the starr conspiracy

BUDGETS AIN'T EASY:

YOUR GUIDE TO MASTERING HCM MARKETING BUDGETS

Budgeting Is Painless ...

... said no one ever. Let's be honest. No one likes budgeting. It's brutal. Well, wait. Scratch that. It *can* be brutal the way many companies approach it — dragging their feet, getting too far into the actual budget year before anything is finalized, and generally postponing anything to do with "it" as much as possible. We call this unique strategy "kicking the can down the road" — and it's not particularly effective. Not to worry. The Starr Conspiracy is here to help.

We've been working with HCM clients for nearly two decades. In the last several years, our team has managed more paid media with HCM clients than any other agency in the world. Our world-class media team has worked directly with some of the largest brands and acquisitions in the last decade. **We understand the space better than anyone** and have unique insights into the people vs. program investments that are driving results in HCM and enterprise software. **This is where we pay it forward.**

How much should you spend? Where should you spend it? How do you know if it's effective? How can you convince business leaders you've got the right plan?

In this e-book, you'll learn answers to these questions and more:

- Why do budgets continue to rise?
- What does your growth strategy say about you?
- How much should you spend on people vs. programs?
- Which people and programs should you focus on?
- How much should you spend on brand vs. demand?

Time to make the donuts.

Budgets Are Rising, Especially in Marketing

We're all familiar with the idea of HCM 1.0 — which was highlighted by the "Big Three" acquisitions of Kenexa, SuccessFactors, and Taleo. Since then, we saw about $4 billion of venture capital money come into the industry.

The interesting lesson is this — about three to four years after the last VC money infusion, we finally saw the money flow into marketing. Not surprising. The initial money can be spent in many different ways. Often impacted by investors (but not always), usually you'll see some organizations spend aggressively on sales and marketing early on. This is more of a market share strategy. Some other organizations, flush with new cash, invest heavily in product, R&D, and customer service early on. They naturally end up with world-class products, but they have ground to make up on customer acquisition and brand awareness compared with companies that invested there first.

Bottom line: There's a lot of money in the space, and marketing sees a lot of it.

And that's kind of crazy, because HCM marketing budgets have risen for five straight years as is.

What All This Means

The surge of new entrants has complicated the battlefield. While startups fight to differentiate themselves from each other, established players find themselves working harder to fend off new claims to the territory. And the rising numbers are expected to continue.

60%
of marketers expect budgets to increase

25%
of marketers expect budgets to stay the same

15%
of marketers expect budgets to decrease

Sixty percent of marketers believe budgets will continue to rise — which means competition will only increase. Using your money wisely is a huge competitive advantage; as VC money increasingly hits marketing budgets, avoiding "shiny-object syndrome" is actually one of your biggest internal needs.

It should be noted that there's increasing pressure to demonstrate attribution — assigning credit from sales to specific marketing touch points the customer experienced before purchasing. Marketers need to prove ROI and business impact, or face the dreaded budget cuts.

The Million-dollar Question (Seriously)

What is your strategy for growth? The two main options we see companies in HCM pursue are:

- Attempting to carve out a sizable chunk of market share
- Aiming for profit

Massively important to note: If you try to do both, you will succeed at neither. There will also be frustration and misalignment around how the exec team views the marketing function. Less trust = less room to operate and more "being watched."

Your growth strategy will have a significant impact on the size and kind of budget you need to build, which we'll talk more about later.

Initial Factors to Consider

These are the variables you need to consider before you start assigning budget numbers:

- Growth strategy (noted above)
- Business goals
- Company size
- Channel strategy
- Competitor spending
- Company segment
- Current brand awareness
- Current brand reputation
- Economic outlook

This does involve some deep-dive research, but it's crucial to have at least a 35,000-foot view of these areas (and a much more nuanced view of your company's goals, size, channel approach, and more). Budgeting can suck, but it sucks a lot more when you half-ass the building blocks. Get the first bricks right and the building looks a lot nicer. Mess around with these bricks and you've got a Leaning Tower of Budgetary BS.

