VIDYA KNOWLEDGE PARK

Advertising Appropriation

BUDGETING FOR ADVERTISING

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Advertising Budget is the amount of money which can be or has to be spent on advertising of the product to promote it, reach the target consumers and make the sales chart go on the upper side and give reasonable profits to the company.

Depends On :

- Frequency of the advertisement
- Competition and Clutter
- Market Share of the Product
- Product Life Cycle Stage

Preparation and Choice of Advertising Budget

- The money spent in advertising forms an important cost factor and no matter what type of company it is, large or small, budget decision may lead to profitability or drain away most of the profits. Advertisement can be considered as an investment into future sales.

- Proper budget allocation for long-term reinforcement effect is necessary for proper planning. Setting the budget is a different job and a lot of experience is required to avoid overspending yet maintaining the company's image.

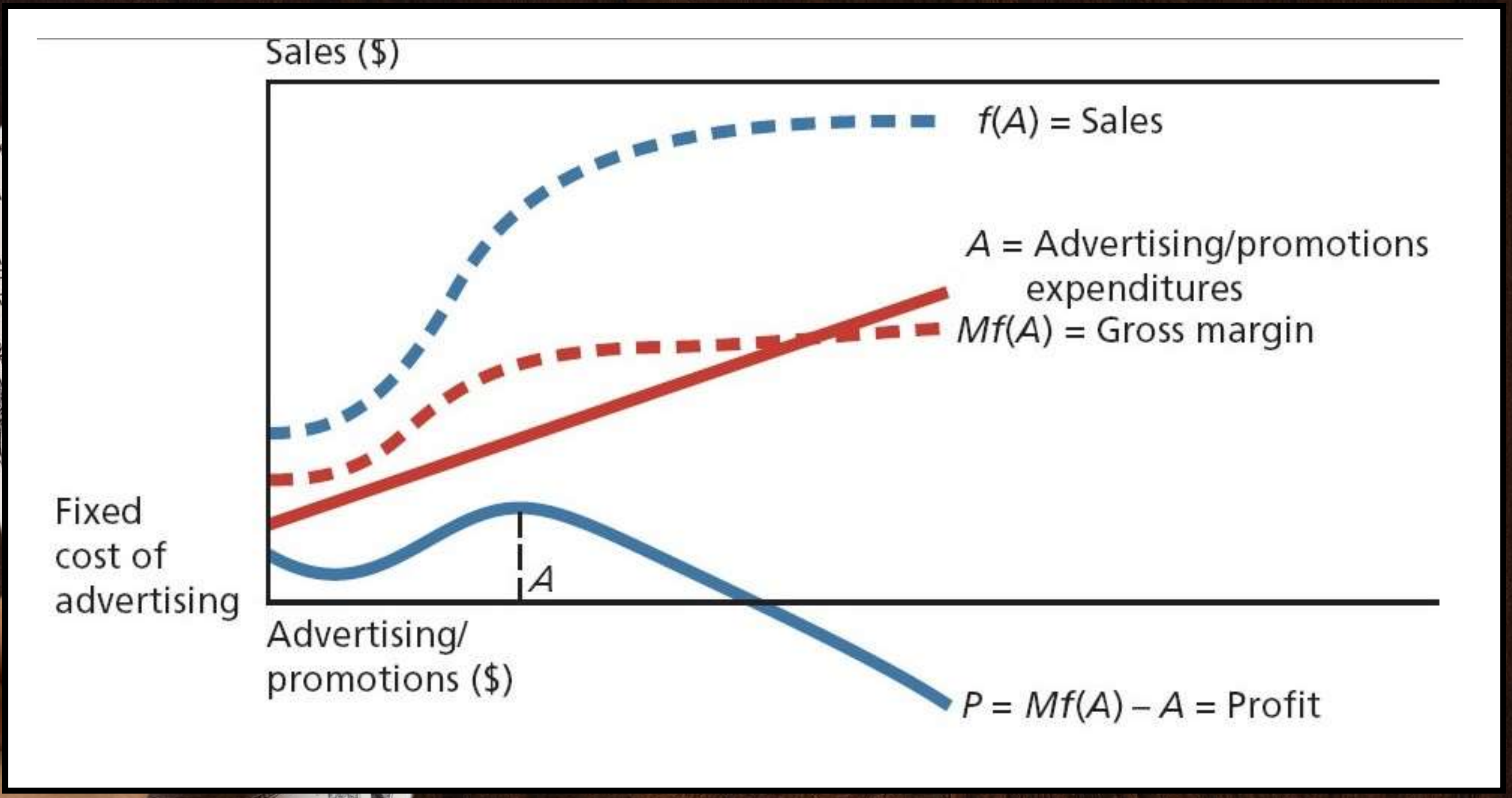
Factors to be considered while budgeting

