



# Startup Marketing Budget Survey

Cunningham Collective, July 2015

## How much should I spend on marketing?

It's a simple question that we get asked all the time, yet it's not an easy one to answer. Because of this, we wanted to go beyond our own experience to understand what others believed. But when we looked for the credible benchmarking data about how startups are spending marketing dollars, it didn't exist. Marketing budget studies typically focus on enterprises with established marketing infrastructures and large, diversified budgets, or on small businesses that don't operate in the frenetic startup world.

With this report, we set out to fill the void. Our **Marketing Budgets Survey** aims to

identify and organize the marketing spend patterns of startups. We collected data from 41 companies and asked straightforward questions aiming to discover the scale and activity allocations of their marketing dollars. In Lean style, we started small to test a few concepts and learn. As a result, you'll see several areas in which further research opportunities are called out to explore in subsequent versions. The results are organized by five core findings. We advise entrepreneurs to use these findings for insight, but not for prescriptive conclusions. In the startup realm, all the data in the world won't replace the value of understanding and defining your company's unique position and market opportunity.

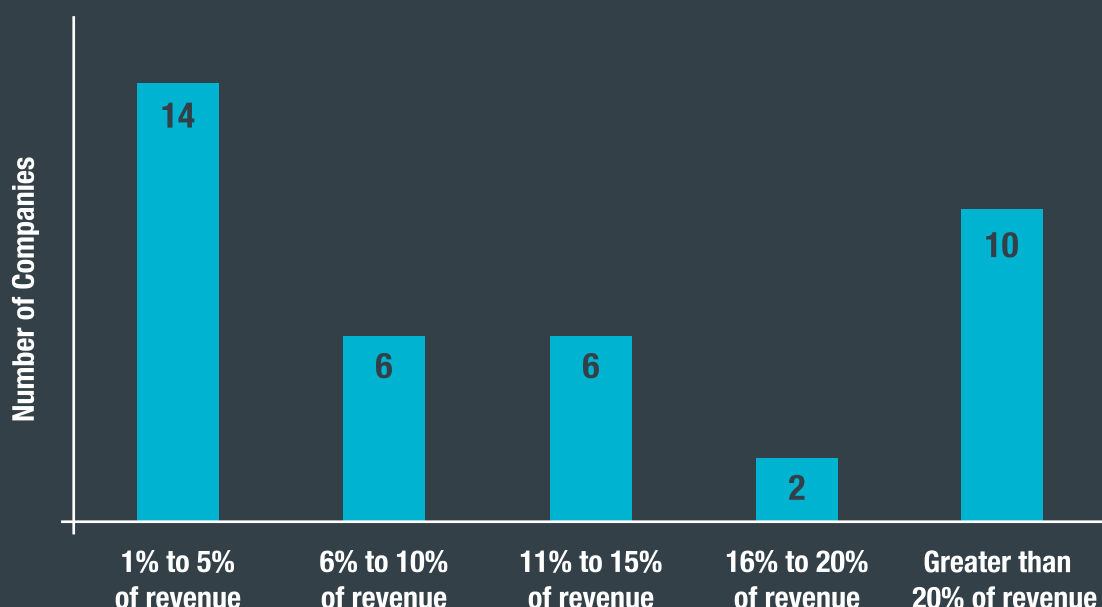
## FINDING 1

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**On average companies spend roughly 10% of revenue on marketing activities. Search, Social, and Content Marketing lead the way.**

*Figure 1: Percentage of annual revenue spent on marketing. Companies with no revenue or that responded "didn't know" were excluded. n = 38.*

### Percentage of Annual Revenue Spent on Marketing in 2014



On average companies spend approximately 10% of their revenue on marketing. Digging deeper, 74% of our respondents spent 20% of revenue or less on marketing, and as Figure 1 suggests, this was skewed toward the 1 to 5% category. On the other side of the chart, a robust 26% percent of companies are spending more than 20% of revenue on marketing. Taken in isolation, these facts aren't particularly insightful, but they do provide a sense of scale of marketing budgets.

We also asked companies to describe their allocation by activity, as shown in Figure 2. Search and Social Advertising holds the lion's share of budget in our sample. Interestingly, Content Marketing is not too far behind accounting for 14% of the budget on average. This supports the predictions of many experts in recent years that Content Marketing would see tremendous growth. As companies look more and more for ways to develop engaged, loyal customers, original and useful content is playing an important role in achieving this goal.

