Estimating the Cost of Marketing Automation

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Estimating the Cost of Marketing Automation

Introduction

The cost of marketing automation extends beyond the price of the software. The investment in marketing staff, changes in marketing programs, and impact on revenue are all part of a complete analysis. Only by looking at the whole picture can you see the true cost and payoff.

Making sense of all these items takes an organized approach.   This workbook offers just that: a step-by-step process for evaluating marketing automation costs.

The steps are:

• **Set the Scope**. Learn the different types of costs associated with marketing automation and decide which to include in your analysis.

• **Build Your Estimates.** Fill out detailed worksheets for each cost type. Distinguish one-time implementation costs from on-going operational costs. You'll have to decide how many years of operational costs to consider: many companies use a three-year horizon.

• **Summarize Your Results.** Summarize the details and present your findings.

A detailed cost analysis is a big project, but it's like eating an elephant: possible so long as you take one bite at a time. When you finish, you'll have a clearer understanding of how you can best use you new system and have hard numbers to show your CFO, CEO, and other company leaders. So sharpen your pencil and dig in.

Estimating the Cost of Marketing Automation

Step 1: Set the Scope

First, some background. Marketing automation has four types of financial impacts:

- **Direct system costs:** These are fees paid to the marketing automation vendor for the software itself and related services. They are the most identifiable expenses and can be estimated with great precision. But they are a tiny fraction of the big picture – often as little as 1% of the total marketing budget.

- **Indirect system costs**. These are other costs related to running the marketing automation system, such as salaries for people who use it and changes in other areas such as sales support and data processing. The marketing automation system may increase some of these costs and reduce others. Indirect costs can account for 25% or more of a company's marketing budget, so even a small change is significant.

- **Marketing program costs.** These are the costs related to specific marketing programs: advertising, trade shows, direct mail, custom Web forms, marketing content, and so on. They account for the bulk of the marketing budget and, unlike staff costs, are easily increased, decreased, or shifted from one purpose to another. This means the marketing automation system can impact them substantially, both through direct savings from reduced waste and through shifting funds to more effective programs.

- **Revenue.** The ultimate purpose of marketing automation is to increase revenue and/or profit margins. Just as marketing automation costs are a tiny fraction of marketing expense, the marketing budget itself is usually well under 10% of revenue. This means even a tiny change in revenue will more than cover the direct costs of marketing automation. Unfortunately, it's hard for many marketers to show a direct connection between their efforts and revenue. This sometimes makes them reluctant to use revenue gains to justify their marketing automation investment.

A complete financial analysis would examine each category in detail. But that usually isn't necessary. You can limit your focus depending on what you're trying to accomplish.

- **Building a business case.** You're trying to decide whether marketing automation is a sound investment. This is a big-picture kind of question, so you can build some general estimates for system costs and then focus mostly on marketing program costs and revenue impact.

- **Choosing a vendor.** You've already committed to marketing automation and are now deciding which product to buy. The focus here is on system costs, since program costs and revenue should be about the same regardless of which you pick.

You'll probably need both a business case and a vendor selection at different times. But, for now, choose your goal and develop the estimates appropriately.

Estimating the Cost of Marketing Automation

Step 2: Build Your Estimates
Direct System Costs

Direct costs are paid to the marketing automation vendor or service partners. They are usually based on some combination of list size, data sources, email volume, Web traffic volume, marketing users, sales users, features used, implementation services, training services, and support level. Implementation and customization may be delivered by a partner but should still be included in the vendor's cost estimate.

Sources: Direct system costs should be provided by a vendor salesperson based on a review of your expected volumes and requirements. Even though vendor pricing is sometimes published, there are often nuances that won't be covered if you calculate the costs for yourself.

Direct System Costs	Initial cost	On-going cost
System: cost to license and operate the marketing automation system itself		
• base system: the minimum software configuration without options		
• dedicated IP address: helps deliverability by isolating your emails from emails sent by other clients of the vendor		
• message volume: related to volume of email and/or Web page views		
• database size: related to number of names; definition may vary among vendors (leads, contacts, active contacts, etc.)		
• API access: may be flat fee for use of API or variable fee based on number of API calls		
• sales access: separate module used by sales people; may be integrated with CRM or stand-alone		
• advanced reporting: add-on module for special features		
• integration: module to integrate with specific CRM system		
Support: payments for access to customer support and system upgrades.		
• standard: typically part of the monthly service fee for SaaS systems, but may be optional for on-premise software.		
• extended: may include extended hours, faster response, an assigned support person, etc.		
Service: payments for services beyond user support. Cost depends on the scope of the effort. May be provided by vendor or third-parties.		
• integration: setting up connections with external systems		
• implementation: deployment planning, configuration, data imports, program design, process reengineering, etc..		
• customization: changes to the system or creation of custom modules that integrate with the system. Most SaaS products do not allow changes to the core system.		
• training: individual training, group classes, training materials, etc.		
• scoring: designing and implementing formulas for lead scoring. Often involves a facilitator-led workshop.		
• deliverability services: help with ensuring that emails are not blocked by spam-prevention systems		