Expectations: You've Seen the Movie *Rudy*, Right?

We might be bigger fans of Sean Astin's performance in *The Goonies,* but it's hard to compete with the emotional resonance of *Rudy.* The added bonus of a young Vince Vaughn doesn't hurt. It also sets a nice lesson around expectations. Rudy had some high-water marks at the end of his time as a Golden Domer (I'm not crying; you're crying), but in general, he was an undersized defensive presence. He was the little guy who worked his ass off. You don't expect the same out of him as you do, say, Bruce Smith or J.J. Watt. Those are the giants who get to the QB quickly and knock him on his posterior with regularity.

Rudy didn't do that. Rudy *couldn't* do that. But Rudy, while undersized, kept working his tail off and *earned* his moment. Small budgets might need tethered expectations, but they can come into a big game and get a sack sometimes. We don't expect it as much as we do from J.J. Watt, but it's still very possible.

What Changed About Budgets in 2018?

Profit Strategy

Let's start with our data around a $10 million revenue company pursuing a profit strategy. This company has about six full-time marketing employees.

From 2017 to 2018, increased areas of spend for this company include:

	2017	VS.	2018
Website	3%	↑	5%
Martech	6%	↑	10%

The increased spend on martech is typically tied to increases in account-based marketing, which we'll discuss in a second.

Decreased areas of spend for profit strategy from 2017 to 2018 include:

	2017	VS.	2018
Events	19%	↓	15%
Content	20%	↓	18%

Within specific media tactics, a profit-seeking strategy sees increases in:

	2017	VS.	2018
Paid Social	7%	↑	7.5%
Email	25%	↑	27.5%
Direct Mail	15%	↑	17.5%

The major decrease for profit-strategy companies is in display advertising (18% ↓ 12.5%), which makes perfect sense if you scroll up to the sidebar on page 4.

Display advertising has a notably harder time proving ROI. With increased pressure to show ROI, money moves away from that area.

Market Share Strategy

Now let's pivot to a $10 million revenue company pursuing a market share strategy. This company has about eight marketing FTEs.

The increased areas of budgeting are the same: website and martech. The decreasing area is typically media, which drops from 47 percent to 45 percent.

Within media tactics, we see decreased budget for:

	2017	VS.	2018
Display	30%	↓	25%
Traditional (i.e., print)	15%	↓	12.5%

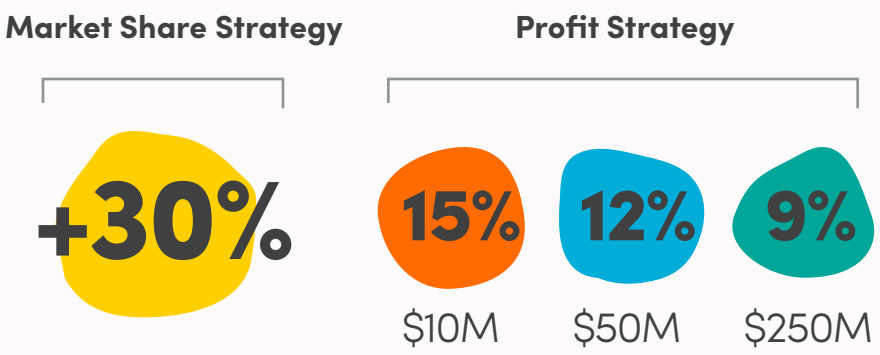
We see increases in budget for:

	2017	VS.	2018
Paid Social	5%	↑	7.5%
Search	20%	↑	22.5%
Email	20%	↑	22.5%

That's how the landscape shifted for two sample $10 million companies from 2017 to 2018. One of the biggest takeaways is the need to prove ROI, hence the drop in display. On both sides of the strategy coin, you're seeing a drop in traditional lead-driving approaches (traditional media and events) in favor of more digital ecosystem plays.

