7

Establishing Objectives and Budgeting for the Promotional Program

Source: Kraft-Heinz, Inc.

Learning Objectives

LO 7-1 | Discuss the value of setting objectives for advertising and promotion.

LO 7-2 | Describe the relationship between promotional objectives and marketing objectives.

LO 7-3 | Discuss sales versus communications objectives.

LO 7-4 | Compare the value of sales objectives and communications objectives as goals for promotional programs.

LO 7-5 | Describe the process of budgeting for IMC.

LO 7-6 | Compare the economic and sales response perspectives on budgeting.

LO 7-7 | Compare different methods of setting budgets.

What's Happening to Traditional Big Brand Companies: Is It Changing Times or Marketing Mistakes?

Sears, JCPenney, Barnes & Noble, Kmart–the list of big brands that have gone bankrupt or are in serious financial trouble continues to grow. And now you can add another name to that list—Kraft Heinz. You are probably thinking "no way!" Kraft, the company that makes cheese? Heinz, the most well-known ketchup company in the world, not to mention their pickles? Hot dog giant Oscar Mayer? This can't be true, but why?

A number of factors leading to the demise of these brands have been cited: the changing lifestyles of millennials, who prefer fresh and healthier foods, eschewing those that are canned, packaged, and frozen; the increase in online shopping; single-family households that eat out more often. The dinosaur strategies of the companies have contributed as well.

Kraft Heinz provides an example of a big-brand company that has failed to adapt. The home of some of the best-known and respected brands in the world announced in early February 2019 that it was taking a $15 billion write-down in value. Shares fell by 27 percent, and dividends were slashed by about a third. Many in the industry are not surprised. They say a combination of poor marketing, cost cutting, and failure to adapt to market changes have caught up to them.

Some observers blame the fact that Kraft Heinz uses a somewhat controversial tool called zero-based budgeting (ZBB), which they say is designed to keep costs low and profit margins high. However, critics say that having good margins is of little value if sales do not increase and the company does not invest in its brands. Using ZBB requires managers to justify their spending each and every year, which sometimes makes it hard to allocate growth and innovativeness. A look at Kraft Heinz advertising expenditures shows a decline from $602 million in 2014 to $440 million in 2017. The company spends about 2 percent of sales on advertising and marketing; competitors in the market average about 5 percent. In the mean time, new companies have entered the market, some of whom have products more in line with the changing lifestyles and tastes of younger customers and/or are lower priced. So while competition was increasing, Kraft Heinz brands were receiving less money to stay competitive.

Besides just cutting advertising budgets, Kraft Heinz made other budget cuts that proved to be harmful. For example, the company cut back on in-store promotions and discounts, angering retailers. When retailers complained, Kraft Heinz pushed back, only to realize it was not as strong a bargaining position as it had been 10 years ago. When Kraft Heinz wanted to raise the price on Capri Sun drinks, executives at Kroger disagreed, fearing the loss of price-sensitive shoppers. As noted by one Kroger executive, “We lost a lot of business for eight months. It didn’t achieve the sales that Kroger wanted. It achieved the profit Kraft wanted.” Likewise, a drop in promotions of boxed dinners also hurt sales.

As a result of angering retailers, the company also lost leverage with them, and salespeople were no longer as effective in working with the stores to promote and discount the Kraft Heinz brands. House brands and private-label brands continued to get stronger as private-label cheese sales grew by nearly 9 percent and Kraft cheeses declined by 2 percent. As Kraft Heinz sales fell for three straight years, the power shifted from the company to retailers that now had more options —many of which were more attractive to millennial shoppers.

Since the merger with Heinz, Kraft has reduced its workforce by more than 5 percent. Some of those let go had long-term, strong relationships with the retailers. Many were replaced by less experienced salespeople who had difficulty establishing the trust and bonds of their predecessors. The relationship with retailers has become even more critical.

So, is this the end of Kraft Heinz? Not necessarily. Like sports players and teams, as long as they are in the game, successful veterans always have a chance to win. What it will take however, is a re-investment in marketing. As noted by Martin Sorrel, CEO of S4 Capital, “In addition to being frugal you have to invest in product or service innovation and marketing.” There are signs that Kraft Heinz may be listening. In February 2019, it announced that in the future it will be committed to improving relationships with all customers, including retailers. It has lowered prices and, after heavy promotions, has seen a 6 percent increase in cheese products sales. Coffee and frozen-entrée sales have also increased. The in-store sales team was increased by 80 percent to provide better service and attention.

Yes, there may be some new players on the field, but don’t count out the veterans quite yet.

Sources: Heather Haddon, “Supermarkets Soured on Kraft Heinz and Its Pricing Tactics,” *The Wall Street Journal,* www.wsj.com, February 26, 2019; Alison Weissbrot, “Kraft-Heinz’s $15B Write-Down Shows Why Marketing Still Matters,” www.adexchanger.com, February 27, 2019; Martinne Geller and Richa Naidu, “Kraft-Heinz’ Problems Shine Light on Controversial Budget Tool,” www.reuters.com, February 19, 2019; “Kraft Heinz Counts the Cost of Cutting Costs,” www.warc.com, February 26, 2019; Lauren Johnson, “5 Brands Shaking Up the Grocery Industry by

Changing What We Choose to Eat and How We Buy food," www.adweek.com, November 20, 2017; "Kraft Heinz Company Advertising Spending in the United States from 2014 to 2017," www.thestatisticsportal.com; February 2019.

The lead-in to this chapter demonstrates the importance of continuing to budget for marketing efforts. Too often, companies become complacent and assume that their brand name will allow them to cut back, essentially resting on their laurels. At other times, such as during a downturn in the economy or when companies find that sales are starting to decrease, they cut their marketing budgets to save money and/or maintain profits. History has shown that this is not always a good idea. As will be seen in this chapter, marketers must establish sound communications objectives and allocate the monies required to achieve them. Both objective setting and budgeting must be seen as an ongoing process. These objectives should be based on purchase decision models that guide the budget allocation to various media, and not just the fact that a particular media category is trending. As you will see, many large companies have been using these purchase decision models for a number of years, and continue to do so. At the same time not everyone agrees with their use or their validity, arguing that the models are either outdated or should never have been used in the first place. As the media environment continues to change, marketers continue to examine these models and their value in guiding the IMC program. As this chapter will demonstrate, the success of a program can and should be measured by both marketing and communications objectives. The chapter will examine how the goals for the integrated marketing communications program follow the company's overall marketing strategy and how these goals determine and are determined by the promotional budget.

Unfortunately, many companies have difficulty with the most critical step in the promotional planning process—setting realistic objectives that will guide the development of the IMC program. Complex marketing situations, conflicting perspectives regarding what advertising and other promotional-mix elements are expected to accomplish, and uncertainty over resources make the setting of marketing communications objectives an attempt to create order out of chaos. While the task of setting objectives can be complex and difficult, it must be done properly, because specific goals and objectives are the foundation on which all other promotional decisions are made. Budgeting for advertising and other promotional areas, as well as creative and media strategies and tactics, evolves from these objectives. They also provide a standard against which performance can be measured.

Setting specific objectives should be an integral part of the planning process. However, many companies either fail to use specific marketing communications objectives or set ones that are inadequate for guiding the development of the promotional plan or measuring its effectiveness. Many marketers are uncertain as to what integrated marketing communications should be expected to contribute to the marketing program. The goal of their company's advertising and promotional program is simple: to generate sales. They fail to recognize the specific tasks that advertising and other promotional-mix variables must perform in preparing customers to buy a particular product or service.

As we know, advertising and promotion are not the only marketing activities involved in generating sales. Moreover, it is not always possible or necessary to measure the effects of advertising in terms of sales. For example, the Allianz ad shown in Exhibit 7–1 has a goal beyond just supporting its company and attracting new customers.

XHIBIT 7–1

The objective of this ad is to demonstrate Allianz's support for the future.

ource: Allianz Life Insurance Company of North America

Consider the Gillette ad shown in Exhibit 7–2. What objectives might the company have for this ad? How might its effectiveness be measured?

XHIBIT 7–2

Gillette's objectives for this campaign are other than generating sales.

ource: Procter & Gamble

This chapter examines the nature and purpose of objectives and the role they play in guiding the development, implementation, and evaluation of an IMC program. Attention is given to the various types of objectives appropriate for different situations. We will also examine the budget-setting process and the interdependence of objective setting and budgeting.

THE VALUE OF OBJECTIVES

LO 7-1

Perhaps one reason many companies fail to set specific objectives for their integrated marketing communications programs is that they don't recognize the value of doing so. Another may be disagreement as to what the specific objectives should be. Advertising and promotional objectives are needed for several reasons, including the functions they serve in communications, planning and decision making, and measurement and evaluation.

Communications

Specific objectives for the IMC program facilitate coordination of the various groups working on the campaign. Many people are involved in the planning and development of an integrated marketing communications program on the client side as well as in the various promotional agencies. The advertising and promotional program must be coordinated within the company, inside the ad agency, and between the two. Any other parties involved in the promotional campaign, such as public relations and/or sales promotion firms, research specialists, and media buying services, must also know what the company hopes to accomplish through its marketing communications program. Many problems can be avoided if all parties have written, approved objectives to guide their actions and serve as a common base for discussing issues related to the promotional program.

Planning and Decision Making

Specific promotional objectives also guide development of the integrated marketing communications plan. All phases of a firm's promotional strategy should be based on the established objectives, including budgeting, creative, and media decisions as well as direct-marketing, public relations/publicity, sales promotion, and/or reseller support programs.

Meaningful objectives can also be a useful guide for decision making. Promotional planners are often faced with a number of strategic and tactical options in terms of choosing creative options, selecting media, and allocating the budget among various elements of the promotional mix. Choices should be made based on how well a particular strategy matches the firm's promotional objectives.

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Measurement and Evaluation of Results

An important reason for setting specific objectives is that they provide a benchmark against which the success or failure of the promotional campaign can be measured. Without specific objectives, it is extremely difficult to determine what the firm's advertising and promotion efforts accomplished. One characteristic of good objectives is that they are *measurable*; they specify a method and criteria for determining how well the promotional program is working. By setting specific and meaningful objectives, the promotional planner provides a measure(s) that can be used to evaluate the effectiveness of the marketing communications program. Most organizations are concerned about the return on their promotional investment, and comparing actual performance against measurable objectives is the best way to determine if the return justifies the expense.

DETERMINING INTEGRATED MARKETING COMMUNICATIONS OBJECTIVES

LO 7-2

Integrated marketing communications objectives should be based on a thorough situation analysis that identifies the marketing and promotional issues facing the company or a brand. The situation analysis is the foundation on which marketing objectives are determined and the marketing plan is developed. IMC objectives evolve from the company's overall marketing plan and are rooted in its marketing objectives. Advertising and promotional objectives are not the same as marketing objectives (although many firms tend to treat them as synonymous).

Marketing versus Communications Objectives

Marketing objectives are generally stated in the firm's marketing plan and are statements of what is to be accomplished by the overall marketing program within a given time period. Marketing objectives are usually defined in terms of specific, measurable outcomes such as sales volume, market share, profits, or return on investment. Good marketing objectives are *quantifiable;* they delineate the target market and note the time frame for accomplishing the goal (often one year). For example, a copy machine company may have as its marketing objective "to increase sales by 10 percent in the small-business segment of the market during the next 12 months." To be effective, objectives must also be *realistic* and *attainable.*

A company with a very high market share may seek to increase its sales volume by stimulating growth in the product category. It might accomplish this by increasing consumption by current users or encouraging nonusers to use the product. Some firms have as their marketing objectives expanding distribution and sales of their product in certain market areas. Companies often have secondary marketing objectives that are related to actions they must take to solve specific problems and thus achieve their primary objectives.

Once the marketing communications manager has reviewed the marketing plan, he or she should understand where the company hopes to go with its marketing program, how it intends to get there, and the role advertising and promotion will play. Marketing goals defined in terms of sales, profit, or market share increases are usually not appropriate promotional objectives. They are objectives for the entire marketing program, and achieving them depends on the proper coordination and execution of all the marketing-mix elements, including not just promotion but product planning and production, pricing, and distribution. For example, a company may be very successful in its promotional program, creating interest and/or trial for a product. But what if the product is unavailable when the consumer goes to buy it, or what if, once in the store, the consumer feels the product is overpriced and decides not to buy? Should the promotional program be blamed when the product's poor performance is due to other marketing strategies or tactics?

Integrated marketing communications objectives are statements of what various aspects of the IMC program will accomplish. They should be based on the particular communications tasks required to deliver the appropriate messages to the target audience. Managers must be able to translate general marketing goals into communications goals and specific promotional objectives.

Sometimes companies do not have a formal marketing plan, and the information needed may not be readily available. In this case, the promotional planner must attempt to gather as much information as possible about the product and its markets from sources both inside and outside the company.

After reviewing all the information, the promotional planner should see how integrated marketing communications fits into the marketing program and what the firm hopes to achieve through advertising and other promotional elements. The next step is to set objectives in terms of specific communications goals or tasks.

Many planners approach promotion from a communications perspective and believe the objective of advertising and other promotional-mix elements is usually to communicate information or a selling message about a product or service. Other managers argue that sales or some related measure, such as market share, is the only meaningful goal for advertising and promotion and should be the basis for setting objectives. These two perspectives have been the topic of considerable debate and are worth examining further.

SALES VERSUS COMMUNICATIONS OBJECTIVES

Sales-Oriented Objectives

LO 7-3

To many managers, the only meaningful objective for their promotional program is sales. They take the position that the basic reason a firm spends money on advertising and promotion is to sell its product or service. Promotional spending represents an investment of a firm's resources that requires an economic justification. Managers generally compare investment options on a common financial basis, such as return on investment (ROI). However, determining the specific return on advertising and promotional dollars is often quite a difficult task. A study by Webmarketing123 of both business-to-business (B2B) and business-to-consumer (B2C) marketers indicated that a majority admit they don't know which channels make the biggest impact on revenues. For example, while 87 percent of B2B marketers used social media, only 17 percent claimed they were able to measure ROI. Likewise, with B2C marketers, 87 percent said they used social media with only 27 percent able to measure ROI.[1] Recently, Colgate Palmolive attempted to employ artificial intelligence in an attempt to determine the ROI of its retail promotions. Unfortunately—as is often the case in attempting to determine ROI—the company had limited success. Due to a number of obstacles including the lack of data availability, competitive activities, and other factors, the system was unable to provide trustworthy and verifiable results.[2] At the same time, many managers believe that monies spent on advertising and other forms of promotion should produce measurable results, such as increasing sales volume by a certain percentage or dollar amount or increasing the brand's market share. They believe objectives (as well as the success or failure of the campaign) should be based on the achievement of sales results.

As a result, many managers have increased their efforts to make agencies more accountable for their performances. In turn, some agencies have developed their own tools to attempt to provide more ROI information in regard to how their integrated communications programs are performing. These agencies often attempt to differentiate themselves from others on this premise.

Some managers prefer sales-oriented objectives to make the individuals involved in advertising and promotion think in terms of how the promotional program will influence sales. For example, GEICO, once ranked fourth behind State Farm, Allstate, and Progressive insurance companies, increased its advertising budget by 75 percent—nearly double that of its competitors—and broadened its media placements. As a result, GEICO took over as the number 1 insurance company in new

customer acquisitions.[3] Likewise, Coca-Cola increased its ad spending by double digits to promote its mini-cans and bottles and the global "Share a Coke" campaign.[4] While the company would not disclose specific numbers, it did indicate that it saw a pay-off from the increased spend. The success of these advertising and promotional campaigns was judged by attainment of these goals (Exhibit 7–3).

XHIBIT 7–3

Coca-Cola's "Share a Coke" campaign benefited from increased promotional spending.