- **Product Life Cycle.** The products which are selling and are in the mature stage of PLC require less expenditure. Where as the products in the introductory stage of PLC or new products require much heavier expenditure to create awareness.
- **Market share:** To gain greater market share the advertising budget should be high.
- With **competition** one tries to out do the competitor and competitive parity method is used.
- Greater **advertisement frequency** needs greater expenditure and a higher budget.
- If the product can be differentiated and has noticeable features and attributes it may require lesser advertisement expenditure.
- It is difficult to measure the effectiveness of advertising sales, as it can be due to other factors as well.

- Product life cycle
- Product durability
- Differentiation
- Purchase frequency
- Product price
- Hidden product qualities

Establishing a Budget

1. Marginal Analysis



Top-Down Budgeting

Top Management Sets the Spending Limit

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The Promotion Budget Is Set to Stay Within the Spending Limit

2. Top-Down Approaches

The Affordable Method - In the affordable method (often referred to as the “all you-can-afford method”), the firm determines the amount to be spent in various areas such as production and operations. Then it allocates what’s left to advertising and promotion considering this to be the amount it can afford.

This approach is common in small firms and some big firms not having much knowledge of advertisement resort to this methods well

- Secondary treatment to advertising
- Select whatever is left
- Chances of over and under spending

- When markets get tough and sales decline this approach results in budget cuts, when there is a need to increase

Arbitrary Allocation - No theoretical basis is considered and the budgetary amount is often set by fiat. That is, the budget is determined by management solely on the basis of what is felt to be necessary.

- No systematic thinking
- No criteria set
- Based upon intuition or judgment
- Psychological profile of the managers affects the decision

The Percentage-Of-Sales method is simple, straightforward, and easy to implement.

a. Straight percentage of sales

2005	Total sales in rupees	Rs.10L
	Straight % of Sales(10%)	Rs. 1L
2006	Advertising Budget	Rs. 1L

b. Percentage of unit cost

2005	Manufacturing Cost/bottle	Rs. 5
	Unit cost allocated to advt.	Re. 1
2006	Forecasted Sales, 1L units	
2006	Advertising Budget (1L X Re.1)	Rs. 1L

Disadvantages:

- Basic premise on which the budget is established: sales.
- Does not allow for changes in strategy either internally or from competitors.
- Difficult to employ for new product introductions.
- Since the budget is contingent on sales, decreases in sales will lead to decreases in budgets when they most need to be increased.

Competitive parity method: Many firms base their advertising expenditure to compete with their rivals or their competitors.

- The information regarding this is found in business magazines, journals and annual reports of the company. They not only try to have the same expenditure but also try to choose the media accordingly.

They also choose the media vehicle and the frequency of advertisement to match with that of the competitor. Firms believe that by following this method they can make the optimal expenditure to lead to stability in market place etc.

