

**CHAPTER 4: Advertising Budget**

**Lesson 14: Budget Decision**

**Learning Objectives**

- You will understand via this lesson the different ways of setting the advertising budget.
- The case study focuses on the need of advertising budget in times of economy downturn.



There are various methods of deciding on advertising budget. This decision will be largely influenced by the objective that we set for the campaign. For example if there is a new product launch then the advertising campaign will have to be high where as for launching a repeat campaign one would like to spend less. The most commonly used advertising budgeting method include

1. **Percentage of Sales Volume:** The percentage is worked out on the basis of a firm's historical budget, industry norms or on the basis of the prevailing market conditions. If the market has started an upward trend then one percent extra amount will be put for advertising budget. Following this method without considering market conditions may create problem. If the firm's market share is in a downward trend then the firm may decide to increase the advertising budget. If the product is in the disinvestments stage, then disinvestment may be an option. In such a case only marginal advertising budget is sufficient to clear the stock. If the firm realizes that at the decline stage the competitors are moving out then the firm can decide to take the leadership position through aggressive advertising.

2. **Unit of Sale Method:** Consumer durable firms make use of this method as a variant on sales percentage. While it mostly works out same as a sales percentage, here the firm puts an amount of advertising expenses on the unit as add on.

3. **Competitive Parity Method:** the firm must carefully study Competitive information regarding their sales, distribution pattern and advertising. It will provide the correlation between the competitive sales and advertising effort. Depending on the firm's strategy of increasing market share or steadying the share, decision can be made to have a bigger or smaller budget than competition. Instead of reacting to competitor advertising results, firms can be proactive in their approach by planning their own goals of marketing and then the advertising budget will emerge.

4. **Historical Method:** In this method last year's advertising budget is adopted for the year with a view that practically no change has taken place in the market and market growth is slow, which does not justify any addition to the budget. Last year's budget could be multiplied by a factor to cover media rate increase.

5. **Affordability Method:** Some firms believe that advertising is tactical and not strategic and hence does not need much attention. These kinds of firms follow a method of

affordability and spend what is left after managing the details of the official expenses involved in paying to the factors of production.

6. **Total Group Budget:** In case of multi location and multi product line firms , a total amount is decided as advertising and each strategic business unit receives a share according to their needs. This method helps the group to segregate some amount for corporate group advertising for building the image of the organization.

7. **Percentage of Anticipated Turnover:** This method is useful in dynamic markets and budget can be fixed on the estimated demand pattern than the current year sales.

8. **Elasticity Method:** This method takes in to account the seasonality of business and the periodicity in the purchase cycle of consumers in to consideration. This method takes in to consideration the demand and supply situation and is more used in industrial products.

9. **Operational Modeling:** Market research gives advertising expenses, market response and sales per advertising figures and the modeling is done to explain the budget.

10. **Composite Method:** This method takes in to consideration several factors in formulating the advertising budget which include indices like firm's past sales, future sales projection, production capacity, market environment, sales problems, efficiency level of sales personnel, seasonality of the market, regional considerations, changing media scenario and changing media impact on the target market segment, market trends and results of advertising and marketing.

11. **Objective and Task Method:** Marketing people follow this method more often as this is a scientific method where the advertising goals are explicitly stated and the cost to achieve the target is also spelt out. Taking each activity like increasing geographic sales area, increasing market awareness by a certain percentage over the figure obtained from the brand tracking study, they add up the amounts needed for each activity. We can illustrate the process as below:

1. **Establish the Market Share goal:** lets say the company estimates 50 million potential users and sets a target of attracting 8 percent of the market i.e. four million users.

2. **Determine the percentage of the market that should be reached by advertising:** The advertiser hopes to reach 80% (40 million prospects) with the advertising budget.

3. **Determine the percentage of aware prospects that should be persuaded to try the brand:** The advertiser would be pleased if 25 per cent of aware prospects (10 million) tried the brand. This is because it estimates that 40% of all triers or 4 million people would become loyal users. This is called the *Market Goal*.