Estimating the Cost of Marketing Automation

Indirect System Costs

Indirect system costs are related to the marketing automation system but not paid directly to the vendor. They include the costs of related systems and of staff who use the system or support it indirectly. The savings from replacing existing systems or manual processes should be credited against the cost of the new system, so only the net change is used in analysis. Net costs may increase in some categories and decrease for others.

Sources: For a vendor selection project, work with your marketing staff to understand how marketing operations costs will vary with each system. For business case projects, identify the impact on marketing, sales and IT. You may want to add a column that shows the current costs in each category. This provides a reference point and highlights your focus on net changes.

Indirect System Costs	Initial cost	On-going cost
Marketing Operations: changes in non-program marketing costs as a result of marketing automation.		
• implementation: staff time for deployment planning, configuration, data imports, program design, process change, etc.		
• training: net change in staff time spent on individual training, group classes, training materials, etc.		
• administration: net change in staff time for on-going system administration and operational support.		
• scoring: net change in staff time spent designing and implementing formulas for lead scoring.		
• marketing systems: net change in fees for marketing software other than marketing automation system		
• analytics systems: net change in fees to use third party reporting or analytical software		
IT Operations: changes in technology department costs as a result of marketing automation		
• hardware: net change in cost of systems, including servers and workstations (desktops, notebooks, smartphones, tablets, etc.); includes capital expenses and on-going operations (data center, technical support, etc.)		
• network: net change in cost for upgraded network connections to handle higher data volumes		
• operations: net change in cost of IT staff or external services to manage the new system or related systems		
• integration systems: net change in fees for systems that manage data integration or operational coordination between systems (e.g. products such as Boomi or CastIron)		
Sales Operations: changes in sales department costs as a result of marketing automation		
• sales support: net change in cost of staff time spent to coordinate with marketing		
• inside sales: net change in cost of staff time spent qualifying leads provided by marketing		
• field sales: net change in cost of staff time spent training and working with marketing systems		
• sales systems: net change in fees for licenses, data exchange, or API access for CRM and other sales systems		

Estimating the Cost of Marketing Automation

Marketing Program Costs

Marketing program costs are expenses for specific marketing projects such as an email campaign or new Web form. Many program costs are out-of-pocket expenses to external vendors, such as fees for an advertisement or trade show booth. These are fully variable. Others costs are paid to in-house staff, such as copywriters or graphic designers. These are fixed in the short run but are still variable over time.

A marketing automation system can reduce program costs through more efficient purchasing, lower unit costs for system-generated outputs, or productivity improvements among marketing staff. This section of the workbook focuses on those reductions.

Marketing automation may also increase some program costs by empowering marketers to add new types of programs or to expand more profitable programs. Those benefits are addressed in the Revenue Impact section of this workbook.

To the extent that your marketing program costs include marketing staff, be certain not to double-count staff savings that have already been included in the Indirect System Costs.

Sources: Start your analysis with a list of current marketing programs. Next, determine which of these your marketing automation system will affect. For each program, work with marketing staff, consultants, analysts, and other experts to estimate the current costs and the costs with marketing automation in place. Your analysis should be based on the net change between these figures. Cost elements include:

* unit costs, such as cost per email sent. Current costs should be readily available. Estimate future costs from marketing automation pricing.

* set-up costs, such as labor to create a Web form or place external media. These can usually be calculated on a per unit basis, although the actual unit will be different for each program type. You'll need to assess the current cost and estimate the cost with the new system.

* reduced waste, such as mailing to fewer duplicate names or printing fewer unused pieces of marketing collateral.

Other notes:

* If you're evaluating different marketing automation systems with different capabilities, you'll need separate estimates for each system.

* Base your analysis on the number of units you currently create. Your Revenue Impact analysis will address the impact of changing program volumes.

