

## Analyze Your Marketing Program Costs

Alexander Auerbach  
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### OVERVIEW [[top](#)]

The most important assets your company has are its customers. After all, without them you have no business. Therefore, the money you spend on marketing — to attract new customers, and to generate repeat business from your current customers — is money well spent. But few companies closely analyze the results of marketing campaigns. For example, how do you know whether a particular TV ad produced any new business, or enough business to justify its cost?

If your marketing program is not managed carefully, your company is at a double disadvantage. The cost of the program comes out of your bottom line. In addition, you suffer the opportunity cost of not getting the business you would have obtained from a well-designed, effective marketing campaign.

In this Quick-Read you will:

- Examine the various costs that are part of a marketing campaign.
- Learn how to track the response your campaign produces.
- Evaluate the cost and profitability of each response.

### SOLUTION [[top](#)]

The goal of a marketing campaign is to generate interest among prospective customers that will result in increased sales. There are many marketing tools you can use, ranging from print, online or broadcast advertising to trade-show booths, direct mail, a Web site, or even a helium-filled blimp flying over your place of business. Whatever the tool, your goal is to create positive awareness among potential buyers and motivate them to contact you.

As you conduct the campaign, you must track three numbers:

1. The cost of producing the campaign.
2. How many expressions of interest it generates, from no response on up to possibly thousands of leads.
3. How many actual sales are generated.

Let's take a look at that process in more detail.

**1. Calculate your marketing program's costs.** Let's say you decide to do a direct mail campaign, sending a 4-page flyer to 5,000 of your current customers and 15,000 prospects.

You may have to hire a copywriter to help you create the text and a graphic artist to design the document. Your printer may charge various "set-up" fees. All of these "make-ready" or fixed expenses must be paid whether you print and mail 20 flyers or 20,000.

Next there are variable costs. Perhaps you will rent lists of prospects from a mailing list broker, who will charge anywhere from a few cents to a dollar or more per name, depending on its source. (Lists of consumers are inexpensive, while specialized lists, such as the names of corporate purchasing agents, are costlier.) Printing and postage will also increase with the number of pieces you mail.

By tracking all of these costs and dividing the total by the number of pieces you mail, you can derive the cost per flyer. (You separate fixed and variable costs so if the campaign is successful, you can project the costs of a second mailing. If that follow-up campaign requires few or no changes to the text or graphic design, the fixed costs may be much lower. It also may go to a different number of recipients, changing the variable costs.)

The same concepts hold true for print or broadcast advertising. There are fixed costs (for example, for producing the ad or commercial) and variable costs (the size of the ad and the number of times it appears in print or is broadcast.)

**2. Track the results.** This is a key step that many companies overlook. It's great to have the phone ringing with customer calls, but find out what has prompted their calls. Your flyer can carry a special offer, such as "Mention Code 121 for Free Shipping!" You can tell recipients to call a special phone number, if you have several incoming lines, or "Extension 200," which your receptionist will record as resulting from a specific mailer. You should instruct every employee to ask new callers where they learned about your company. All of this information should be collected in a simple database or spreadsheet on a daily or weekly basis.

Of course, you have another important, yet untrackable, objective: getting your name out there. As you make these calculations, you can't pinpoint how many people saw your ad and now are more aware of you and your product, but didn't respond yet. Product awareness may be inferred by comparing the responses of an ad run for the first time to an ad campaign that the general public has seen once or twice before.

**3. Calculate the payback.** You now know the cost per campaign to get your marketing messages out and the number of leads that each of your messages produced. Divide the number of leads into the cost of each

campaign, and you will quickly see the cost per lead, which tells you which campaign is working best for you.

For example, creating and mailing 20,000 flyers might cost \$12,000 and generate 500 leads, for a cost-per-lead of \$24. A single ad in a trade magazine might cost \$500 to create and \$1,500 for the space, and produce 50 calls at \$40 each. A rerun of that same ad, with no additional creative fees, will again cost \$1,500; if it produces another 50 calls, the cost is now \$30 each.

But you are in business to produce sales, not generate leads. Keep track of the source of each lead to see which ones result in sales. You may find that some campaigns produce a lot of "window shoppers," while others generate a smaller number of leads, but a high percentage of those prospects actually buy.

Finally, look at the value of each customer over time. A campaign that attracts customers who buy in volume, and keep buying again and again, is far more successful than one which pulls in "price shoppers" who respond once to a special offer and never return. Put your marketing dollars into campaigns that attract profitable, loyal customers.

