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Where Do Budgets Come From?

Riger Staff Report

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If you are like most other folks in this business, putting together next year's budget is a headache, to put it mildly. How to ease the pain?

Let's review the various ways of developing an advertising budget. (Some are much better than others. See if you can tell which one. That won't be hard; our bias sticks out like a sore thumb!)

To start with, just what's in a budget, anyway?

It's important to determine which expenses fall within your advertising budget, and which do not. Some advertisers account only for their out-of-pocket expenses (i.e., what does it cost to produce and place an ad?). Other advertisers attribute salaries and overhead to the ad function. Some organizations throw advertising, marketing and sales categories together into one bucket. Some companies figure their Web site investment falls under "Information Technology" expenditures; others label that expense as "Communications." To get apples-for-apples comparability, you'll want to

settle on your own budget definition, so that you can achieve year-to-year comparability, and also be able to compare to other firms in your business category.

1. The "Last Year's Budget, plus or minus" Method

Many advertisers apply no more science to establishing a budget than merely looking up last year's figure and either adding to or subtracting from it, as befits their current business fortunes or even just their current frame of mind. This method of budgeting requires the least work, that's for sure.

2. The "Industry Norm" Method

What are other advertisers in your business category spending? Many trade and professional associations survey their members so as to share data on things like advertising expenditures. Sometimes these data are broken down in great detail, and can often provide the model from which to determine which types of expenditures are and aren't to be



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included in your particular budget. Of course, this “norm” method simply reports how much these fellow travelers are spending and on what. It does not necessarily mean they are spending their money wisely. Which is why this is also sometimes called the “Simon Says” Method.

3. The “Competitive Spending” Method

More targeted than the “Industry Norm” comparison, the competitive analysis seeks to learn what your direct competitors are spending to promote themselves to your specific market. (Incidentally, these figures are essential data to other exercises such as “Share-of-Voice” and “Share-of-Market” comparisons, but those are subjects for another time.) The good news is, the “Competitive Spending” method can help you tune a budget to your peculiar competitive circumstances. The bad news is, this information can often be tricky to obtain.

4. The “Task-to-be-Accomplished” Method

Here’s where you start out with a blank sheet of paper and list all the tasks you know you will have to do to accomplish your business objectives for the coming year, and then, alongside, list all the advertising expenditures which will be required to accomplish those tasks. Next, total the column of figures, and you’ll have a rough cut of a budget.

This method can provide a “Wish List” that may or may not be realistic. But, if you then compare the “Wish List” total with totals arrived at by the other preceding methods (The “Last Year’s Budget, plus or minus” Method, The “Industry Norm” Method, and The “Competitive Spending”

Method), you arrive, in effect, at a system of budgeting “checks and balances” which will help you stay honest and realistic.

Important: before your work is done with the “Task-to-be-Accomplished” Method, prioritize these expenditures, ranking them from “most critical” to “least critical.” That way, if it’s necessary to cut from your total trial balance, you will have a methodical, rational way of reducing cost, not just the blindfold-and-bludgeon technique.

Isn’t a lot of advertising money wasted?

Yes. The experts admit it. John Wannamaker, the famous Philadelphia department store merchant, always said he was convinced that each and every year, at least 50% of his expenditures on advertising were wasted. The problem, he observed, was determining which 50%!

When we encounter an advertiser who challenges us with the question, “What’s the worst thing that can happen if I take a year off from advertising, just to prove whether it’s necessary or not?” We respond, “Nothing bad is likely to happen...so long as you secure a pledge from your competitors that they will join you in ‘going dark’ for the same period of time. And so long as you think they can be trusted.” In 52 years of the agency business, we have yet to find a taker.

The fact is, those advertisers who consistently stick to their guns, year in and year out, enjoy better long-term business results than their competitors who jump into the fray, and then jump back out, seldom looking past the next business quarter.

If you’d like help with your next budget exercise, contact us today at agency@rigger.com.