## FINDING 1

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### Percentage of Marketing Budget Spent on Various Activities in 2014

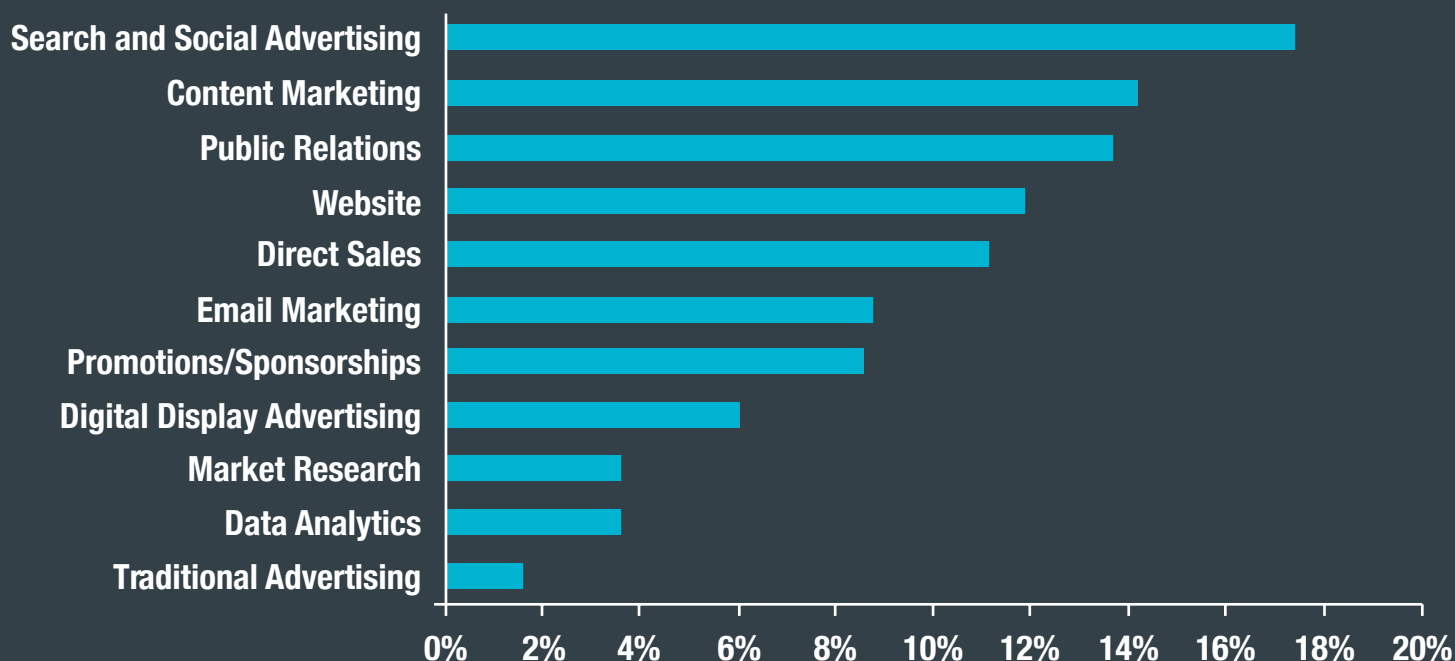


Figure 2: Percentage of marketing budget allocated to various activities. n=41.

A few other things are worth noting. First, the Data Analytics category resides low on the chart, and we suspect this is a result of where analytics budgets reside. For example, companies may choose to roll up their data capabilities into a single, horizontal group that supports the entire company, instead of having these capabilities distributed across many groups.

Secondly, we were curious what the allocation looked like when separating companies into two groups: those that met or exceeded internal revenue expectations vs. those who underperformed. In both cases, the distribution of spend was similar to Figure 2.