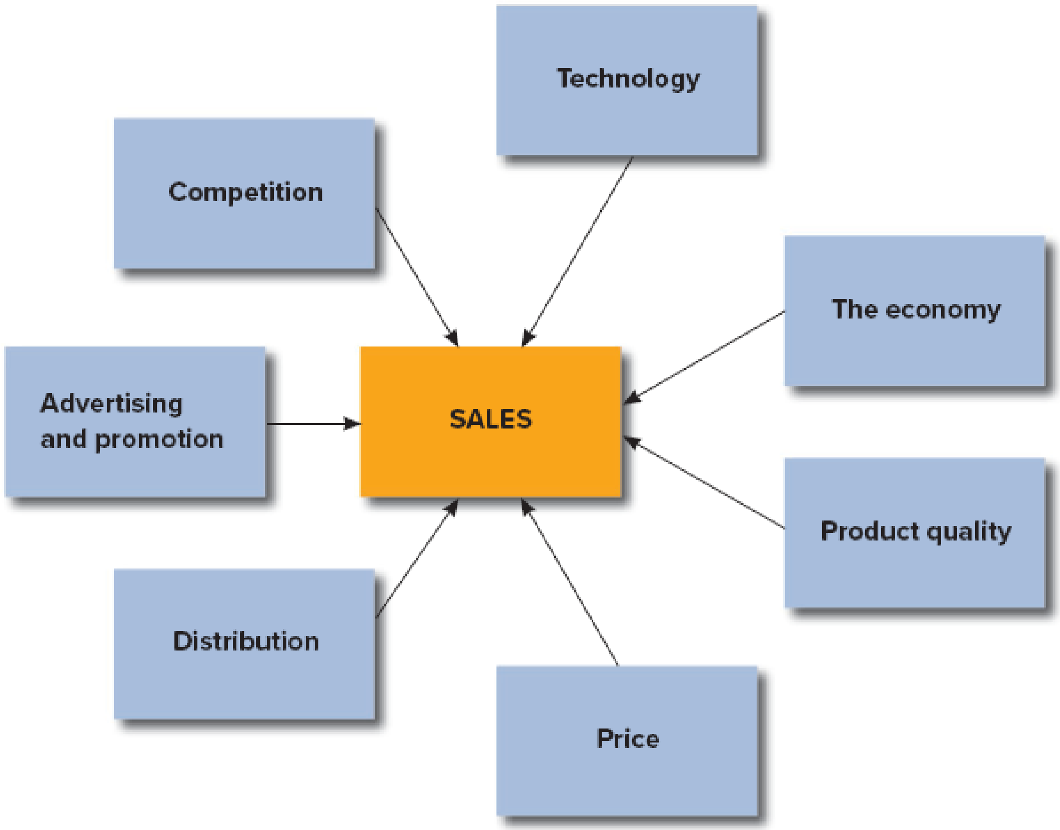
ource: The Coca-Cola Company

Problems with Sales Objectives It appears that increases in advertising expenditures seemed to work for GEICO and Coke, as both experienced sales increases. Does this mean that these results can be attributed directly to the increased advertising budgets? Not necessarily. It might help to compare this situation to a football game and think of advertising as a quarterback. The quarterback is one of the most important players on the team but can be effective only with support from the other players. If the team loses, is it fair to blame the loss entirely on the quarterback? Of course not. Just as the quarterback is but one of the players on the football team, promotion is but one element of the marketing program, and there are many other reasons why the targeted sales level was not reached. The quarterback can lead his team to victory only if the linemen block, the receivers catch his passes, and the running backs help the offense establish a balanced attack of running and passing. Even if the quarterback plays an outstanding game, the team can still lose if the defense gives up too many points. The lead-in to this chapter demonstrated how interrelated IMC aspects can be.

In the business world, sales results can be due to any of the other marketing-mix variables, including product design or quality, packaging, distribution, or pricing. Advertising can make consumers aware of and interested in the brand, but it can't make them buy it, particularly if it is not readily available or is priced higher than a competing brand. As shown in Figure 7–1, sales are a function of many factors, not just advertising and promotion. There is an adage in marketing that states, "Nothing will kill a poor product faster than good advertising." Taken with the other factors shown in Figure 7–1, this adage demonstrates that all the marketing elements must work together if a successful plan is to be implemented.

IGURE 7–1

Factors Influencing Sales



Another problem with sales objectives is that the effects of advertising often occur over an extended period. Many experts recognize that advertising has a lagged or **carryover effect**; monies spent on advertising do not necessarily have an immediate impact on sales.[5] Advertising may create awareness, interest, and/or favorable attitudes toward a brand, but these feelings will not result in an actual purchase until the consumer enters the market for the product, which may occur later. A review of econometric studies that examined the duration of cumulative advertising effects found that for mature, frequently purchased, low-priced products, advertising's effect on sales lasts up to nine months.[6] Models have been developed to account for the carryover effect of advertising and to help determine the long-term effect of advertising on sales.[7] The carryover effect adds to the difficulty of determining the precise relationship between advertising and sales.

Another problem with sales objectives is that they offer little guidance to those responsible for planning and developing the promotional program. The creative and media people working on the account need some direction as to the nature of the advertising message the company hopes to communicate, the intended audience, and the particular effect or response sought. As you will see shortly, communications objectives are recommended because they provide operational guidelines for those involved in planning, developing, and executing the advertising and promotional program.

Where Sales Objectives Are Appropriate While there can be many problems in attempting to use sales as objectives for a promotional campaign, there are situations where sales objectives are appropriate. Certain types of promotion efforts seek direct action in nature; they attempt to induce an immediate behavioral response from the prospective customer. A major objective of most sales promotional programs is to generate short-term increases in sales. At the same time, short-term strategies hopefully will lead to longer-term gains as well. A good example is that of Kayem Foods of Chelsea, Massachusetts. To celebrate its 100th anniversary, Kayem changed the design of its frankfurter package. After consumer research suggested changing the copy and label on the package, the product was reintroduced. In the first 12 weeks Kayem saw sales rise by 15.7 percent[8] (Exhibit 7–4). Ten years later the company maintains the same label and has become the official hot dog of the Boston Red Sox, Florida Marlins, Jacksonville Jaguars, and Washington Nationals, among other sports teams.

XHIBIT 7–4

Kayem Foods's marketing strategy led to sales increases.

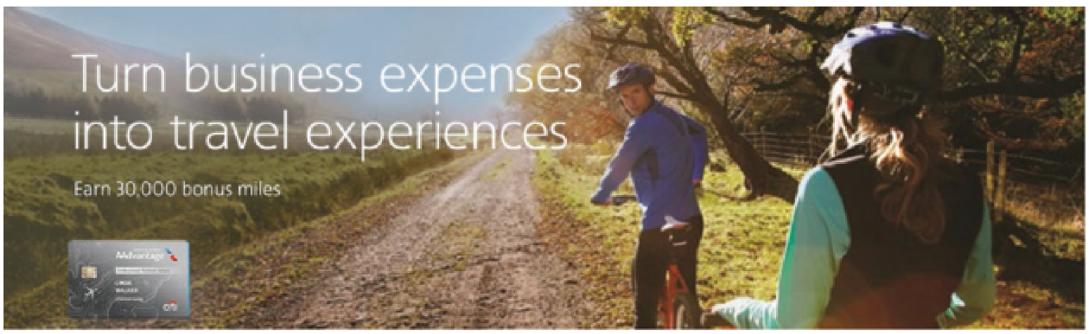
ource: Kayem Foods Inc.

Direct-response advertising is one type of advertising that evaluates its effectiveness on the basis of sales. Merchandise is advertised in material mailed to customers, in newspapers and magazines, through the Internet, or on television. The consumer purchases the merchandise by mail, on the Internet, or by calling a toll-free number. The direct-response advertiser generally sets objectives and measures success in terms of the sales response generated by the ad. For example, objectives for and the evaluation of a direct-response ad on TV are based on the number of orders received each time a station broadcasts the commercial. Because advertising is really the only form of communication and promotion used in this situation and response is generally immediate, setting objectives in terms of sales is appropriate. The credit card ad shown in Exhibit 7–5 is an example of a product sold through direct-response advertising.

XHIBIT 7–5

Many credit card companies use direct-response advertising to sell products.

ource: American Airlines



Retail advertising, which accounts for a significant percentage of all advertising expenditures, is another area where the advertiser often seeks an immediate response, particularly when sales or special events are being promoted. The ad for JCPenney's 60 percent off sale shown in Exhibit 7–6 is designed to attract consumers to stores during the sales period (and to generate sales volume). JCPenney's management can determine the effectiveness of its promotional effort by analyzing store traffic and sales volume during the sale and comparing them to figures for nonsale days. But retailers may also allocate advertising and promotional dollars to image-building campaigns designed to create and enhance favorable perceptions of their stores. For example, after Subway spokesperson Jarod Fogle pleaded guilty of having sex with minors and possessing child pornography, Subway immediately disassociated itself with Fogle, who had been in its ads for 15 years. Fogle had lost 245 pounds and had become the center of the Subway campaign stressing a healthy diet and weight-loss benefits of eating at the sandwich chain rather than at hamburger outlets. Subway's new campaign focused on the 50-year history of the brand and reminded people that it had been selling "fresh" long before Chipotle and Panera—who the company felt got all the credit for "fresh." The campaign was successful and Subway experienced little or no negative impact from the Fogle association, and enhanced the "fresh" image for the brand.

XHIBIT 7–6

JCPenney seeks sales from this ad.

ource: jcp Media Inc.

Sales-oriented objectives are also used when advertising plays a dominant role in a firm's marketing program and other factors are relatively stable. For example, many packaged-goods companies compete in mature markets with established channels of distribution, stable competitive prices and promotional budgets, and products of similar quality. They view advertising and sales promotion as the key determinants of a brand's sales or market share, so it may be possible to isolate the effects of these promotional-mix variables. Many companies have accumulated enough market knowledge with their advertising, sales promotion, and direct-marketing programs to have considerable insight into the sales levels that should result from their promotional efforts. Mark Baynes, vice president of Kellogg's Morning Foods Division, attributed a turnabout in sales to effective advertising, brand repositioning, and more emotional appeals that generate interest.[9] Thus, many companies believe it is reasonable to set objectives and evaluate the success of their promotional efforts in terms of sales results.

Advertising and promotional programs tend to be evaluated in terms of sales, particularly when expectations are not being met. Marketing and brand managers under pressure to show sales results often take a short-term perspective in evaluating advertising and sales promotion programs. They are often looking for a quick fix for declining sales or loss of market share. They ignore the pitfalls of making direct links between advertising and sales, and campaigns—as well as ad agencies—may be changed if sales expectations are not being met. As discussed in Chapter 3, many companies want their agencies to accept incentive-based compensation systems tied to sales performance. Thus, while sales may not be an appropriate objective in many advertising and promotional situations, managers are inclined to keep a close eye on sales and market share figures and make changes in the promotional program when these numbers become stagnant or decline.

Communications Objectives

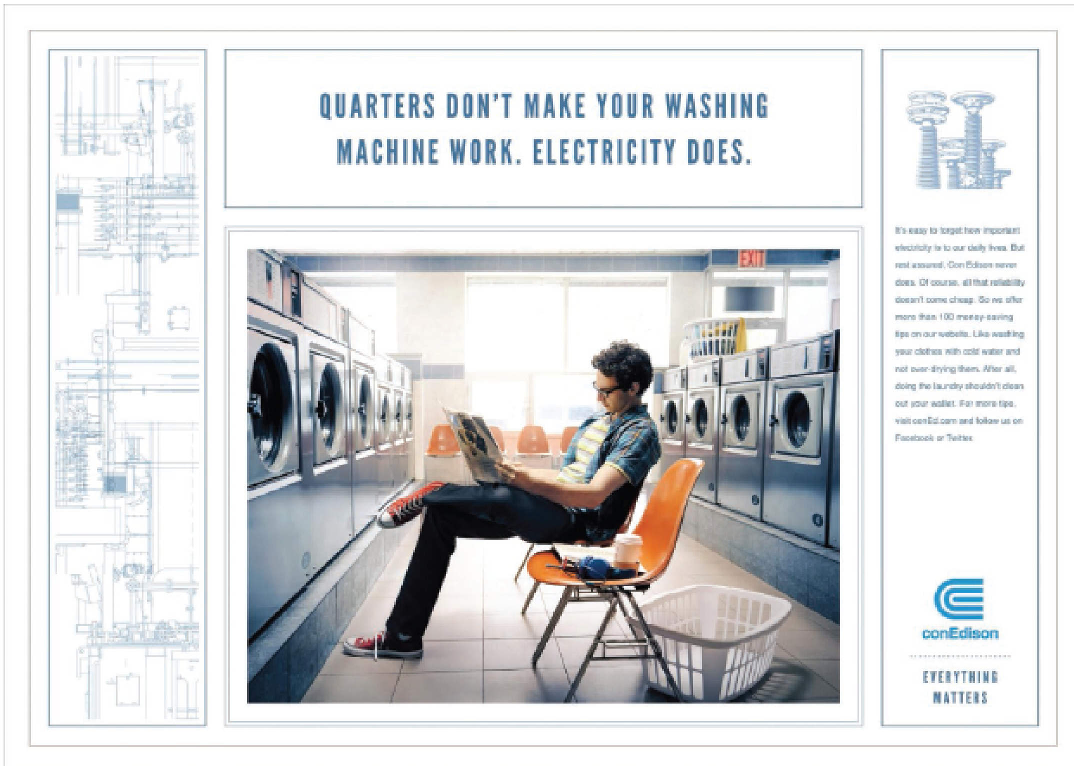
Some marketers do recognize the problems associated with sales-oriented objectives. They recognize that the primary role of an IMC program is to communicate and that planning should be based on communications objectives. Advertising and other promotional efforts are designed to achieve communications such as brand knowledge and interest, favorable attitudes and image, and purchase intentions. Consumers are not expected to respond immediately; rather, advertisers realize they must provide relevant information and create favorable predispositions toward the brand before purchase behavior will occur.

For example, the ad in Exhibit 7–7 is designed to inform consumers of the company's importance. While there is no call for immediate action, the ad creates favorable impressions about the company by demonstrating the importance of electricity. It is hoped that viewers will consider this image when they think about Consolidated Edison.

XHIBIT 7–7

This ad satisfies its communication objective by creating a favorable image of Consolidated Edison.

ource: Consolidated Edison Company of New York, Inc.

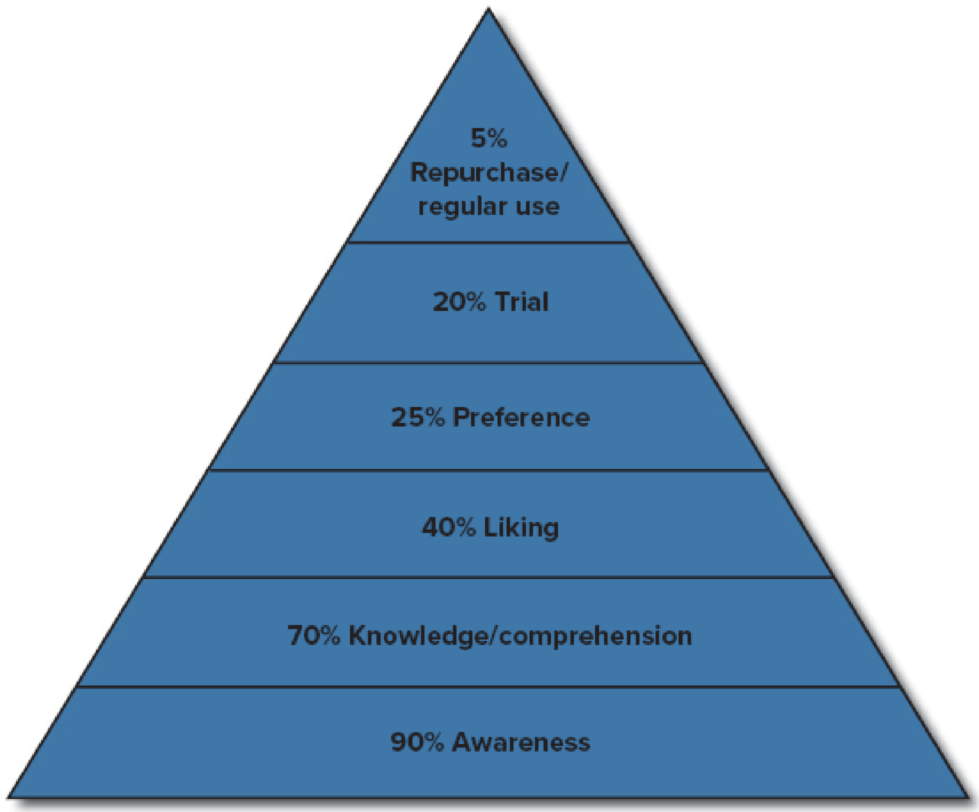


Advocates of communications-based objectives generally use some form of the hierarchical models discussed in Chapter 5 when setting advertising and promotional objectives. In all these models, consumers pass through three successive stages: cognitive (thinking), affective (feeling), and conative (behavioral). As consumers proceed through the three stages, they move closer to making a purchase.

Communications Effects Pyramid Advertising and promotion perform communications tasks in the same way that a pyramid is built, by first accomplishing lower-level objectives such as awareness and knowledge or comprehension. Subsequent tasks involve moving consumers who are aware of or knowledgeable about the product or service to higher levels in the pyramid (Figure 7–2). The initial stages, at the base of the pyramid, are easier to accomplish than are those toward the top, such as trial and repurchase or regular use. Thus, the percentage of prospective customers will decline as they move up the pyramid (or down the funnel).

IGURE 7–2

Communications Effects Pyramid



The communications pyramid can also be used to determine promotional objectives for an established brand. The promotional planner must determine where the target audience lies with respect to the various blocks in the pyramid. If awareness levels for a brand and knowledge of its features and benefits are low, the communications objective should be to increase them. If these blocks of the pyramid are already in place, but liking or preference is low, the advertising goal may be to change the target markets' image of the brand and move consumers through to purchase. Think about the iconic shoe brand Vans, for example (Exhibit 7–8). Vans started in 1966 in a small storefront in Anaheim, California, with shoe boxes on the shelves that didn't even have shoes in them. Once an order was placed, the shoes would be manufactured on the spot and ready to be picked up the next day. Targeted to surfers and skateboarders, you could buy a pair for \$8 or just one shoe for \$4 (skateboarders tend to wear out one shoe that they use to drag or as a brake). With successful advertising, a spot in the movie *Fast Times at Ridgemont High,* and the attractiveness of the Southern California image, sales took off. Vans is now a \$3 billion international brand that continues to grow.[10] Think about the company's movement through the communications pyramid and how the objectives and strategies had to change to achieve such success.

