

3% Give or Take

Non-Profit Marketing & Communications Budget Benchmark

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BY JOHN C. SUART



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THE 3% GIVE OR TAKE BUDGET BENCHMARK

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THE NON-PROFIT MARKETER

INTRODUCTION

One of the biggest challenges non-profits have is finding a benchmark for budgeting their marketing and communications activities. None exist. That's why many non-profits underfund or inconsistently fund their marketing and communications operations.

The *3% Give or Take Budget Benchmark* is designed to give non-profits the information they need to benchmark their marketing and communications budget. It is simple, flexible and easy to use. It is admittedly not the most sophisticated of benchmark systems. Some may find it to be simplistic and argue that a more complex approach is needed. That may be true. However, this benchmark has advantages. It is applicable to almost every kind of non-profit, large or small. Being simple and flexible makes it more usable, and that will be welcome news to the many non-profits that have neither the time or the skills to do anything more complicated. And, at the end of the day, *The 3% Give or Take Budget Benchmark* is one of the only budget systems of its kind available. If it is better than nothing, than that is a step in the right direction because there is nothing else.

This benchmark won't solve all the challenges of making a non-profit marketing and communications budget but it will give organizations a great place to start. The hard work of making a budget still rests with non-profit organizations themselves. Ultimately, it is our hope that this benchmark will foster more discussion and argument about marketing and communications in the non-profit sector.

This document is dedicated to the thousands of marketing and communications workers who toil daily in non-profit organizations around the world.

OVERVIEW

The Budgeting Challenge

The truth about budgeting for non-profit marketing and communications is that no one knows how to do it. There are plenty of people who say they do. There are also those who claim to have a method. Some of them even say they base their method on some kind of benchmark. Most of these approaches simply don't add up. At best they work for a specific type of non-profit or, more likely, for the larger non-profits who have plenty of resources. For the lion's share of the non-profit world – the small-and-medium-sized ones – there is nothing.

The problem with budgeting is that no two non-profits are the same. Many do similar work and have similar marketing requirements (such as fundraising support). But there are always key differences. Non-profit local markets are notoriously different from each other. Many organizations are structured very differently. There's also a wide variety of input and output levels – some charities can raise more money with fewer donors. And finally, the sector is in fact made up of a host of very tiny sub-sectors.

That's not the case in retail, where marketing budgets are virtually a science. Most big chain retailers know exactly what their competitors spend on marketing because that information is available through research companies. Compare that to non-profits. In our sector, there are no organizations that are tracking what we spend and how we spend it on marketing and communications.

And even if such an organization existed, what would they tell us? Likely, they would show that marketing and communications spending across the sector is a dog's breakfast. The 2008 study by the American Marketing Association and Lipman Hearne found that budgets were all over the place. The average they came up with (2-3% of operating revenues) was so crude it was almost useless. Tracking what other non-profits spend in hopes of finding a benchmark will only tell you that you don't want to benchmark against them.

One of the reasons why marketing and communications spending is weaving all over the road like a drunk driver is that many non-profits have been chopping their budgets. Marketing and communications has always been the first thing to go when times get tough and that has created feast or famine approach that means many non-profits have money to spend on things like a new website one year and the next they have nothing.

This is also a problem for another reason – many non-profit budgets are based on precedence. That is, the budget is formulated based on the budget from the year before. While this does wonders for consistency, it simply locks in the ups and downs in previous budgets. Bad budgets become even worse as time goes on.

There are other problems that cloud the issue even further. Too often, budgets are based on tools, not strategies. An ad costs this, a website costs that, and so on. To be most effective, a marketing and communications budget has to be tied very closely with a strategic benchmark, and for many non-profits that's missing. So, that's the reason why many budgets look like a grocery list.

And it also explains why the sector has such a hard time trying to achieve the zenith of budgeting -- predicting outcomes instead of just costs. The place where a non-profit really should go is not costing out to the Euro, Loonie or Greenback how much they will spend in stationery this year. No, what they should be figuring out what kind of outcomes their budget will be buying this year. The budget should say how much value your non-profit is going to get from your marketing and communications. This is somewhat common in retail and manufacturing where businesses link marketing directly to the value chain that starts with product creation and ends

with the sale. Our sector can't use the same kind of formula because we don't make widgets. We sell ideas that people can believe in or services that give hope. Typical value chain economics don't work. But the idea is still sound. Our budgets do need to predict what their impact will be.