4. **Determine the number of advertising impressions per 1 per cent of trial rate:** the advertiser estimates that 40 advertising impressions (exposures) for every 1 per cent population would bring about a 25% trail rate.

5. **Determine the number of Gross Rating Points that would have to be purchased:** A Gross rating Point is one exposure to 1 per cent of the target population. Because the company wants to achieve 40 exposures to 80% of the population, it will want to buy 3,200 gross rating points

6. **Determine the necessary advertising budget on the basis of average cost of buying a gross rating point.** To expose 1 per cent of the target population to one impressions costs an average of Rs. 3277/-. Therefore, 3,200 gross rating point s would cost Rs. 10,486,400 in the introductory year.

## Case Study

*Imagine this:* You are flying at 30,000 feet. The captain announces that a huge storm is approaching. He then informs you that he is running low on fuel. If he lowers the speed

to conserve fuel, the storm may overpower the plane and take it off its course. He may then not have enough fuel to find his way back to reach the destination. If he increases speed to surge through the clouds, he runs the risk of exhausting his fuel faster. Now he gives you the option of lowering the speed to conserve fuel or to go full throttle to surge through the clouds.

### **What would you choose?**

Supporting a brand through an economic downturn is much like a plane caught in a storm with low fuel. Of course, one has the option of conserving the juice. However, after the saving, whether the brand will be able to recover from the effects of a nosedive or not is a million-dollar question. Nobody has seen the future, but we have the option of looking back. Time and again, advertising professionals have tried to prove that advertising in times of recession has helped brands in the long run. The Harvard Business Review covered 200 US companies during the recession of 1923-25. During the period of post-recession recovery, companies that spent more money on marketing expenses achieved higher sales. This study was not accepted by most because it did not record the profit indicators.

In 1999, PIMS (Profit Impact of Marketing Strategy) conducted a special analysis of 183 UK-based companies in periods of recession and recovery. Of that lot, 110 cut ad spends, 53 chose to maintain at the same level and 20 increased expenditure. During the period of recession, the ones that spent more made the least profits. However, during the period of recovery, the scroungers saw their profit grow by 0.8 per cent, whereas the spenders saw a hefty 4.3 per cent points growth. This more than made up for the lower profits during the period of recession. As for market share, the cost-cutters saw 0.6 per cent point growth as against a hefty 1.7 per cent appreciation for the spenders, during the recovery period.

The study most conclusively proved that the good costs that one should focus on during recession are:

\* Marketing communication | Product quality enhancement

\* New product development Whereas the bad costs that should be curbed during recession are:

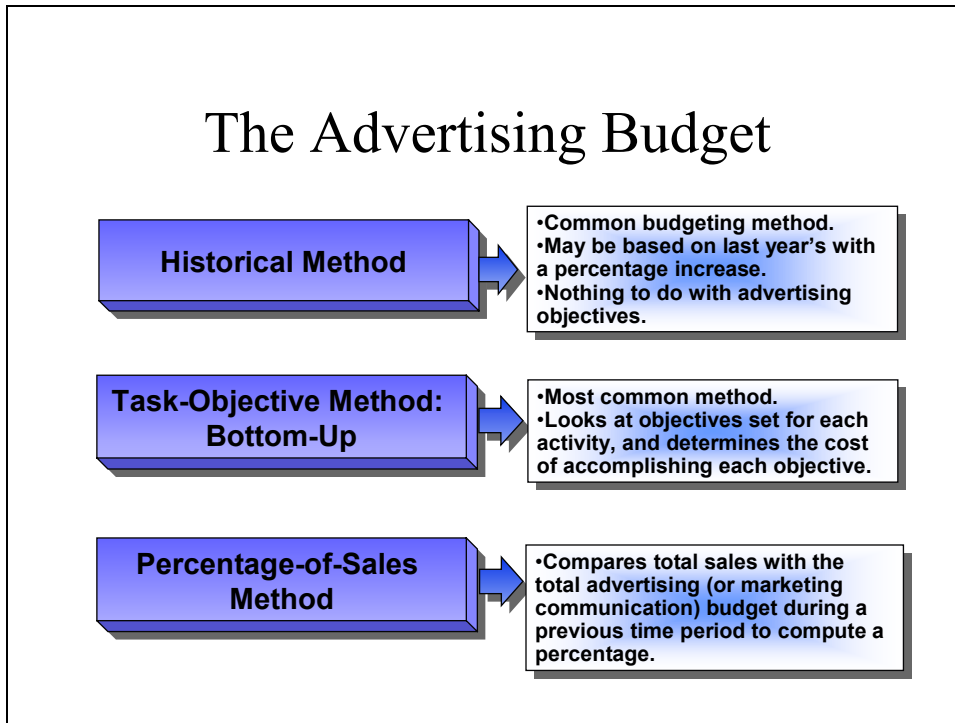
- \* Manufacturing overheads
- \* Administrative overheads
- \* Fixed capital
- \* Working capital

