Wrestling the Budget Bear

By Gregory I. Gaul

Unfortunately for those in responsible marketing communications positions, wrestling with the budget is one of the realities of life in advertising. Most often it's a strain, but there are some things you can do in advance to lighten the load.

It's important to remember that most people approving the communications budget are overwhelmed by skepticism and therefore judge your commitment as an essential part of their decision-making process. So be positive, but be ready to defend even down to the micro details.

Although the budget should be prepared in written format as a matter of course, always try to *present* the budget and avoid a perfunctory paper submittal. The bureaucrats are lying in wait so you want a face-to-face confrontation rather than suffer the results of budget sniping.

After you've presented, flush out the objections early (if there are any) and stage a fair and open battle dealing with the concepts and objectives of the program. After all, you know that nearly everyone thinks they know enough about advertising to do it well themselves.

Most advertisers fall into one of two categories in the way they manage the planning process: objective driven or budget driven. To be objective driven, the advertiser must have a zero-based mentality and de facto can't be penny pinchers. You'll find objective driven advertisers to be visionaries, people who recognize the macro view and who are motivated by strong concepts. The budget driven advertiser can also have these same attributes, to a lesser degree, but money definitely comes first.
This doesn't mean that being budget driven is any less worthy. In fact, you'll find the vast majority of advertisers fall into this category.

Clear program objectives, established at the start, can make a big difference. But since this is very difficult to do and not often done well, advertisers usually fall back on one, or a combination, of three popular budgeting methods.

The most commonly used methodology is the "percentage of sales" approach. The next most popular method is the "fixed sum for each unit of sales" approach. What seems to be the least used is called "pacing against the competition."

Of course, many advertisers are forced to simply repeat last year's budget or to go by the seat-of-their-

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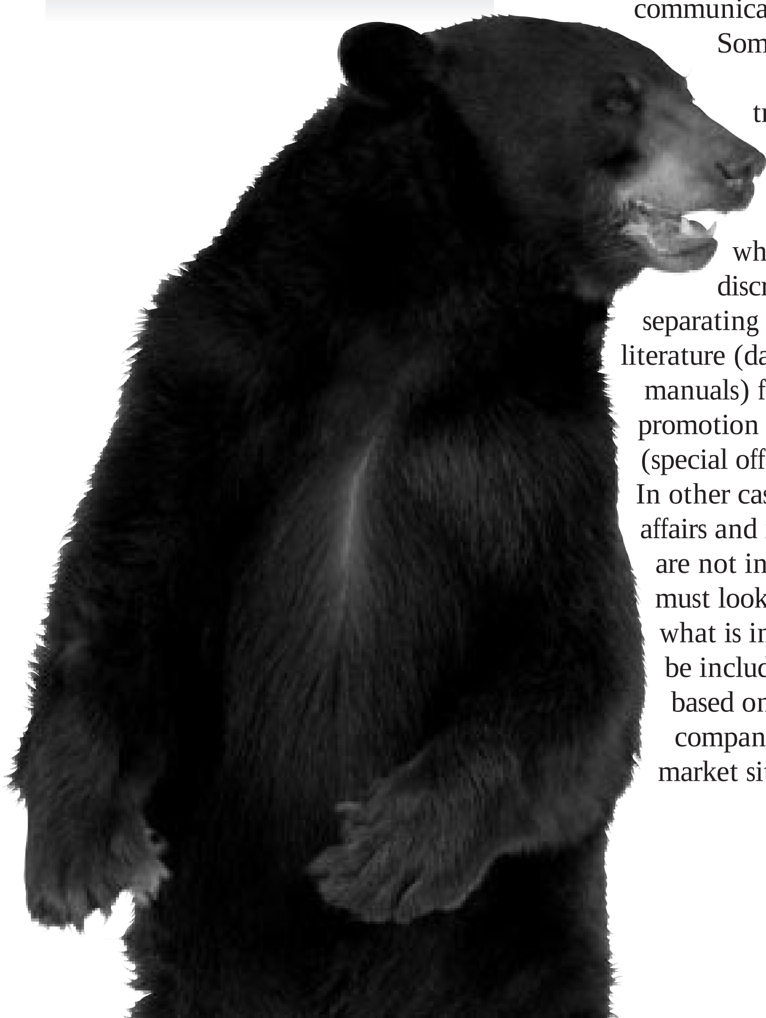

pants. Strangely enough, these two options are commonly used and often effectively — even though they lack methodology and planning. In other circumstances, especially with start-up companies, a “spend all you can afford” approach seems to work.

The individual advertiser’s company position really dictates the approach. There are no simple formulas. One long-standing rule of thumb in the business-to-business arena is that 3% of gross sales is the average marketing communications expenditure. In fact, based on an array of SIC’s or industry segments, it ranges from, .05% up to about 10%.