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XHIBIT 7–8

Vans set different communications objectives as it grew.

Source: Vans, A VF Company

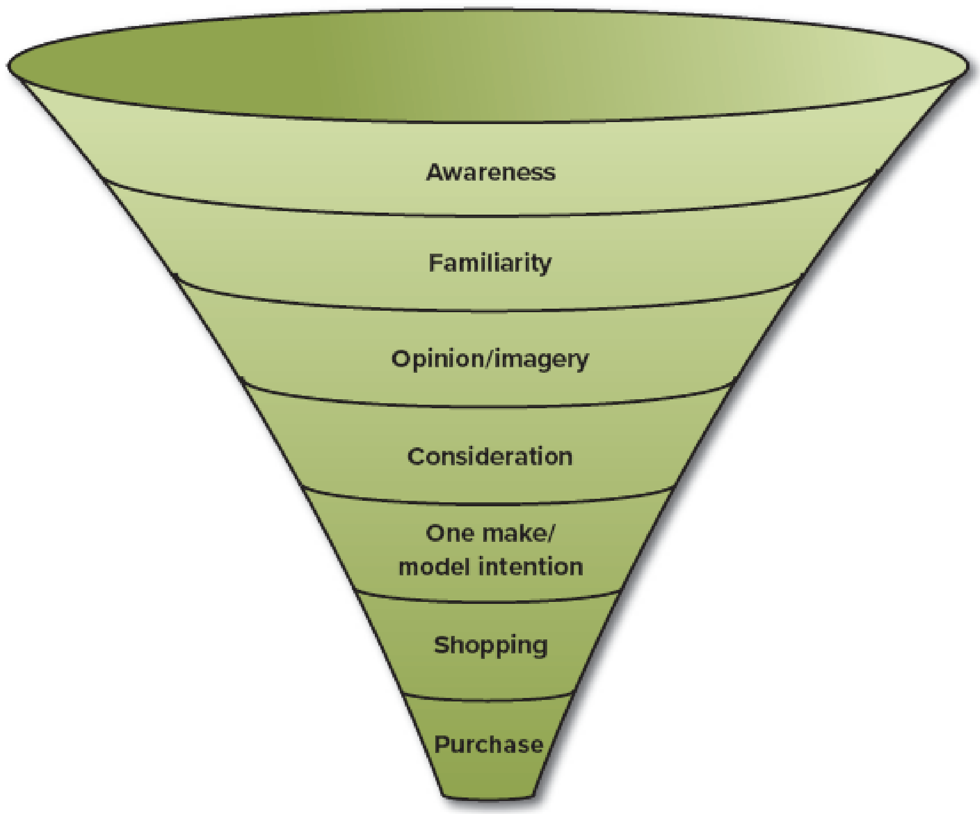
Problems with Communications Objectives Not all marketing and advertising managers accept communications objectives; some say it is too difficult to translate a sales goal into a specific communications objective. But at some point a sales goal must be transformed into a communications objective. If the marketing plan for an established brand has an objective of increasing sales by 10 percent, the promotional planner will eventually have to think in terms of the message that will be communicated to the target audience to achieve this. Possible objectives include the following:

- Increasing the percentage of consumers in the target market who associate specific features, benefits, or advantages with our brand.
- Increasing the number of consumers in the target audience who prefer our product over the competition's.
- Encouraging current users of the product to use it more frequently or in more situations.
- Encouraging consumers who have never used our brand to try it.

In some situations, promotional planners may gain insight into communications objectives' relationship to sales from industry research. Figure 7–3 provides an example of the GfK International purchase funnel used by many in the automobile industry as a diagnostic model of consumer decision making. While there are some marketers who contend the consumer funnels no longer are applicable, Digital and Social Perspective 7–1 provides another perspective.

IGURE 7–3

GfK Purchase Funnel



In attempting to translate sales goals into specific communications objectives, promotional planners often are not sure what constitutes adequate levels of awareness, knowledge, liking, preference, or conviction. There are no formulas to provide this information. The promotional manager will have to use his or her personal experience and that of the brand or product managers, as well as the marketing history of this and similar brands. Average scores on various communications measures for this and similar products should be considered, along with the levels achieved by competitors' products. This information can be related to the amount of money and time spent building these levels as well as the resulting sales or market share figures. However, at some point, sales-oriented objectives must be translated into what the company hopes to communicate and to whom it hopes to communicate it.

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Many marketing and promotional managers recognize the value of setting specific communications objectives and their important role as operational guidelines to the planning, execution, and evaluation of the promotional program. Communications objectives are the criteria used in the DAGMAR approach to setting advertising goals and objectives, which has become one of the most influential approaches to the advertising planning process.

DAGMAR: AN APPROACH TO SETTING OBJECTIVES

In 1961, Russell Colley prepared a report for the Association of National Advertisers titled *Defining Advertising Goals for Measured Advertising Results* (DAGMAR).[11] In it, Colley developed a model for setting advertising objectives and measuring the results of an ad campaign. The major thesis of the **DAGMAR** model is that communications effects are the logical basis for advertising goals and objectives against which success or failure should be measured.

Under the DAGMAR approach, an advertising goal involves a **communications task** that is specific and measurable. A communications task, as opposed to a marketing task, can be performed by, and attributed to, advertising rather than to a combination of several marketing factors. Colley proposed that the communications task be based on a hierarchical model of the communication process with four stages:

- *Awareness*—making the consumer aware of the existence of the brand or company.
- *Comprehension*—developing an understanding of what the product is and what it will do for the consumer.
- *Conviction*—developing a mental disposition in the consumer to buy the product.
- *Action*—getting the consumer to purchase the product.

As discussed earlier, other hierarchical models of advertising effects can be used as a basis for analyzing the communications response process. Some advertising theorists prefer the Lavidge and Steiner hierarchy of effects model, since it is more specific and provides a better way to establish and measure results.[12]

Digital and Social Media Perspective 7–1 > > >

The Consumer Decision Funnel Is Alive and Well. All It Needed Was a Little Rethinking

Just a few years ago a number of marketers were writing about the demise of the consumer funnel. Its death, they said, was caused by the growth of digital and social media. They went on to say that it had lived a long and prosperous life and had served marketers well but—like other concepts—had outlived its time. But, to paraphrase Mark Twain (or Elvis), the death of the consumer funnel has been extremely exaggerated.

Discussions of consumer response hierarchies have appeared in the marketing literature for over a half century and have had probably as many opponents as proponents regarding their usefulness in developing marketing and communications strategies. Nevertheless, a number of large companies including BMW, Sprint, Honda, and General Motors have employed their own hierarchies, typically referring to them as *purchase funnels*. These purchase funnels have been used as planning guides to move consumers from awareness to final purchase. The number of consumers who continue through the stages of the funnel decreases, with fewer making a purchase than are actually aware of the product or brand. While consumer purchase funnels have their advocates, there are still some nonbelievers out there who contend that the funnels are too linear, and the impact of digital, social, and mobile have changed the way consumers make decisions.

For example, Joe Ayyoub calls the funnel paradigm aged and says it's time for a reboot, arguing that we can no longer capture customers by taking them through the linear awareness to purchase sequence. Ayyoub describes the new decision sequence as more akin to a kid browsing at a fair than plunging down a slope. He attributes this change to the increase in digital information, including product reviews, pricing information, and social media recommendations, as well as the use of mobile by the customer while in the store. Because mobile is now replacing the desktop, says Ayyoub, the additional time spent online offers marketers more opportunity to reach potential consumers, providing them with information as well as discounts or coupons. According to Ayyoub, it is time to split the funnel, with the top focusing on awareness, but once customers become aware, they are moved to the bottom half, where monies should be allocated to conversion strategies. At that point marketers can focus on delivering the right offers at the right time on the right platform and to the right audience. Essentially, one-to-one marketing replaces mass marketing. (Though BMW disagrees, contending that its use of relevant content has proven to be very successful in enlarging the upper sales funnel.)

Cynthia Clark agrees with Ayyoub, noting that the funnel has "morphed considerably from a decade ago." Clark contends that the buying journey has changed, with control shifting from the organization to the consumers, who are taking it upon themselves to learn as much as they can about a brand before making a purchase. Forrester Research agrees, saying that in the past, consumers would have gone through about 90 percent of the funnel before making first contact with a vendor to get a price quote. Control gives them the power right at the beginning of the process in the new paradigm. The best way to succeed now is to know your consumers. And the best way to know consumers is through effective data gathering, which allows the salesperson to speak directly to the needs of individual consumers through targeted conversations.

According to Jonathan Gray, VP of marketing at Revana, Inc., because consumers use the Web, smartphones, and social media to do their research, they leave a trail of information behind that companies can easily access and specifically address. Social media should be "mined" because these channels provide information about consumers and their interests, such as personality factors. In addition, marketers can continue to follow consumers after a sales interaction or purchase to determine the optimal time to reach out to them.

Mark Osborn, SAP's global lead for consumer products—who also believes the linear funnel no longer works—loves the power of the smartphone. Osborn notes that the smartphone allows marketers to reach out to potential consumers anytime and anywhere and that its biggest impact for sales and marketing is “the ability to determine where a customer is at a given moment in time.” If they opt in, companies can even tell where they are in the store and deliver more information to them.

There are many other marketers out there who contend that the funnel is dead and no longer of value to marketers. Most contend that with the advent of new media, consumers have changed and can’t be treated like they were in the past. And, given the new technologies that provide a seemingly endless amount of data to marketers, they shouldn’t be. Mass marketing is being replaced by one-to-one marketing.

However, not everyone is convinced that we need to bury the funnel.

One of the more in-depth examinations of how the consumer decision process works comes from an extensive three-phase study commissioned by the Advertising Research Foundation (ARF), which examined many of the issues addressed in the previously mentioned studies while adding valuable new insights. This study (which was noted in Chapter 5 under the social consumer decision journey framework) provides valuable insight into the important questions many marketers are asking, such as: Have social and digital media altered the way in which consumers make purchase decisions? The study both supports and refutes some of the previous articles.

The ARF study does not consider the traditional decision-making models to be dead or even of limited value. Rather, the study was based on the assumption that the models have value, but need to be examined in a new light given the impact of social and digital media. The ARF study contends that consumers are constantly considering potential purchases and evaluating brands, but at some times are in a more active shopping mode and purposefully seeking assistance so they can make a purchase decision with confidence. While various media may have an impact in the more passive state, it is in the active state where consumers rely more heavily on social media to gain information from websites, friends, product experts, and so on. Interestingly, the goal may be more of a confirmation process; in most cases the brand or product has already been decided on by this stage. Thus, no single source is driving the purchase decision, but all can make a contribution in different ways. Another key finding was that trust is important, as social media expand the range of people that consumers feel they can trust, including family, friends, colleagues, and others. Feeling comfortable that they are making the right decision is critical. The ability to rely on these sources increases the confidence that consumers are making the right decision. Aaron Brooks believes that the consumer funnel is not dead—it just needs to be changed. He suggests a number of strategies that marketers can employ to use the funnel to increase sales, including (1) go for the likeliest buyers; (2) target the consideration stage; (3) guide customers through the stages; (4) create repeat, loyal customers and brand advocates; and (5) automate your funnel through sales automation software.

If all this is true, then one has to wonder if all these new technologies actually increase the consumers' trust and confidence. Are they likely to purchase just because they are being reached at the right time and place? The ARF study also showed that purchase decisions are often emotional and well thought out. Maybe consumers don't respond only to the last best offer?

Sources: Ellen Hammett, "How BMW Is Using Content to 'Enlarge the Upper Sales Funnel,'" www.marketingweek.com, February 25, 2019; Aaron Brooks, "Marketing Funnel Strategies: 5 Steps to Increase Sales in 2019," www.ventureharbour.com, January 3, 2019; Mark Meyerson, "Rethinking the Marketing Funnel with Consumer Decision Journeys," February 25, 2019. Joe Ayyoub, "How to Break Out of the Funnel," www.clickzcom, July 2, 2015; Cynthia Clark, "Winning in the New and Improved Sales and Marketing Funnel," www.1to1media.com, May 12, 2014; Todd Powers, Dorothy Advincula, Manila Austin, Stacy Graiko, and Jasper Snyder, "Digital and Social Media in the Purchase Decision Process," *Journal of Advertising Research,* December 2012, pp. 479–89.

While the hierarchical model of advertising effects was the basic model of the communications response process used in DAGMAR, Colley also studied other specific tasks that advertising might be expected to perform in leading to the ultimate objective of a sale. He developed a checklist of 52 advertising tasks to characterize the contribution of advertising and serve as a starting point for establishing objectives.

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Characteristics of Objectives

A second major contribution of DAGMAR to the advertising planning process was its definition of what constitutes a good objective. Colley argued that advertising objectives should be stated in terms of concrete and measurable communications tasks, specify a target audience, indicate a benchmark starting point and the degree of change sought, and specify a time period for accomplishing the objective(s).

Concrete, Measurable Tasks The communications task specified in the objective should be a precise statement of what appeal or message the advertiser wants to communicate to the target audience. Advertisers generally use a copy page 226 platform to describe their basic message. The objective or copy platform statement should be specific and clear enough to guide the creative specialists who develop the advertising message. For example, Hyundai, after years of being at or near the bottom of the list of automobiles in customer satisfaction ratings, focused its attention on increasing the quality, as well as improving consumers' perceptions, of its cars. The result is that the Hyundai Sonata is among the top of the list of Kelley Blue Book's highest quality automobiles.[13] for midsize cars (Exhibit 7–9). According to DAGMAR, the objective must also be measurable. As can be seen in Exhibit 7–9, the various awards won along the way provided a measure of Hyundai's success.

XHIBIT 7–9

Hyundai has moved to the top of the list in Kelley Blue Book.

Source: Hyundai Motor America

Target Audience Another important characteristic of good objectives is a well-defined target audience. The primary target audience for a company's product or service is described in the situation analysis. It may be based on descriptive variables such as geography, demographics, and psychographics (on which advertising media selection decisions are based) as well as on behavioral variables such as usage rate or benefits sought.

Benchmark and Degree of Change Sought To set objectives, one must know the target audience's present status concerning response hierarchy variables such as awareness, knowledge, image, attitudes, and intentions and then determine the degree to which consumers must be changed by the campaign. Determining the target market's present position regarding the various response stages requires **benchmark measures**. Often a marketing research study must be conducted to determine prevailing levels of the response hierarchy. In the case of a new product or service, the starting conditions are generally at or near zero for all the variables, so no initial research is needed.

Establishing benchmark measures gives the promotional planner a basis for determining what communications tasks need to be accomplished and for specifying particular objectives. For example, a preliminary study for a brand may reveal that awareness is high but consumer perceptions and attitudes are negative. The objective for the campaign must then be to change the target audience's perceptions of and attitudes toward the brand.

Quantitative benchmarks are not only valuable in establishing communications goals and objectives but also essential for determining whether the campaign was successful. Objectives provide the standard against which the success or failure of a campaign is measured. An ad campaign that results in a 90 percent awareness level for a brand among its target audience cannot really be judged effective unless one knows what percentage of the consumers were aware of the brand before the campaign began. A 70 percent precampaign awareness level would lead to a different interpretation of the campaign's success than would a 30 percent level.

Specified Time Period A final consideration in setting advertising objectives is specifying the time period in which they must be accomplished. Appropriate time periods can range from a few days to a year or more. Most ad campaigns specify time periods from a few months to a year, depending on the situation facing the advertiser and the type of response being sought. For example, awareness levels for a brand can be created or increased fairly quickly through an intensive media schedule of widespread, repetitive advertising to the target audience. Repositioning of a product requires a change in consumers' perceptions and takes much more time.

Assessment of DAGMAR

LO 7-4

The DAGMAR approach to setting objectives has had considerable influence on the advertising planning process. Many promotional planners use this model as a basis for setting objectives and assessing the effectiveness of their promotional campaigns. DAGMAR also focused advertisers' attention on the value of using communications-based rather than sales-based objectives to measure advertising effectiveness and encouraged the measurement of stages in the response hierarchy to assess a campaign's impact. Colley's work has led to improvements in the advertising and promotional planning process by providing a better understanding of the goals and objectives toward which planners' efforts should be directed. This usually results in less subjectivity and leads to better communication and relationships between client and agency.