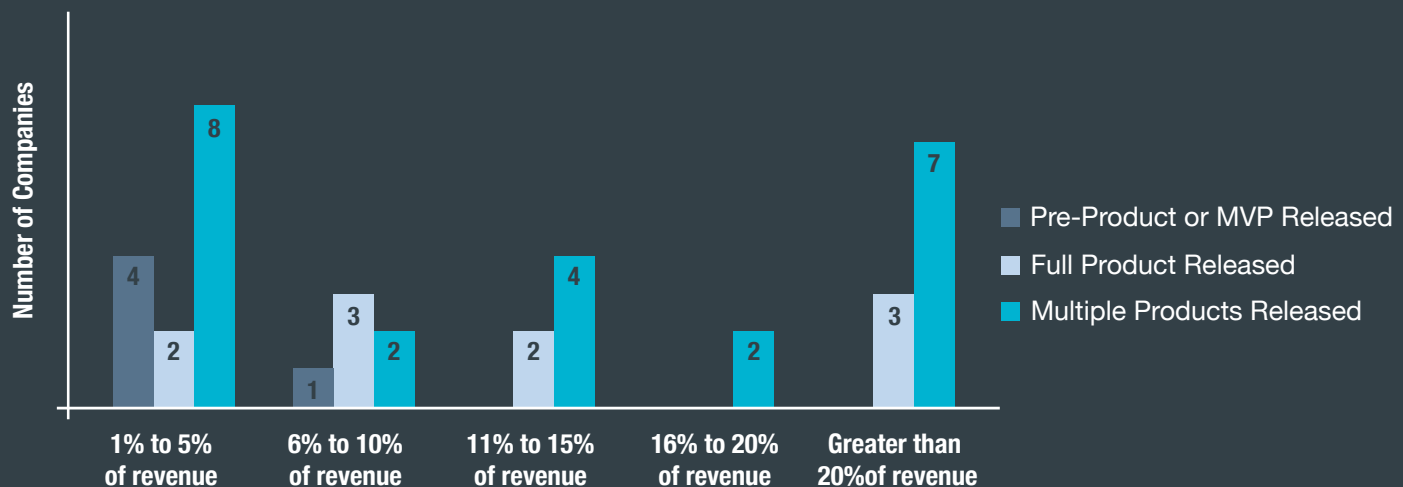
## FINDING 2

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**After the Minimum Viable Product is complete, marketing budgets can vary widely.**

*Figure 3: Percentage of annual revenue spent on marketing by product maturity. n=38. This only considers those companies that reported non-zero revenue.*

### Percentage of Annual Revenue Spent on Marketing in 2014 (by Product Maturity)



Our survey showed that companies that have yet to release a full version of their product are spending under 10% of revenue on marketing (Figure 3). Meanwhile, companies with more mature products and/or multiple products have a wider distribution of spend.

There is obvious variability in revenue earned by startups, and in subsequent versions we plan to examine additional ways to gauge marketing spend. This includes looking at spend as a function of venture funding, and of overall budget. We also believe there is an opportunity to extract further insights by refining the definitions of company stages.

## Percentage of Marketing Budget Spent on Various Activities in 2014 (By Product Maturity)

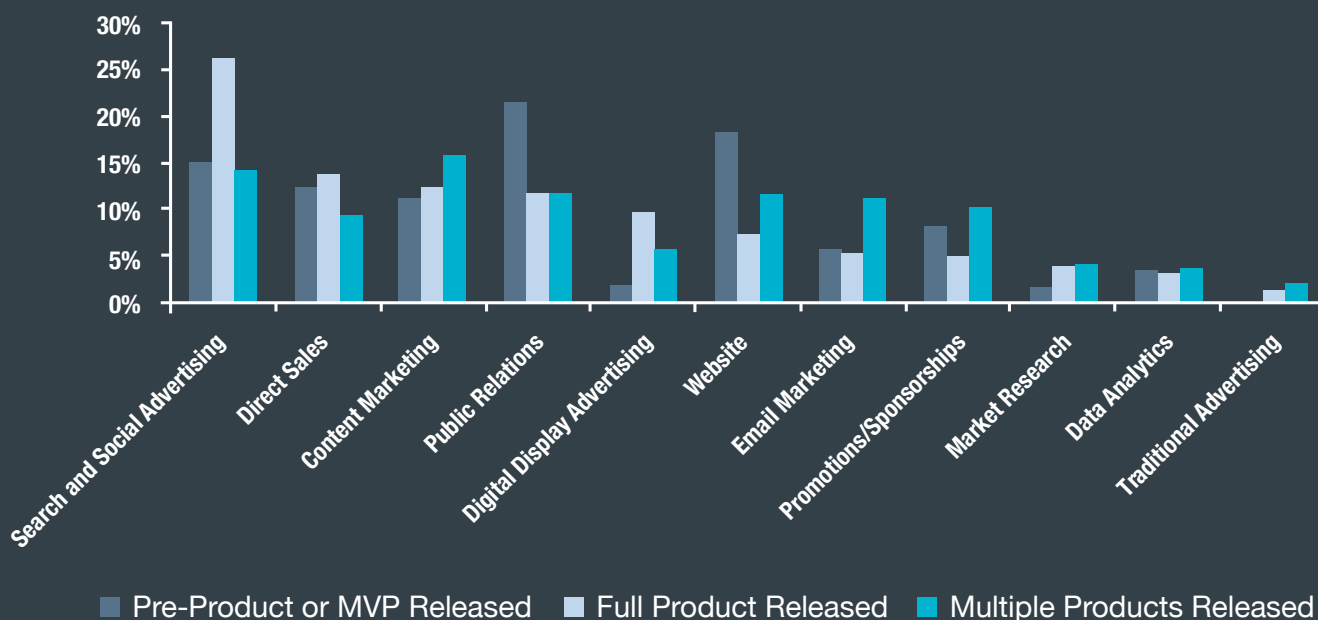


Figure 4: Percentage of marketing budget allocated to various activities, by product maturity. n=41.

In Figure 4, we drilled in again and asked what companies were budgeting for, hoping to gain some insight into how company maturity influences marketing activity. Some categories, such as Traditional Advertising, Data Analytics, and Market Research received low budgets and were relatively uniform across the maturity spectrum.