* In this case, initial costs would be one-time expenses for tasks like converting Web forms to the new system and setting up standard campaign flows.

* The table below distinguishes acquisition programs (which generate new leads) from supporting programs (which service existing leads).   The distinction doesn't matter for program costs. It's included here because we also use it in the Revenue Impact section.

Estimating the Cost of Marketing Automation

Marketing Program Costs	Initial cost	On-going cost
Acquisition Programs		
• outbound email		
• paid search ads		
• Web display ads		
• search engine optimization		
• blogging		
• social media		
• online events / Webinars		
• offline events / trade shows		
• direct mail		
• print and broadcast advertising		
• phone prospecting		
• publicity		
Supporting Programs		
• lead nurture		
• Web site		
• Web forms & surveys		
• Web downloads		
• Video		
• phone lead qualification		
• lead scoring		
• Web analytics		
• program analytics		
• market research		

Estimating the Cost of Marketing Automation

Revenue Impact

Overview: Marketing automation systems make it easier to execute more programs and to measure program results. The Marketing Program Cost section looked at savings from greater efficiency in executing existing programs. This section looks at the benefits from running more programs, improving program performance, and building a more effective program mix. These benefits are expressed as profit increases so they can be compared directly with the impact of cost reductions.

Detailed Estimate: Revenue is related to two types of marketing programs:

- **acquisition programs** bring in new leads. Start with the revenue currently attributed to each program type, reduce this by direct cost of the program, and deduct an additional percentage to account for non-program costs including other marketing costs, sales costs, and cost of goods sold. (You may want to work with your finance department on this.) The result is a profit contribution for each program type. This is divided by the number of leads to calculate profit contribution per lead for each program.

- **supporting programs** increase the close rate for leads from all acquisition programs. To calculate their value, first estimate the incremental revenue they create and then subtract the direct cost of the program and that same percentage for non-program costs. (Ideally, this percentage would be adjusted for each program to remove that program's costs from the total, so it isn't double counted. But it's probably not worth the effort in most cases; these figures are not accurate enough for that particular error to matter.) Divide the resulting profit contribution by the number of leads touched by each program, and the result is a profit contribution per lead.

With the baseline profit per lead established, the next step is to estimate the improvement that marketing automation would yield for each program. You may have specific opportunities in mind, such as more finely-tuned email messages or a larger number of Webinars. Or, you may simply plan to reallocate spending from lower profit / lead programs to higher profit programs. Any adjustment should be constrained by an assessment of how much a particular program can be expanded and how much the incremental value per lead would decline as the program grows.

As always, the analysis table shows the net change calculated by comparing the current results with estimated future results.

Estimating the Cost of Marketing Automation

Revenue Impact	Initial value	On-going value
Acquisition Programs		
• outbound email		
• paid search ads		
• Web display ads		
• search engine optimization		
• blogging		
• social media		
• online events / Webinars		
• offline events / trade shows		
• direct mail		
• print and broadcast advertising		
• phone prospecting		
• publicity		
Supporting Programs		
• lead nurture		
• Web site		
• Web forms & surveys		
• Web downloads		
• Video		
• phone lead qualification		
• lead scoring		
• Web analytics		
• program analytics		
• market research		

Estimating the Cost of Marketing Automation

Step 3: Summarize Your Results.

The final worksheet combines the results of the four categories. The first two categories, direct system costs and indirect system costs, will usually be increases in spending, while the final two, marketing program costs and revenue impact, are increases in profits. These figures can easily be transformed into return on investment or net present value.

Financial Summary	Current			New			Change		
	Initial value	On-going value	Total	Initial value	On-going value	Total	Initial value	On-going value	Total
Direct system costs									
Indirect system costs									
Marketing program costs									
Revenue impact on profits									
Total									

About Raab Associates Inc.

Raab Associates is an independent consulting firm that helps marketers get the most from today's technology. We help our clients to define needs, evaluate vendors, make selections, plan deployment, and measure results. Established in 1987, Raab Associates is noted for thorough research and objective advice. For more information, visit www.raabassociatesinc.com or email info@raabassociates.com.

About Eloqua

Eloqua automates the science of marketing – campaign execution, testing, measurement, prospect profiling, and lead nurturing – allowing marketers to acquire customers, drive revenue and do what they do best: develop strong brands, build creative campaigns, and deliver compelling content. With Eloqua, marketers can read and automatically respond to their buyers' Digital Body Language™ and triumph over their biggest challenges. For more information, visit www.eloqua.com or email info@eloqua.com.