



[Academic Script]

Advertising Budget

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1. Introduction

Some people think that money spent on advertising is expenditure. Some consider it a waste of money. Some are of the opinion that we spend money on advertising because our competitors spend a lot of money on it. They consider advertising as an evil. Here we do not intend to discuss the benefits of advertising and its necessity for business growth and survival. Nowadays, money spent on advertising is treated as a long term investment in the image of a brand. Planned advertising expenditure is required to build a consumer franchise for the advertised brand, apart from it being of direct return. That is why every business enterprise spends a lot of money on advertising campaign every year out of its budget provisions.

After completion of this lesson you will be able to understand :

Advertising Budget

Steps involved in preparing an Advertising Budget

Methods of Framing the Advertising Budget

Approaches to Advertising Budget

2. Meaning of Advertising Budget

Advertising budget is an estimation of total expenses that are to be incurred on advertising during a given period of time. The advertising budget includes items of expenditure relating to advertising programmes, cost of space, advertising material (including advertising copy) production expenses, media expenses, agency commission and advertising research etc. In the most elementary form, it states the proposed advertising expenditure and informs and suggests the company management of the anticipated cost of executing the advertising

plan. It is the translation of advertising plan into money. The advertising budget must be realistic, flexible and adequate for the advertising programmes. The advertising budget must consider the advertising goals and the size must relate to advertising needs. It should be tailored to suit the needs of the business enterprises. An advertising budget will show also how much, where and for what purposes the amount provided in the budget is to be spent. The amount provided in the advertising budget is not fixed arbitrarily but is determined on scientific lines keeping in view the nature of the product, size of the market to be covered by the enterprise, types of consumers and the strategy of the competitors etc. it is a plan for the company's future advertising plan. It provides a programme of the best assortment of types of advertising to be undertaken along with its time table and frequency. In addition to planning function, the advertising budget also serves as a control of advertising expenditure.

3. Process of Advertising Budget

Advertising budget is prepared by the advertising manager of the company. The advertising budget process includes the following major steps:

1. Collection of Data and Preparation of Advertising Budget:

The starting point of any advertising budget process is the determination of the size of advertising appropriation. The requisite information keeping in view with the products, packaging, target markets, advertising copy, new product introductions, types of consumers, extent of competition along with the competitors' strategy, media selection etc. is gathered.

Having decided upon the above variables, the advertising manager takes a decision on the very important issue „how much to spend“ for advertising. Once the total expenditure is arrived at, the next step is the apportionment of this fund among various advertising units over a period. By advertising unit, we mean a specific advertisement delivered through various media vehicles. The fund allocation has to take into account the market potential within various segments, the time period and the geographical areas over which advertising will be spread in accordance with the overall advertising strategy.

2. Presentation and Approval of the Budget:

After the preparation of advertising budget, the next step in a budget making process, is to present the same before the top management through the chief of the marketing division for necessary approval. In some organizations, there is a separate budget committee, comprising of the representatives of the financial and other functional areas. The budget committee or the top management, as the case may be, will evaluate such proposed expenditure to achieve the targeted sales in a given budgeted period. Since advertising budget is employed to increase sales, the advertising budget must be compatible with the sales goals of the company. Besides increasing sales, it should be adequate enough for the new product to make a successful entry in the chosen segment of the market. After considering all these factors if satisfied, the budget committee or the top management, as the case may be, will finally accord his approval over the budget proposals and thus will return the same to the advertising manager for execution.

3. Budget Execution:

After the approval, the next step in budget making process is the execution of the budget. During the execution of the budget, the advertising manager has to exercise monitoring control so that the funds which have been allocated are spent in accordance to the approval plan and in economical manner. Whenever there are critical changes in the marketing situation, necessitating an adjustment in the advertising support, the necessary modifications should be effected in the advertising budget. That is why, advertising budgets should be flexible and provision is made for the contingency account to face the critical changes in the marketing environment. The advertising manager should be duly authorized by the budget committee or the top management for making the required modifications etc. as and when required.

Control of Budget: The fourth and the last step in the budget making process are to have a control over the budget. It is the prime duty of the advertising manager to see whether the actual expenditure coincides with the budgeted expenditure or not. The advertising manager should also see that the amount appropriated for advertising is being used only on the item and activity as expressed in the budget.

4. Determining Advertising Appropriation

Advertising appropriation is that part of company's budget which is to be spent or, say, invested on media, men and other advertising material so as to impersonally communicate with the target-prospective customers. Determining the appropriation advertising outlay is essential for the development of creative media strategies because in a large measure the tempo and

tenor of the advertising campaigns depend on how much is available for spending. However, from the managerial point of view, it is the most difficult work.

Cost factor is one of the deciding factors in determining the advertising appropriation. A cost analysis study of different media of advertisement and their effectiveness should be considered while determining the advertising appropriation.