#### **REAL-LIFE EXAMPLE** [[top](#)]

International Rarities Corp. is a Minneapolis-based dealer in rare coins. The company serves customers around the United States and overseas. IRC's customers collect coins for their beauty and historical interest, as well as for their investment potential.

David and Dana Marion, IRC's owners, decided to see whether a direct-mail campaign could expand their customer base. They hired a marketing-and-graphic-design firm to create an oversized, full-color postcard with a theme linked to year-end holiday buying. The postcards were mailed to 10,000 names drawn from several different lists. A code letter on each mailing label linked the names to the source lists. The postcard included a special bonus offer to recipients who phoned and provided their letter code.

"We had two objectives," says Dana Marion, who handles IRC's marketing. "First, we wanted to see if direct mail was an effective mechanism for building our customer list. Second, we wanted to see which lists would produce the greatest response."

The fixed costs for IRC's mailing included about \$2,500 for copywriting, design and make-ready expenses. Variable expenses were about 35 cents per postcard for printing and postage. The total for the 10,000-piece mailing was about \$6,000.

For competitive reasons the firm cannot disclose the results of the campaign. But Dana Marion says that a 2% response, or 200 leads, would translate into a cost per lead of \$30, which "would not be out of

line, given the value to IRC of our typical customers, especially in view of the fact that our customers tend to continue their coin purchases with us over the long term."

**DO IT** [[top](#)]

1. Study your current and prospective customers, and figure out the most effective ways of delivering your marketing messages to them.
2. Set quantitative objectives for your marketing campaign by market segment: "Increase sales to existing mature customers by 15%, and increase inquiries from potential new young customers by 50%."
3. Calculate the value of various categories of customers to your company. This will give you an idea of what you can justify spending to attract each additional customer.
4. Tabulate detailed cost estimates for each marketing strategy you are considering.
5. Segregate fixed and variable costs; this will help you evaluate the cost of repeating the campaign, which often involves only variable expenses.
6. Key each campaign with an offer code, a telephone extension or other element.
7. Track responses, capturing the code or other identifier that tells you the source of each lead. Ask prospects how they learned of your company. Record this information daily or weekly.
8. Calculate the cost per response for each marketing campaign. Remember to update these over time; some campaigns have long "tails;" an ad or mailer may continue to generate calls for weeks or even months.
9. Track the conversion of leads into actual purchases. Evaluate the effectiveness of each marketing activity in terms of the profits that result.
10. If you have a retail operation with a variety of products, get a frequent-shopper card program in place. Analyzing the FS database will enable you to tune your marketing program to a degree never before possible.
11. Look for differences among the customers you attract, to isolate those who become repeat buyers and buy in volume. Are they in a market segment you can target in future campaigns? Finding more customers like them is worth all the effort you will invest.
12. Remember that your results must be considered in relation to the overall market. If your sales are steady while competitors' sales are off 25%, you've gained significant market share. If your sales are up 25%, good for you, but don't celebrate until you've confirmed that competitors' sales aren't up even more. When you notice pertinent market statistics in trade journals and in the business section of the newspaper, copy them down so you'll have them for analysis and planning.

## RESOURCES [[top](#)]

### Books

[\*Complete Direct Marketing SourceBook: A Step-by-Step Guide to Organizing and Managing a Successful Direct Marketing Program\*](#), by John Kremer (John Wiley & Sons, 1992)

[\*Advertising Without an Agency: A Comprehensive Guide to Radio, Television, Print, Direct Mail and Outdoor Advertising for Small Business\*](#), 2nd edition, by Kathy J. Kobliski (PSI / Oasis, 2001). *Advertising Without an Agency* is about controlling advertising costs, not measuring and calculating marketing cost per customer.

[\*How to Get the Most Out of Trade Shows\*](#), by Steve Miller (NTC Publishing, 2000)

### Internet Sites

[Measure Your E-Mail Marketing Results](#) by David Townsend.  
Workz.com

"[How to Measure Long Term Effects in Marketing: A Case Study](#)," by Mike Hess and Gregg Ambach. Promotion Decisions Inc. The conclusions of this paper on frequent-shopper analysis provide a model to follow in your analysis and planning.

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### Article Contributors

Writer: Alexander Auerbach

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The Edward Lowe Foundation was created by Ed and Darlene Lowe in 1985 to "champion the entrepreneurial spirit." Headquartered near Cassopolis, Michigan, the foundation works with entrepreneur support organizations nationwide to encourage peer learning among second-stage business owners. Before his death in 1995, Ed Lowe, the creator of Kitty Litter, had become an advocate for entrepreneurship as the key to the success of the free-enterprise system.

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