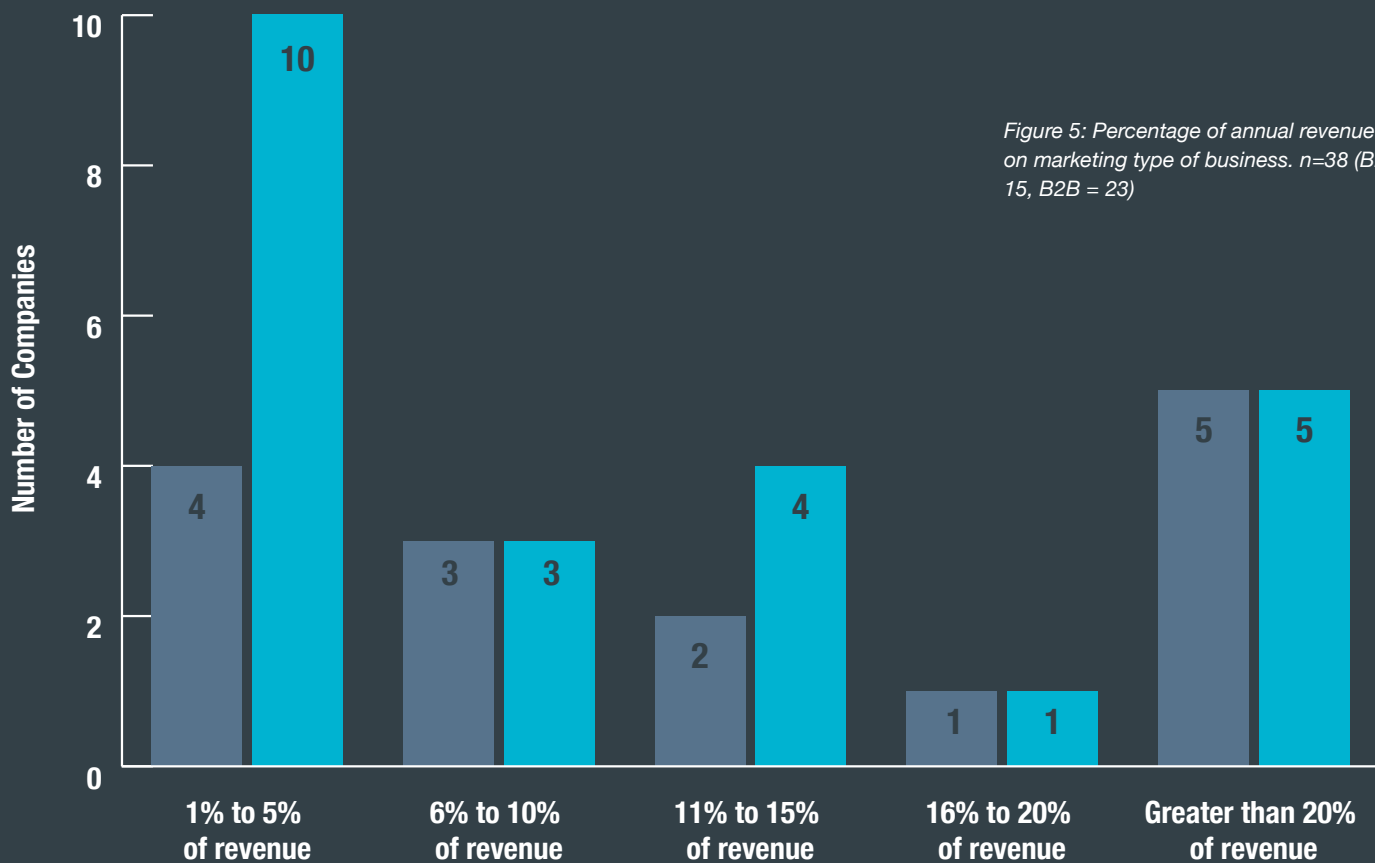
The earliest companies in terms of product maturity prioritized PR over everything else, followed by Website and Search and Social Advertising. We suspect this is to establish their brand identity, test product/market fit, and support fundraising goals. Startups in the first full product stage are spending the largest portion of their marketing budgets on paid media, likely to acquire customers and gain traction.

## FINDING 3

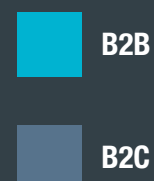
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**B2B and B2C companies spend at roughly the same rates, but focus on different activities to achieve their growth goals.**

### Percentage of Annual Revenue Spent on Marketing in 2014 (B2B vs. B2C)



When we compared the spending patterns of B2B and B2C companies, we found that there was a fairly wide distribution of marketing budgets as a percentage of revenue for each company type. This was as expected and shown in Figure 5.



## FINDING 3

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The drill down in Figure 6 shows a difference, though, in how budget was spent. Search and Social Advertising accounted for nearly 24% of B2C marketing spend. B2B marketing budgets were slightly more uniformly allocated, and in our survey Content Marketing held the largest percentage at just over 17%.