Knowing This, How Much Should You Spend?

It's difficult to recommend exact percentages because so much depends on your strategy and how much your direct competitors are spending. However, here are some basic rules of thumb to get you started.



For market-share-driven companies, you should likely spend at least 30 percent of revenue on just marketing. This varies greatly between a $2 million company ($600,000 marketing spend) and $50 million ($15 million marketing spend) company.

For a profit-driven strategy, the larger the org, the lower the budget can go. (Also look at it as a lower percentage of marketing spend to revenue.) This is because larger organizations usually have the brand equity, brand awareness, and market share to more effectively optimize their spending — as well as being bound by the limits of a saturated market.

Pro Tip: Attribution Is Key

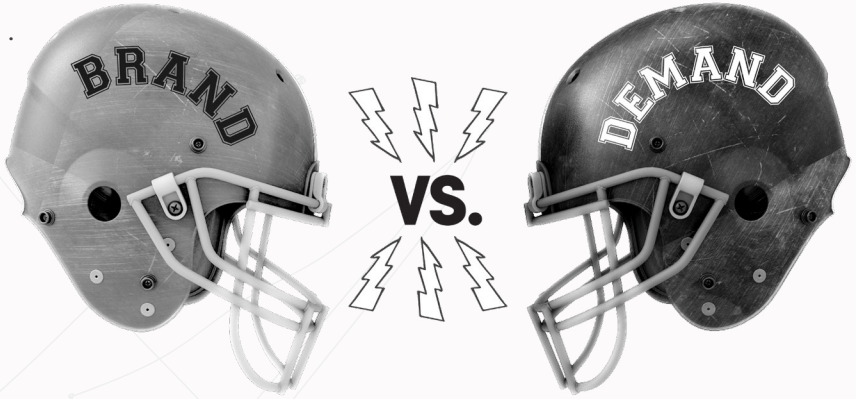
*Marketing teams who have accurate attribution models in place, or own accountability for profit and loss, have a **25 percent higher budget than those who don't.***

Brand vs. Demand

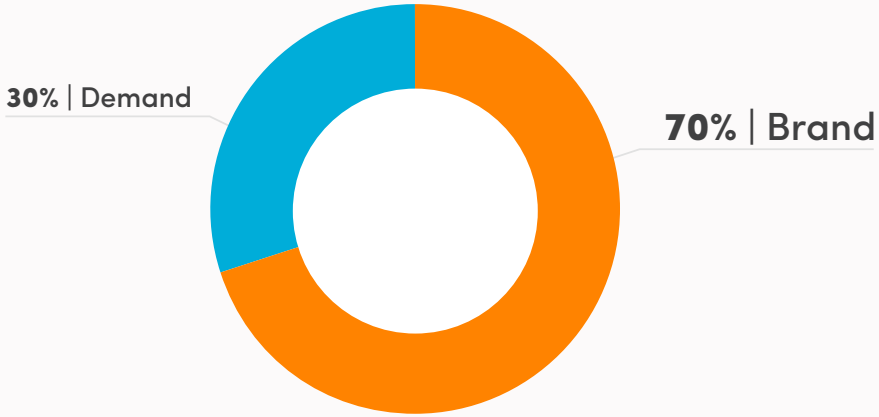
A mix of **brand awareness** and **demand generation** is key to any successful marketing strategy, but most businesses don't have the budget required to support the media investment for a 50/50 split. Make the most efficient use of your budget and focus on the type of marketing that best accomplishes your business strategy.

Logically: If you're pursuing share of market, your main goals will be to maximize awareness of your brand, functional associations, and brand attributes. A profit strategy will focus more on marketing that creates leads, sales meetings, and closed deals.

