

## How to Use the Budget Better

By Roderick White

Deciding how much to budget for communications is an under-exploited field of expertise — but the “rules” are well known, if rarely applied. How to divide the budget between brands, territories and activities is in practice the real key to operational success or failure.

The marketing budget is a substantial part of most companies’ operating costs, and much of it, traditionally, has gone on advertising (however defined). (It may be more fruitful to think of the budget as an investment in the brand, and approach the topic using investment criteria and tools such as DCF (9); or to think in terms of customer lifetime value (11).) As such a major expense, the budget is highly vulnerable to cutbacks in hard times — even though the available evidence shows this to be a false economy (7).

The actual process of setting these budgets has for years remained, in most companies, an arcane form of guesswork, negotiation and rules of thumb. The various (15 or so) methods used are described at length by Simon Broadbent (1) and more recently by Green (10), and by Gullen, who suggests taking more than one “bearing” on the problem from five groups, which he calls inertia, business, media, competitive and dynamic (3). A more simple classification splits the methods into “market-based” and “resource-based” (10).

While it is fairly generally accepted that the best method of setting a budget is by defining the tasks to be achieved and costing out what is needed to achieve them, in large companies, especially, budgets tend to be set “top-down” as an output from the overall strategic financial planning process (2, 8, 13). Brand marketers are given a budget, which they then have to deploy to meet their set (financial) objectives, rather than being able to adopt the more meaningful “bottom-up,” task-based approach — they have become “resource allocators” rather than budgeters (10).

What is really needed here — and does occur in some companies — is a feedback loop that allows the brand to re-open budget issues with top management before the numbers become set in stone (13). Within all this, it is easy to neglect factors that should affect the size of the budget, let alone how it is used. These include, for example, the life stage of the brand and the market in which it operates, its absolute size, its market share, the activity and stance of competitors, and so on (2, 4, 16).

In any event, however the budgeting process is conducted, it is clear that it will be better the more it is informed by a deep understanding of the brand, its marketplace environment, and the historical impact of advertising and other communications (4, 9, 16). As Broadbent said years ago, simply plotting the key figures on a graph can help understanding (1, 6); and while an econometric model is arguably not essential as an input to the process, it can be a valuable aid to fine-tuning the budget (2).

In spite of the consensus that task-related approaches are the best way of setting budgets, a variety of surveys have shown that “history-based methods,” relying largely on advertising-to-sales ratios, remain common (2).

However, the growing pressure for accountability, and the increased concern of CEOs and CFOs to ensure that every dollar of the budget can be justified, have put budget setting back in the spotlight, and the growing influence of procurement in the communications field adds to this pressure (22). “Accountability” tends to be interpreted as “ROI”: as has been pointed out, ROI is better as a tool for budget allocation than for budget setting (4), and is itself a one-size-fits-all metric; different campaigns can have widely different objectives (for example, brand building (25) or direct response (27)).

At the same time, the analytical tools available, and the ability to prepare and evaluate alternatives quickly and efficiently, make the process potentially more flexible and adaptable than ever before (8).

### The Allocation Issue

For any substantial company, it is not so much the size of the budget that matters as how and where it is spent, since the returns on effective budget allocation can be substantial (8, 16).

At its simplest, this means a choice between and within advertising media, or between advertising, promotions, PR, direct mail, and so on, over what sort of timescale (14, 16, 17). At a more complex level, it is a question of how to divide the money between brands, countries, regions, variants within brands, etc. (8, 13).

To begin to handle this effectively, it is essential to collect and analyse a substantial volume of brand data across all significant territories and subdivisions of them, and it is here that modeling is likely to contribute most (2, 8), though it is not absolutely essential (13). Key elements in the understanding of how campaigns work derived from modeling tend to concentrate in the area of response curves for different brands in different media, and the brand's advertising elasticity (8, 16).

Response curves, in particular, feed into media optimiser programs. A databank that can show how different brands respond, in different circumstances, to different types of marketing input is a highly desirable tool in the marketing planner's armoury. A key problem here may well be that the quality and character of available information may vary widely by country or market sector (4).

This can lead to distortions in resource allocation, or excessive caution in approaching less well-charted markets. Careful analysis, then, makes it possible to prioritise between brands, countries, and market segments; and to define with some precision where the brand can get the biggest bang for its communication buck. Many award-winning case studies from around the world show how the correct focus, in terms of targeting or media selection, albeit backed by strong creativity, enables advertisers to make the best possible use even of a limited budget (budgets are, of course, always "limited," whatever their size) (24, 25, 26).

Where there is too little information available to provide confident support for budget allocation decisions, it is highly desirable to build an element of systematic testing into the marketing programme, to provide guidance for future planning (3, 17). Indeed, it is only by monitoring carefully the success of our campaigns that we can confidently improve the budgeting process (2). Otherwise, allocation may be literally a leap in the dark (23).

### Media Optimisers

Within the specific field of budget allocation, a key area of importance is the development of media optimisers computer programs that enable media planners to make the best possible choice of media to meet their defined objectives. While these are well developed for TV, as the medium that takes the lion's share of media budgets in most developed advertising markets, there remains a considerable problem of extending their use to cover (increasingly common) multimedia campaigns (14).

A lot of work is going on towards this goal, but the technical problems are considerable, and arguably the best solution remains one that involves a considerable element of judgement (12). Curiously, the optimisation process has not yet really permeated the rapidly growing area of online advertising, where budget-setting remains generally quite primitive (15).

### Other Disciplines

The literature is sparse on budgeting aspects of other communication disciplines, though it is well known that FMCG budgets have shifted heavily towards trade and consumer promotion at the expense of advertising in recent years (19); and trade promotion in particular is something of a grey area for many companies (18, 21); while research is something of a poor relation — with widely varying inputs in different countries (20).

### Some Key Lessons About Budgets

Budgeting and budget allocation remain art as much as science, though the picture seems to be improving. From the range of material on the subject, a limited range of key conclusions can be drawn.

- Understand your marketplace, in depth, before you begin to budget (1, 2, 6).
- Recognise that different objectives (often related to the specific brand's market position) will dictate different budget strategies (15, 27).
- Focus and concentration on strength will make a budget, especially a small one, go further, and usually be more effective: this applies at almost any level — media choice, demographic and other targeting, brand, country, region (23, 26).
- Reducing budgets over the long term will inevitably lead, eventually, to loss of share and sales (7).
- In general, a share of voice in excess of share of market should lead to share growth (5).



### Core Reading

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