We can gain further insight when we group each marketing activity into paid, earned, and owned categories. Given the focus on Search and Social Advertising in B2C companies, it is not surprising to find that paid media led the way at 42%. B2B companies spent at that exact same rate, but in a different category: earned media.

### Percentage of Marketing Budget Spent on Various Activities in 2014 (B2B vs. B2C)

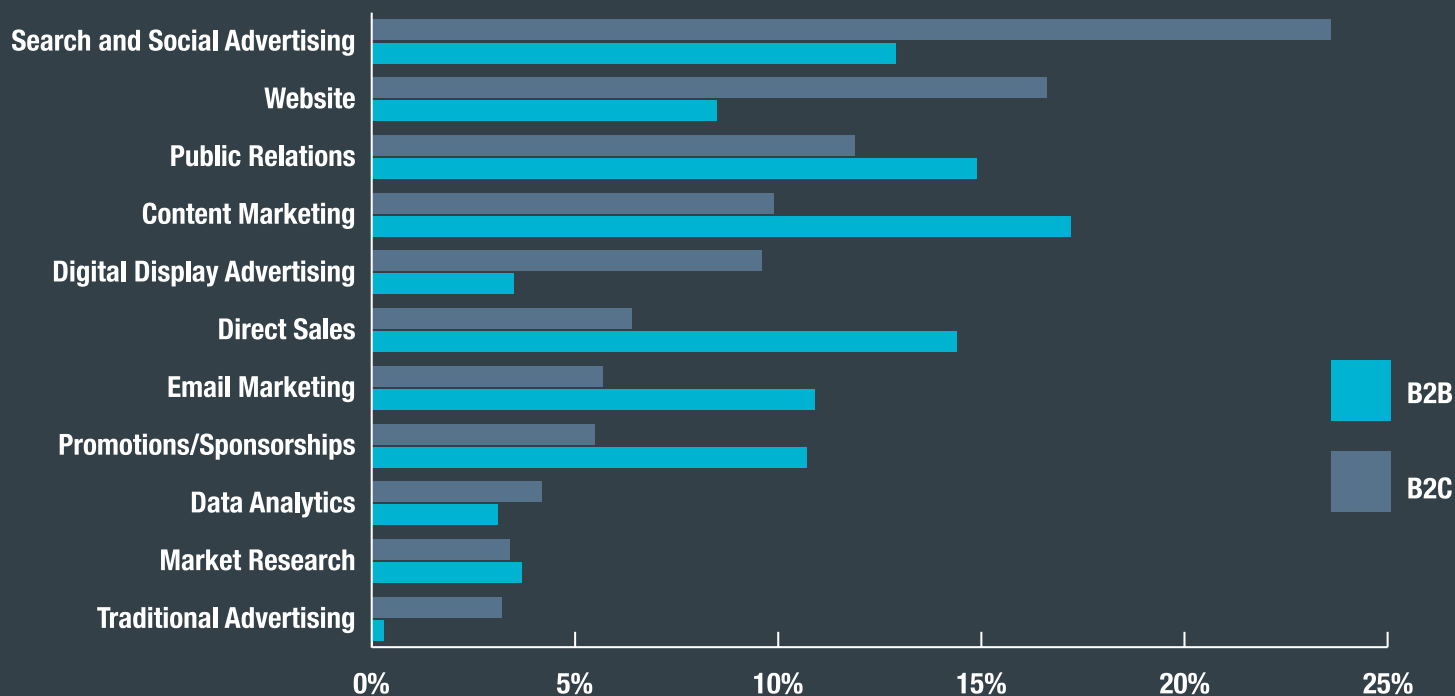


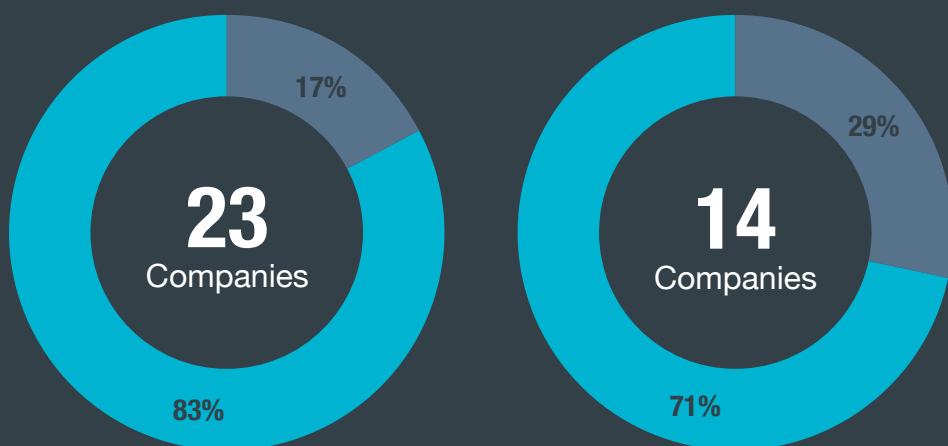
Figure 6: Percentage of marketing budget allocated to various activities, by type of business. n=41.