If these are effectively cut, there should be enough money to spend on the good costs. Such examples supporting advertising spends during recession are quite common in the annals of marketing history. Closer home, there are enough examples from countries that faced the Asian meltdown. Here, brands that spent maintained their leadership position and, in some cases, surged ahead of the competition.

Some recent analyses during our current phase of economic slowdown throw up interesting facts in support of advertising. In the sub-popular soap category, Breeze has upped its Gross Rating Points (GRP) by 47 per cent over the year 2000 to achieve a 20 per cent value growth in sales. As against that, Lux has maintained its GRPs to see some decline in sales value. Similarly, in the category of hair dyes, Godrej—the market leader—has grown by more than 20 per cent in value by increasing GRPs by a comparative amount. These are some indicators that hard times have not dampened the desire to look good and feel good. As a matter of fact, there is an indication that despite recession, businesses such as mortgage, insurance, snack foods, home furnishings and house wares, to name a few, continue to do well. Perhaps, investing, feeling safe and feeling good are the more basic needs during a phase when people are generally feeling depressed?

While on one hand periods of economic slowdown are a good time for established players because consumers don't want to take chances, it's also true that during such uncertain times there is a tendency to trade-down. Therefore, recession is also a great opportunity for challenger brands that spend heavily to communicate brand values that lead to a churn. One such example in recent times is Akai TV from Baron. At a point

when the color TV business was growing annually at the rate of eight per cent (value) and the total advertising outlay for all brands put together was Rs 830 million, Akai came up with a proposition for upgrading from black-and-white TVs on one hand and moving from 21" to 29" TVs on the other; all this at never-before, attractive prices. Akai achieved some dramatic results in terms of market shares with an aggressive advertising budget that supported a hefty 16 per cent share-of-voice (SOV). Akai reached a 13 per cent market share in less than two years. What really happened as a result of this brave and defiant move from Baron was that the color TV market saw a growth of 18 per cent and, in the following year, the category grew three-folds.



# The Advertising Budget

## Competitive Methods

- Relates the amount invested in advertising to the product's share of market.
- Must understand share-of-mind.

## All You Can Afford Method

- Allocates whatever is left over to advertising.
- Companies who use this don't value advertising very much.

## Budgeting Decisions

Budgeting decisions involve determining how much money will be spent on advertising and promotion each year and how the monies will be allocated

### Two major decisions

- Establishing the size of the budget
- Allocating the budget

**“Quote-Unquote what few stalwarts have to say about Commission.”**

- **"Experience has taught me that advertisers get the best results when they pay their agency a flat fee. . . . It is unrealistic to expect your agency to be impartial when its vested interest lies wholly in the direction of increasing your commissionable advertising."**

- David Ogilvy, Confessions of an Advertising Man, 1971, New York:  
Ballantine Books, p. 71.

- 
- 
- 
- 
- 

- **"Make sure that your agency makes a profit. Your account competes with all the other accounts in your agency. If it is unprofitable, it is unlikely that the management of the agency will assign their best men to work on it. And sooner or later they will cast about for a profitable account to replace yours."**

- David Ogilvy, Confessions of an Advertising Man, 1971, New York:  
Ballantine Books, p. 71.