



Chapter 14

Financial resources for marketing communications

Organisations need to ensure that they achieve the greatest possible efficiency with each unit of resource (e.g. pounds sterling, dollars, yuan, euros, rubles, Swedish kronor) they allocate to promotional activities. They cannot afford to be profligate with scarce resources and managers are accountable to the owners of the organisation for the decisions they make, including those associated with the costs of their marketing communications.

Aims and learning objectives

The aim of this chapter is to examine the financial context within which organisations undertake promotional campaigns.

The learning objectives of this chapter are to:

1. determine current trends in advertising and promotional expenditure;
2. explain the role of the communication budget;
3. clarify the benefits of using budgets for communication activities;
4. examine various budgeting techniques, both practical and theoretical;
5. provide an appreciation of the advertising-to-sales (A/S) ratio;
6. set out the principles concerning the strategic use of the share of voice (SOV) concept;
7. appreciate how budgets might be set for the other elements of the communication mix.

For an applied interpretation see the MiniCase entitled *Spending on breakfast can be cereal* at the end of this chapter.

Introduction

Before examining some of the issues concerned with investing in marketing communications, consider how an organisation might decide on the amount they should spend on marketing communications? Also, how should organisations divide this sum across their brands, regions, territories and various activities? These two questions underpin the setting of communication budgets and the allocation of the budget once it is agreed. According to White (2007) the answers to these questions can lead directly to operational success or failure.

The rate at which advertising and associated media costs outstripped the retail price index, especially around the turn of the century, was regarded as both alarming and troublesome. This disproportionate increase in the costs of advertising served to make it increasingly less attractive to some clients. Consequently, this has spurred the increased use of other tools such as direct marketing, and new media formats, especially online- and interactive-based marketing communications media.

Levels of advertising spend have continued to grow although the growth has not been evenly distributed across all media.

Some advertising agencies have argued that this disproportionately high increase was necessary because of the increasing number of new products and the length of time it takes to build a brand. Levels of advertising spend have continued to grow although the growth has not been evenly distributed across all media. Between 2003 and 2006 cinema advertising expenditure grew 20 per cent. Outdoor has grown significantly, fuelled largely by demand for six-sheet posters. Procter &

Gamble spent £181 million in Britain across their product portfolio, while O₂ spent £53 million and HSBC invested £33 million on their brands respectively (see Table 14.1).

Large investment and commitment are required over a period of years if long-term, high-yield performance is to be achieved. Many accountants, however, view advertising from a different perspective. For a long time, their attitude has been to consider advertising as an expense, to be set against the profits of the organisation. Many see planned marketing communications as a variable, one that can be discarded in times of recession (Whitehead, 2008).

These two broad views of advertising and of all marketing communications activities, one as an investment to be shown on the balance sheet and the other as a cost to be revealed in the profit and loss account, run consistently through discussions of how much should be allocated to the promotional spend. For management, the four tools of the communication mix are often divided into two groups. The first contains advertising, sales promotion and public relations, while the second group contains the financial aspects that relate to personal selling.

This division reflects not only a functional approach to marketing but also the way in which, historically, the selling and marketing departments have developed. This is often observed in older, more established organisations, those that find innovation and change a seriously difficult and challenging aspect of development. Accountability and responsibility for

Table 14.1 Top five UK advertisers January–December 2006

Organisation	£ million total (2006)
Procter & Gamble	188.9
Unilever	177
Central Office of Information	140.7
L'Oréal	120.1
BSkyB	118.3
Total	3,189.3

Source: ACNielsen MMS.

communications expenditure in the first group often fall to the brand or product manager. In the second group, this aspect is managed by sales managers who often, at national level, report to a sales director.

The communication costs that need to be budgeted include the following. First, there is the airtime on broadcast media or space in print media that has to be bought to carry the message to the target audience. Then there are the production costs associated with generating the message and the staff costs of all those who contribute to the design and administration of the campaign. There are agency and professional fees, marketing research and contributions to general overheads and to expenses such as cars, entertainment costs and telephones that can be directly related to particular profit centres. In addition to all of these are any direct marketing costs, for which some organisations have still to find a suitable method of cost allocation. In some cases a particular department has been created to manage all direct marketing activities, and in these cases the costs can be easily apportioned.

The budget for the sales force is not one that can be switched on and off like an electric light. Advertising budgets can be massaged and campaigns pulled at the last minute, but communication through personal selling requires the establishment of a relatively high level of fixed costs. In addition to these expenses are the opportunity costs associated with the lengthy period taken to recruit, train and release suitably trained sales personnel into the competitive environment. This process can take over 15 months in some industries, especially in the fast-changing, demanding and complex information technology markets.

Strategic investment to achieve the right sales force, in terms of its size, training and maintenance, is paramount. It should be remembered, however, that managing a sales force can be rather like turning an ocean liner: any move or change in direction has to be anticipated and actioned long before the desired outcome can be accomplished. Funds need to be allocated strategically, but for most organisations a fast return on an investment should not be expected.

This chapter concentrates on the techniques associated with determining the correct allocation of funds to the first group of communication tools and, in particular, emphasis will be placed upon advertising. Attention will then be given to the other measures used to determine the correct level of investment in sales promotion, public relations and the field sales force. Finally, in an era in which shareholder value is becoming increasingly prominent and a means of distinguishing between alternative strategic options, the question of how a brand's value might influence the budget setting is considered.

