

The Marketing Budget

Specification requirement— The Marketing Budget

A budget is a financial plan of action, so it follows that a marketing budget is a plan setting out future expenditure on the firms marketing activities. As with all types of budgets, when a marketing budget is set it must be clear what the expenditure is meant to achieve. For example the size of the marketing budget could be determined by the objectives of the marketing plan such as maintaining market share or launching a new product.

Setting the Marketing Budget

There are a number of factors that can determine the size of a firms marketing budget. The greatest determinant of course is availability of finance, big firms will spend more than small firms, there is no way that a local house builder will have the same marketing spend as Barretts, but beyond the finance factor there are consistent inputs into what determines any individual firms spend. The criteria that firms use to set a marketing budget include :

Actual objectives of marketing plan - what is the company trying to achieve? For example is the aim to establish a brand, launch a new product, or take market share. All of these need to be considered.

Competitors spending on marketing - what are the activities of competitors? High advertising spend by competitors will probably

force an equal response, otherwise market share will be lost. On the other hand if expenditure on advertising by competitors is falling, there may be an opportunity to grab a larger proportion of the market - so advertising expenditure need not mirror that of competitors.

An advertising / sales ratio. - an advertising budget may be set in relation to sales. For example advertising spend may be set at 5% of sales. If sales are reasonably stable and predictable, this method will give the marketing department the opportunity of planning ahead, after all they will know what their budget is likely to be. But it does have disadvantages. First of all it does not allow for action of competitors. How will a sudden advertising campaign by a rival firm be matched? In other words this method lacks flexibility. Also an advertising / sales ratio may encourage spending to the limit when this level of expenditure is not needed, this overspend may also lead to effective marketing being hidden amongst all the ineffective marketing.

Advertising Elasticity of demand - The responsiveness of demand to the amount spent on advertising is all-important to the producers of many every day products. The success of many soap powder brands is dependent on continued heavy advertising. The more elastic Advertising Elasticity of Demand, the more worthwhile increasing advertising spend.

Measuring the effectiveness of market spending.

One of the problems with setting marketing budgets, and which makes marketing budgets different from most other budgets, is the uncertainty over what is achieved by advertising spending. It might be easy for a firm to judge the increased output levels that come from investment in new equipment, but it is much more difficult to measure which part of the marketing mix is responsible when sales or market share increase.

It was once said by a leading American industrialist,

"I know that 50% of the money I spend on advertising works, I just wish I knew which 50%".

This sets out the problem of measuring the effectiveness of marketing clearly:

'How do firms know if their advertising works? And if it has worked which part of the marketing mix worked best?'

These might seem like easy questions to answer, but there are so many factors influencing overall demand patterns and demand for individual products, that judging the success of a particular advert or advertising campaign is often difficult.

Demand for a product may have increased because of increased disposable income or because of changes in fashion or even a crisis suffered by a competitor, and not because of some witty advert.

But even with the existence of these problems, there are methods of judging the success of marketing campaigns and therefore

also judging whether the firm's marketing budget has achieved its objectives.

These methods include:

Increase in sales or market share.

If a marketing campaign is followed by an increase in either sales or market share we can say that it has had some effect. But we also need to judge whether the effect is the same or as great as that desired. Did a 100% increase in advertising spend generate the level of sales required? If it did not, it does not mean the campaign failed, after all economic conditions could have changed during the campaign, competitors might have responded aggressively. Maybe given the adverse conditions that developed, the result though not what was originally planned, was as good as could be hoped for in the changed circumstances.

Increase in Brand Awareness.

This is best judged by consumer surveys, often asking members of the public detailed questions about advertising campaigns, to gauge the public response. I was once interviewed by a market researcher trying to judge my reaction to a recent long running TV advertising campaign. I was shown a series of stills from the TV ads., copies of posters, slogans etc. I answered all the questions honestly, but as the interview progressed I realised that though I could remember the campaign was promoting a credit card in a very funny way, I could not remember which credit card. The campaign had not succeeded with this member of the public!

Use of Focus Groups.

These are small groups, perhaps 10 or 15 strong, which are made up of members of the public. The focus group members are normally

consumers or potential consumers of the product or service being researched.

These focus groups are used by market research companies in an ongoing manner. The members of focus groups can be regularly questioned on everything from politics to corn flakes. Because these groups are chosen to reflect target markets, the opinions they express are often taken very seriously by decision makers.

Questioning of focus groups before and after campaigns can be an effective way of judging levels of success of campaigns and perhaps more importantly, which aspects of the campaign achieved the desired objectives and which failed to do so.

Notes.