



GROWTH THAT COMPOUNDS

The thirty-percent rule for sales and marketing

Finance models assume 30% of SG&A builds an asset. Market exit prices prove the real share ranges from 20% in consumer goods to 51% in healthcare.

Sinan Isoglu, MBA (Quantic)

Commercial growth leader, lecturer and doctoral researcher

PUBLISHED

16 August 2026

UPDATED

20 August 2026

READING TIME

6 min

WORDS

1,307

<https://isoglu.com/insights/journal/the-thirty-percent-rule-for-sales-and-marketing/>

Management summary	2
What does an empirical sample of 2,004 exits reveal about commercial spending?	3
Why does sales and marketing productivity vary by 2.5x across software firms?	4
Why does commercial knowledge capital depreciate twice as fast as tax models suggest?	5
How should commercial leadership audit sales and marketing capitalization next week?	5
Where are the empirical boundaries of commercial intangible asset valuation?	6
References	7

MANAGEMENT SUMMARY

In financial analysis and corporate valuation, analysts face a dilemma: GAAP treats 100% of sales and marketing as an immediate operating cost, while financial economists apply an arbitrary flat 30% capitalization rule to estimate organizational capital. Drawing on empirical market prices from 2,004 acquisition exits, researchers discovered that the asset-creating fraction of commercial spend varies by 2.5× across industries. In consumer goods and manufacturing, roughly 80% of SG&A is maintenance spend required simply to hold existing market share. In enterprise software and healthcare, 37% to 51% creates durable institutional equity.

Keywords: Intangible capital · SG&A capitalization · Go-to-market budgeting · Corporate valuation · Organizational capital

Every financial controller and go-to-market executive encounters the same structural distortion during annual budgeting: statutory accounting standards mandate that every euro spent on sales, marketing, and general administration (SG&A) must be expensed immediately on the income statement.

Under GAAP and IFRS, building a proprietary sales methodology, training a global solutions architecture team, or establishing enterprise brand equity is treated identically to paying the electric bill. It is booked as an immediate period expense, as explored in two views on intangible assets. To correct for this distortion, empirical corporate finance developed a standard workaround. Following landmark frameworks from the Bureau of Economic Analysis (BEA) and academic pioneers like Charles Hulten, Ryan Peters, and Lucian Taylor, valuation analysts capitalize a portion of historical SG&A using the perpetual inventory method.

Yet almost every research model and private equity valuation memo applies the exact same convention: an unvarying, flat 30% capitalization factor ($\gamma_S = 0.30$). Whether the business is a consumer packaged goods brand, a steel fabricator, or a B2B enterprise software provider, the model assumes that exactly 30 cents of every commercial dollar builds durable organizational capital, while 70 cents maintains current operations.

There is only one issue: real transaction markets do not price commercial expenditures with a flat ruler.

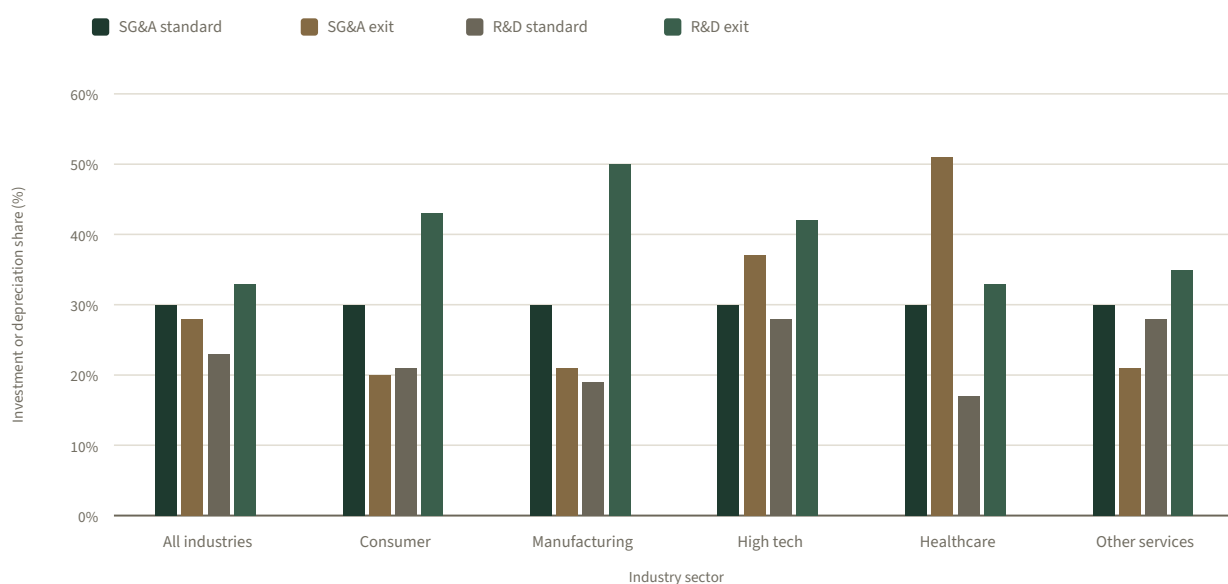
What does an empirical sample of 2,004 exits reveal about commercial spending?