5. Methods of Framing the Advertising Budget

Actually there are no scientific methods available which can be employed in determining the amount of the advertising fund to be spent during a given period. However, there are several approaches which may serve as guidelines to advertising appropriation decisions. These approaches are called methods. These should not be employed blindly because there is no single method which is applicable to all the situations and may provide correct results. The popular methods which are commonly used in determining advertising appropriation or for framing the advertising budget are as follows:

1. Affordable Method: In this method one has to find out what the company can afford in a given business situation. Particularly, those companies which have limited resources use this method. When fund availability is a constraint, a limited fund is allocated after other unavoidable expenses have been duly met. Under this method it is usually assumed that advertisers do not spend too heavily. Under this method, advertising activity is blocked-up at last.

Merits and Demerits (Weaknesses) : Since the company does not spend more than it can afford and, therefore, there is an

element of financial discipline in this method. Nevertheless, this method suffers from the following weaknesses:

- (i) The budget decisions are left to the whim of the management and thus are not based on rational business needs. Whims are most irrelevant and subjective rather than based on an objective approach.
- (ii) It overlooks the contributory role of advertising in the achievement of marketing objectives.
- (iii) It also ignores the need, importance, nature of advertisement and other factors like long-range planning of advertising investment.

On the whole, affordable method is not a scientific one and hence is used by small companies only.

2. Percentage of Sales Method: Under this method, the amount to be appropriated to advertising is arrived at by multiplying the value of past year's sales or the projected sales for the budget period with a pre-determined percentage. It may be explained as under:

Advertising

= Past year's sales or anticipated sales or both X Pre - determined percentage

The sales on which advertising appropriation is based may be historical – immediate past year's or an average of past years or anticipated or both. Percentage figures, on the other hand, may be arrived at on the basis of management's historical experience, judgement or industry practice.

Merits: This method is most popular with managements on account of the following reasons:

- (i) It is a very simple, workable and relatively safe method.
- (ii) Since it directly relates advertising expenditure to sales, it

seems to be very satisfactory for many advertisers.

(iii) It encourages management to think in terms of the relationship between advertising expenses, prices and profits.

(iv) By relating appropriation to sales, this method ensures that the advertiser will spend only what he can afford. Advertising will earn its share out of sales.

(v) It helps the industry in preventing advertising wars because advertising expenses are proportional to market share/sales.

Demerits or Weaknesses:

In spite of being the most popular method of framing advertising budget, this method is subject to criticism on account of the following weaknesses:

(i) It considers advertising as the result of sales whereas the fact is that it is the cause of sales.

(ii) It discourages experimentation with counter-cyclical advertising and aggressive selling.

(iii) It does not provide a logical basis for the choice of a multiplier, i.e., percentage.

(iv) It militates against the planning of long range advertising programmes.

(v) It represents a static approach to advertising and does not allow it to respond to market needs and advertising opportunities. For example, when sales decline for some reasons a better course of action might be to maintain the level of promotional activity until the sales decline can be corrected.

(vi) It is not a scientific method. In spite of the above weaknesses and criticism, percentage of sales method is very popular and is widely used in Indian industries also.

3. Competitive Parity Method: This method envisages

determination of advertising appropriation in such a way that a company maintains a parity with its competitors" advertising outlays. This method is based on the principle that you are at par with competitors. Spend as much as the competitors do. Here, advertising is taken as a defensive device and not an offensive tool to achieve marketing objectives. Advertisers want to spend as much as their competitors are spending so that they are not placed at any disadvantage. For this purpose, company has to collect relevant data about competitors" advertising appropriation, for example, previous year's absolute figures, advertising/sales ratios etc.

Merits:

- (i) This method is most appropriate where competition is rigorous as the management is supposed to keep itself in line with its competitors. Under this method, the management always keeps himself alert.
- (ii) It reduces considerably the possibilities of advertising wars amongst competitors.
- (iii) It enables the management to maintain or increase its share of the market in accordance with the objectives of the company.
- (iv) It enables the management to monitor the marketing programmes of its competitors. Thereby the marketing strategy may be changed accordingly.

Demerits or Weaknesses:

- (i) It is not a rational method because the need, size, problem, opportunities and resources of every company vary considerably from each other. These are hardly similar to each other.
- (ii) There is no empirical or other evidence to suggest that

competitive parity in advertising appropriations has prevented advertising wars.

(iii) The use of competition as a yardstick for appropriation makes it easy for a company to ignore the needs of analyzing the realities of its own competitive situation and to visualize the possibility of other and better available strategies.

4. Objective and Task Method: Objective and Task Method for framing the advertising budget is considered to be the most desirable and realistic method. It is also known as „research-objective method“. It envisages appropriation of advertising funds on the basis of objectives to be achieved and the task involved therein. It means advertising objectives are set for the coming budget period and the cost of achieving these objectives are calculated in details in terms of task to be performed, the total of which indicates the appropriation level. In short, this method includes:

(i) Defining advertising objectives as far as possible in quantitative terms.

(ii) Outlining and listing tasks to be performed in achieving these objectives.

(iii) Estimating the cost of performing these tasks. This method takes into consideration the fact that advertising is an investment and an effective vehicle of achieving company's objectives.

Merits:

(i) This method is more realistic, imaginative, objective, and replaces the rule of thumb and customary thinking.