Criticism of DAGMAR While DAGMAR has contributed to the advertising planning process, it has not been totally accepted by everyone in the advertising field. A number of problems have led to questions regarding its value as a planning tool:[14]

- *Problems with the response hierarchy.* A major criticism of the DAGMAR approach is its reliance on the hierarchy of effects model. The fact that consumers do not always go through this sequence of communications effects before making a purchase has been recognized, and alternative response models have been developed. As indicated in Digital and Social Media Perspective 7–1, much of the criticism stems from the argument that digital and social media have significantly changed the consumer's decision-making process from a linear one-to-one in which consumers can enter or leave at any stage, resulting in a more circular process (Exhibit 7–10). DAGMAR MOD II recognizes that the appropriate response model depends on the situation and emphasizes identifying the sequence of decision-making steps that apply in a buying situation.[15]
- *Sales objectives.* Another objection to DAGMAR comes from those who argue that the only relevant measure of advertising objectives is sales. They have little tolerance for ad campaigns that achieve communications objectives but fail to increase sales. Advertising is seen as effective only if it induces consumers to make a purchase. The problems with this logic were addressed in our discussion of communications objectives.
- *Practicality and costs.* Another criticism of DAGMAR concerns the difficulties involved in implementing it. Money must be spent on research to establish quantitative benchmarks and measure changes in the response hierarchy. This is costly and time-consuming and can lead to considerable disagreement over method, criteria, measures, and so forth. Many critics argue that DAGMAR is practical only for large companies with big advertising and research budgets. Many firms do not want to spend the money needed to use DAGMAR effectively.
- *Inhibition of creativity.* A final criticism of DAGMAR is that it inhibits advertising creativity by imposing too much structure on the people responsible for developing the advertising. Many creative personnel think the DAGMAR approach is too concerned with quantitative assessment of a campaign's impact on awareness, brand-name recall, or specific persuasion measures. The emphasis is on passing the numbers test rather than developing a message that is truly creative and contributes to brand equity.

XHIBIT 7–10

Performics suggests that consumers go through a marketing spiral.

ource: Performics, www.performics.com

PROBLEMS IN SETTING OBJECTIVES

Although the DAGMAR model suggests a logical process for advertising and promotion planning, most advertisers and their agencies fail to follow these basic principles. They fail to set specific objectives for their campaigns and/or do not have the proper evidence to determine the success of their promotional programs. Many advertising agencies do not state appropriate objectives for determining success and thus can't demonstrate whether a supposedly successful campaign was really a success. Even though these campaigns may be doing something right, they generally did not know what it is.

One study examined the advertising practices of business-to-business marketers to determine whether their ads used advertising objectives that met Colley's four DAGMAR criteria.[16] Entries from the annual Business/Professional Advertising Association Gold Key Awards competition, which solicits the best marketing communications efforts from business-to-business advertisers, were evaluated with respect to their campaigns' objectives and summaries of results. Most of these advertisers did not set concrete advertising objectives, specify objective tasks, measure results in terms of stages of a hierarchy of effects, or match objectives to evaluation measures.

Improving Promotional Planners' Use of Objectives

As we have seen, it is important that advertisers and their agencies pay close attention to the objectives they set for their campaigns. They should strive to set specific and measurable objectives that not only guide promotional planning and decision making but also can be used as a standard for evaluating performance. Unfortunately, many companies do not set appropriate objectives for their integrated marketing communications programs.

Many companies fail to set appropriate objectives because top management has only an abstract idea of what the firm's IMC program is supposed to be doing. In an extensive review of thousands of case studies, Jerry Thomas concluded that most advertisers don't know if their advertising works and some ads may have a negative impact on sales. Thomas notes that the advertising industry has a very poor quality assurance system, and turns out a very inconsistent product (the ads). He cites a number of reason why this happens, one of which is the fact that clients don't define the role of advertising in the marketing program and do not precisely specify communications objectives.[17]

Few firms will set objectives that meet all the criteria set forth in DAGMAR. However, promotional planners should set objectives that are specific and measurable and go beyond basic sales goals. Even if specific communications response elements are not always measured, meeting the other criteria will sharpen the focus and improve the quality of the IMC planning process.

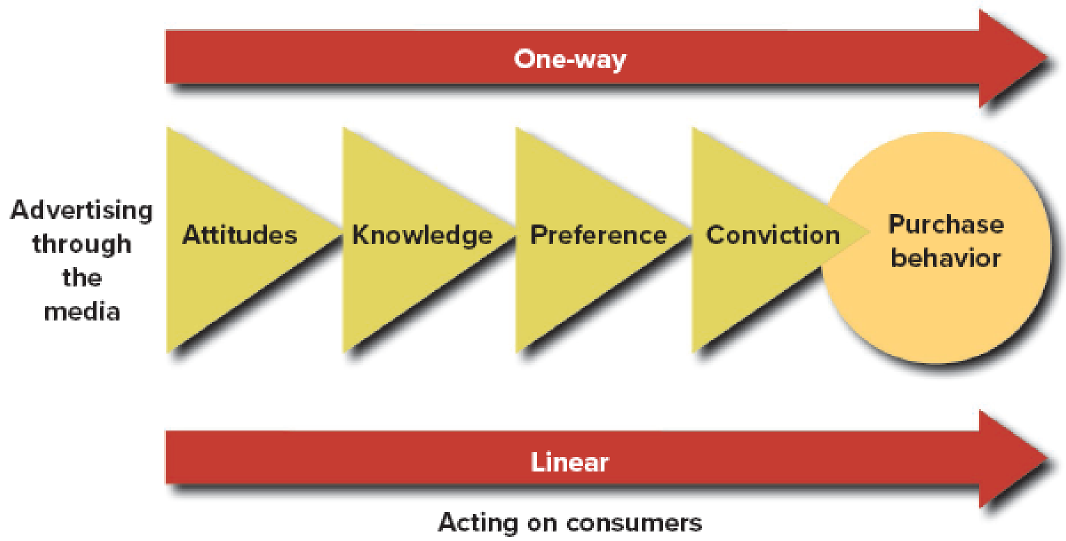
Setting Objectives for the IMC Program

One reason so much attention is given to advertising objectives is that for many companies advertising has traditionally been the major way of communicating with target audiences. Other promotional-mix elements such as sales promotion, direct marketing, and publicity are used intermittently to support and complement the advertising program.

Another reason is that traditional advertising-based views of marketing communications planning, such as DAGMAR, have dominated the field for so long. These approaches are based on a hierarchical response model and consider how marketers can develop and disseminate advertising messages to move consumers along an effects path. This approach, shown in Figure 7–4, is what professor Don Schultz calls *inside-out planning*. He says, "It focuses on what the marketer wants to say, when the marketer wants to say it, about things the marketer believes are important about his or her brand, and in the media forms the marketer wants to use."[18]

IGURE 7–4

Traditional Advertising-Based View of Marketing Communications



Schultz advocates an *outside-in planning* process for IMC that starts with the customer and builds backward to the brand. This means that promotional planners study the various media customers and prospects use, when the marketer's messages might be most relevant to customers, and when they are likely to be most receptive to the message.

A similar approach is suggested by Professor Tom Duncan, who argues that IMC should use **zero-based communications planning**, which involves determining what tasks need to be done and which marketing communications functions should be used and to what extent.[19] This approach focuses on the task to be done and searches for the best ideas and media to accomplish it. Duncan suggests that an effective IMC program should lead with the marketing communications function that most effectively addresses the company's main problem or opportunity and should use a promotional mix that draws on the strengths of whichever communications functions relate best to the particular situation.

While Schultz and Duncan discuss strategies for setting objectives based on traditional response hierarchies, attention should also be given to competing models. As seen in Chapter 5, considering decision making as a "social consumer decision journey" necessitates the establishment of communications objectives as viewed from a different perspective. The rows in Figure 7–5 show the steps in the consumer decision journey ranging from consideration to bonding. The columns depict the objectives that marketers need to accomplish at each stage, while the 10 marketing responses necessary to achieve these objectives are listed within the matrix. In this perspective, the marketer must *monitor*—that is, know what is being said online about the product or brand to gain insights as to how it is being perceived in the marketplace and then respond accordingly. This process—according to the model—must take place continuously. Second, marketers must *respond* to specific issues at a personal level. Responses may be positive in nature (customer service or sales leads) or (more likely) be part of crisis management, dealing with negative issues regarding the product or brand. *Amplification* deals with designing the communications program—particularly as it relates to social media—to foster engagement and sharing, as well as loyalty. The objective of amplifying is to get consumers more involved in the brand, extending the experience the brand has to offer, and have them communicate their positive experiences to others in the social network. The final objective, *lead,* is designed to take the consumer to long-term behavioral changes. At the early stages of the process it may simply include creating more brand awareness. Later in the process, lead may be designed to create buzz or promote time-sensitive issues like sales or promotions. The model also advocates the solicitation of consumer input upon completion of the purchase for the purpose of creating continuous inputs.

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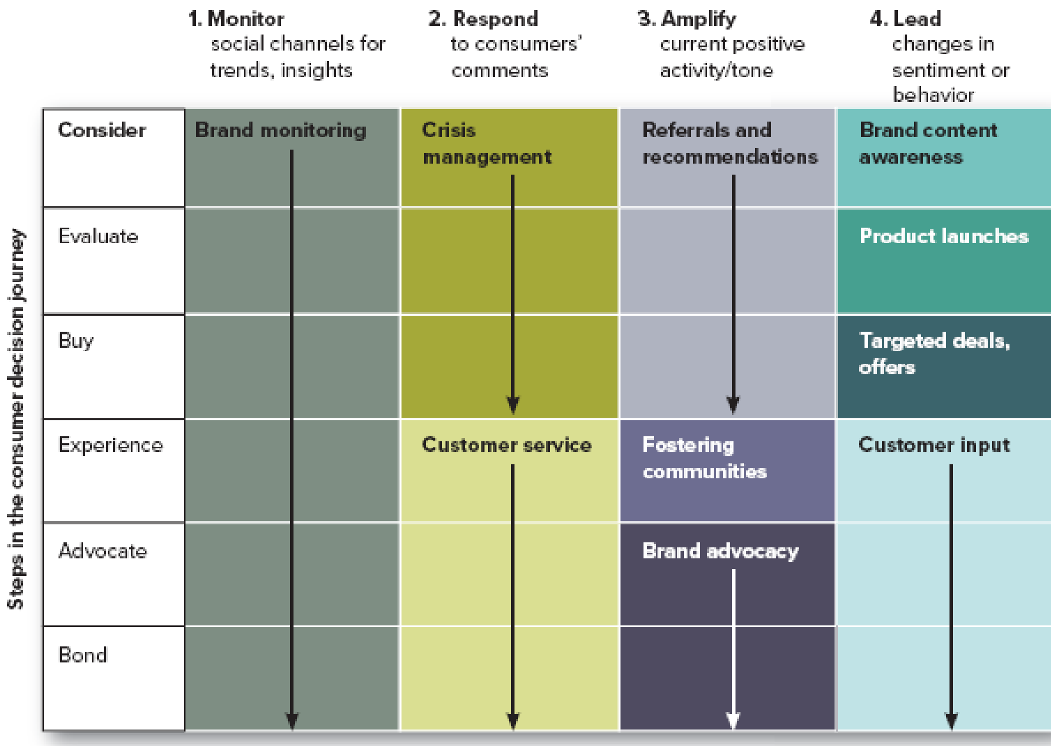
IGURE 7–5

Objectives and Strategies in the Social Consumer Decision Journey

ources: Expert interviews; McKinsey analysis.



While the social consumer decision journey may differ from traditional response hierarchies, it is also similar in that it envisions going through stages in the purchase decision. Like the traditional model, marketers need to take specific marketing actions to help consumers along through the process.

Many of the considerations for determining advertising objectives are relevant to setting goals for other elements of the integrated marketing communications program. The promotional planner should determine what role various sales promotion techniques, publicity and public relations, direct marketing, digital media, and personal selling will play in the overall marketing program and how they will interact with advertising as well as with one another.

For example, the marketing communications program for the Auckland Zoo has a number of objectives. First, it must provide funding for the zoo's programs and maintain a large and powerful base of supporters for financial strength. The communications must educate the public about the zoo's various programs and maintain a favorable image on a local, regional, and even international level. A major objective of the IMC program is drawing visitors to the zoo and its many experiences (Exhibit 7–11).

XHIBIT 7–11

The Auckland Zoo attempts to attract visitors through a variety of media.

ource: Auckland Zoo

Like the Auckland Zoo, other zoos may establish similar objectives. As can be seen in Figure 7–6 these programs may employ a variety of integrated marketing communications tools. When setting objectives for these promotional elements, planners must consider what the firm hopes to communicate through the use of this element, among what target audience, and during what time period. As with advertising, results should be measured and evaluated against the original objectives, and attempts should be made to isolate the effects of each promotional element. Objectives for marketing communications elements other than advertising are discussed more thoroughly in Part Five of the text.

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ESTABLISHING AND ALLOCATING THE PROMOTIONAL BUDGET

LO 7-5

If you take a minute to look back at the IMC planning model in Chapter 1, you will see that while the arrows from the review of the marketing plan and the promotional situation analysis to analysis of the communication process are *unidirectional,* the flow between the communications analysis and budget determination is a *two-way interaction.* What this means is that whereas establishing objectives is an important part of the planning process, recognizing the limitations of the budget is important too. No organization has an unlimited budget, so objectives must be set with the budget in mind.

Often when we think of promotional expenditures of firms, we think only about the huge amounts being spent. We don't usually take the time to think about how these monies are being allocated and about the recipients of these dollars. The budgeting decisions have a significant impact not only on the firm itself but also on numerous others involved either directly or indirectly. The remainder of this chapter provides insight into some underlying theory with respect to budget setting, discusses how companies budget for promotional efforts, and demonstrates the inherent strengths and weaknesses associated with these approaches. Essentially, we focus on two primary budgeting decisions: establishing a budget amount and allocating the budget.

Establishing the Budget

The size of a firm's advertising and promotions budget can vary from a few thousand dollars to more than a billion. When companies like AT&T and Verizon spend more than $2 billion per year to promote their products, they expect such expenditures to accomplish their stated objectives. The budget decision is no less critical to a firm spending only a few thousand dollars; its ultimate success or failure may depend on the monies spent. One of the most critical decisions facing the marketing manager is how much to spend on the promotional effort.

IGURE 7–6

An Example of a Zoo's Objectives for Various Promotional Elements

Advertising

Objectives: Drive attendance to Zoo. Uphold image and educate target audience and inform them of new attractions and special events and promotions.

Audience: Members and nonmembers of Zoological Society. Households in primary and secondary geographic markets consisting of Allegheny Country and 5 other countries in the tri-state regional area. Tertiary markets of 7 states. Tourist and group sales markets.

Timing: As allowed and determined by budget. Mostly timed to coincide with promotional efforts.

Tools/media: Television, radio, newspaper, magazines, direct mail, outdoor, tourist media (television and magazine).

Sales Promotions

Objectives: Use price, product, and other variables to drive attendance when it might not otherwise come.

Audience: Targeted, depending on co-op partner, mostly to Western Pennsylvania market.

Timing: To fit needs of Zoo and co-sponsoring partner.

Tools/media: Coupons, sweepstakes, tours, broadcast tradeouts, direct mail: statement stuffers, fliers, postcards, online ticket discounts.

Public Relations

Objectives: Inform, educate, create, and maintain image for Zoological Society and major attractions; reinforce advertising message.

Audience: From local to international, depending on subject, scope, and timing.

Timing: Ongoing, although often timed to coincide with promotions and other special events. Spur-of-the-moment animal news and information such as acquisitions, births, etc.

Tools/media: Coverage by major news media, articles in local, regional, national and international newspapers, magazines and other publications such as visitors' guides, tour books and guides, appearances by Zoo spokepersons on talk shows (such as *The David Letterman Show*), zoo newsletter, adopt an animal program, support conservation program.

Cause Marketing/Corporate Sponsorships/Events Underwriting

Objectives: To provide funding for Zoological Society programs and promote special programs and events done in cooperation with corporate sponsor. Must be win-win business partnership for Society and partner.

Audience: Supporters of both the Zoological Society and the corporate or product/service partner.

Timing: Coincides with needs of both partners, and seasonal attendance generation needs of Zoo.

Tools: May involve advertising, publicity, discount co-op promotions, ticket trades, hospitality centers. Exposure is directly proportional to amount of underwriting by corporate sponsor, both in scope and duration, education programs.

Direct Marketing

Objectives: Maintain large powerful base of supporters for financial and political strength.

Audience: Local, regional, national and international. Includes children's program, seniors (60+), couples, single memberships, and incremental donor levels.

Timing: Ongoing, year-round promotion of memberships.

Tools: Direct mail and on-grounds visibility.

Group Sales

Objectives: Maximize group traffic and revenue by selling group tours to Zoo.

Audience: Conventions, incentive groups, bus tours, associations, youth, scouts, schools, camps, seniors, clubs, military, organizations, domestic and foreign travel groups.

Timing: Targeted to drive attendance in peak seasons or at most probable times such as convention season.

Tools: Travel and tourism trade shows, telemarketing, direct mail, trade publication advertising.

Internet

Objectives: Provide information regarding the Zoo, programs, memberships and public relations activities.

Audience: All audiences interested in acquiring more information about the Zoo.

Timing: Ongoing, updated frequently over time.