A key consideration that can impact the approach you choose is knowing what should actually be included in the marketing communications budget. Some companies include tradeshows, while others don’t. Some include all sales literature, while others discriminate by separating sales support literature (data sheets, manuals) from sales promotion literature (special offers, catalogs). In other cases, public affairs and investor relations are not included. You really must look closely to know what is included, or should be included. Again, it’s based on the individual company and the market situation.

Here are some simple can use in forming (ju

1. Industrial firms spend much less on advertising and promotion than consumer goods companies.
2. The higher your company’s market share, the more you should spend on advertising.
3. Companies launching new products spend more than companies who are mature or who have old products.
4. Fast-growing markets require higher levels of advertising.
5. Advertising expenditures are higher when a large amount of unused capacity exists within the company.
6. High levels of advertising and promotion are required for lower ticket items.
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If you know the competition and you have tracked their spending levels in some detail, it can go a long way in determining what the ante is in order to play in the market game. Generally, if you aren’t spending within range of the competition, you aren’t impacting and penetrating the market with your message/proposition. This knowledge can be combined with one of the approaches mentioned early to develop a realistic and effective budget.

What this all boils down to is common sense as usual. You’ll have

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stifying) a budget:

Less frequently purchased products require a higher level of advertising and sales promotion.

Both discount products and premium products require higher ad expenditures (more than mid-level products).

High quality products typically require higher advertising expenditures.

Broad product lines typically require high advertising expenditures.

Off-the-shelf (standard) products require higher levels of spending than customized products do.

Advertising budget as a percentage of sales

Industry	*Percentage of Sales*	*Industry*	*Percentage of Sales*
Advertising agencies	0.1%	Industrial controls	1.7%
Agricultural production - crops	2.9%	Industrial machinery and equipment, wholesale	2.0%
Air courier services	2.1%	Insurance agents and brokers	0.6%
Air transportation, certified	1.8%	Lumber, wholesale	2.2%
Aircraft and parts	0.5%	Machine tools	2.0%
Auto dealers, gas stations	0.5%	Material handling equipment	1.0%
Auto rental and leasing	2.9%	Medical laboratories	0.9%
Auto repair services and garages	4.0%	Metalworking equipment	5.4%
Bakery products	1.9%	Management consulting	1.8%
Book publishers	3.8%	Motor vehicle parts and accessories	1.6%
Business services	5.3%	Motors and generators	1.0%
Catalog showrooms	3.7%	Musical instruments	3.3%
Chemicals (wholesale)	3.5%	Newspapers	3.9%
Coating and engraving services	2.6%	Office automation systems	2.3%
Computer program and software services	3.5%	Office furniture	1.4%
Communications and signaling devices	4.1%	Optical instruments and lenses	1.5%
Commercial printing	1.2%	Outpatient care facilities	1.1%
Computer equipment	1.9%	Paint, varnish, and lacquer	3.1%
Computer stores	1.0%	Paper and paper products	3.8%
Computers - micro	5.1%	Personal services	3.7%
Connectors	1.2%	PR services	1.8%
Construction, special trade	9.8%	Office supplies	5.2%
Dairy products	4.9%	Photofinishing laboratories	1.8%
Data processing services	1.2%	Photographic equipment and supplies	3.2%
Detective and protective services	0.2%	Plastics, resins, elastomers	1.6%
Drugs	4.4%	Pollution control machinery	0.8%
Educational services	5.0%	Prefabricated metal buildings	0.7%
Electric appliances, wholesale	0.8%	Pumps	1.2%
Electric lighting	1.1%	Real estate agents	2.8%
Electronic components	2.3%	Savings & loan associations	0.7%
Engines and turbines	1.8%	Security & commodity brokers	3.8%
Engineering, architect, survey services	0.8%	Semiconductors	1.2%
Farm machinery and equipment	1.6%	Ship and boat building and repair	2.3%
Financial services	0.7%	Soaps and detergents	7.6%
Food	7.3%	Telephone communications (wire, radio)	1.9%
Freight forwarding	3.6%	Textile mill products	1.1%
Hardware, wholesale	6.4%	Tires and inner tubes	3.1%
Health services	3.3%	Training equipment and simulators	1.6%
Hospitals	5.8%	Valves	1.0%
Hotels	0.4%		

to take these guidelines and principles and think them through. There are no right answers in wrestling with the budget bear. There is no precise formula you can turn to. If you want to avoid getting pinned, you'll have to build a sound strategy and rationale for why you need the amount you request. Because you can't always show ROI before the fact, the best you can do is to use your own "objectives" and these "industry standards" as proofs that you are asking for a reasonable investment in marketing communications.

There is always the risk that things won't turn out as you've expected and direct sales to "marcom" spending ratios do not always work. So be careful what you project. In the end, you'll have to make a leap, however cautious. Then your approval source (management) will have to make a second leap with you. But that's how businesses grow. There are no sure things. Nothing ventured, nothing gained.

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With 30 years in the marketing communications business, Gregory I. Gaul has helped manage several established business-to-business agencies and advised many Fortune 500 organizations as well as numerous small- to mid-sized businesses. He has won more than 50 national and regional awards for advertising and design.

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