- What competitors are adopting

But

- Ignores individual company objectives
- Media mix may be different
- Competitors might change method

Return on Investment (ROI) - In the ROI budgeting method, advertising and promotions are considered investments, like plant and equipment. Thus, the budgetary appropriation (investment) leads to certain returns. While the ROI method looks good on paper, the reality is that it is rarely possible to assess the returns provided by the promotional effort—at least as long as sales continue to be the basis for evaluation.

- Advertising is taken as investment
- So how much is the return expected on investment
- A method which is low in practicality

3. Bottom-up approaches

The major flaw associated with the top-down methods is that these judgmental approaches lead to predetermined budget appropriations often not linked to objectives and the strategies designed to accomplish them. A more effective budgeting strategy would be to consider the firm's communications objectives and budget what is deemed necessary to attain these goals.

Bottom-Up Budgeting

Total Budget Is Approved by Top Management

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Cost of Activities are Budgeted

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Activities to Achieve Objectives Are Planned

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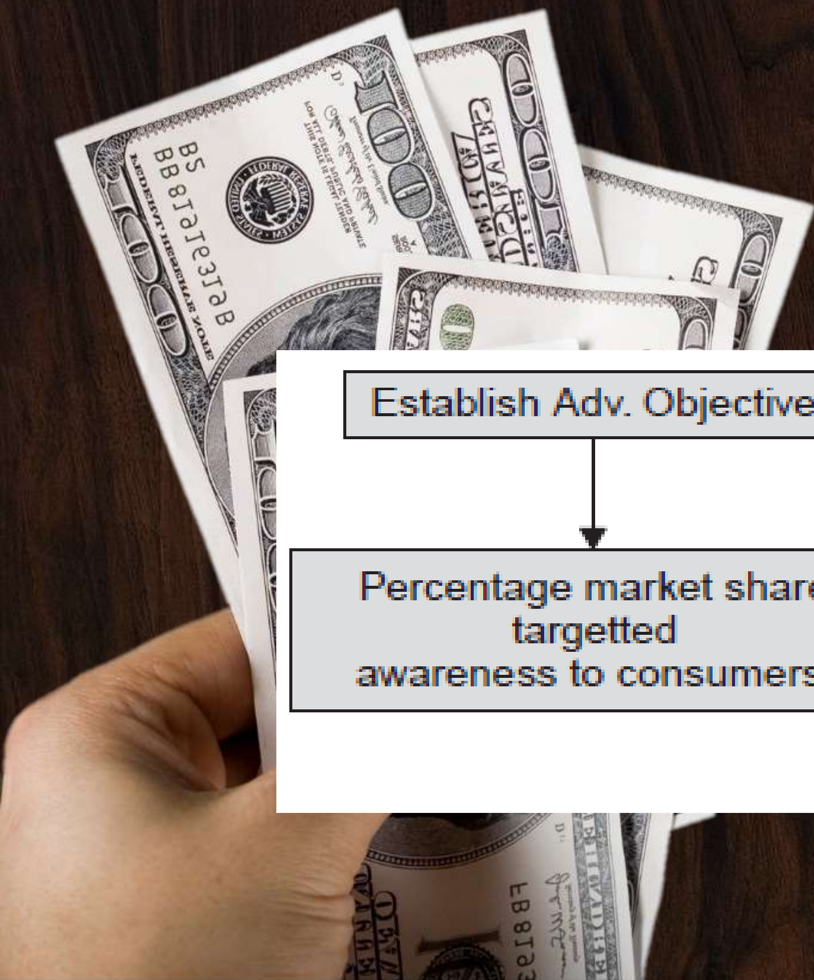
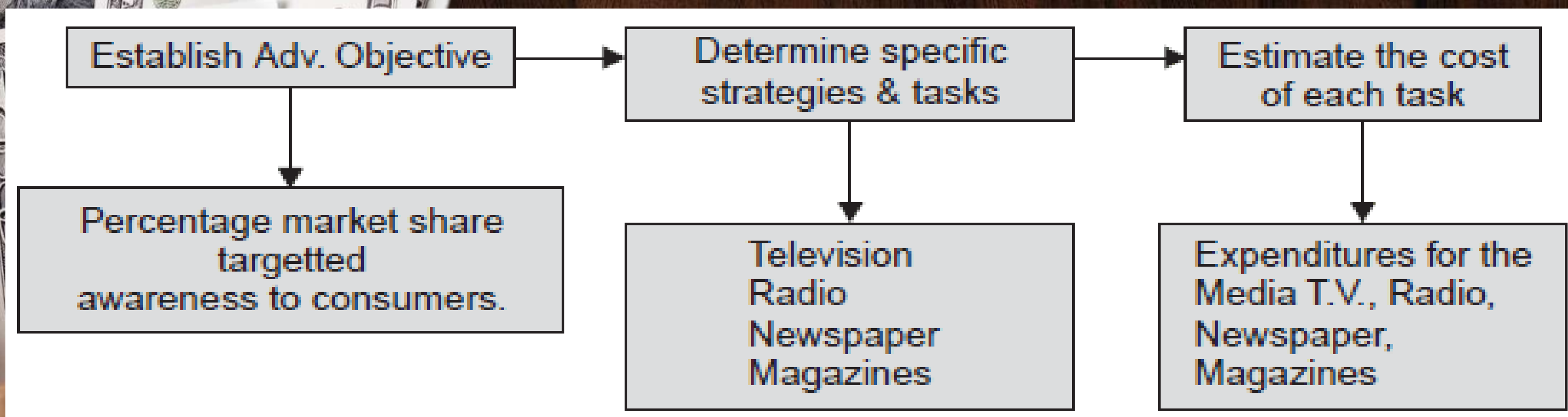
Promotional Objectives Are Set