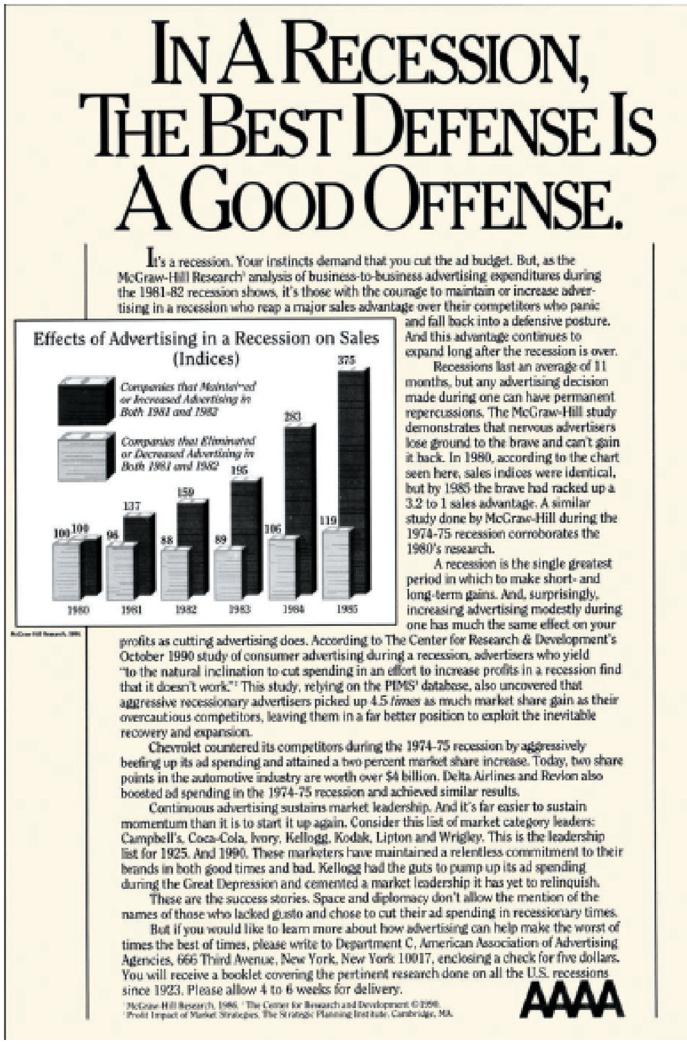
Tools: Website, blog, including videos, Facebook, Twitter, and other social media.

Unfortunately, many managers fail to realize the value of advertising and promotion. They treat the communications budget as an expense rather than an investment. Instead of viewing the dollars spent as contributing to additional sales and market share, they see budget expenses as cutting into profits. As a result, when times get tough, the advertising and promotional budget is the first to be cut—even though there is strong evidence that exactly the opposite should occur, as Exhibit 7–12 argues. Figure 7–7 shows the results of an extensive review of research involving advertising during a recession. The review covers 40 studies in the United States over an 83-year period. As can be seen, the argument for continuing to advertise during an economic downturn outweighs that of decreasing ad expenditures.[20] Moreover, the decision is not a one-time responsibility. A new budget is formulated every year, each time a new product is introduced, or when either internal or external factors necessitate a change to maintain competitiveness.

XHIBIT 7–12

The American Association of Advertising Agencies (4As) promotes the continued use of advertising in a recession.

ɔurce: American Association of Advertising Agencies



IGURE 7–7

Conclusions on Research of Advertising in a Recession

ource: G. Tellis and K. Tellis, "Research on Advertising in a Recession," *Journal of Advertising esearch* 49, no. 3 (2009), pp. 304–27.

- Advertising is strongly related to economic cycles across major world economies.
- The single most compelling reason for cutting back advertising during a recession is that sales during a recession are likely to be lower than they would be during an expansion.
- There is strong, consistent evidence that cutting back on advertising can hurt sales during and after a recession.

- Not cutting back on advertising during a recession could increase sales during and after the recession.
- Firms that increased advertising during a recession experienced higher sales, market share, or earnings during or after the recession.
- Most firms tend to cut back on advertising during a recession, reducing noise and increasing the effectiveness of advertising of the firm that advertises.

While it is one of the most critical decisions, budgeting has perhaps been the most resistant to change. A comparison of advertising and promotional texts over the past 10 years would reveal the same methods for establishing budgets. The theoretical basis for this process remains rooted in economic theory and marginal analysis. (Advertisers also use an approach based on **contribution margin**—the difference between the total revenue generated by a brand and its total variable costs. But, as Robert Steiner says, *marginal analysis* and *contribution margin* are essentially synonymous terms.)[21] We begin our discussion of budgeting with an examination of these theoretical approaches.

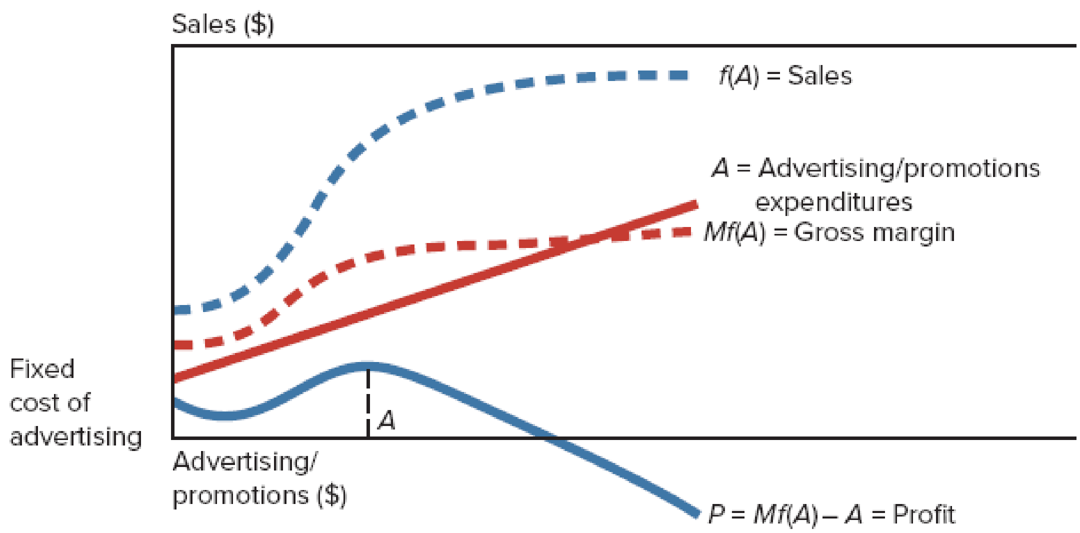
Theoretical Issues in Budget Setting Most of the models used to establish advertising budgets can be categorized as taking an economic or a sales response perspective.

LO 7-6

Marginal Analysis Figure 7–8 graphically represents the concept of **marginal analysis**. As advertising/promotional expenditures increase, sales and gross margins also increase to a point, but then they level off. Profits are shown to be a result of the gross margin minus advertising expenditures. Using this theory to establish its budget, a firm would continue to spend advertising/promotional dollars as long as the marginal revenues created by these expenditures exceeded the incremental advertising/promotional costs. As shown on the graph, the optimal expenditure level is the point where marginal costs equal the marginal revenues they generate (point *A*). If the sum of the advertising/promotional expenditures exceeded the revenues they generated, one would conclude the appropriations were too high and scale down the budget. If revenues were higher, a higher budget might be in order. (We will see later in this chapter that this approach can also be applied to the allocation decision.)

IGURE 7–8

Marginal Analysis



Whereas marginal analysis seems logical intuitively, certain weaknesses limit its usefulness. These weaknesses include the assumptions that (1) sales are a direct result of advertising and promotional expenditures and this effect can be measured, and (2) advertising and promotion are solely responsible for sales. Let us examine each of these assumptions in more detail.

1. *Assumption that sales are a direct measure of advertising and promotion efforts.* Earlier in this chapter we discussed the fact that the advertiser needs to set communications objectives that contribute to accomplishing overall marketing objectives but at the same time are separate. One reason for this strategy is that it is often difficult, if not impossible, to demonstrate the effects of advertising and promotions on sales. In studies using sales as a direct measure, it has been almost impossible to establish the contribution of advertising and promotion. In the words of David Aaker and James Carman, "Looking for the relationship between advertising and sales is somewhat worse than looking for a needle in a haystack."[22] Thus, to try to show that the size of the budget will directly affect sales of the product is misleading. A more logical approach would be to examine the impact of various budgets on the attainment of communications objectives.

   As we saw in the discussion of communications objectives, sales are not the only goal of the promotional effort. Awareness, interest, attitude change, and other communications objectives are often sought, and while the bottom line may be to sell the product, these objectives may serve as the basis on which the promotional program is developed.

2. *Assumption that sales are determined solely by advertising and promotion.* This assumption ignores the remaining elements of the marketing mix—price, product, and distribution—which do contribute to a company's success. Environmental factors may also affect the promotional program, leading the marketing manager to assume the advertising was or was not effective when some other factor may have helped or hindered the accomplishment of the desired objectives.

Overall, you can see that while the economic approach to the budgeting process is a logical one, the difficulties associated with determining the effects of the promotional effort on sales and revenues limit its applicability. Marginal analysis is seldom used as a basis for budgeting (except for direct-response advertising).

Sales Response Models You may have wondered why the sales curve in Figure 7–8 shows sales leveling off even though advertising and promotions efforts continue to increase. The relationship between advertising and sales has been the topic of much research and discussion designed to determine the shape of the response curve.

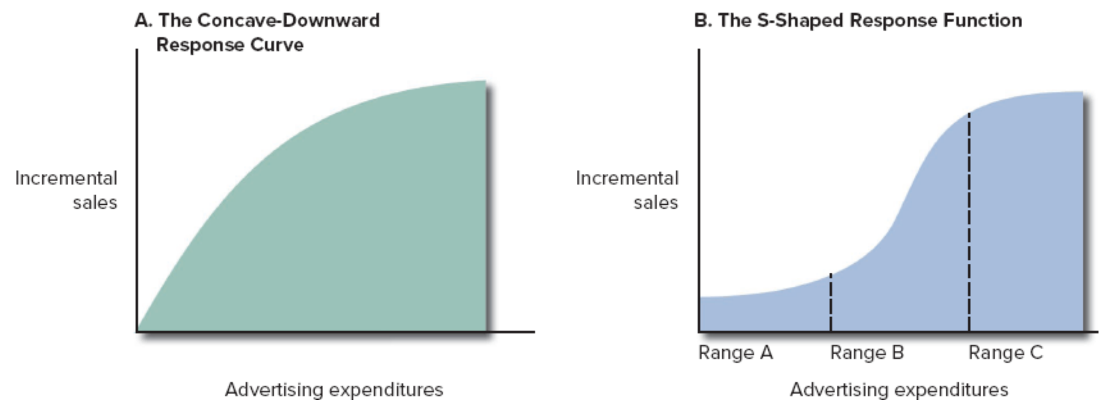
Almost all advertisers subscribe to one of two models of the advertising/sales response function: the concave-downward function or the S-shaped response curve.

- *The concave-downward function.* After reviewing more than 100 studies of the effects of advertising on sales, Julian Simon and Johan Arndt concluded that the effects of advertising budgets follow the microeconomic law of diminishing returns.[23] That is, as the amount of advertising increases, its incremental value decreases. The logic is that those with the greatest potential to buy will likely act on the first (or earliest) exposures, while those less likely to buy are not likely to change as a result of the advertising. For those who may be potential buyers, each additional ad will supply little or no new information that will affect their decision. Thus, according to the **concave-downward function model**, the effects of advertising quickly begin to diminish, as shown in Figure 7–9A. Budgeting under this model suggests that fewer advertising dollars may be needed to create the optimal influence on sales.
- *The S-shaped response function.* Many advertising managers assume the **S-shaped response curve** (Figure 7–9B), which projects an S-shaped response function to the budget outlay (again measured in sales). Initial outlays of the advertising budget have little impact (as indicated by the essentially flat sales curve in range *A*). After a certain budget level has been reached (the beginning of

range *B*), advertising and promotional efforts begin to have an effect, as additional increments of expenditures result in increased sales. This incremental gain continues only to a point, however, because at the beginning of range *C*, additional expenditures begin to return little or nothing in the way of sales. This model suggests a small advertising budget is likely to have no impact beyond the sales that may have been generated through other means (for example, word of mouth). At the other extreme, more does not necessarily mean better: Additional dollars spent beyond range *B* have no additional impact on sales and for the most part can be considered wasted. As with marginal analysis, one would attempt to operate at that point on the curve in area *B* where the maximum return for the money is attained.

IGURE 7–9

Advertising Sales/Response Functions



Weaknesses in these sales response models render them of limited use to practitioners for direct applications. Many of the problems seen earlier—the use of sales as a dependent variable, measurement problems, and so on—limit the usefulness of these models. At the same time, keep in mind the purpose of discussing such models. Even though marginal analysis and the sales response curves may not apply directly, they give managers some insight into a theoretical basis of how the budgeting process should work. There's some empirical evidence indicating the models may have validity.

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The studies discussed in earlier chapters on learning and the hierarchy of effects also demonstrate the importance of repetition for gaining awareness and for subsequent higher-order objectives such as adoption. Thus, while these models may not provide a tool for setting the advertising and promotional budget directly, we can use them to guide our appropriations strategy from a theoretical basis. As you will see later in this chapter, such a theoretical basis has advantages over many of the methods currently being used for budget setting and allocation.

Additional Factors in Budget Setting While the theoretical bases just discussed should be considered in establishing the budget appropriation, a number of other issues must also be considered. A weakness in attempting to use sales as a *direct* measure of response to advertising is that various situational factors may have an effect. Some of the factors that have been shown to affect the advertising/sales ratio are shown in Figure 7–10. For a product characterized by emotional buying motives, hidden product qualities, and/or a strong basis for differentiation, advertising would have a noticeable impact on sales. Products characterized as large-dollar purchases and those in the maturity or decline stages of the product would be less likely to benefit.

IGURE 7–10

Factors Influencing Advertising Budgets

Factor	Relationship of Advertising/Sales	Factor	Relationship of Advertising/Sales
Product Factors		Competition:	
Basis for differentiation	+	Active	+
Hidden product qualities	+	Concentrated	+
Emotional buying motives	+	***Customer Factors***	
	−	Concentration of users	+
	−	***Strategy Factors***	
Purchase frequency	Curvilinear	Early stage of brand life cycle	+
Market Factors		Long channels of distribution	+
Stage of product life cycle:		High prices	+

Introductory	+	High quality	+
Growth	+	Media strategy	+
Maturity	−	Creative strategy	+
Decline	−	Promotional strategy	+
Inelastic demand	+	***Cost Factors***	
Market share	−	High profit margins	+

Note: + relationship means the factor leads to a positive effect of advertising on sales; − relationship indicates little or no effect of advertising on sales.

As we will see later in this chapter, the percentage-of-sales method of budgeting has inherent weaknesses in that the advertising and sales effects may be reversed. So we cannot be sure whether the situation actually led to the advertising/sales relationship or vice versa. Thus, while these factors should be considered in the budget appropriation decision, they should not be the sole determinants of where and when to increase or decrease expenditures.

The *Advertising Age* Editorial Sounding Board consists of 92 executives of the top 200 advertising companies in the United States (representing the client side) and 130 executives of the 200 largest advertising agencies and 11 advertising consultants (representing the agency side). A survey of the board yielded the factors shown in Figure 7–11 that are important in budget setting.

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FIGURE 7–11

Factors Considered in Budget Setting

Changes in advertising strategy and/or creative approach	51%
Competitive activity and/or spending levels	47
Profit contribution goal or other financial target	43
Level of previous year’s spending, with adjustment	17
Senior management dollar allocation or set limit	11

Volume share projections	8
Projections/assumptions on media cost increases	25
Modifications in media strategy and/or buying techniques	17

Overall, the responses of these two groups reflect in part their perceptions as to factors of importance in how budgets are set. To understand the differences in the relative importance of these factors, it is important to understand the approaches currently employed in budget setting. The next section examines these approaches.

