7.2 BRAINSTORMING AND EVALUATING YOUR GROWTH MARKETING

How do you generate your unique marketing strategies from the three main strategies?

Be Creative

Categorizing all marketing strategies into three general categories is not intended to limit your imagination. In fact, it should do quite the opposite; it should make you more creative. Use the categories as jumping off places. For instance, you don't have to list just strategies that you think are consistent with the category headings. You can brainstorm strategies that fly in the face of the main category suggestions. For example, don't get stuck thinking you have to find strategies to increase the number of customers you have. You also have to think about the strategies that will keep the customers you already have. At the end of the day, your brainstorm may generate ideas that are just plain bad, but cracking your imagination open to good ideas means you will be letting in the bad ones, too. And who knows, even the bad ideas may have a kernel of something brilliant.

Remember the following in your business growth brainstorming session:

- To brainstorm effectively, you need to write down ideas as they come to mind regardless of how ridiculous they seem.
- Have a separate brainstorming session for each of the three categories of business growth–increase number of customer transactions, increase your fee, and sell more services to each client.

Look at Each Idea Critically

Once you have brainstormed and come up with a few dozen ideas to grow your business, it's time to evaluate each strategy.

Cost-Benefit Analysis

To evaluate a marketing strategy effectively, compare the cost to the benefit. You are looking for the best return on investment possible. For instance, you need to know how much you can spend to acquire a new customer. How much can you spend to acquire a homebuyer? Not much. As we discussed earlier, there is not enough money in a single transaction to justify a substantial marketing effort targeted directly at the homebuyer. How much can you spend to acquire a new agent to refer business to you? Remember, the agent may refer many clients to you.

Value of Referral Source

How much is an agent worth to you? It's a good idea to do a rough calculation to find out how much you stand to gain from acquiring the customer (in this case the real estate agent). To do this you need to find out how much they are worth over a lifetime of business transactions. This calculation is called the "net worth" or "marginal net worth" or "life cycle value" of the customer. No matter what you call it, it is the profit that customer brings to your business over the whole term of the relationship.

- Let's see if we can figure it out with an example using a hypothetical inspection company. We'll start with the following assumptions and one or two pieces of advice:
- Let's assume you think it makes sense to work with real estate agents.

- Let's assume you are going to focus on building relationships with top-producing agents who work primarily with buyers rather than sellers.
- Let's assume that a top agent refers 20 clients a year to a home inspection company, and that 15 of the clients get an inspection with that company.
- Let's assume that the average relationship between an agent and an inspection company is four years.
- And lastly, let's assume that the average inspection fee is $350 and the average profit is 20 percent or $70 per inspection.

We now have enough information to determine the net worth or life cycle value of one real estate agent to this hypothetical inspection company. We will make a profit of $70 per inspection times 15 inspections per year times four years = $4,200 from this relationship. We now know the benefit of a relationship to this company.

Now let's look at the cost. The question is, how much should the company invest to establish the relationship? In theory, they could invest $4,199 and be ahead of the game. But because we spend that money up front, and it takes four years to get $4,200, that seems like a bad deal. Every company will look at this slightly differently, but it seems reasonable to invest $2,000 to acquire a $4,200 profit. This represents a return on investment of over 100 percent ($4,200 ÷ $2,000) over four years. The $2,000 investment in the first year provides a return of over 25 percent per year for four years.

This seems strange. Do inspection companies really invest up to $2,000 to establish a relationship with one real estate agent? Well, let's look a little closer. The company will probably not be successful in establishing a relationship with every agent they contact. In fact, the company might only set up a relationship with one agent for every 20 they contact. This means that the $2,000 is invested in 20 agents, averaging $100 per agent.

If the assumptions are all true, we can spend up to $100 in marketing to every top-producing agent in the market. This is invaluable information because it allows the company to know what the return on investment is. They have done a cost benefit analysis and can set their marketing budget accordingly. The $100 per agent can be spent a number of ways, and good companies will experiment with different methods to try to improve the conversion rate of agents and to extend the length of the relationship. They may also invest more in agents who produce more than 15 referrals in a year.

Hard Costs and Soft Costs

The hard costs and soft costs should be included in any cost calculation. The hard costs for mailers, lunch bills, and so on, are easy to calculate. The soft costs–for the inspector's time for example–are harder to calculate. Most home inspectors don't recognize this cost because it does not show up on their financial statements. That's because the cost is what we call "opportunity cost."

Account for Opportunity Cost

An opportunity cost may be the soft cost of your time. When you take the time to meet with a real estate agent, you might have been doing an inspection instead. Your opportunity cost is the money you could have made while doing an inspection, for example. From now on, when you evaluate marketing strategies, factor in an opportunity cost. For many, this is roughly $30 per hour. Let's look at where that number comes from.

Again we will make some assumptions. Let's assume your goal is to take a salary of $60,000 out of the company. If you work 40 hours a week for 52 weeks a year, that is 2,080 working hours per year. If you earn $30 per hour, your annual salary would be ($30 per hour x 2,080 hours) $62,400. In the example above we allowed $100 per agent on average. This would include the $30 per hour soft cost or opportunity cost for your time.

The numbers are not as important as the concept in the example above. If you can train yourself to think in these terms when it comes to marketing, you will be better prepared for success.

For every idea that your brainstorming session generated, go through a cost-benefit analysis, such as the one in our example, and decide whether it is worth pursuing. In many cases you will have to make assumptions. That is part of the business world,you have to make decisions with less than complete information.

Brainstorm a Second Time

Once you have evaluated each idea in your first brainstorming session, it's time to brainstorm again. The goal of this second session is to see if ideas spawn other ideas or subsets of the ones in the first brainstorm session. You' ll be surprised how many ideas you can generate from just three strategies!