This brings up perhaps the biggest political problem in marketing and communications budgeting – making the case for funding to the non-profit leadership. The long and the short of it is that too many leaders think that marketing and communications is not a line function. They see it as something secondary. Part of this surely has to come from the budgeting process. If, as I suspect, most budgets don't show the value marketing and communications creates then this situation will never change and these functions will always be one heartbeat away from the chopping block.

A final challenge is change. We're in the midst of the greatest revolution in marketing and communications in history, but you would never know it by looking at non-profit budgets and plans. In the next decade, we will see massive amounts of change that will make much of our current non-profit marketing and communications offerings redundant. Print materials will fade away. Websites will need to be much more functional and powerful. Everything and everyone will be online. Most donors and supporters will be mobile. There will be more choice than ever and more competition. More than ever, there will be a need to build a marketing and communications system that reaches stakeholders effectively and easily. These changes need to be planned for now and, in some ways, they even need to be budgeted for now. You can't buy the future, but you can invest in the things that will get you there. And that is what is missing in most non-profit marketing and communications budgets.

What is required

The budget benchmark that non-profits need has to be simple and flexible. The state of the marketing and communications function in the sector necessitates the need for something easy to use, especially with medium and small-sized organizations. It must be easy because these non-profits don't have the resources, skills and experience for a sophisticated solution. Perhaps the most important reason for making it easy is time. Non-profits are busy. They don't have time for any type of planning, budgeting included. Planning cycles are short and there are many day-to-day tasks that can distract them. It has to be easy or it won't work.

With simplicity comes the need for flexibility. The non-profit sector is diverse. No two organizations are exactly the same. The non-profit sector is really in fact a large category of thousands of sub-sectors. That's the macro view. There's also a micro challenge. Non-profits change. The budget benchmark needs to take in to account the organization's life-cycle. It may be just starting out. It may be facing more competition. It may be at the top of its game and ready to coast on past successes. So, the benchmark has to be able to bend to fit the needs of the organization in the here and now.

Perhaps one other requirement is a common language. Marketing and communications budgeting is so very different from one organization to another that it has no common context. The

benchmark needs to give the organization a common starting point and a system that everyone can understand. It must provide an even playing field for the people involved and make it easy for them to discuss, cajole, beg and even argue about the budget in ways everyone will understand.

THE 3% GIVE OR TAKE BUDGET BENCHMARK

Why 3%?

This budget starts with a percentage. Budgeting can be done many ways, but one of the best methods from the for-profit world is to peg marketing costs at a percentage of sales. This has many advantages. First, it will vary with changes in the organization's operations – when sales are down, the marketing budget will also drop and vice versa. It effectively makes marketing “affordable”. Second, it ties marketing and communications to the overall effort of the organization. Too many times, non-profit leaders fail to see the direct relationship. This approach will make it clear what marketing and communications does. In many non-profits there are no “sales”. There is operating income from funders and governments or there is fundraising revenue or a mixture of both. To make things simple, the percentage used here should be the non-profit's total operating revenues. However the money is raised, a non-profit's operating revenue is its “sales”.

What percentage should be used? In the for-profit world, this is often a very easy question to answer. The Chief Marketing Officer Council did a survey in 2007. It found that 16% of for-profit companies spent between 5-6% of revenue on marketing and 23% spent over 6%. It also found that businesses introducing new consumer products sometimes spend as much as 20% of sales on marketing. Another study by Go-to-Market Strategies found 30% of companies spent between 3-5% of revenue on marketing, with 45% spending over 6%.

It is tempting to think that the non-profit world's marketing and communications budgets should mirror the for-profit world. A case can be made that in fact non-profits need to spend more than for-profits on marketing, not less. However, everything points to the fact that the sector would have little appetite for such a radical increase. The best study on this issue is the 2008 study by the American Marketing Association and Lipman Hearne which found that the average non-profit marketing budget was between 2% and 3% of the total operating revenue.

For all these reasons, this benchmark uses a percentage of 3% of the operating revenue. This benchmark is called *3% Give or Take* for a reason. Three per cent is about right. Arguments can be made for spending less or spending more. In fact, we wish it could be significantly more, but that is not where the sector wants to go. In absence of any better data 3% is the best choice and the one that makes the most sense to us based on our experience and that of many of our clients.