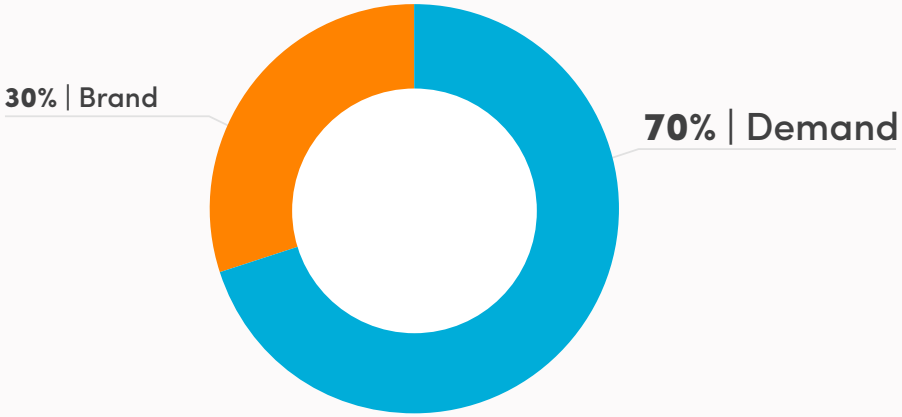
It's almost an inverse flip.



Market Share Strategy



Profit Strategy



How Much Should I Spend on Programs vs. People?

Go back to those sample $10 million companies we discussed earlier.

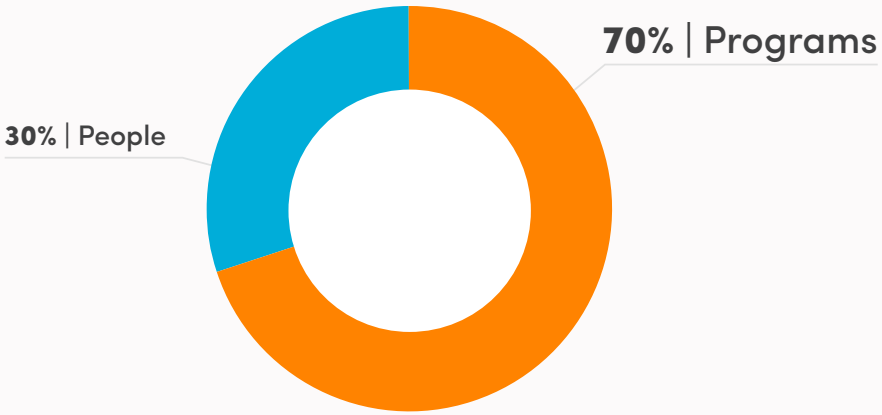
The one pursuing a profit strategy spends roughly $885,000 on programs and $615,000 on people.

The company going after market share spends roughly $2.1 million on programs and $900,000 on people.

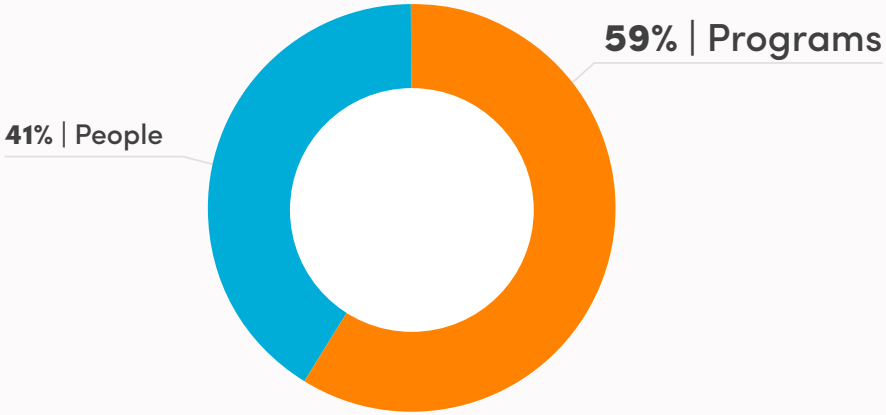
Generally speaking: In a market-share strategy, economies of scale allow you to spend more money per channel and per in-house marketing person. If you have a higher program-to-people ratio, you may have greater productivity with your marketing staff and/or a higher nominal spending rate.