## FINDING 4

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**Over half of the respondents set aside budget explicitly for testing, and testing showed at least a moderate correlation with revenue performance.**

56% of all companies in the survey set aside budget explicitly for testing. We suspected going into the survey that companies who tested might see better revenue results. Although not overwhelming, the data supports this hypothesis. Of the 37 companies that reported their revenue performance against expectations, 23 had a testing budget, and 19 of these (83%) met or beat expectations. In the group that did not allocate budget for testing, only 71% (10 of 14) met or exceeded expectations. Figure 7 shows this breakdown.



**Budget for Testing**

**No Budget for Testing**

**Met or Exceeded Revenue Expectations**

**Did Not Meet Revenue Expectations**

Further analysis showed that testing budgets were more common among B2C startups than B2B startups. 82% of B2C companies said they had testing budgets, while 42% of B2B companies said they did. This difference matched our team's experience in the B2B and B2C sectors, where B2C investments in market testing have typically been higher than B2B.

Figure 7: Companies who set aside a percentage of revenue for testing purposes, organized by whether or not revenue expectations were met or exceeded. n=37

## FINDING 5

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**The most outsourced service is PR, followed by Website. Half of the companies have outsourced at least 3 services in the last year.**

In addition to getting asked “how much should I spend on marketing” we frequently are asked if a service should be outsourced or moved in-house. We asked our survey respondents what they have outsourced in the last year across six marketing functions, and the result is shown in Figure 8. Nearly 71% (29 of 41) of companies

outsourced PR. While we weren’t surprised by this result we have seen this function move in-house among our client base. The same goes for website, as it has become easier and cheaper for early stage companies to use internal resources to build on an existing platform.

### Which of the following resources have you outsourced in the last 2 years?

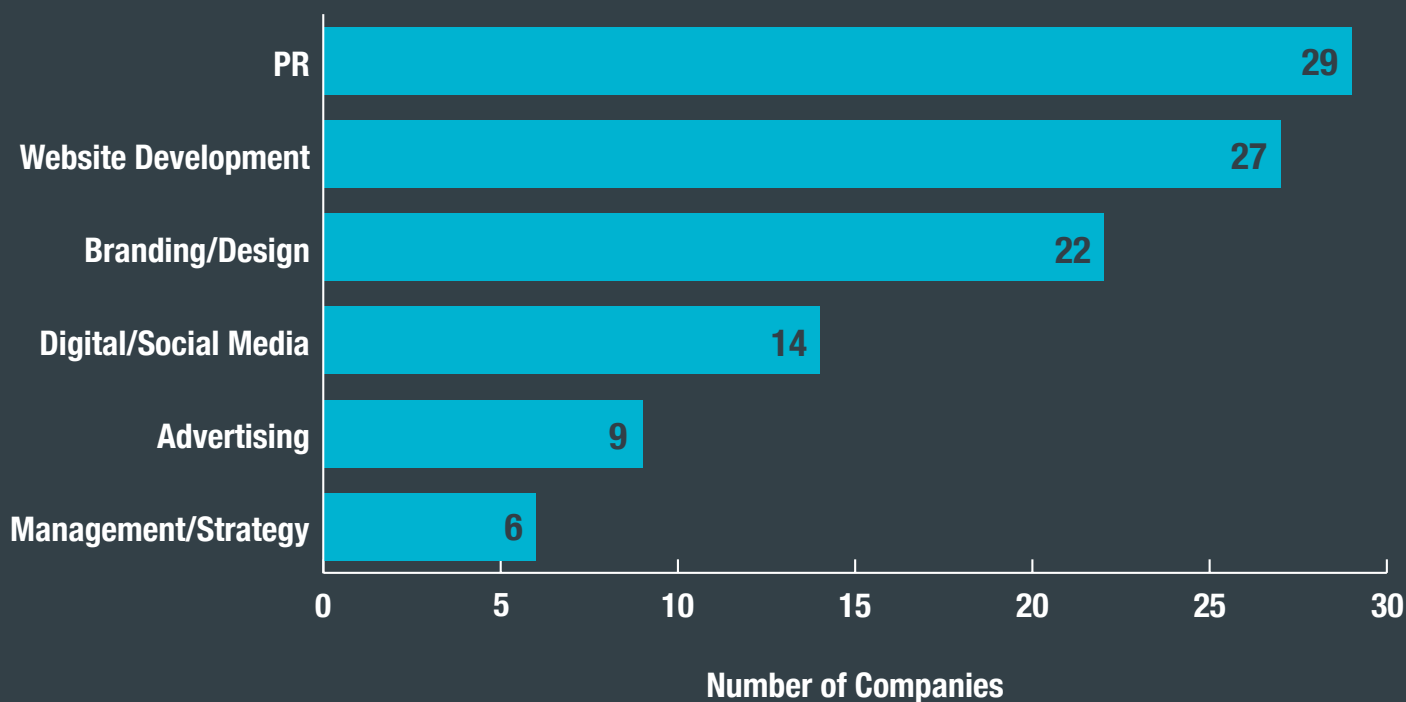


Figure 8: Activities that have been outsourced in the last 2 years. n=41.