In an NBER working paper revised in October 2023, Michael Ewens, Ryan Peters, and Sean Wang tested whether this flat 30% assumption matches the prices sophisticated buyers actually pay in real-world transactions.

Rather than relying on accounting assumptions, the authors examined a comprehensive sample of 2,004 corporate acquisition exits between 1978 and 2017. Using non-linear least squares estimation on market purchase prices, they identified how acquirers implicitly value accumulated knowledge capital (R&D) and organizational capital (SG&A).

When the authors allowed the data to estimate the true investment share (γ_S) and depreciation rate (δ) across different industry sectors, the universal 30% rule fell apart.

Figure 1 The measured investment share of SG&A by industry



Data from Ewens, Peters & Wang (2019, revised October 2023), NBER Working Paper No. 25960, Table 1 (p. 47).

Why does sales and marketing productivity vary by 2.5x across software firms?

The empirical estimates in Table 1 reveal a 2.5× dispersion between the lowest and highest sectors:

- 1 In Consumer Goods and Industrial Manufacturing, 80% of SG&A is maintenance spend. Acquirers value consumer commercial spending at $\gamma_S = 0.20$ and manufacturing at $\gamma_S = 0.21$. In these sectors, four out of every five commercial dollars are consumed simply keeping the distribution pipeline full and defending shelf space. Applying a 30% capitalization factor overstates the durable intangible assets of consumer companies by nearly 50%.
- 2 In High Tech and Software, commercial spend creates substantial durable equity ($\gamma_S = 0.37$). Nearly 40% of tech SG&A builds transferable institutional capital: multi-product customer architectures, developer community mindshare, and standardized sales playbooks. Treating high-tech GTM as an uncanceled operating cost severely understates the economic assets generated by customer acquisition.
- 3 In Healthcare and Life Sciences, over half of SG&A builds permanent capital ($\gamma_S = 0.51$). Specialized medical education, clinical stakeholder engagement, and regulatory market-access infrastructure behave like long-lived capital assets, with acquirers valuing more than half of historical commercial spending as accumulated equity.

As analyzed in how growth budgets are treated as gross numbers, failing to distinguish between maintenance expenditure and net capital formation blinds management to the true cost of compounding growth. This allocation problem is also central to why the Rule of 40 is a trade-off, not a target, balancing margin reinvestment against sustainable top-line expansion.

Why does commercial knowledge capital depreciate twice as fast as tax models suggest?

The second critical finding of the Ewens et al. dataset concerns knowledge capital depreciation (ΔG).

Official national accounting schedules from the BEA assume R&D depreciates at gentle annual rates between 15% and 23%. But when measured against real market transaction prices, knowledge capital evaporates at 33% to 50% per year.

In industrial manufacturing, accumulated R&D depreciates at 50% annually ($\Delta G = 0.50$); in consumer technology, it decays at 43% annually ($\Delta G = 0.43$). Software and hardware patents that are not constantly reinforced by follow-on development lose half their commercial value every two years.