A lower program-to-people ratio, though, may indicate that your marketing staff is underutilized and may be able to execute on a higher level of program spend.

Market Share Strategy



Profit Strategy



Total Program Spend per Full-time Marketing Employee

Your marketing program spend per full-time marketing employee is an indication of your organization's capacity per person. A number of factors influence this KPI:

- Company size
- Sector
- Channel strategy
- Marketing strategy

Market Share Strategy

$400,000 Marketing Staff Throughput

Profit Strategy

$255,000 Marketing Staff Throughput

To avoid waste, it's crucial to find the right balance between people and programs. If you have amazing programs and terrible people, that does nothing for you. Great people with no programs? Pretty boring for those great people. You need to find a balance.

One effective — and often necessary — approach that's often not discussed in e-books like this is to fix your hiring process for marketing roles. If you're trying to build the marketing team of the future, those stock interview questions ain't gonna do the trick. Culture is important. Skill set is vital. Now, more than ever.

If your focus is lead generation, for example, hire more top-of-funnel lead-generation-driven roles, i.e., content and marketing operations. If your focus is brand awareness, hire more in the creative and media space. Your team needs to represent your strategy.

Quality people can make most marketing teams, even the initial trash heap variety, better. You need to maximize your efforts in finding them.

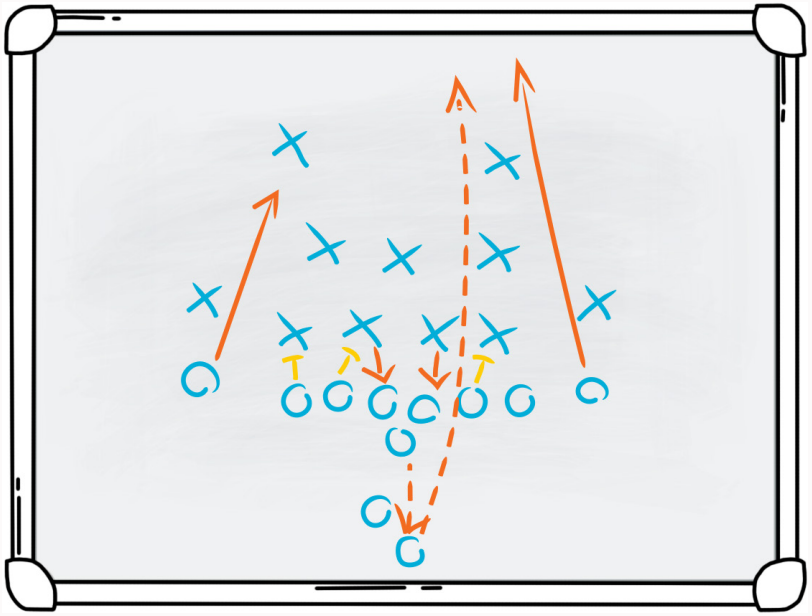
Your Budget Playbook

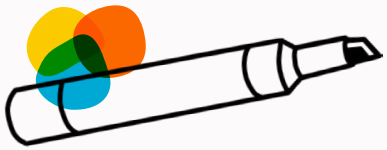
Beauty (and quantifiable success) is in the eye of the beholder. So, it's also important to make sure you're spending on the right *kind* of people and programs for *your organization.* Different strategies require different budgets, different channels, and different skill sets. Make sure you're positioning your staff and programs in a way that optimizes and supports your strategy.

A lot of times you'll hop on some lame **"How to Budget Like a Boss!"** webinar (Ed. note: sweet title) and it'll be a marketing director from a Fortune 15 company with a billion dollars (give or take) in the marketing bank.

