



USE ROI TO CALCULATE A MARKETING BUDGET

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1. CREATE A MARKETING BUDGET BASED ON ROI GOALS

If you need to establish a marketing budget to hit a particular revenue and profit goal, you can use a target marketing ROI to come up with that number.

For example, if you want to hit X in revenue and achieve a 40% marketing ROI, then you can determine the maximum amount of budget you can spend to hit your goals.

The formula is:

Gross Profit / ROI Goal Percentage = Target Marketing Budget

ESTABLISH MARKETING BUDGET BASED ON ROI GOAL

If you need to establish a marketing budget to hit a particular revenue and profit goal, you can use a target ROI to come up with that number.

However, please note that you should confirm the actual ROI calculation you're using *before* applying this formula to your budget. If it's the same, use 27.10.d to calculate the results. If not, you may modify the formula to fit your company's calculations.

| Goal | Value | Key |
|--------------------------------|-------|-----|
| Revenue goal | | F |
| Expected COGS | | G |
| Expected gross profit (F-G) | | H |
| Additional expenses (if using) | | I |

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| | |
|--------------------------------|---|
| Desired ROI (your hurdle rate) | J |
| Marketing budget (G-H)/(J+1) | |

Campaign Name and Goal and Budget Ceiling:

Commentary:

2. DETERMINE THE METRICS FOR YOUR CAMPAIGN

Creating detailed estimates of your campaign metrics forces you to think through the key drivers of your campaign success. It also helps you better measure your results and final ROI.

It can be challenging to create accurate estimates and they are rarely perfect, but the more often you estimate, the better you'll get.

Create estimates for the response rate from your campaign, the ultimate conversion ratio from responses to customers, and total revenue generated from the campaign.

ESTIMATE RESPONSE RATE

Your response rate is the percentage of people that respond to your offer (i.e. those who take the initial action you request, like filling out a form, downloading a document, creating a trial account or placing a phone call). It's important to estimate your response rate in the campaign planning phase so you can estimate your media buy (if needed) and your return on investment.

Response rates can be difficult to project because of the many variables involved in any campaign:

- Message
- Offer
- Creative design
- Medium
- Timing
- List quality
- Brand

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For example, a campaign promoting a discounted upgrade sent to the customers of a popular product might have a 35% to 40% response rate, whereas a cold email blast to an unqualified list might have a 0.2% response rate.

If you'd like assistance, open 6.9.a (click on Excel Files for Calculations to the right to download the file) and input a response rate projection for your media. If you're not sure, estimate it now and refine later.

Campaign Name:

Media Type:

Estimated Response Rate:

Commentary:

DETERMINE CONVERSION RATIO

Next, continue in 6.9.a by entering the steps of your sales process for the campaign. If you haven't already defined the steps in your sales process, simply enter each step that a prospect takes prior to becoming a customer. Stay high-level, and make your last step "Become a customer."

As you're creating each step, enter the percentage of prospects that you believe will move to the next step in the process. List the step number in the "Next steps" column.

An example process could look like this:

1. Click link to land on website: 5%
2. Fill out information request form: 15%
3. Attend demo: 75%
4. Complete trial: 66%
5. Become a customer

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Remember that the percentages are your estimates of people moving from *one step to the next*, so don't enter a percentage for the final step.

What is your cumulative percentage of responses that reach your final step? It's the result in the right-hand column of the last step. This is your conversion ratio - the percentage of *responses* that convert to your final step. (The conversion ratio from your number of impressions is displayed at the very bottom of the sheet.)

Conversion Ratio:

Commentary:

SET CUSTOMER GOALS

Is your campaign goal to generate new customers? If so, continue in 6.9.a by selecting the number of the step that reads "Become a customer." This will allow the workbook to calculate your metrics for you.

Then, enter the step that is the primary goal for your campaign. Many campaign goals end at "Become a customer," but not all of them. If yours is different, select the step that is the primary goal for the campaign to determine your conversion goals.

Primary Campaign Goal:

Number of New Customers to Generate:

SUMMARIZE METRICS

Your data inputs are complete, and the worksheet will calculate the number of impressions and responses you need at each step to reach your customer goal.

