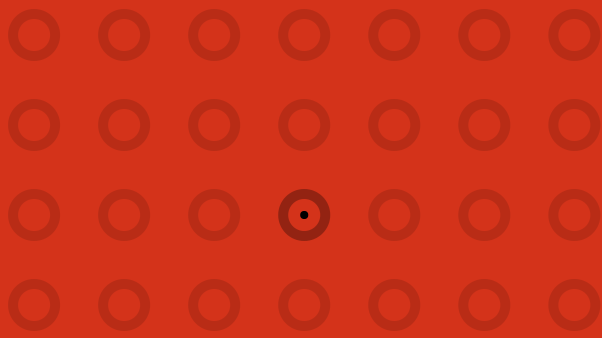




LEAVING THE COST CENTRE

No. 1

Six signs your marketing is costing more than it brings in

Every one of them gets blamed on something else. And every one shows up years before the accounts do.

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What this is about

Winning a customer costs money. Salaries, campaigns, sales time, software, all of it. That customer then pays you money back over the time they stay with you.

If the second number is bigger than the first, the business is fine. If it isn't, you're paying to lose money every time you win someone new.

Most businesses have never worked out which of those is true.

Not because they're badly run. Because the two numbers live in different departments and nobody's job description says go and put them side by side.

This paper is about the six signs that it's gone the wrong way.

Why I know these six

I've worked in eight of these businesses. Different sectors, different sizes, different decades.

The same six conversations happened in every single one.

For a long time I assumed that was just what working in B2B was like. A set of permanent frictions everybody complains about and nobody fixes, in the way every office has a printer nobody can work.

It took me an embarrassingly long time to notice they weren't six problems.

They're six symptoms of one problem, and they all point the same way.

It's costing more to win a customer than it used to, or each one is worth less than it used to be, and usually both at once.

That's the whole diagnosis, and everything here follows from it.

How to use this

Six sections. Each one starts with something people actually say in meetings. Then it explains what that sentence is really telling you about the cost of winning customers. Then it gives you one check you can run on your own figures.

You can do all six in an afternoon, using numbers your finance team already has. No software, no consultant, and nothing you need permission for.

One thing before you start.

Every one of these shows up years before anything appears in the accounts. Revenue, EBITDA, budget variance and churn are rear-view mirrors. They report decisions made two or three years ago.

By the time the comfortable numbers move, the thing causing it has been compounding since before anyone noticed.

“The target's gone up again and it feels harder than last year.”

Targets go up. That's normal and nobody's arguing with it.

What's worth noticing is the effort. If you're winning customers profitably, a bigger target needs proportionally more activity. Ten per cent more target, roughly ten per cent more work.

When each customer costs a bit more to win than last year, or returns a bit less, the extra effort isn't proportional. It's steeper. And it gets steeper every year, quietly, while everyone puts it down to a tougher market.

The sales team feels it first. Management usually reads it as a motivation problem.

GO AND LOOK AT

New customers won in each of the last three years, against total sales and marketing cost in each of those years.

Divide one by the other. You now have a rough cost per customer won, three years running.

If it's climbing faster than inflation, that's your answer. It doesn't need to be precise to be conclusive.

“Sales says the leads are rubbish. Marketing says sales can't close.”

This argument is in every business I've ever worked in, and it's never resolved, because both sides are partly right. That's what makes it permanent.

Here's the bit underneath it. When it starts costing more to win a customer, the instinct is to get more leads into the top. So targeting widens and qualification loosens.

More leads arrive. A smaller share of them convert. So you need more leads again.

The cost goes up. The argument gets louder. Round it goes.

Diagnosed as an execution problem, the answer is more volume, which makes it worse.

GO AND LOOK AT

The number of leads generated and the number of customers won, for each of the last three years. Work out the conversion rate for each year.

If lead volume is up and conversion is down, you're not looking at a quality problem or a closing problem. You're looking at the machine widening its net because the net isn't catching enough.

“We're having to discount a bit more to get deals over the line.”

Cycles lengthen, the pressure to close builds, and discounting is the nearest tool.

A deal planned at forty per cent margin closes at thirty-two. The revenue target is hit. It books as a win, and by every measure anyone is looking at, it is one.

But what a customer is worth to you is built on margin, not revenue. That customer is worth materially less than the one before, and the reported numbers won't show it.

Repeat it across enough deals and the economics move a long way while revenue and customer count sit perfectly still.

GO AND LOOK AT

Average gross margin per new customer, this year against two years ago. Not blended company margin. New customers only.

Most CRMs give discount at deal level. If yours won't, ask finance for gross margin on new business.

A drop of five points is a fifth of your customer's value gone, on the same revenue.

“Churn's within tolerance.”

Probably true, and it's the wrong question.

The rate tells you how many left. It doesn't tell you who.

If the ones leaving are disproportionately your best, or if they're going before they've repaid what it cost to win them, a healthy churn rate is describing an unhealthy business.

Replace good customers with adequate ones for long enough and your average customer value falls year after year while churn holds steady.

That's the most invisible of the six, because the number people watch stays green.

GO AND LOOK AT

Take everyone who left in the last twelve months. Work out their average annual value.

Now do the same for everyone who stayed.

If the leavers were worth more than the stayers, your churn rate is telling you nothing useful and hasn't been for some time.

“New logos are a bit flat, but the base is growing nicely.”

Expansion revenue is real and it's good, and it can carry a business for years.

What it also does is let the acquisition engine rust without anyone noticing, because nobody's looking at it while the top-line number goes up.

Then the expansion runs out, as it eventually does, and you go back to the market to win new customers. And you find it costs far more than it used to, and you're not as good at it as you were.

Flat new logo growth alongside growing revenue isn't a neutral signal. It's a bill arriving later.

GO AND LOOK AT

Split last year's revenue growth into two numbers: what came from new customers, and what came from existing ones. Then do the same for three years ago.

If the share coming from new customers has fallen substantially, you've been living off the base. That's fine until it isn't, and the point at which it isn't tends to arrive without warning.

“Marketing's budget is the first thing we look at when it's tight.”

Of course it is. It's the most visible discretionary line on the cost base.

So it gets cut. Activity drops, pipeline slows, sales pressure rises. Marketing defends itself with impressions and leads and campaign ROI. Finance isn't convinced, because none of that answers the question they're asking.

Next quarter it gets cut again.

Everyone calls this a relationship problem between the CMO and the CFO. It isn't. It's a measurement problem. A function that can't say what a pound of acquisition spend returns will lose that argument every time, no matter how well it's actually performing.

GO AND LOOK AT

The last three things marketing reported to the board. For each one, ask whether it answers “did the money come back”. Not whether it's true or useful. Whether it answers that question.

If none of them do, the budget will keep being cut, and it will be reasonable every time.

What to do once you've checked all six

If four or more of them sound like your business, it's already happening.

None of these checks gives you the exact figure. What they tell you is whether the exact figure is worth going and getting, which is a much cheaper question to answer.

Every one of the six does the same thing. It puts two numbers next to each other that normally sit in different places: what it costs you to win a customer, and what that customer pays you back.

That's all of it. No framework, no software. Somebody just has to go and compare the two.



I spent twenty-five years running marketing and I couldn't have told a finance director whether the money came back. Not once. I didn't know how, nobody I worked with was doing it, and the numbers I did report were real, accurate, and answered a question the business wasn't asking.

I worked it out late, and backwards.

You don't need to be qualified to ask these six questions. I wasn't.

A short series about a simple problem.
Marketing is judged on growth, funded
like an expense, and almost never asked
the one question that would settle it:
does the money come back?