Budgeting Approaches

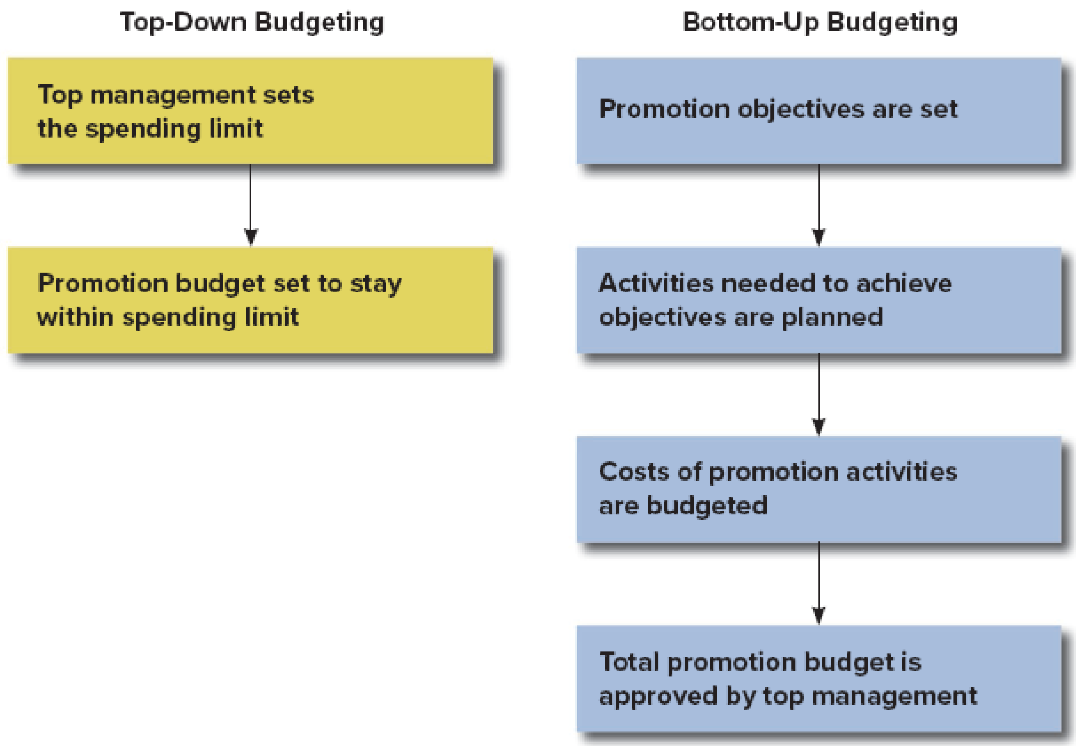
LO 7-7

The theoretical approaches to establishing the promotional budget are seldom employed. In smaller firms, they may never be used. Instead, a number of methods developed through practice and experience are implemented. This section reviews some of the more traditional methods of setting budgets and the relative advantages and disadvantages of each. First, you must understand two things: (1) Many firms employ more than one method, and (2) budgeting approaches vary according to the size and sophistication of the firm.

Top-Down Approaches The approaches discussed in this section may be referred to as **top-down approaches** because a budgetary amount is established (usually at an executive level) and then the monies are passed down to the various departments (as shown in Figure 7–12). These budgets are essentially predetermined and have no true theoretical basis. Top-down methods include the affordable method, arbitrary allocation, percentage of sales, competitive parity, and return on investment (ROI).

IGURE 7–12

Top-Down versus Bottom-Up Approaches to Budget Setting



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. The task to be performed by the advertising/promotions function is not considered, and the likelihood of under- or overspending is high, as no guidelines for measuring the effects of various budgets are established.

Strange as it may seem, this approach is common among small firms. Unfortunately, it is also used in large firms, particularly those that are not marketing-driven and do not understand the role of advertising and promotion. For example, many high-tech firms focus on new product development and engineering and assume that the product, if good enough, will sell itself. In these companies, little money may be left for performing the advertising and promotions tasks.

The logic for this approach stems from "We can't be hurt with this method" thinking. That is, if we know what we can afford and we do not exceed it, we will not get into financial problems. While this may be true in a strictly accounting sense, it does not reflect sound managerial decision making from a marketing perspective. Often this method does not allocate enough money to get the product off the ground and into the market. In terms of the S-shaped sales response model, the firm is operating in range *A*. Or the firm may be spending more than necessary, operating in range *C*. When the market gets tough and sales and/or profits

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begin to fall, this method is likely to lead to budget cuts at a time when the budget should be increased.

Arbitrary Allocation Perhaps an even weaker method than the affordable method for establishing a budget is **arbitrary allocation**, in which virtually 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. In a discussion of how managers set advertising budgets, Melvin Salveson reported that these decisions may reflect "as much upon the managers' psychological profile as they do economic criteria."[24] While Salveson was referring to larger corporations, the approach is no less common in small firms and nonprofit organizations.

The arbitrary allocation approach has no obvious advantages. No systematic thinking has occurred, no objectives have been budgeted for, and the concept and purpose of advertising and promotion have been largely ignored. Other than the fact that the manager believes some monies must be spent on advertising and promotion and then picks a number, there is no good explanation why this approach continues to be used. Yet budgets continue to be set this way, and our purpose in discussing this method is to point out only that it is used—not recommended.

Percentage of Sales Perhaps the most commonly used method for budget setting (particularly in large firms) is the **percentage-of-sales method**, in which the advertising and promotions budget is based on sales of the product. Management determines the amount by either (1) taking a percentage of the sales dollars or (2) assigning a fixed amount of the unit product cost to promotion and multiplying this amount by the number of units sold. These two methods are shown in Figure 7–13.

IGURE 7–13

lternative Methods for Computing Percentage of Sales

METHOD 1: STRAIGHT PERCENTAGE OF SALES		
2021	Total dollar sales	$1,000,000
	Straight % of sales at 10%	$100,000
2022	Advertising budget	$100,000
METHOD 2: PERCENTAGE OF UNIT COST		
2021	Cost per product to manufacturer	$4.00
	Unit cost allocated to	$1.00

	advertising	
2021	Forecasted sales, 100,000 units	
2022	Advertising budget (100,000 × $1)	$100,000

A variation on the percentage-of-sales method uses a percentage of projected future sales as a base. This method also uses either a straight percentage of projected sales or a unit cost projection. In the straight-percentage method, sales are projected for the coming year based on the marketing manager's estimates. The budget is a percentage of these sales, often an industry standard percentage like those presented in Figure 7–14.

One advantage of using future sales as a base is that the budget is not based on last year's sales. As the market changes, management must factor the effect of these changes on sales into next year's forecast rather than relying on past data. The resulting budget is more likely to reflect current conditions and be more appropriate.

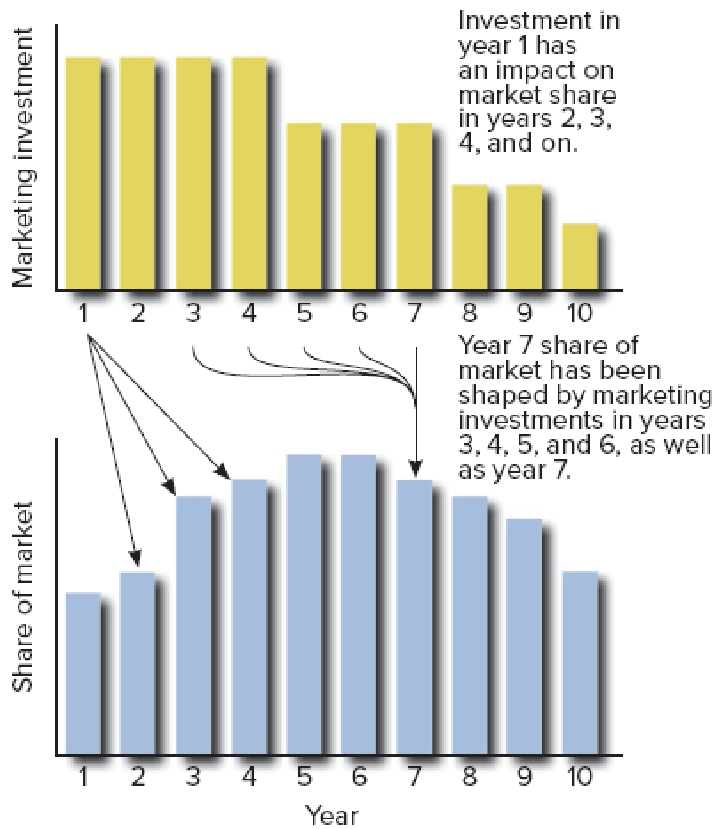
Figure 7–14 reveals that the percentage allocated varies from one industry to the next. Some firms budget a very small percentage (for example, 0.8 percent in bakery products), and others spend a much higher proportional amount (20.3 percent in books and publishing and 11.9 percent in cigarettes). Actual dollar amounts spent vary markedly according to the company's total sales figure. Thus, a smaller percentage of sales in computer and office equipment industry may actually result in significantly more advertising dollars being spent.

Proponents of the percentage-of-sales method cite a number of advantages. It is financially safe and keeps ad spending within reasonable limits, as it bases spending on the past year's sales or what the firm expects to sell in the upcoming year. Thus, there will be sufficient monies to cover this budget, with increases in sales leading to budget increases and sales decreases resulting in advertising decreases. The percentage-of-sales method is simple, straightforward, and easy to implement. Regardless of which basis—past or future sales—is employed, the calculations used to arrive at a budget are not difficult. Finally, this budgeting approach is generally stable. While the budget may vary with increases and decreases in sales, as long as these changes are not drastic the manager will have a reasonable idea of the parameters of the budget.

At the same time, the percentage-of-sales method has some serious disadvantages, including the basic premise on which the budget is established: sales. Letting the level of sales determine the amount of advertising and promotions dollars to be spent reverses the cause-and-effect relationship between advertising and sales. It treats advertising as an expense associated with making a sale rather than an investment. As shown in Figure 7–15, companies that consider promotional expenditures an investment reap the rewards.

IGURE 7–15

nvestments Pay Off in Later Years



A second problem with this approach was actually cited as an advantage earlier: stability. Proponents say that if all firms use a similar percentage, that will bring stability to the marketplace. But what happens if someone varies from this standard percentage? The problem is that this method does not allow for changes in strategy either internally or from competitors. An aggressive firm may wish to allocate more monies to the advertising and promotions budget, a strategy that is not possible with a percentage-of-sales method unless the manager is willing to deviate from industry standards.

The percentage-of-sales method of budgeting may result in severe misappropriation of funds. If advertising and promotion have a role to perform in marketing a product, then allocating more monies to advertising will, as shown in the S-shaped curve, generate incremental sales (to a point). If products with low sales have smaller promotion budgets, this will hinder sales progress. At the other extreme, very successful products may have excess budgets, some of which may be better appropriated elsewhere.

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IGURE 7–14

Advertising-to-Sales Ratios by Industry Sector

Schonfeld & Associates, Inc.		2018 Advertising-to-Sales Ratios		
Industry Name	SIC Code	Ad as % Sales	Ad as % Margin	Annual ad growth %
ABRASIVE, ASBESTOS, MISC MINRL	3290	16.6	52.3	12.6
ACCIDENT & HEALTH INSURANCE	6321	1.0	4.9	1.1
ACCOUNT, AUDIT, BOOKKEEP SVCS	8721	1.1	2.0	-2.2
ADVERTISING	7310	2.4	4.5	2.5
AGRICULTURAL CHEMICALS	2870	4.9	13.6	-9.9
AGRICULTURE PRODUCTION-CROPS	100	0.4	1.0	-7.3
AIR COURIER SERVICES	4513	0.7	2.2	5.0
AIR TRANSPORT, SCHEDULED	4512	0.7	2.7	4.5
AIR-COND, HEATING, REFRIG EQ	3585	0.8	2.1	-1.0
AMUSEMENT & RECREATION SVCS	7900	4.1	15.9	6.2
AMUSEMENT PARKS	7996	6.2	13.3	1.3
APPAREL & OTHER FINISHED PDS	2300	4.7	9.3	7.3
APPAREL AND ACCESSORY STORES	5600	3.0	7.7	2.3
AUTO AND HOME SUPPLY STORES	5531	1.0	2.0	1.0
AUTO DEALERS, GAS STATIONS	5500	0.7	4.5	6.0
AUTO RENT & LEASE, NO DRIVERS	7510	1.3	3.2	-5.7
BAKERY PRODUCTS	2050	0.8	2.4	0.0
BEVERAGES	2080	3.8	6.6	1.4
BIOLOGICAL PDS, EX DIAGNSTICS	2836	2.2	3.1	12.5
BLANKBOOKS, BINDERS, BOOKBIND	2780	4.5	8.6	-2.5
BLDG MATL, HARDWR, GARDEN-RETL	5200	1.1	3.3	6.7
BOOKS: PUBG, PUBG & PRINTING	2731	20.3	35.2	-5.7
BTLD & CAN SOFT DRINKS, WATER	2086	5.9	11.5	4.8
BUSINESS SERVICES, NEC	7389	0.5	1.4	6.3
CABLE AND OTHER PAY TV SVCS	4841	6.3	14.5	11.3
CAN FRUIT, VEG, PRESRV, JAM, JEL	2033	1.9	5.0	11.3
CAN, FROZN, PRESRV FRUIT & VEG	2030	3.0	7.2	13.1
CARPETS AND RUGS	2273	1.3	3.4	22.0
CATALOG, MAIL-ORDER HOUSES	5961	3.9	11.6	15.2
CEMENT, HYDRAULIC	3241	0.5	1.3	7.8

Schonfeld & Associates, Inc.		2018 Advertising-to-Sales Ratios		
Industry Name	SIC Code	Ad as % Sales	Ad as % Margin	Annual ad growth %
CIGARETTES	2111	11.9	22.8	10.8
CMP AND CMP SOFTWARE STORES	5734	1.1	3.0	7.0
CMP INTEGRATED SYS DESIGN	7373	0.2	0.7	5.8
CMP PROCESSING, DATA PREP SVC	7374	2.9	6.6	6.0
CMP PROGRAMMING, DATA PROCESS	7370	6.9	11.6	11.3
COML PHYSICAL, BIOLOGCL RESH	8731	0.6	1.6	14.6
COMMUNICATIONS SERVICES, NEC	4899	4.9	9.7	−1.4
COMPUTER & OFFICE EQUIPMENT	3570	0.5	1.6	5.3
COMPUTER COMMUNICATION EQUIP	3576	0.5	0.8	2.8
COMPUTER PERIPHERAL EQ, NEC	3577	1.9	3.5	−4.3
COMPUTER STORAGE DEVICES	3572	0.4	0.9	3.5
COMPUTERS & SOFTWARE-WHSL	5045	0.7	7.0	5.9
CONCRETE, GYPSUM, PLASTER PDS	3270	0.7	2.1	−5.9

Source: Schoenfeld and Associates, 2019.

The percentage-of-sales method is also difficult to employ for new product introductions. If no sales histories are available, there is no basis for establishing the budget. Projections of future sales may be difficult, particularly if the product is highly innovative and/or has fluctuating sales patterns.

Finally, if the budget is contingent on sales, decreases in sales will lead to decreases in budgets when they most need to be increased. Continuing to cut the advertising and promotion budgets may just add impetus to the downward sales trend. On the other hand, some of the more successful companies have allocated additional funds during hard times or downturns in the cycle of sales as shown earlier. Companies that maintain or increase their ad expenditures during recessions achieve increased visibility and higher growth in both sales and market share (compared to those that reduce advertising outlays).

While the percentage-of-future-sales method has been proposed as a remedy for some of the problems discussed here, the reality is that problems with forecasting, cyclical growth, and uncontrollable factors limit its effectiveness.

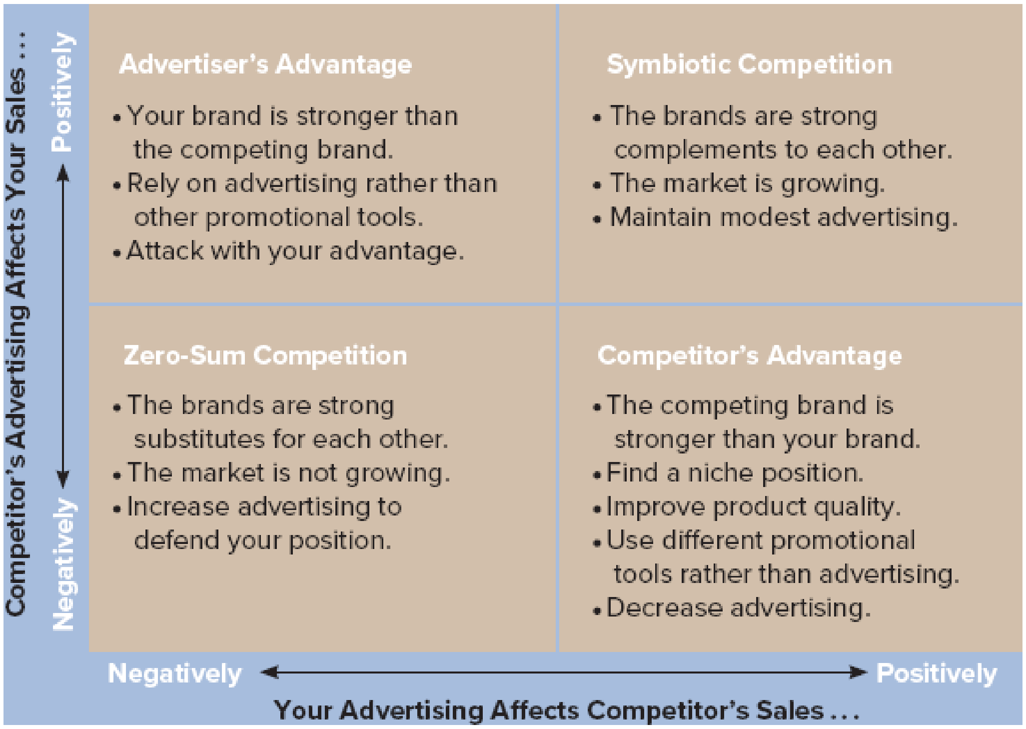
Competitive Parity If you asked marketing managers if they ever set their advertising and promotions budgets on the basis of what their competitors allocate, they would probably deny it. Yet if you examined the advertising expenditures of these companies, both as a percentage of sales and in respect to the media where they are allocated, you would see little variation in the percentage-of-sales figures for firms within a given industry. Such results do not happen by chance alone. Companies that provide competitive advertising information, trade associations, and other advertising industry periodicals are insights into competitors' expenditures. Larger corporations often subscribe to services such as Competitive Media Reporting, which page 242 estimates the top 1,000 companies' advertising in 10 media and in total. Smaller companies often use a **clipping service**, which clips competitors' ads from local print media, allowing the company to work backward to determine the cumulative costs of the ads placed.