You may wish to run different hypothetical models to see the results from different response and conversion rates. You can use these metrics to help you understand the type and volume of media to purchase to meet your customer goals, or to understand what types of response rates you need to meet your customer goals.

What is your result?

Media Type:

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Estimated Response Rate:

Number of New Leads to Generate:

Number of New Customers to Generate:

Commentary:

3. CREATE YOUR CAMPAIGN BUDGET AND ROI PROJECTION

Once you have your initial campaign metric estimates - your response rate, conversion ratios, customers acquired and total revenue - create more detailed financial projections.

The first step is to estimate your total gross profit from the campaign which is accomplished by subtracting the total cost of goods (from your new customers) from the total campaign revenue.

After creating your campaign budget, subtract these expenses from the gross profit to calculate your net profit and estimate ROI by subtracting the net profit from your marketing investment and dividing the result by your marketing investment.

DETERMINE IMPRESSIONS, LEADS AND CUSTOMER TARGETS

You may have already completed these. If so, note that some of the data you entered in the workbook for 6.9.a will flow through to other sheets in the workbook.

If you haven't completed this yet, enter your results in 6.9.a. You may enter the results below if you wish.

What is your result?

Campaign Name:

Media Type:

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Estimated Response Rate:

Number of New Leads to Generate:

Number of New Customers to Generate:

ESTIMATE CAMPAIGN REVENUE AND PROFIT

Your next step is to determine your revenue and profit projections. Open 6.9.b and enter your data there. You may want to speak with someone on your finance team to obtain some of the information.

Here's the data you'll need:

- Average price per unit of products/services sales resulting from campaign.
- Average cost of goods per unit of products/services.
- Per-unit overhead costs (optional - some companies just use a standard percentage to project overhead).
- Per-unit incremental expenses (optional - same concept as above).
- Estimate of unit sales per product (if you're selling multiple products from a campaign).

Average Price Per Unit of Products/Services Sales Resulting from Campaign:

Average COGs Per Unit of Products/Services:

Per-unit overhead costs (optional - some companies just use a standard percentage to project for overhead).

Per-Unit Overhead Costs:

Per-unit incremental costs (optional - same as above).

Per-Unit Incremental Costs:

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Estimate of unit sales per product (if you're selling multiple products from a campaign).

Unit Sales Per Product Estimate:

Total Projected Revenue:

Total Projected Profit:

Projected ROI:

DEFINE CAMPAIGN BUDGET AND PROJECT ROI

To create your marketing campaign budget, use 6.9.c to evaluate your quantitative objectives and preliminary ROI for your entire campaign if you wish. The worksheet 6.9.d will summarize these costs. You can estimate them initially and then use the detailed budget sheets for the individual campaigns to create your exact numbers.

If you use 6.9.c, your entries from 6.9.b will estimate how many additional leads you will obtain from the activities you previously outlined. It's an ongoing process; when you create a plan, you'll need to continually evaluate multiple criteria.

For example, here is a typical process for creating and launching a campaign:

- Project how many leads you need
- Determine what type of campaign(s) you will launch
- Determine the general message you want to deliver based on the stage of the prospect in the sales process
- Determine a rough budget for each campaign
- Adjust strategies and campaign decisions if necessary
- Refine the budgets and compile total budgets for the campaigns
- Launch campaigns and measure results
- Revise campaign strategy based on the success of the individual campaigns
- Record total costs for each medium outlet

Campaign Name:

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Campaign Budget Maximum:

Media and Projected Cost:

After you've entered your budget, you'll see your projected ROI at the bottom of the sheet. Is it positive? If you have a hurdle rate, enter it and compare. This will give you valuable insight as to whether you should run your campaign.

Projected ROI:

Commentary:

OUTLINE MEDIA PLAN

If you'd like to create an extremely detailed media cost plan, 6.9.e can help you break down your costs per impression for each media outlet based on your initial projections.

Here you can also track your response and conversion rates for different types of media and calculate costs per impression, response rate and conversion rate based on your media buy.

Media Plan Name:

Media Plan Commentary: