who are responsible for business development, but who do not serve on a niche growth team. (The remaining 15-50% depending on factors below)

Firms in which business development activities are driven by individuals may have a budget with only two portions (1 and 3 above). These firms should allocate each individual with a growth goal a portion of the marketing budget to do with what they see fit. This ultimate autonomy works in small firms with no formal marketing resource and no areas of specialization. However, as with any budget, each individual's allocation should be tied to his/her individual marketing plan. It is the responsibility of the sales manager to oversee how the budget is spent and to track the individuals' results—ROI on both activities and time.
In larger firms, or firms with industry of functional specializations there may be a team(s) of people focused on the growth of a particular segment of the firm. In this case, the niche team should be allocated enough budget to implement the activities the team feels will enable them to achieve their growth goal.

The most important factor when dividing the budget is that no budget allocations should be made until there is a plan of activities in place.

SECTION 5 – TRACKING AND MEASURING RETURN ON INVESTMENT

Your marketing budget is a key tool in tracking marketing expenditures. In addition to knowing what you are spending, you can use the marketing budget as a tool to help measure return on investment (ROI) in business development. One advantage to this focus on ROI is it challenges you to think about how to structure each marketing activity in order to generate the best return. A side benefit of this is that once this becomes your mindset your firm will more naturally develop the appropriate balance of marketing, sales and transitional activities.

You can measure ROI by individual activity, by team, by individual partner or for the firm as a whole. We recommend a combination of all these analyses to give you the most complete picture of your return on business development investments. Following are examples of how to measure ROI on various areas:

	Components	Calculation	Reasonable ROI Expectation*
Individual activity	All hard costs associated with implementing the activity	Margin on revenue – Hard costs / Hard costs x 100	100%+
Niche team	Team budget for marketing, transitional and sales activities	Margin on work sold (new and existing clients) – Total team budget / Total team budget x 100	50-200% depending on the team
Firmwide budget	All costs included in the annual budget	Margin on all new work for the firm (new and existing clients) – Total budget / Total budget x 100	50%+

*ROI is affected by many factors. These percentages are based on our observations and experience working with CPA firms across the country.

Measuring ROI by activity can help you determine which activities generate the most return enabling you to consider how your marketing budget is allocated among various marketing tactics. Your analysis should include asking yourself the following questions:

- Are we getting the right return on our investment?
- If not, are we transitioning marketing activities to sales by doing the right follow-up?
- Are we investing enough in positioning ourselves with our target markets to give us the best chance to succeed at sales?
- Do we have individuals in the firm committed to making the activity successful?
- Does our culture accept the activities we are engaged in?

Return on investment can be measured periodically throughout the year, but due to the long sales cycle for CPA firm services you should probably not make decisions about changing budget allocations too quickly. Generally an annual review is appropriate for reviewing the firm wide budget.

SECTION 6 – BEST PRACTICES

Following are some of the best practices in budgeting and tracking based on our experience with CPA firms across the country:

1. Develop a marketing plan and tie all marketing expenses in the budget to the plan.
2. Make one person responsible for managing the budget. This person should have the authority (with support from management) to say no to those individuals who ask for budget for marketing activities that are not in the firm's marketing plan.
3. Budget somewhere between 1.5-3% of your firm's projected gross revenue for marketing expenditures.
4. Include out-of-pocket or hard costs in the plan. If your firm includes marketing staff in the budget, your budget should be at the upper end of the range listed above (2-3%). Do not include partner time.
5. Focus is one of the keys to managing your budget. Your ROI will be better when you engage in more frequent marketing activities to a small, focused list of prospects than if you engage in one marketing activity to a larger, broad-based list.

Growth Budget Allocation Worksheets

Following is an example for a firm growth budget. A best practice is to have a similar format for each team, indicating the specific areas in which each niche team will spend its allocated dollars.

Sample Firm Growth Budget

Projected revenue	$9,720,000		
Item	**Amount**	**YTD**	**Difference**
Total Growth Budget	$ 155,700	$ 134,080	$ 21,620
Firmwide items:			
Name recognition advertising	$ 2,700	$ 2,700	$ -
Newsletter	$ 13,000	$ 27,300	$ (14,300)
Community sponsorships	$ 5,000	$ 13,500	$ (8,500)
Client entertainment	$ 5,000	$ 15,300	$ (10,300)
Collateral/premiums	$ 2,000	$ 4,500	$ (2,500)
Media relations	$ -	$ -	$ -
Direct mail for branding	$ 5,000	$ 5,250	$ (250)
COI activities	$ -	$ -	$ -
Events	$ 20,000	$ -	$ 20,000
Focus Niches			
Construction	$ 41,000	$ 47,700	$ (6,700)
Manufacturing/wholesale	$ 35,000	$ 15,230	$ 19,770
Employee benefit plan audits	$ 12,000	$ 450	$ 11,550

Secondary Areas of Emphasis:

Agribusiness	$ 5,000	$ -	$ 5,000
Not for profits	$ 2,500	$ 2,150	$ 350
Financial institutions	$ 2,500	$ -	$ 2,500
Heathcare	$ 2,500	$ -	$ 2,500
Colleges/Universities	$ 2,500	$ -	$ 2,500
Total	$ 155,700	$ 134,080	
% Revenue	1.6%	1.4%	

Note: Focus niche budgets should tie to specific niche growth plans

Following is a worksheet firms can use in allocating the firmwide budget to the various segments in the practice where there is an expectation of significant contribution to the firm's growth goal. It also helps to identify where the firm's growth will come from by allocating a portion of the firm's total growth goal to each area.

Sample Growth Budget Allocation Worksheet

Net Growth Goal $8,000,000
Gross New Business Needed: $1,000,000

	Firmwide	Niche 1	Niche 2	Niche 3	Individuals	Total
Allocate Gross Growth Goals	50% $500,000	15% $150,000	10% $100,000	5% $50,000	20% $200,000	100% $1,000,000
Allocate Marketing and Sales Budget	30%	30%	20%	15%	5%	100%

Note that percentage of marketing budget does not always directly follow the percentage of the goal allocated. Individual marketing activities, for example, may require less out of pocket spending than niche team marketing activities. A niche that has lots of opportunities to grow the client base may require less marketing budget than a niche that is in client acquisition mode.

~~[TCW1]~~

About The Whetstone Group, Inc.

The Whetstone Group (TWG) is a business development consulting firm that helps CPA firms grow their top line. Through a unique combination of a former national CPA firm practice leader and national firm marketing executives TWG offers strategic, yet practical advice to firms looking to hone their competitive edge. Among the services most in demand by CPA firm clients is: development of growth plans and budgets, accountability development, sales management coaching, business development training for CPA professionals, direct marketing and telephone lead generation. Founded in 2000, the firm is located in Marion, Iowa and serves CPA firms throughout North America. For more information visit our website at www.thewhetstonegroup.com or call us at 319.447.6400.