Don't get us wrong — these are great people with wonderful haircuts and the best of intentions, but their perspective is skewed and not really applicable to the majority of the B2B marketing world. Perspective is key.

That's why we're here. We got you covered.





Your Budget Playbook

This is what your staff skill set breakdown could look like:

	Awareness		Demand Gen
effort	**Market Share Strategy** (Brand Awareness)	**Integrated Marketing** (Awareness + Demand)	**Profit Strategy** (Demand)
Staff/Skill Set	• Advertising • Content • Public Relations • Analyst Relations • Technical Marketing	• Product, solution, industry marketing • Campaign management • Event marketing • Web development • Marketing operations	• Direct marketing • Field marketing • Partner marketing • Sales enablement • Marketing operations
Programs	• Advertising (digital, out of home, print, community takeovers) • Public Relation • Analyst Relations • Collateral Research	• Events (trade show, user conferences) • Advertising (digital, out of home, community)	• Direct marketing • Digital (email, retargeting)

Fun with Polychromatic Charts

Here are two typical budget breakdowns. These are both $10 million companies, one with a market-share strategy and one with a profit strategy — just like the previous discussions around 2017 vs. 2018 spending areas.

You'll see our recommended budget, program-to-people ratio, and full-time employee count.

For a market-share strategy, you should spend almost half your budget on paid media, mostly in the form of brand awareness. Events will take up about 19 percent, with content and PR/AR taking third and fourth place.

For a profit strategy, you won't need to spend quite as much on paid media. However, you'll want to optimize paid media for lead generation, which is why you should budget more for content (20 percent), martech (6 percent), and enablement (5 percent) than market-share companies.

If you compare these numbers to how budgets shifted from 2017 to 2018, you can see the increasing impact of account-based marketing — which requires more content and martech for successful implementation. The more personalized, attention-to-detail approach of ABM has made it more attractive to HCM marketing teams in recent years; we've definitely seen an increase in our own clients being attracted to the gains from the model.