We also looked at how many functions were outsourced on a per company basis (Figure 9). Eleven of our respondents (27%) outsourced exactly 3 of the services we listed, and nearly half (20 of 41) outsourced 3 or more services. Separately, when we looked at outsourcing patterns by product evolution, no concrete

pattern emerged. Using product maturity as a proxy for company size, the outsourcing choice seems to be independent of the state of the product. This could have something to do with the small groupings of our subdivided sample. It's worth noting for subsequent studies.

### Number of Marketing Activities Outsourced in the Last Two Years

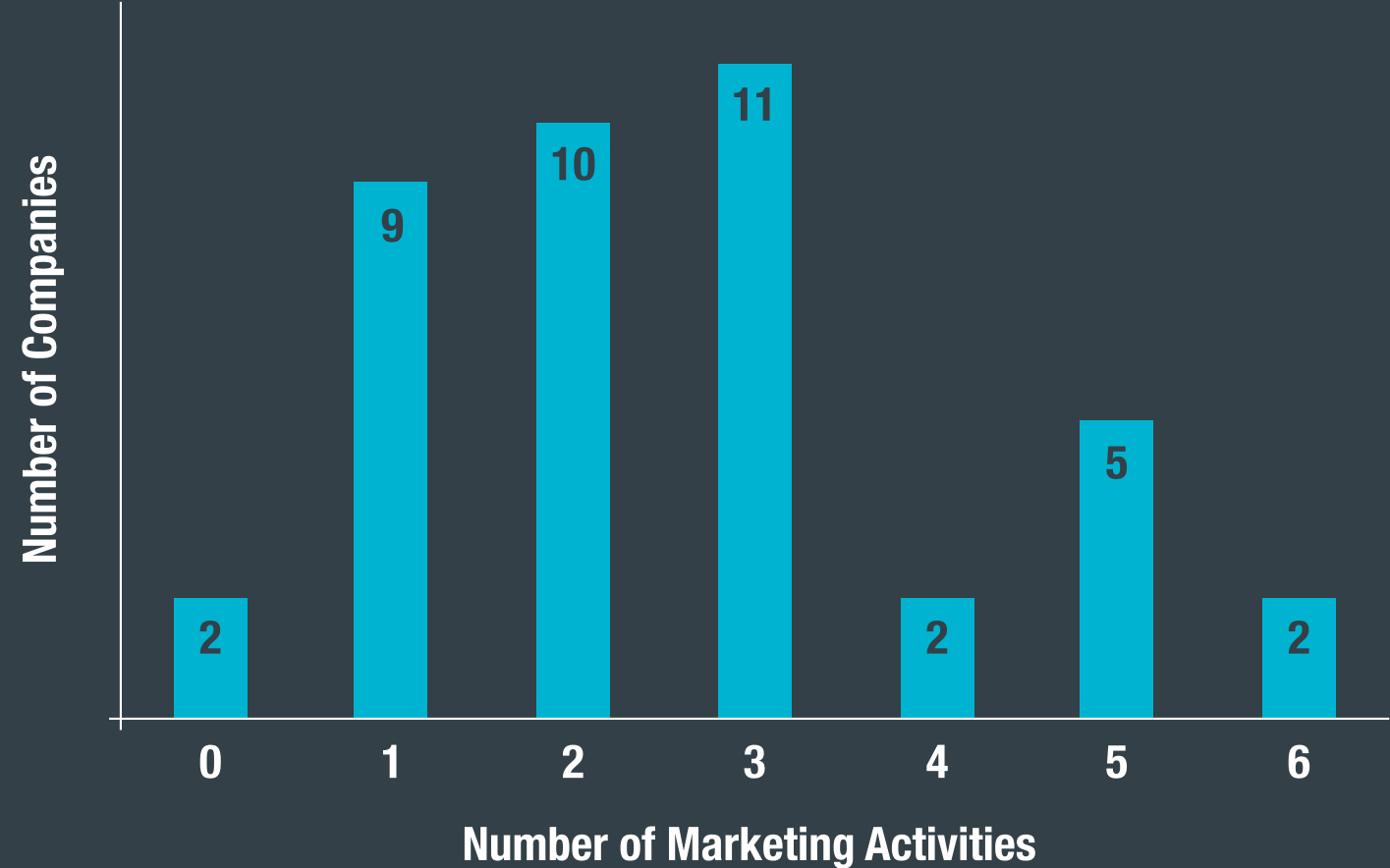


Figure 9: Number of marketing activities outsourced in the last two years. n=41.