In the **competitive parity method**, managers establish budget amounts by matching the competition's percentage-of-sales expenditures. The argument is that setting budgets in this fashion takes advantage of the collective wisdom of the industry. It also takes the competition into consideration, which leads to stability in the marketplace by minimizing marketing warfare. If companies know that competitors are unlikely to match their increases in promotional spending, they are less likely to take an aggressive posture to attempt to gain market share. This minimizes unusual or unrealistic ad expenditures.

The competitive parity method has a number of disadvantages, however. For one, it ignores the fact that advertising and promotions are designed to accomplish specific objectives by addressing certain problems and opportunities. Second, it assumes that because firms have similar expenditures, their programs will be equally effective. This assumption ignores the contributions of creative executions and/or media allocations, as well as the success or failure of various promotions. Further, it ignores possible advantages of the firm itself; some companies simply make better products than others. A study by Yoo and Mandhachitara indicates that a competitive parity strategy must consider the fact that a competitor's advertising can actually benefit one's own firm, and that one competitor's gain is not always the other's loss. As shown in Figure 7–16 there are four different situations to determine how the competitive budgets may impact sales—only one of which involved the zero-sum scenario.[25]

IGURE 7–16

Competitors' Advertising Outlays Do Not Always Hurt



Also, there is no guarantee that competitors will continue to pursue their existing strategies. Since competitive parity figures are determined by examination of competitors' previous years' promotional expenditures (short of corporate espionage), changes in market emphasis and/or spending may not be recognized until the competition has already established an advantage. Further, there is no guarantee that a competitor will not increase or decrease its own expenditures, regardless of what other companies do. Finally, competitive parity may not avoid promotional wars. Coke versus Pepsi and AT&T versus Verizon have been notorious for their spending wars, each responding to the other's increased outlays.

In summary, few firms employ the competitive parity method as a sole means of establishing the promotional budget. This method is typically used in conjunction with the percentage-of-sales or other methods. It is never wise to ignore the competition; managers must always be aware of what competitors are doing. But they should not just emulate them in setting goals and developing strategies.

Return on Investment (ROI) In the percentage-of-sales method, sales dictate the level of advertising appropriations. But advertising causes sales. In the marginal analysis and S-shaped curve approaches, incremental investments in advertising and promotions lead to increases in sales. The keyword here is *investment*. In the **ROI**

budgeting method, advertising and promotions are considered investments, like plant and equipment. Thus, the budgetary appropriation (investment) leads to certain returns. Like other aspects of the firm's efforts, advertising and promotion are expected to earn a certain return. ROI has received a great deal of attention by practitioners over the past few years, with many still disagreeing as to how it should be measured. Figure 7–17 shows the results of *Advertising Age*'s report of the Aegis Group rating of how various media perform under this criterion (5 equals best).

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. Thus, while managers are certain to ask how much return they are getting for such expenditures, the question remains unanswered and, as shown in the chapter introduction, depends on the criteria used to determine effectiveness. ROI remains a difficult method to employ, as shown by our earlier Colgate-Palmolive discussion.

Summary of Top-Down Budgeting Methods You are probably asking yourself why we even discussed these budgeting methods if they are not recommended for use or have severe disadvantages that limit their effectiveness. But you must understand the various methods used in order to recognize their limitations, especially since these flawed methods are commonly employed by marketers. Research conducted over a number of years by various researchers indicates that the affordable, competitive parity, percentage-of-sales, and objective and task methods are the most commonly employed budgeting methods. As noted, the emphasis on ROI has dramatically increased over the past few years.[26–30] Tradition and top management's desire for control are probably the major reasons why top-down methods continue to be popular.

IGURE 7–17

Aegis-Rated ROI of Various Media

Medium	The Measurement Challenge	ROI Measurability
Direct Response	Direct mail, telemarketing, and other forms are the most measurable of media listed here. Direct can have a synergistic effect, especially for pharma, telecom, and financial services.	5
Sales Promotion	Offers such as coupons and discounts generate a lot of consumer response and therefore a bounty of data. The data lend themselves to	5

	measurement, especially for package goods via syndicated scanner data. Freestanding inserts generate much valuable data.	
Internet	The Internet can be influential for big-ticket purchases like cars. Very measurable, with the cautionary note that "Internet is a very broad net," ranging from search engines to ads in content to websites such as in the auto market, where such marques as Saab get lots of hits, and all should be looked at separately. The goal is to understand how the consumer is interacting online with the brand.	5
TV	While promotions have very pronounced, short-term effects that allow precise measurement, TV has a subtler and more gradual effect that may show greater variability. But ROI can be measured with a high degree of accuracy, and there's no excuse for TV not to show a measurable effect. MMA clients have been using a lot more analysis to create a better mix between :15s and :30s, and better allocation across dayparts.	4.5
Print	The experts can slice and dice print by weekly vs. monthly publications, by targeted vs. general market, by promotional ads vs. equity-building. Print promotional materials, like freestanding inserts, are a separate—and much more measurable—matter. As with all other media, accuracy and timing of the data are crucial in determining how measurable the medium is. Print can play a strong role in expanding the reach of the media mix.	4.5
Public Relations	There are companies that specialize in the measurement of PR campaigns' quality; they can measure the number of impressions delivered—via positive or negative PR—for a brand name or category. PR can have a measurable impact on sales (think trans fats in food). The problem: Many marketers aren't buying these PR data.	4
Video Games	Whether the game is played online or offline is crucial. An ad embedded in a game cartridge is very hard to measure because there's no way to know how often it's played, though there's no denying "True Crime's" Nick Kang is a big hit. With online games, there are great data available through the Internet.	Online Offline

Scale: 5 = Best		
Radio	The available data typically aren't as strong as those for its traditional-media colleagues of TV and print, and this hampers radio.	3
Cinema	Movie advertising can be measured by the number of impressions delivered, much like outdoor or kiosk advertising would be measured.	3
Sponsored Events	Measurability depends on whether sponsorship is likely to spark short-term effect. A major recurring event like the Olympics is very measurable. Others can be difficult to measure short term. Measurement can be complex because events have so many pieces, including how the event is advertised, the PR buzz, signage, and the recollection of the event itself.	3
Product Placement	There are companies that measure quality of placement as well as the quantity of exposures. Treated much like TV advertising, with the caveat that not every product placement is the same. Fox's *American Idol* is a great example: AT&T Wireless's tie-in, which involves voting by text message, is interactive—even part of the entertainment—while the judges drinking from a Coke cup is not. (P.S. AT&T Wireless, now owned by Cingular, isn't an MMA client.) So the question becomes: How do you score the quality of placement?	3
Outdoor	Available data are limited due to the nature of outdoor advertising; there's no syndicated vendor that sells the needed data on outdoor. And outdoor lacks "variance"—the billboard is up *X* number of months and seen by an unchanging *X* number of people each day.	2
Guerrilla Marketing	Hard to measure if the variable you're using is sales. If 10,000 people at an event get free T-shirts, it's difficult to measure the effect on the 400,000 people living in that market. Because guerrilla can encompass so many different kinds of tactics, getting useful data can be a problem—it depends on how measurable the response is. Marketers' ROI expectations for guerrilla are lower than for other media, so the urgency to measure is less. Not to mention they spend a lot less on guerrilla than on traditional media like TV.	1

Build-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. As noted earlier, the promotional planning model shows the budget decision as an interactive process, with the communications objectives on one hand and the promotional-mix alternatives on the other. The idea is to budget so these promotional-mix strategies can be implemented to achieve the stated objectives.

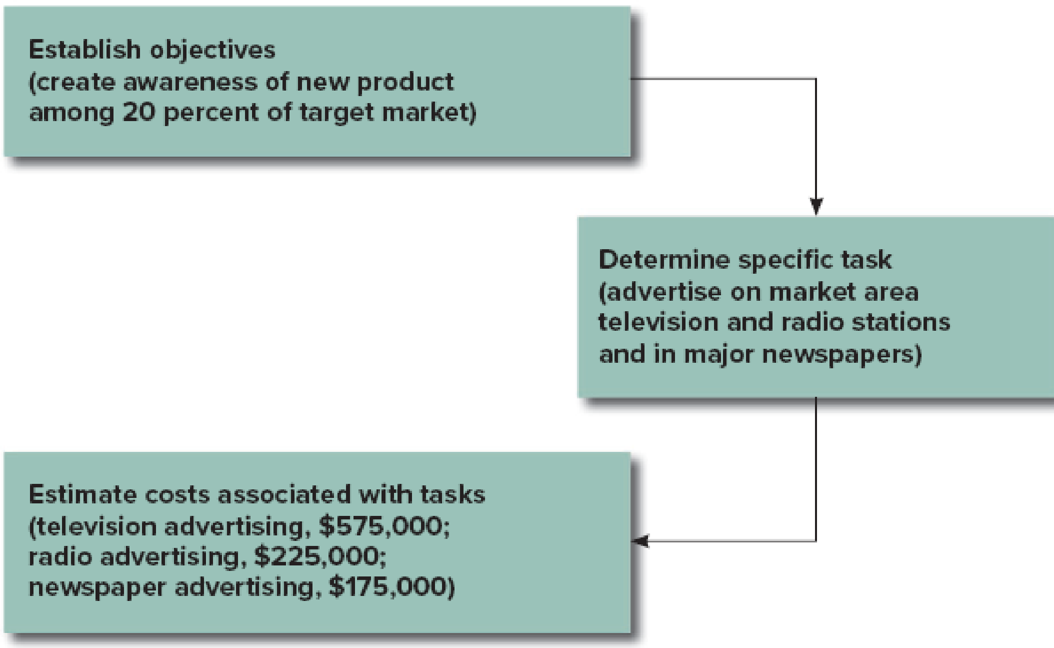
Objective and Task Method It is important that objective setting and budgeting go hand in hand rather than sequentially. It is difficult to establish a budget without specific objectives in mind, and setting objectives without regard to how much money is available makes no sense. For example, a company may wish to create awareness among *X* percent of its target market. A minimal budget amount will be required to accomplish this goal, and the firm must be willing to spend this amount.

The **objective and task method** of budget setting uses a **buildup approach** consisting of three steps: (1) defining the communications objectives to be accomplished, (2) determining the specific strategies and tasks needed to attain them, and (3) estimating the costs associated with performance of these strategies and tasks. The total budget is based on the accumulation of these costs.

Implementing the objective and task approach is somewhat more involved. The manager must monitor this process throughout and change strategies depending on how well objectives are attained. As shown in Figure 7–18, this process involves several steps:

IGURE 7–18

The Objective and Task Method



1. *Isolate objectives.* When the promotional planning model is presented, a company will have two sets of objectives to accomplish—the marketing objectives for the product and the communications objectives. After the former are established, the task involves determining what specific communications objectives will be designed to accomplish these goals. Communications objectives must be specific, attainable, and measurable, as well as time limited.
2. *Determine tasks required.* A number of elements are involved in the strategic plan designed to attain the objectives established. (These strategies constitute the remaining chapters in this text.) These tasks may include advertising in various media, sales promotions, and/or other elements of the promotional mix, each with its own role to perform.
3. *Estimate required expenditures.* Buildup analysis requires determining the estimated costs associated with the tasks developed in the previous step. For example, it involves costs for developing awareness through advertising, trial through sampling, and so forth.
4. *Monitor.* As you will see in Chapter 18 on measuring effectiveness, there are ways to determine how well one is attaining established objectives. Performance should be monitored and evaluated in light of the budget appropriated.
5. *Reevaluate objectives.* Once specific objectives have been attained, monies may be better spent on new goals. Thus, if one has achieved the level of consumer awareness sought, the budget should be altered to stress a higher-order objective such as evaluation or trial.

The major advantage of the objective and task method is that the budget is driven by the objectives to be attained. The managers closest to the marketing effort will have specific strategies and input into the budget-setting process.

The major disadvantage of this method is the difficulty of determining which tasks will be required and the costs associated with each. For example, specifically what tasks are needed to attain awareness among 50 percent of the target market? How much will it cost to perform these tasks? While these decisions are easier to determine for certain objectives—for instance, estimating the costs of sampling required to stimulate trial in a defined market area—it is not always possible to know exactly what is required and/or how much it will cost to complete the job. This process is easier if there is past experience to use as a guide, with either the existing product or a similar one in the same product category. But it is especially difficult for new product introductions. As a result, budget setting using this method is not as easy to perform or as stable as some of the methods discussed earlier. Given this disadvantage, many marketing managers have stayed with those top-down approaches for setting the total expenditure amount.

The objective and task method offers advantages over methods discussed earlier but is more difficult to implement when there is no track record for the product. The following section addresses the problem of budgeting for new product introductions.

Payout Planning The first months of a new product's introduction typically require heavier-than-normal advertising and promotion appropriations to stimulate higher levels of awareness and subsequent trial. After studying more than 40 years of Nielsen figures, James O. Peckham estimated that the average share of advertising-to-sales ratio necessary to launch a new product successfully is approximately 1.5:2.0.[31] This means that a new entry should be spending at approximately twice the desired market share, as shown in the two examples in Figure 7–19. For example, in the food industry, brand 101 gained a 12.6 percent market share by spending 34 percent of the total advertising dollars in this category. Likewise, brand 401 in the toiletry industry had a 30 percent share of advertising dollars to gain 19.5 percent of sales.

IGURE 7–19

Share of Advertising Sales Relationship (Two-Year Summary)

A. New Brands of Food Products

Brand	Average share of advertising	Attained share of sales	Ratio of share of advertising to share of sales
101	34%	12.6%	2.7
102	16	10.0	1.6
103	8	7.6	1.1
104	4	2.6	1.5
105	3	2.1	1.4

B. New Brands of Toiletry Products

Brand	Average share of advertising	Attained share of sales	Ratio of share of advertising to share of sales
401	30%	19.5%	1.5
402	25	16.5	1.5
403	20	16.2	1.2
404	12	9.4	1.3
405	16	8.7	1.8
406	19	7.3	2.6
407	14	7.2	1.9
408	10	6.0	1.7
409	7	6.0	1.2
410	6	5.9	1.0
411	10	5.9	1.7
412	6	5.2	1.2

To determine how much to spend, marketers often develop a **payout plan** that determines the investment value of the advertising and promotion appropriation. The basic idea is to project the revenues the product will generate, as well as the costs it will incur, over two to three years. Based on an expected rate of return, the payout plan will assist in determining how much advertising and promotions expenditure will be necessary and when the return might be expected. A three-year payout plan is shown in Figure 7–20. The product would lose money in year 1, almost break even in year 2, and finally begin to show substantial profits by the end of year 3.

IGURE 7–20

Ξxample of Three-Year Payout Plan ($ millions)

	Year 1	Year 2	Year 3
Product sales	15.0	35.50	60.75
Profit contribution (@ $0.50/case)	7.5	17.75	30.38
Advertising/promotions	15.0	10.50	8.50
Profit (loss)	(7.5)	7.25	21.88
Cumulative profit (loss)	(7.5)	(0.25)	21.63

The advertising and promotion figures are highest in year 1 and decline in years 2 and 3. This appropriation is consistent with Peckham's findings and reflects the additional outlays needed to make as rapid an impact as possible. (Keep in mind that shelf space is limited, and store owners are not likely to wait around for a product to become successful.) The budget also reflects the firm's guidelines for new product expenditures, since companies generally have established deadlines by which the product must begin to show a profit. Finally, keep in mind that building market share may be more difficult than maintaining it—thus the substantial dropoff in expenditures in later years.

While the payout plan is not always perfect, it does guide the manager in establishing the budget. When used in conjunction with the objective and task method, it provides a much more logical approach to budget setting than do the top-down approaches previously discussed. Yet on the basis of the studies reported on earlier, payout planning does not seem to be a widely employed method.

Quantitative Models Attempts to apply *quantitative models* to budgeting have met with limited success. For the most part, these methods employ **computer simulation models** involving statistical techniques such as multiple regression analysis to determine the relative contribution of the advertising budget to sales. Because of problems associated with these methods, their acceptance has been limited, and quantitative models have yet to reach their potential. As requirements for accountability continue to increase, more sophisticated models may be forthcoming. Specific discussion of these models is beyond the scope of this text, however. Such methods do have merit but may need more refinement before achieving widespread success.

Summary of Budgeting Methods There is no universally accepted method of setting a budget figure. Weaknesses in each method may make it unfeasible or inappropriate. As earlier studies have shown, the use of the objective and task method continues to stay high, whereas less sophisticated methods vary in their rates of adoption. More advertisers are also employing the payout planning approach.