So, if a charity had an operating revenue of \$500,000 its base marketing and communications budget would be \$15,000. If it had an operating revenue of \$5 million, it would be \$150,000.

Give or Take

The flexibility of this benchmark comes after the base budget percentages have been set. Here, non-profits can customize their budgets by adding or subtracting percentage points to reflect their situation. For example, if there is a need for more resources, they will add percentage points to the base. Let's say a charity in a small market has begun to face more local competition for donations. They could add 1% to the base budget to compensate for the competition. Likewise, if the organization has no competition or is facing a drop in competition, it could take 1% away from the budget.

Here are several things to consider:

- **Operating with less than \$1 million.** The 3% base budget will yield results that are below minimal levels. GIVE 1%.
- **Super-big.** If you're making as much as \$10 million or more, you will be enjoying many important economies of scale. TAKE AWAY 1%.
- **Mature Brand.** There is less need for established organizations to invest in marketing and communications. TAKE AWAY between 0.5% and 1%.
- **Low profile.** If no one knows who you are, it is time to devote more money to communications. Test this by doing a simple online survey of people inside and outside your organization. Ask "Do the people you meet know what this organization does?". If the answers are strongly "No", then GIVE between 0.5% and 1%.
- **Just starting out.** Your organization will need communications power to get established. GIVE between 0.5% and 1%.
- **No full-time communications staff.** If there is no full-time communications person (including full-time part-time), then you will need more funds to hire contractors to supplement your operations. GIVE between 0.5% and 1%.
- **Volunteer driven.** Many non-profit organizations are run exclusively by volunteers. This can often lead to uneven results. Compensate for this with extra funds to hire contractors for certain things. GIVE 1%.
- **Launching major fundraising drive.** A major fundraising campaign requires more communications. The non-profit needs to establish the need for the campaign and communicate it to donors and the public. GIVE between 1% and 2%.
- **More than 20% annual churn in donor database.** Studies show that many small charities have a regular donor churn of 20% each year. Replacing them with new donors is expensive and challenging. GIVE 1%.
- **Planning for the future.** Have you thought about what your future communications needs will be? There's a revolution in marketing going on. It will change the way many non-profits work. In the near future, some will go entirely online. But are they ready? If you think the coming changes in technology will radically change the way you communicate with your stakeholders then GIVE between 0.5% and 1%. Invest that money in preparing for the new reality.
- **Website less than 5 years old.** Web technology changes quickly. Your five year old website is likely now looking and acting very old. New funds should be set aside to improve it or create a new one. GIVE between 0.5% and 1%.

3% Give or Take Budget Benchmark

These GIVES and TAKES above are based on our experience with non-profits in the education, health and social services sectors. They likely just scratch the surface of what is needed. We encourage you to make up your own additions and subtractions based on your own experience.

One rule of thumb here is to not load up every single GIVE or TAKE that you can fit into the equation. It maybe that all of the above criteria fit your organization. But the adding or subtracting of all those numbers will likely lead to more confusion than clarity. Instead, you should pick the most pressing items. Be careful when adding or subtracting. Use your common sense.

The result of the subtraction and addition will be your final budget benchmark number. For example, if your final equation is 7% and your operating revenue is \$500,00, then the marketing and communications budget benchmark for the year will be \$35,000.

Examples

Let's take a few examples of non-profit organizations and see how the system works.

The New Charity

Operating Revenue: \$500,000

Base Budget Percentage: 3%

GIVE/TAKE:

- Just starting out. GIVE between 0.5%

FINAL Marketing and Communications Benchmark: $3.5\% \times \$500,000 = \$17,500$

The Big Institutional Foundation

Operating Revenue: \$8,000,000

Base Budget Percentage: 3%

GIVE/TAKE:

- Mature Brand. TAKE AWAY 0.5%
- Launching major fundraising drive. GIVE 1%

FINAL Marketing and Communications Benchmark: $3.5\% \times \$8,000,000 = \$280,000$

The Volunteer-run Non-Profit

Operating Revenue: \$250,000

Base Budget Percentage: 3%

GIVE/TAKE:

- Volunteer driven. GIVE 1%.