# SUMMARY

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If there was one thing our study showed, it is that there are many ways to grow a business. The right marketing mix for one company isn't always going to work for the next, and developing a strategic plan for how to achieve growth is a critical exercise that should always be considered in the context of a specific company and competitive context. It does seem, however, that there are rules of thumb to be developed and explored further to make decision making easier. The research validated some hypotheses and our own observations and experience about how startups operate.

We believe subsequent versions of this survey can do more to categorize spend behaviors while accounting for nuances. By design, this survey was meant to first focus on the conventional wisdom – how the average startup thinks about their marketing budget. We think it's fair (and wise) to ask, what if the conventional wisdom is wrong? With this line of thinking we hope to amend future versions to explore ways of correlating activity with both marketing and company performance. We also will likely look for different ways to categorize companies. One thing we did not show is the breakdown of budget by company type: hardware, software, and services. That categorization is a typical approach used by larger studies, but it turned out that it was uninteresting in our results and without additional context it doesn't capture the breadth of how companies describe themselves.



## METHODOLOGY

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We surveyed the CEOs and marketing leaders at 41 startups in Quarter 4, 2014. Respondents' companies spanned different customer orientations (B2B and B2C); product type (hardware, software, and service); and lifecycle progression (from early stage to mature product). All companies were privately held. Respondents were self-identified CEOs, CMOs, or senior most marketing leaders for their respective companies.

For qualification purposes participants were asked to provide their email address, name, and company name. The survey was structured as a "double-blind" study and no personal or individual company data was identified by researchers or as a part of this report. Respondent incentives included a complimentary advance copy of this report.

Survey responses are not intended to be representative of the population at large. Unless other-wise noted, statistical data is intended to be used for descriptive and not inferential purposes.

# DEFINITIONS

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**Met & Exceeded Expectations** - Includes all companies that answered greater than or equal to 0% when asked “How does your company expect to perform in relation to fiscal year revenue targets for 2014?”

**Didn't Meet Expectations** - Includes all companies that answered less than 0% when asked “How does your company expect to perform in relation to fiscal year revenue targets for 2014?”

**Paid Media** - All types of media that a brand pays to use the channel. In this study we define paid media as the total approximate % of respondent's 2014 marketing budget spent on traditional advertising, digital display advertising (eg. banner ads, flash ads, video, etc.), search and social advertising (eg. Google Adwords, Bing, Facebook, Twitter), and promotions/ sponsorships.

**Earned Media** - All types of media that a brand earns based on customer or media interest. In this study we define earned media as the total approximate % of respondent's 2014 marketing budget spent on public relations. These costs are typically agency fees.

**Owned Media** - All media channels that a brand itself controls. In this study we define owned media as the total approximate % of respondent's 2014 marketing budget spent on content marketing, website, and email marketing.

**Other (non-media)** - All types of non-media channel spend. In this study this includes the total approximate % of respondent's 2014 marketing budget spent on data analytics, direct sales, and market research.

**Pre-Full Product Companies** - Companies that answered Pre-product (design and development) or Minimum Viable Product released when asked where their company was in terms of its product evolution

**Pre-Product Companies** - Companies in the design and development stage of their product evolution. These are startups that have yet to release any form of product into the market.

**Minimum Viable Product Companies (MVP)** - Companies post-initial design and development that have a product version in the market, most likely in Beta form. This product meets basic customer needs but does not yet have full functionality.

**Full Product Companies** - Startups that have released a product into the market with full functionality.

**Multiple Product Companies** - Startups that have either release multiple products into the market or have a single product that has multiple versions.

**Testing Budget** - Budget allocated for the specific purpose of understanding the performance of messaging or content. This includes use of services such as Optimizely and Google AdWords, as well as offline ads and campaigns.

# About Cunningham Collective

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Cunningham Collective is a marketing consultancy that helps companies solve challenges of traction, transformation and turnaround. We help earlystage, growth-stage, and enterprise companies nail their strategies and tell their stories, and we build world-class launch plans and go-to-market strategies that pack a punch.

Headquartered in San Francisco, the firm was launched by Andy Cunningham, who led the marketing strategy for the launch of Apple's Macintosh computer with Steve Jobs, and has spearheaded marketing, branding and communication strategies for game-changing technologies and companies ever since. Our team of veteran technology marketing experts serve as accountable partners who get things done.

**Contact us at [team@get2aha.com](mailto:team@get2aha.com) to discuss your challenges, positioning, and go-to-market strategy questions.**

**We love this stuff.**