When acquirers evaluate targets, as detailed in how customer bases get priced, relying on slow accounting amortization creates phantom assets on the balance sheet while ignoring the rapid half-life of technical advantage.

Table 1 Commercial budgeting matrix: operating cost vs capital creation

Commercial Spend Category	Primary Economic Role	Empirical Capitalization Factor (γ_S)	Accounting Classification	Capital Allocation Guideline
Brand Defense & Paid Media	Offsets natural customer churn and competitor ad pressure	0.20 (Consumer baseline)	Operating Expense (Maintenance)	Fund from recurring gross margin; evaluate on immediate in-period cash return
Sales Enablement & Playbooks	Codifies scalable institutional sales processes and tooling	0.37 (High Tech baseline)	Intangible Asset Formation	Amortize across multi-year rep cohorts; benchmark against ramp velocity
Enterprise Integration & CS	Deepens technical workflow lock-in and multi-threading	Test as a scenario; do not import 0.51	Structural Capital Stock	Evaluate against observed expansion and portability, not a borrowed sector coefficient
Core R&D & IP Development	Creates proprietary product and technical differentiation	1.00 investment, $\Delta G = 0.42$ decay	Knowledge Capital Stock	Model a 2-year half-life; require continuous reinvestment to prevent obsolescence

Author's synthesis of the cited corporate finance literature.

How should commercial leadership audit sales and marketing capitalization next week?

If you are setting commercial budgets, evaluating a target company, or defending GTM investments to an executive board, what can you do on Monday that costs nothing?

- 1 Replace the flat 30% rule with a sensitivity range: Use the sector estimates as starting points, not automatic calibration constants. Show the standard errors, run a range around each estimate, and keep the factor separate from the accounting treatment of actual expenditure.
- 2 Stress-test R&D carrying value with multiple depreciation schedules: Re-calculate the return on past product investments across the study's estimated range rather than adopting 0.42 as a universal rate. If a product line requires continuous custom engineering just to stay compatible, ask whether that work is maintenance or knowledge accumulation.
- 3 Audit commercial spending by compounding durability: Before approving next quarter's budget, divide GTM requests into Treadmill Spend (paid lead generation, short-term promotional discounts, trade show booths) and Asset Formation (customer workflow integration, documented sales methodologies, API ecosystem partnerships).

The statutory income statement will always expense every commercial euro in the quarter it is spent. But in the transaction market where companies are priced and bought, commercial capital has an empirical price tag; and it is not a flat thirty percent.

Where are the empirical boundaries of commercial intangible asset valuation?

Boundary. The market-price estimates are sector-specific and uncertain, and the source is a working paper. Use them for sensitivity analysis, not as accounting or budgeting constants.

Evidence base. The analytical frame also draws on these additional sources: Hulten and Hao 2008. The links identify the exact works; they support the mechanisms and boundary conditions discussed here, not every claim in isolation.

REFERENCES

- Ewens, M., Peters, R. H., & Wang, S. (2019). Measuring intangible capital with market prices (Working Paper No. 25960, revised October 2023). National Bureau of Economic Research. <https://doi.org/10.3386/w25960>
- Hulten, C. R., & Hao, X. (2008). What is a company really worth? Intangible capital and the "market to book value" puzzle (NBER Working Paper No. 14548). National Bureau of Economic Research. <https://doi.org/10.3386/w14548>

END OF ESSAY

HOW TO CITE THIS ESSAY

Isoglu, S. (2026, August 16). The thirty-percent rule for sales and marketing. Sinan Isoglu.
<https://isoglu.com/insights/journal/the-thirty-percent-rule-for-sales-and-marketing/>

KEEP READING

Growth that compounds

Every growth budget is a gross number

<https://isoglu.com/insights/journal/every-growth-budget-is-a-gross-number/>

Growth that compounds

The growth-share matrix is a capital-allocation device

<https://isoglu.com/insights/journal/growth-share-matrix-is-a-capital-allocation-device/>

Growth that compounds

A marketing attribution model needs a counterfactual

<https://isoglu.com/insights/journal/marketing-attribution-model-needs-a-counterfactual/>



Sinan Isoglu, MBA (Quantic)

Commercial growth leader, lecturer and doctoral researcher