FINAL Marketing and Communications Benchmark: $4\% \times \$250,000 = \$10,000$

The Social Service Agency
Operating Revenue: \$1,500,000
Base Budget Percentage: 3%
GIVE/TAKE:

- No full-time communications staff. GIVE between 0.5%
- Low profile. GIVE between 0.5%

FINAL Marketing and Communications Benchmark: $4\% \times \$1,500,000 = \$60,000$

Spending vs. Labour

There is a commonly held belief that the biggest component of the marketing and communications budget is labour. The theory goes that most of what communications people do is low cost or free and that only real expense to the non-profit is their labour. They send media releases, which costs nothing. They take out PSAs, which cost next to nothing. They update websites and Facebook pages, and that costs nothing. Unfortunately, the results of this outmoded way of thinking is also *nothing*. If it only required labour to make this work than most small-and-medium-sized non-profits would be some of the greatest marketers and communicators ever known. The fact that they are not shows the fallacy of this way of thinking.

However, the question of labour versus spending is a good one. Let's take the example above of a \$35,000 benchmark for the \$500,000 non-profit organization. If they were to use the labour method of budgeting than the entire \$35,000 budget would go towards a communications staff person, full or part-time. Nothing would be left over to spend and results would suffer.

A further complication is that staffing within the marketing and communications portfolios of most non-profits varies widely. It is very common in small organizations to have another staff member carry the portfolio along with several others. One example, is the Executive Director's secretary also issuing media releases and updating the website. In larger organizations, there are usually professional staff members.

This is why these benchmarks do not include labour costs. The benchmarks it creates are spending budgets and do not include pay and benefits for communications staff. So, in our example above, the \$35,000 is how much they should spend on marketing and communications and does not include labour costs whatsoever. It does include hiring outside contractor and suppliers for some labour-intensive jobs, such as writing and designing. But these are services, not labour costs.

This all will be a shock to those who use the labour method of allocating marketing and communications budgets, and rightly so. They need to open their eyes to the real need for more spending.

Using the benchmark

Like any new benchmark, the results of this system may be quite dramatic. You may wind up with a number that is significantly greater than or lower than your current budget figure. This is nothing to be worried about. What the budget system gives you is a benchmark in which to review your budget. Use it as a learning tool to help you understand the relationship between spending and results.

For example, the Social Service Agency example above calls for a spending benchmark of \$60,000, but the agency might in fact be spending less than \$10,000 on marketing and communications. Instead of asking how they can spend six times as much they should ask whether they are getting six times less results than they should. At the end of the day, \$10,000 may be all they can afford this year. But knowing that the benchmark says they should be spending more should spur them to push for increases that will get them where they want to be.

This benchmark is not sophisticated enough to predict exact budget figures for every type of non-profit. There is a way to determine how far off you are and how critical it is for you to increase your spending. If the system returns you a budget benchmark that is more than you spend now, follow these steps.

- Take the benchmark amount and divide it by the amount you are spending now.
- Plot the difference in the graph below.

Confidence Intervals	
Spending Difference	Result
0-5	Good. You are within benchmark
6-10	Fair. You are far from benchmark
11+	Poor. You are significantly below benchmark

In the Agency example above, they would be at a “6” spending difference, which would give them a “fair” benchmark rating. They are somewhat close to the benchmark. Their conclusion should be that they could stand to increase their spending.

If you the benchmark gives you a significant increase or decrease, start these discussions:

- **Look at the outcomes.** Are you getting the outcomes from your current budget as you should? Take a look at the results you are getting and project how those results would change if you were using the benchmark. What results does your organization need?
- **Set a realistic goal.** It may be impossible to increase your budget to the level of the benchmark overnight. Think about how you can get to benchmark in a realistic way. How can you increase spending? What is a realistic goal and how long will it take to get there?

USES AND LIMITATIONS

What this benchmark doesn't do

The *3% Give or Take Budget Benchmark* has limitations. First and foremost, it works better in small and medium-sized non-profits than in larger, better resourced organizations. This benchmark system is really designed for non-profit leaders who aren't marketing and communications professionals.

It may not work in every sub-sector of the non-profit world. The sector is very diverse. Even with our extensive experience in the sector we realize there are some non-profits that won't easily fit into this system.

This system is a benchmark and not an instant budget-making machine. Don't skip over all the hard work you need to take to customize your budget to your organization and the world around you and just go with the numbers our benchmark spits out. We realize that those non-profits that are exactly at benchmark will be in the minority. Most will be spending far less.