(ii) It forces the management to think in terms of advertising objectives and awakens it to the need for their achievement.

(iii) It is flexible and may be adapted to changing company needs.

(iv) This method has a special merit in the introduction of a new product.

(v) It does not operate on the inaccuracies of the percentage of sales basis.

Demerits or Weaknesses:

(i) This method is difficult to use, for it calls for adequate research data and past experience.

(ii) This method is objective-oriented. However, its objectives are ill-defined, the whole expenditure and the efforts will then go to waste.

(iii) It is difficult to translate objectives into task that will lead to objective achievement.

On the whole, this Objective and Task Method is more rational, realistic, and pragmatic and need based as compared to other methods.

5. Return on Investment Method: In this method money spent on advertisement is considered as an investment and not an expenditure. It is an investment in the sense that a certain return in terms of profit is expected under this method. The advertising budget is prepared; under this method by taking into account the increased profits generated by an increase in sales and goodwill on account of advertising. If sales and profits are higher, the excess may be assumed to be the result of advertising. The major problem in this method, however, is that the return is very often spread over a period of time, hence it may be difficult to arrive at an appropriate budget appropriation on the basis of this method. In spite of this problem, the return on investment

method is no doubt a realistic way of approaching the problem because it co-relates the sales and profits generated by advertising.

6. Judgement Method: Judgment method of framing an advertising budget is based upon the judgement of experienced managers of the company. This method is also referred as the "Arbitrary method" because it is based on the arbitrary thinking of some experienced managers only, it is not based on any scientific lines. This method involves no clerical or statistical or field work. It is solely based upon the experience and judgement of some old and experienced managers. They frame the advertising budget considering all situations, i.e., objectives, anticipated behavior of the customers and the competitors, market to be covered, types and cost of media etc.

Although this method is very cheap and simple but is not reliable as it is based on the subjective approach of its experienced managers and is subject to bias and error.

7. Fixed Sum per Unit Method: This method is similar to the percentage of sales method except that a specific amount per unit is appropriated rather than a percentage of the value of sales. The advertising appropriation may be based on units of a product sold in the previous period or on a forecast of unit sales in future period. This method is most suitable in advertising appropriations for industrial and durable consumer products. The most important advantage of this method is that despite price changes advertising appropriation may be kept unaltered.

From the above study, it is evident that no single method is perfect and free from defects. Hence a mix of the above

methods may be used in accordance to the requirements and need of the company for framing the budget keeping in view the marketing objectives of the company.

6. Approaches to Advertising Budget

Nothing except the mint can make money without advertising. Mass production and mass distribution totally depend on advertising. That is why the advertiser spends lakhs of rupees every year on advertising campaign just to influence consumers and prospective customers to purchase the company's products. Now the question arises whether the money spent on advertising should be treated as an expenditure or investment. Opinions differ on this subject. These may be classified under the following two heads:

1. Traditional Approach - Money Spent on Advertising is an Expenditure: The traditional approach is that money spent on advertising should be treated as an expenditure and hence should be debited to Profit and Loss Account of the business enterprise at the end of each year. Advertisers treat the cost of advertising like other costs appearing on the debit side of the Trading and Profit and Loss Account in order to earn more profits during a given period. That is why most accountants list the advertising expenditure as a business expense and the revenue authorities do accept this view for income purposes also. They further argue that press, radio and television advertisements have short life span and thus why the money spent on advertisement should not be debited to Profit and Loss Account in the same accounting year. The fruits of the advertisement have already been derived in the form of increase in sales during the concerning accounting year. In their opinion there is no

rational reasoning in carrying forward the advertising expenditure onwards for a number of years.

3. Modern Approach - Money Spent on Advertising is an

Investment: The modern and the correct approach about the money spent on advertising is that it is an investment because (i) advertising contributes not only to the current sales but the future sales also; (ii) Creates image of the product or brand of the advertiser; (iii) builds goodwill and confirms acceptance for future products also; and (iv) consequently serves as an investment towards future profits also. Joel Dean, a leading business economist, considered advertising as a capital investment rather than a current expenditure. Like other capital assets, the advertising provides larger returns in future also.

From the above discussions, we conclude that money spent on advertising should be treated as an investment and not expenditure. It is a capital investment like investment in other capital assets.

7. Summary

Mass production and mass distribution are the main characteristics of today's business world. That is why the advertiser spends lakhs of rupees every year on advertising campaign just to influence consumers and prospective customers to purchase the company's products.

Advertising budget is prepared by the advertising manager of the company. The advertising budget process goes through the steps such as Collection of Data and Preparation of Advertising Budget, Presentation and Approval of the Budget, Execution of the budget, Control over the budget etc.

Actually there are no scientific methods available which determine the accurate amount of advertising fund to be spent during a given period. However, there are several approaches which may serve as guidelines to advertising appropriation decisions. No single method which is applicable to all the situations and may provide correct results. Some important methods are 1. Affordable Method, 2. Percentage of Sales Method, 3. Competitive Parity Method, 4. Objective and Task Method, 5. Return on Investment Method, 6. Judgment Method, 7. Fixed Sum Per Unit Method.