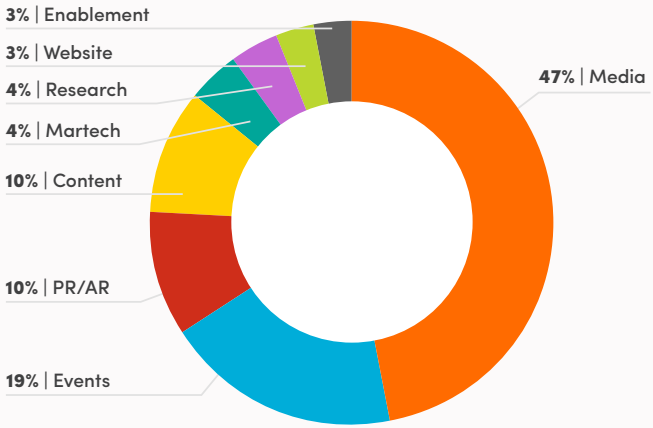
Market Share Strategy

Revenue: $10 million

Budget: 30%
P-to-P Ratio: 70-30

Program: $2.1 million
People: $900,000

Marketing FTE: 8



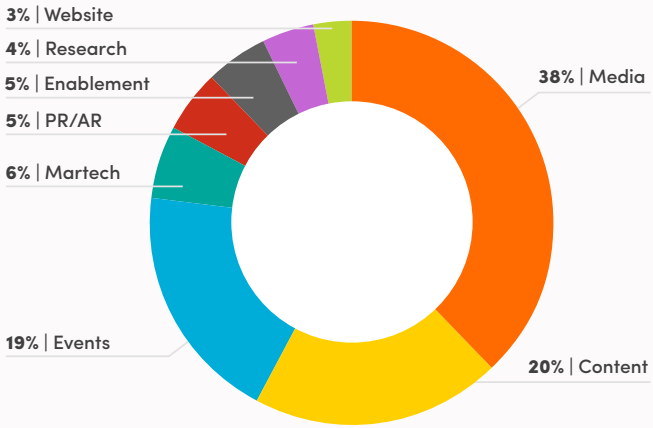
Profit Strategy

Revenue: $10 million

Budget: 15%
P-to-P Ratio: 59-41

Program: $885,000
People: $615,000

Marketing FTE: 6



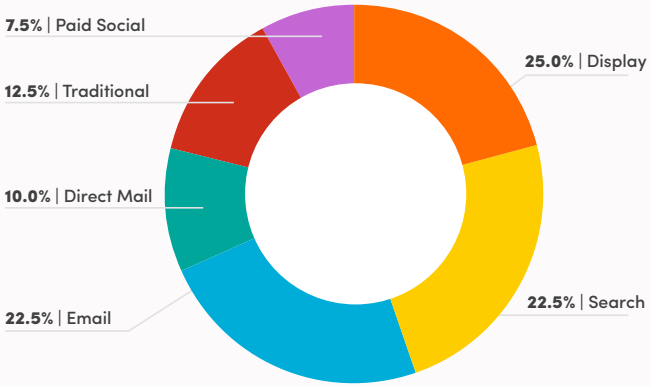
Deep Dive: Paid Media Spending

Now, let's break down paid media and see how strategy affects which channels you should target.

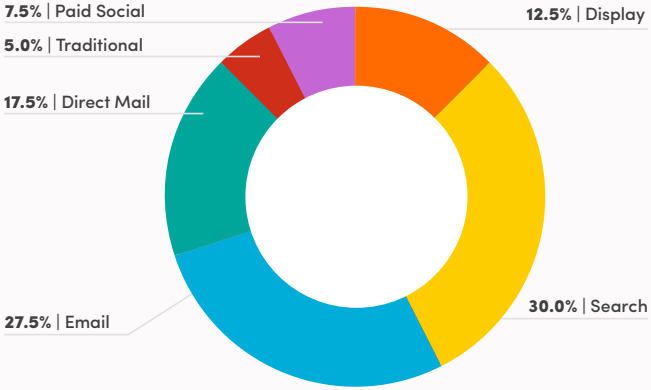
Although display is dropping for **market-share strategy companies** due to difficulty in proving ROI, it's still the primary approach for many in this boat — although search and email are increasing. If your media budget is roughly $1 million and your goal is market share, you'd likely spend between $250,000 and $300,000 on display, and between $150,000 and $200,000 each on search and email.

For **profit-driven companies,** most of your paid media budget will go to search (30 percent). Email will take the second spot (25 percent), with significantly less going toward display (18 percent) and traditional advertising (5 percent) than that of a market-share company.

Market Share Strategy Media Breakout



Profit Strategy Media Breakout



There you have it, folks.

If your budget process keeps rolling through the holidays (when no one's seemingly ever "in pocket") and into 2019, keep looking at this e-book. Keep thinking about your strategy and the ecosystem you play ball in. Keep thinking about Sean Astin's career benchmarks and those beautiful gold helmets. **Just keep thinking.** There can always be more of that in marketing.

Budgets ain't easy. Budgets can be brutal. We hope you find these benchmarks helpful as you set out to create the budget that works for you. We believe in you

Have any questions?

We could talk numbers and marketing strategy all day, and we'd love to chat.

LET'S TALK

About The Starr Conspiracy

The Starr Conspiracy is an integrated business-to-business marketing agency that helps HCM industry innovators propel brand awareness, drive leads, and eat market share like nobody's business. We're not your typical agency — we meld digital advertising, brand innovation, and industry insights to change categories, industries, and — yes — even the entire notion of B2B marketing as we know it. Revolutionaries hell-bent on shaking things up are welcome. Conformists, please stay home (you'll hate working with us, anyway).