The benchmark doesn't tell you what to spend on or how to spend it. That would require a whole other document and perhaps a few webinars to explain. One likely problem using our system is that without labour factored in many non-profits won't know how to spend the money the benchmark calls for. There are effective solutions to this question, but none of them are included here. Contact us for more detailed information.

A final limitation is that our benchmark does give non-profits a magic bullet. Many cost cutters will look at this with an eye for finding the best way to spend less money on marketing and communications. To their horror they will find it likely tells them to spend more!

The importance of strategy

There can be no effective budgeting without an effective strategy. Many people think that budgeting is simply a subset of creating and delivering a strategy. Some would argue that in a sense the "strategy writes the budget". To a degree they are correct. A strategy can give you things that no budget can. It identifies goals, target audiences, tactics and more. Even more important, good strategies last more than one budget year. In these cases a strategy is the master document and the budget is the tactical execution of it.

However, non-profit marketing and communications isn't as simple as that. While there are many examples of good marketing and communications strategies in the sector, they are likely in the minority. Many non-profits have no communications strategy at all. Of those that do exist, many are not very detailed or deep – there is very little "strategy" in them. Perhaps the reason why budgets in the sector are so poor is exactly because the strategic plans of the sector are equally poor.

We strongly urge you to create strategic framework for your annual budget. It will be of immeasurable help in planning your budget and using our benchmark. Here's what you should include in your strategy:

- **Goals.** You need to clearly define what outcomes your marketing and communications department will deliver. The more detailed the goals the better. Too many non-profits have such poorly defined goals that are too vague.
- **Target audiences.** You cannot and should not try to communicate everything to everyone. To be more efficient and effective you need to target specific stakeholders.
- **Communications strategies.** Your plan has to clearly say how it will do the communicating necessary to achieve the goals. It has to answer how it will do this in the environment it operates in.
- **Tactics.** The plan has to clearly define the communications channels it will use and when.
- **Messages.** Perhaps the most neglected part of marketing and communications plans is messaging. Your plan needs to clearly articulate what your message is and how you will say it. This has to be the guide for all the communicating you do and say.

Budgeting Outcomes is still the goal

We firmly believe that the gold standard for non-profit marketing and communications should be outcome-based budgeting. The budget should count goals met rather than costs incurred. We certainly realize that The *3% Give or Take Budget Benchmark* does not achieve this. We will endeavour in the future to create an outcomes-based budget benchmark, but until then it is up to non-profits to use their common sense in linking spending to outcomes.

ABOUT THE AUTHOR

John Stuart is a non-profit marketing and communications expert. He is currently Director Non-Profit Sector at The Wright Agency. John is the author of the Non-Profit Marketer Blog (<http://johnstuart.blogspot.com>), the moderator of the Canadian Non-Profit Marketing Group at LinkedIn, a marketing columnist at CharityVillage.ca and a guest blogger at the Guardian Newspaper in London.



He is the author of three influential marketing communications white papers:

- **The 2010 Non-Profit Marketing Year-in-Review.** A snapshot of where non-profit marketing and communications has been, is now and will be tomorrow. The paper walks you through all the challenges facing the sector and tells you why most non-profits are not ready for the marketing challenges they face.
- **Page Not Found: Canadian Hospitals & Their Websites.** Canadian Hospitals are the forefront of online health information, but many of them have sub-standard websites. The paper tells you why and what they should do about it.
- **Reforging the Bond.** A fresh, new look at alumni communications. This paper dispels the myths surrounding alumni communications and motivations and argues for less fundrais-

ing and more everyday value for students and alumni members.

John has more than 15 years of working with and working for non-profit organizations, including universities, hospitals, governments, charities and more. An award-winning journalist, his experience includes almost every facet of communications and marketing, from making award-winning websites to producing complete advertising campaigns. He is a frequent speaker at events large and small.

SUMMARY

1. Calculate your operating revenues. This is in effect you “sales” and should include all revenues.
2. Multiply your operating revenues by 3%. This is your base budget.
3. GIVE or TAKE percentage points based on your situation.
4. Calculate your final benchmark figure.
5. Compare this to your current budget by taking the benchmark amount and dividing it by the amount you are spending now.
6. Plot your confidence interval.

Confidence Intervals	
Spending Difference	Result
0-5	Good. You are within benchmark
6-10	Fair. You are far from benchmark
11+	Poor. You are significantly below benchmark

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