- **Budget based on functions to be performed** **(Objectives and task method):** In this method objective are defined and the specific strategies are formulated to achieve them. Then the cost of implementing these strategies is estimated.

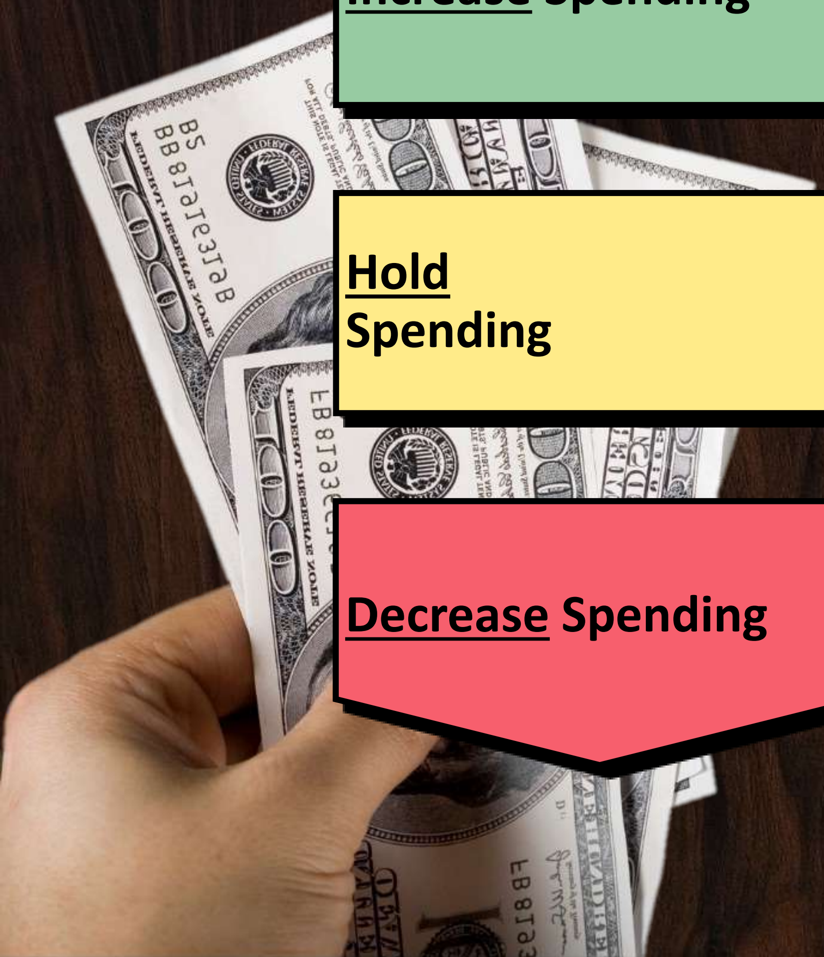
The process involves the following steps:

