

Marketing maths

Comparisons to assist decisions.

More simple tips from Alan Reading - the guy who gave us 'Marketing - a simple overview' and '15 points for marketing'...



For most people, especially smaller businesses, marketing isn't a science, and most run their marketing plan with more 'gut feel' than anything else.

The problem with that is that it ends up with more "We tried it and it didn't work" comments than us marketers would like to hear.

Well, let's see if we can add a bit of maths into the equation and help clear up some confusion.

Stage 1. Cost per thousand.

This may sound like it's going to be complicated - but no it isn't. It is a way of comparing the costs of one method of promotion against another.

Let's make some simplifications. Some would say "over simplifications" but we are only trying to show principles here, not a specific customers' situation.

A TV ad spend, let's say £100,000 plus another £100,000 for the production. That's £200,000. Let's say the ad could reach 500,000 people. In simple terms, that means the ad has cost you £400 to reach 1,000 people. The cost per thousand is £400.

This gives us the ability to compare costs with other methods of promotion.

So let's look at publications. Let's take one with a 65,000 circulation. Let's put an ad campaign in for £5,000 with production costs of £2,500, totalling £7,500. Now you are probably able to see already that the cost to reach 1,000 people is £115.38.

One more example. 5,000 full colour A4 leaflets folded to one third A4 (DL) so it

fits into a standard business envelope £900 plus £500 production costs (plus whatever distribution method you decide, let's say posting to a named list by second class £1,050, an allowance of £125 for envelopes and whatever cost you want to add for the labour (allow about £150). That's a grand total of £2,725. That makes £545 per thousand.

Now you can see there is a way to compare the cost of each method against the other. The cost to reach 1,000 potential customers.

The above has been streamlined for the sake of maths and, yes, you do need to take into consideration other areas:-

1. Are you targeting the right audience.
 2. Are you promoting the benefits of your product or service?
 3. Have you thought about the content of the promotion - does the ad say the right thing to the right people?
- And so on.

But back to the marketing maths...

Stage 2. Response rate.

It should go without saying that response needs to be carefully monitored whenever a customer makes first contact. It is **essential** if you are to use maths in marketing.

So, you have placed the ad campaign, sent out the leaflets or whatever your chosen method has been. And you have some response. Usually unspecific promotions like TV or campaigns in publications might get a 1% response, if you are very lucky. Sending leaflets to named individuals is higher if the creative work has been carefully done.

But let's use 1% as the response (that's optimistic by some figures). So for our TV ad our £200,000 got 5,000 responses. Each response cost us £40. Our ad campaign in a publication got us 650 responses for our £7,500 - £11.53 for each response. The leaflet got 50 responses for our £2,725. £54.50 for each response. Again, it is a good way of comparing one method of promotion against another. There is just one more thing to think about here that will complete the picture.

Stage 3. Conversion rate.

This is simple too. Monitor the response and from that check the number of sales made. If you make 50 sales for every 100 responses then your conversion rate is 50%. 30 sales equals 30% conversion.

This percentage also provides you with useful information, for example if you have a low conversion rate, is there something wrong with the way you are handling the sale, here you have potential customers who have responded and you are only selling to 1 in 3 of them.

Alternatively was there something wrong with the message you portrayed, did it lead them to respond to something that didn't hold up when they made contact?

Conclusion.

Figures can help you see what the best method of promotion might work well for you. As a rough guide you should think about reinvesting around 3% to 5% of this years turnover into next years profit.

If everything else seems to go wrong then ask potential customers why you didn't get the business. You need to know where your business is failing. Even Peter Cadbury is quoted as saying "I know half of my advertising budget is failing, the trouble is, I just don't know which half!"

So marketing isn't an exact science even for the big boys! But, costs per thousands, response rates and conversion rates can help you decide what to do next, as well as what works and what doesn't. One thing is for sure, do nothing, don't spend money promoting your business and nothing will be exactly what you get out of it.

If you do need help of any sort without spending a fortune, CMR can help. Our cost per thousand is low, our response rate is good and our conversion rate is excellent.

Our first half hour is free too!*



* New customers only