In a study of how managers make decisions regarding advertising and promotion budgeting decisions, George Low and Jakki Mohr interviewed 21 managers in eight consumer-product firms. Their research focused on the decision processes and procedures used to set spending levels on the factors that influence the allocation of advertising and promotion dollars.

On the basis of their results (shown in Figure 7–21), the authors concluded that the budget-setting process is still a perplexing issue to many managers and that institutional pressures led to a greater proportion of dollars being spent on sales promotions than managers would have preferred. In addition, the authors concluded that to successfully develop and implement the budget, managers must (1) employ a comprehensive strategy to guide the process, avoiding the piecemeal approach often employed, (2) develop a strategic planning framework that employs an integrated marketing communications philosophy, (3) build in contingency plans, (4) focus on long-term objectives, and (5) consistently evaluate the effectiveness of programs.[32]

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IGURE 7–21

How Advertising and Promotions Budgets Are Set

The Nature of the Decision Process

- Managers develop overall marketing objectives for the brand.
- Financial projections are made on the basis of the objectives and forecasts.
- Advertising and promotions budgets are set on the basis of quantitative models and managerial judgment.
- The budget is presented to senior management, which approves and adjusts the budgets.

- The plan is implemented (changes are often made during implementation).
- The plan is evaluated by comparing the achieved results with objectives.

Factors Affecting Budget Allocations

- The extent to which risk taking is encouraged and/or tolerated.
- Sophistication regarding the use of marketing information.
- Managerial judgment.
- Use of quantitative tools.
- Brand differentiation strategies.
- Brand equity.
- The strength of the creative message.
- Retailer power.
- Short- versus long-term focus.
- Top-down influences.
- Political sales force influences.
- Historical inertia.
- Ad hoc changes.

By using these approaches in combination with the percentage-of-sales methods, these advertisers are likely to arrive at a more useful, accurate budget. For example, many firms now start the budgeting process by establishing the objectives they need to accomplish and then limit the budget by applying a percentage-of-sales or another method to decide whether or not it is affordable. Competitors' budgets may also influence this decision.

Allocating the 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.

Allocating to IMC Elements As shown in Digital and Social Perspective 7–2, many advertisers are shifting some of their budget dollars away from traditional advertising media and into digital and social media. Numerous industry studies have shown shows that most traditional media advertisers expect to decrease their expenditures in these media into the future as well.

Some marketers have also used the allocation decision to stretch their advertising dollar and get more impact from the same amount of money. Companies have taken a number of steps, including consolidating and cutting division expenditures, reducing agency fees, producing fewer campaigns, and relying more on targeted media.

Client–Agency Policies Another factor that may influence budget allocation is the individual policy of the company or the advertising agency. The agency may discourage the allocation of monies to sales promotion, preferring to spend them on the advertising area. The agency may take the position that these monies are harder to track in terms of effectiveness and may be used improperly if not under its control. (In many cases commissions are not made on this area, and this fact may contribute to the agency's reluctance.)

The orientation of the agency or the firm may also directly influence where monies are spent. Many ad agencies are managed by officers who have ascended through the creative ranks and are inclined to emphasize the creative budget. Others may have preferences for specific media. For example, some agencies position themselves as experts in nontraditional media and often spend more client money in this medium. Both the agency and the client may favor certain aspects of the promotional program, perhaps on the basis of past successes, that will substantially influence where dollars are spent.

Market Size While the budget should be allocated according to the specific promotional tools needed to accomplish the stated objectives, the *size* of the market will affect the decision. In smaller markets, it is often easier and less expensive to reach the target market. Too much of an expenditure in these markets will lead to saturation and a lack of effective spending. In larger markets, the target group may be more dispersed and thus more expensive to reach. Think about the cost of purchasing media in Chicago or New York City versus a smaller market like Columbus, Ohio, or Birmingham, Alabama. The former would be much more costly and would require a higher budget appropriation.

Market Potential For a variety of reasons, some markets hold more potential than others. Marketers of snow skis would find greater returns on their expenditures in Denver, Colorado, than in Fort Lauderdale, Florida. Imported Mexican beers sell better in the border states (Texas, Arizona, California) than in the Midwest. A disproportionate number of imported cars are sold in California and New England. When particular markets hold higher potential, the marketing manager may decide to allocate additional monies to them. (Keep in mind that just because a market does not have high sales does not mean it should be ignored. The key is *potential*—and a market with low sales but high potential may be a candidate for additional appropriations.)

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Digital and Social IMC Perspective 7-2 > > >

As Digital Gains in Popularity, Budget Allocations Change

Marketers have for some time been aware that the media environment has changed and that the younger generations are much less engaged with traditional media like television, newspapers, and magazines. These younger segments—particularly millennials—live in a digital world. What marketers may not have been aware of is how quickly and how significantly this change has been. The change has led to a whole new world of strategy development.

For the first time ever, predictions are that by 2019 digital ad spending will surpass that of TV—a “major milestone” in both the media and budgeting environments. *eMarketer* predicts that in 2019 digital’s share of total advertising expenditures will account for 54.2 percent of total advertising expenditures, reaching 130 billion and surpassing that of television, which will account for 46.8 percent, or $110 billion. By 2023 it is predicted that TV will account for less than one-third of the total expenditures.

Does this mean the end for television? Not quite. While expenditures in television may be losing share relative to the growth of digital, it is still expected to grow over the long term at a rate of 2 percent a year. What it does mean is that advertisers expect to achieve greater returns from digital and are moving their monies to these media.

This movement is partly a result of the fascination with mobile. *eMarketer* forecasts that mobile ad expenditures will exceed all traditional media by 2020, reaching an estimated $141.36 billion by 2022—double that of TV! Hershey now spends about $500 million a year, about 20 percent of which goes to digital and 40 percent to mobile. So digital is king of media spending, but mobile is clearly the king of the digital world. Marketers have also indicated they will continue to increase investments in other areas as well, with an increased emphasis on data-driven marketing spending, e-mail, website enhancements, and social media. A survey of marketing executives indicates that the majority of them planned to increase their expenditures on Facebook, YouTube, and Twitter.

One of the companies making the switch is the traditional chocolate company Hershey. Established in 1894, Hershey never advertised but continued to grow successfully. Sales took a big leap forward after Hershey bars became “Ration D” as part of the food kits provided to U.S. soldiers in World War II. When the soldiers returned, their brand loyalty to Hershey came with them. It wasn’t until 1970 that the company deemed it necessary to start advertising, with the initial ad in a Sunday newspaper supplement. The brand, which includes Hershey, Reese’s, and Jolly Rancher, now spends about $500 million per year, with 20 percent of the overall ad budget going to digital. Forty percent of this would go to mobile. The balance would continue to go to traditional media, as the company still believes in the “exceptional reach of traditional TV,” according to Hershey president for North America Michelle Buck. Digital expenditures are expected to give the brands incremental reach, according to Buck, while increasing behavioral targeting opportunities.

Source: The Hershey Company

So as more and more advertisers move their monies to digital, are they doing the right thing? According to Nathalie Tadena, writing in the *Wall Street Journal,* they may not be. Tadena cites a Forrester Research study that indicated that almost half of marketers plan to boost their investments in digital channels, despite the fact that a full 43 percent are still experimenting with digital and are not sure if it works. Less than half said that their marketing teams were "extremely successful" in developing and executing digital ad programs, and that they were more tactical than strategic.

So why the mad rush to digital? That's a very good question.

Sources: Hamza Shaban, "Digital Advertising to Surpass Print and TV for the First Time, Report Says," www.washingtonpost.com, February 20, 2019; Robert Williams, "eMarketer: Mobile Ad Spend Set to Trump All Traditional Media by 2020," www.mobilemarketer.com, October 19, 2018; "Hershey Ad Spend 2018," www.statistica.com, March 2018. Nathalie Tadena, "Marketers' Digital Rush Continues, Despite Questions about What Works," www.blogs.wsj.com, April 7, 2015.

Market Share Goals Two studies in the *Harvard Business Review* discussed advertising spending with the goal of maintaining and increasing market share.[33] John Jones compared the brand's share of market with its share of advertising voice (the total value of the main media exposure in the product category). Jones classified the brands as "profit taking brands, or underspenders" and "investment brands, those whose share of voice is clearly above their share of market." His study indicated that for those brands with small market shares, profit takers are in the minority; however, as the brands increase their market share, nearly three out of five have a proportionately smaller share of voice.

Jones noted that three factors can be cited to explain this change. First, new brands generally receive higher-than-average advertising support. Second, older, more mature brands are often "milked"—that is, when they reach the maturity stage, advertising support is reduced. Third, there's an advertising economy of scale whereby advertising works harder for well-established brands, so a lower expenditure is required. Jones concluded that for larger brands, it may be possible to reduce advertising expenditures and still maintain market share. Smaller brands, on the other hand, have to continue to maintain a large share of voice (SOV).

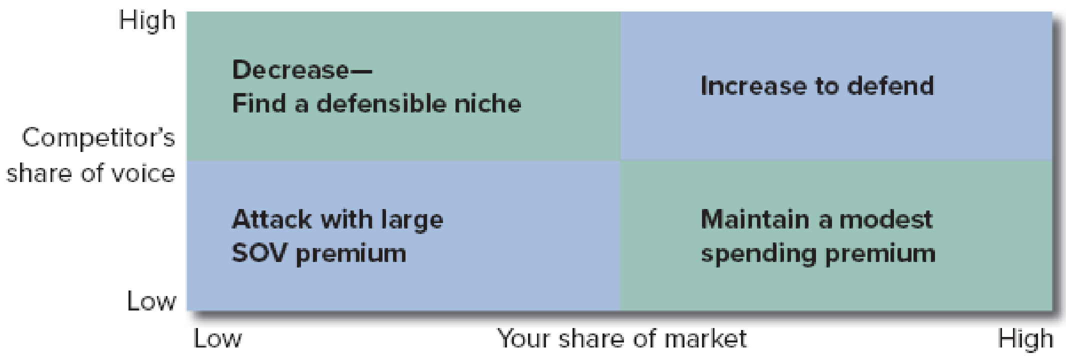
James Schroer addressed the advertising budget in a situation where the marketer wishes to increase market share. His analysis suggests that marketers should:

- Segment markets, focusing on those markets where competition is weak and/or underspending instead on a national advertising effort.
- Determine their competitors' cost positions (how long the competition can continue to spend at the current or increased rate).
- Resist the lure of short-term profits that result from ad budget cuts.
- Consider niching strategies as opposed to long-term wars.

Figure 7–22 shows Schroer's suggestions for spending priorities in various markets.

IGURE 7–22

The Share of Voice (SOV) Effect and Ad Spending: Priorities in Individual Markets



Economies of Scale in Advertising Some studies have presented evidence that firms and/or brands maintaining a large share of the market have an advantage over smaller competitors and thus can spend less money on advertising and realize a better return.[34] Larger advertisers can maintain advertising shares that are smaller than their market shares because they get better advertising rates, have declining average costs of production, and accrue the advantages of advertising several products jointly. In addition, they are likely to enjoy more favorable time and space positions, cooperation of middle people, and favorable publicity. These advantages are known as **economies of scale**.

Reviewing the studies in support of this position and then conducting research over a variety of small package products, Kent Lancaster found that this situation did not hold true and that in fact larger brand share products might actually be at a disadvantage.[35] His results indicated that leading brands spend an average of 2.5 percentage points more than their brand share on advertising. More specifically, his study concluded:

1. There is no evidence that larger firms can support their brands with lower relative advertising costs than can smaller firms.
2. There is no evidence that the leading brand in a product group enjoys lower advertising costs per sales dollar than do other brands.
3. There is no evidence of a static relationship between advertising costs per dollar of sales and the size of the advertiser.

The results of this and other studies suggest there really are no economies of scale to be accrued from the size of the firm or the market share of the brand.[36]

Organizational Characteristics In a review of the literature on how allocation decisions are made between advertising and sales promotion, George Low and Jakki Mohr concluded that organizational factors play an important role in determining how communications dollars are spent.[37] The authors note that the following factors influence the allocation decision. These factors vary from one organization to another, and each influences the relative amounts assigned to advertising and promotion:

- The organization's structure—centralized versus decentralized, formalization, and complexity.
- Power and politics in the organizational hierarchy.
- The use of expert opinions (for example, consultants).
- Characteristics of the decision maker (preferences and experience).
- Approval and negotiation channels.
- Pressure on senior managers to arrive at the optimal budget.

One example of how these factors might influence allocations relates to the level of interaction between marketing and other functional departments, such as accounting and operations. The authors note that the relative importance of advertising versus sales promotion might vary from department to department. Accountants, being dollars-and-cents minded, would argue for the sales impact of promotions, while operations would argue against sales promotions because the sudden surges in demand that might result would throw off production schedules. The marketing department might be influenced by the thinking of either of these groups in making its decision.

The use of outside consultants to provide expert opinions might also affect the allocation decision. Trade journals, academic journals, and even books might also be valuable inputs into the decision maker's thinking. In sum, it seems obvious that many factors must be taken into account in the budget allocation decision. Market size and potential, specific objectives sought, and previous company and/or agency policies and preferences all influence this decision.

Summary

This chapter has examined the role of objectives in the planning and evaluation of the IMC program and how firms budget in an attempt to achieve these objectives. Specific objectives are needed to guide the development of the promotional program, as well as to provide a benchmark against which performance can be measured and evaluated. Objectives serve important functions as communications devices, as a guide to planning the IMC program and deciding on various alternatives, and for measurement and evaluation.

Objectives for IMC evolve from the organization's overall marketing plan and are based on the roles various promotional-mix elements play in the marketing program. Many managers use sales or a related measure such as market share as the basis for setting objectives. However, many promotional planners believe the role of advertising and other promotional-mix elements is to communicate because of the various problems associated with sales-based objectives. They use communications-based objectives like those in the response hierarchy as the basis for setting goals.

Much of the emphasis in setting objectives has been on traditional advertising-based views of marketing communications. However, many companies are moving toward zero-based communications planning, which focuses on what tasks need to be done, which marketing communications functions should be used, and to what extent. Many of the principles used in setting advertising objectives can be applied to other elements in the promotional mix.

As you have probably concluded, the budget decision is not typically based on supporting experiences or strong theoretical foundations. Nor is it one of the more soundly established elements of the promotional program. The budgeting methods used now have some major problems. Economic models are limited, often try to demonstrate the effects on sales directly, and ignore other elements of the marketing mix. Some of the methods discussed have no theoretical basis and ignore the roles advertising and promotion are meant to perform.

One possible way to improve the budget appropriation is to tie the measures of effectiveness to communications objectives rather than to the broader-based marketing objectives. Using the objective and task approach with communications objectives may not be the ultimate solution to the budgeting problem, but it is an improvement over the top-down methods. Marketers often find it advantageous to employ a combination of methods.

As with determining the budget, managers must consider a number of factors when allocating advertising and promotions dollars. Market size and potential, agency policies, and the preferences of management itself may influence the allocation decision.

Key Terms

marketing objectives 216
integrated marketing communications objectives 217
carryover effect 219
DAGMAR 223
communications task 223
benchmark measures 226
zero-based communications planning 229
contribution margin 233
marginal analysis 233
concave-downward function model 235
S-shaped response curve 235

top-down approaches 237
affordable method 237
arbitrary allocation 238
percentage-of-sales method 238
clipping service 242
competitive parity method 242
ROI budgeting method 243
objective and task method 245
buildup approach 245
payout plan 246
computer simulation models 247
economies of scale 251

Discussion Questions

1. The chapter lead-in discusses the state of some companies that have been around for seemingly forever. Kraft Heinz, J.C. Penney and Kmart are all experiencing difficulties right now. Discuss some of the mistakes companies like Kraft Heinz have made in budgeting and what they might do to turn their lost sales around. (LO 7-4)

2. Some very successful companies have gained sales and market share by increasing their advertising budgets during a recession. Explain why this could be a successful strategy. (LO 7-7)

3. As more and more advertising dollars move to digital media, traditional media are losing revenue. Will traditional media no longer exist in the future? (LO 7-5)

4. Discuss an example of how a company's media strategy might change as they progress through a hierarchy of effects model (funnel). Choose any model you wish to use. (LO 7-4)

5. Explain why it is so difficult to use sales as an indicator of advertising effectiveness and why communications objectives may work better. (LO 7-3).

6. Explain some of the factors that might lead to success in increasing sales and achieving communications when competitors decrease their budgets. (LO 7-7)

7. Discuss why some marketers consider the allocation of media dollars to digital and social media at the expense of traditional media to be a "knee jerk reaction"—that is, a reaction without much forethought. (LO 7-5)

8. Why are the affordable and arbitrary allocation budgeting methods considered to be very poor budgeting methods? (LO 7-5)

9. Explain why communications measures may be better to use than sales or market share objectives when developing the IMC plan. (LO 7-1)

10. Explain the S-shaped response curve and the concave-downward curve as they relate to budget setting. What are the differences in these two curves? Give examples of how each might be more appropriate for different products. (LO 7-6)

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- Connect exercises, which may include: click-drags, video cases, and case analyses.

8 Creative Strategy: Planning and Development

Source: Geico

Learning Objectives

LO 8-1 | Describe the role of creative strategy in advertising.