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A True Story: Marketing Becomes a Fixed Expense When It Proves ROI

By James W. Obermayer

When Marketing can prove a return on its investment in lead generating dollars, then department expenses will be considered a fixed expense (equal to sales) rather than a variable expense (easy to cut at will). I learned this early in my career as VP of Marketing at Brentwood Instruments.

The president, Del Freeman, called me into his office one fine fall day and said, "Jim, I need to make my earnings projections for the up-coming quarter and I have to get that money from marketing."

"How much do you need," I asked in my most un-defensive posture. He needed a nickel or a dime per share, I don’t remember the exact number. Some of it had to come from marketing. The point is, he wanted me to reduce immediate spending on marketing to contribute to his bottom line and therefore help him to make the earnings forecast.

"I’ll get back to you," I replied. "Give me a few hours," and I’ll have something for you."
At the end of the day I came back and offered my pound of flesh, but I did it with confidence in knowing the outcome because I had the backup data to help Del and I make a decision.

I started off by outlining the shows that could be cut, the committed dollars and savings. We visited the print media budget, strayed into the direct marketing line items, stopped over at the PR budget and finished up with the outbound lead generation campaign. When it was all laid out, Del could count on me for about $350,000 for the quarter. He smiled and as he was writing down the number, but I held up my hand and said, "There is a price to be paid, however, for the cuts because we will not generate approximately 2,500 inquiries."

I continued, "As you know 45% of these are buyers so we will not get a chance to sell to the 1,125 buyers out of 2,500. Our closing ratio varies between products. but our average for all products is 33%. This means that over the next 12 months we will have 371 fewer sales. With an average sales price of $6,500 we will get $2,411,150 less sales over the coming year. Each of our 40 salespeople will not make $60,287 in sales. While our pipeline will carry us in the coming quarter, despite a dramatically drop in inquiries, in the crucial first quarter of next year we will sell about $600,000 less. Each quarter after that will have the same result. What do you want me to do," I asked.

Del was not smiling when I left his office. His comment was, "I’ll get back to you." Of course I made some cuts in non-lead generating activities, put off some new hires, cut the travel budget to nil and everything considered optional was delayed or killed outright. But the lead generation dollars survived and Del didn’t cripple his future business. It was a sweet victory for marketing but a better victory for the salespeople, all because three years before Del himself taught me the finer points of proving the ROI for marketing.

Continued on next page

Marketing's budget from that time forward became as close to a fixed part of the corporate budget as any I have experienced. But this doesn't happen unless you can prove the ROI for your lead gen dollars and have the numbers at your fingertips. The numbers were possible because our inquiry follow-up was greater than 70% (as reported from our inquiry management system). Without the system, we would have had no data on sales results and therefore no ability to foretell the future. We would have also lost $2,400,000 in future sales.

About the Author

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