1. Isolate objectives.
2. Determine tasks required
3. Estimate required expenditures
4. Monitor
5. Reevaluate objectives





Budget Adjustments



Increase Spending

If the cost is less than the marginal return

Hold Spending

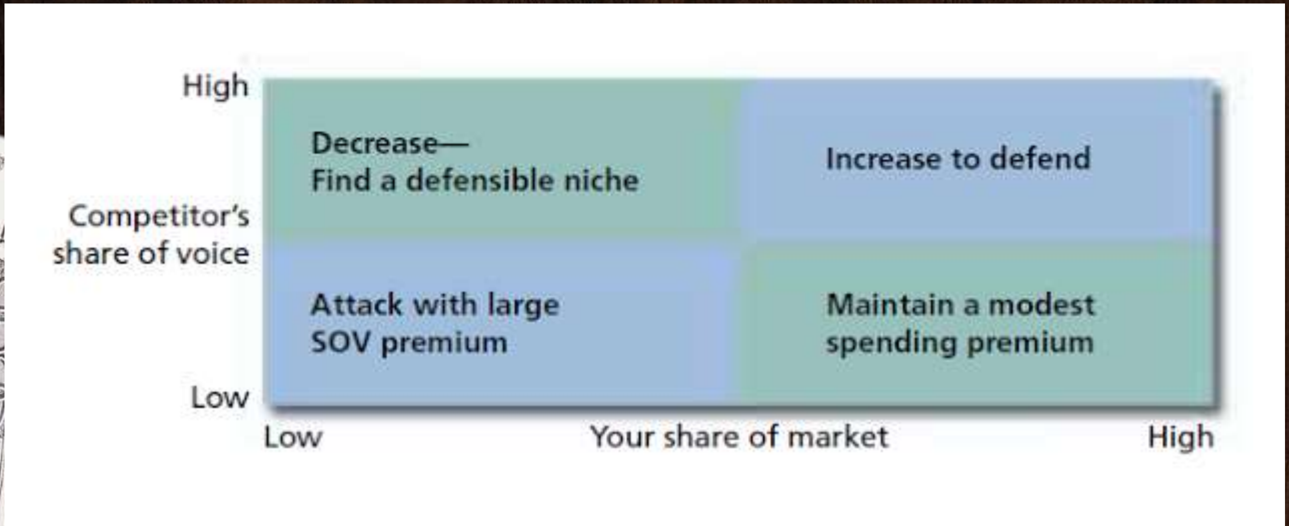
If the cost is equal to the incremental return

Decrease Spending

If the cost is more than the incremental return

How to Allocate Your Advertising Budget

Once the budget has been appropriated, the next step is to allocate it. The allocation decision involves determining which markets, products, and/or promotional elements will receive which amounts of the funds appropriated. Below are some of the basis for allocation of IMC budget.



Share of Voice Effect

<u>Key Factors To Be Considered</u>

- Allocating to IMC Elements
- Client/Agency Policies
- Market Size
- Market Potential
- Market Share Goals
- Economies of Scale in Advertising
- Organizational Characteristics

How you'll allocate your advertising dollars.

1) departmental budgets

2) total budget

3) calendar periods

4) media

5) sales areas


When Every Rupee Counts,
Make Every Rupee Count!