Trends in communication expenditure

It was stated earlier that advertising expenditure in the United Kingdom rose faster for a while than consumer expenditure. While this is true, the rapid increases in advertising spend in the 1980s slowed at the beginning of the 1990s, then speeded up again as the economy recovered only to waver again in 2001 after a buoyant previous year fuelled by the dot-com excitement. After a few years during which the advertising spend levels stabilised, only online advertising has grown substantially, in percentage terms. There has been considerable speculation that offline advertising revenues were about to plummet as organisations moved their spend online. Although many organisations have increased their online investment by some considerable amount and have reduced their offline, especially television spend, the impact has not been as great as some commentators had feared. In 2005 there were signs that real growth was emerging once again, especially in the United Kingdom, but this was not continued and stabilisation of the top-line figures has been the norm.

The cutback in offline advertising expenditure when trading conditions tighten reflects the short-term orientation that some organisations have towards brand development or

The cutback in offline advertising expenditure when trading conditions tighten reflects the short-term orientation that some organisations have towards brand development or advertising.

advertising. The IPA warn that budget reductions can lead to a 'loss of market share, a decline in brand image and long term sales damage', as reported by Donnelly (2008: 4). The report suggests that if a company cuts its advertising to zero it could take five years to recover whereas a budget slashed by 50 per cent will take three years to recover.

What is also of interest is the way in which the communication mix has been changing over the past 20 years. For a long time the spend on media advertising dominated the promotional budget of consumer products and services. Sales promotion became a strong influence but spend on this tool has stagnated over the past few years. Now sponsorship, direct marketing and digital activities show greatest investment. The reasons for this shift are indicative of the increasing attention and accountability that management is attaching to marketing communications. Increasingly, marketing managers are being asked to justify the amounts they spend on their entire budgets, including advertising and sales promotion. Senior managers want to know the return they are getting for their communication investments, in order that they meet their business objectives and that scarce resources can be used more efficiently and effectively in the future.

At the beginning of 2008, with the concern about impending recession, there was significant evidence of organisations deliberately reducing their communication budgets and for some, reallocating their budgets in order to make more funds available for price-cutting and discounting. In addition to this, the previous two years had seen many organisations move their advertising budgets away from television and put more into online and digital work.

It is not uncommon to find companies that are experiencing trading difficulties deciding to slash their adspend, if only on a temporary basis. Exceptions to this have been companies such as Marks & Spencer and Sainsbury's, who although experiencing difficulties, either increased or maintained their above-the-line spend and improved brand and share value. In anticipation of an impending recession the Institute of Practitioners in Advertising (IPA) launched a book of case studies in early 2008. This was sent to the CEOs of 350 FTSE companies and opinion formers such as journalists in the financial sector, fund managers and analysts. The 38 cases demonstrated how the use of advertising can improve brand value (Whitehead, 2008).

ViewPoint 14.1

Slashed mail

The Royal Mail announced in May 2004 that it was cutting back on its advertising by at least 40 per cent, approximately £8 million. It also announced that it was postponing further marketing activities, including £5 million assigned to promote its Parcelforce brand.

These cuts were made in the light of strikes the previous autumn, a series of reported financial losses and the reduction in headcount of about 350 staff.

The news of the reduction in communications spend coincided with a report from the industry watchdog Postwatch that over 14 million items of post are lost each year.

While the cuts affect a number of roster agencies and the brand was receiving poor publicity, the Royal Mail was under huge pressure to turn the operation around. Interestingly, in November 2004, the Royal Mail reported that its six-monthly results had shown a turnaround from a previous loss to a profit of £217 million. So, were the £8 million cuts in advertising really necessary? Perhaps it was the need to avoid publicity when so many items were not being delivered?

Question

To what extent is advertising spend used to disguise or deflect from other commercial issues?

Task

Find out what the Royal Mail spent on advertising relative to its turnover last year and how does this ratio compare with another postal operator (of your choice)?

The screenshot shows the Royal Mail website home page. At the top left is the Royal Mail logo with the tagline "with us it's personal®". To the right are links for "Personal" and "Business" and a search bar. Below the logo are four service categories: "Delivery Services", "Marketing Services", "Logistics Services", and "Discounts & Payment". There are also links for "Log In" and "Register".

The main banner features a woman looking at a laptop with the text "welcome... See how you can get more from your mail with our range of personal and business services." Below this are buttons for "Personal customers" and "Business customers".

On the right side, there is a "Top links" section with links for "Find a postcode", "Postal prices", "Shop", "Track an item", "Product A-Z", "Work for us", and "Customer service". Below that is a "Track & Trace" section with a form to enter a "13 digit reference number" and a "Track it" button.

On the left side, there is a "Customer news" section with links for "Tariff 2008 prices", "Mailing Toolkit launches for Business", "Royal Mail is a Superbrand", and "1st Class People Award Winners", plus a "more customer news" link. Next to it is a "Buy postage" section with links for "Print postage online", "Buy stamps online", "Royal Mail Franking", and "See our Special stamps", plus a "more purchasing options" link.

At the bottom left, there is a section for "Sending urgent or valuable items? Special Delivery™. For guaranteed next day delivery" with a "View the options" button. At the bottom right, there is a "Take stock" section with the text "We can manage your Warehousing & Fulfilment" and a "Find out more" button.

The footer contains a long list of links: "About Royal Mail | Jobs | Terms & Conditions | Privacy | Accessibility | Contact Us | Site Map | Post Office | Parcelforce Worldwide | Cymraeg" and a copyright notice: "© Royal Mail Group Ltd 2008. All rights reserved."

Exhibit 14.1 Royal Mail web site home page, www.royalmail.com

According to Hall (1999: 18), Procter & Gamble set 'strict guidelines about how much can be spent below-the-line if a brand's equity is to be maintained'. Research by Profit Impact on Market Strategy (PIMS) (Tomkins, 1999; Tylee, 1999) found that companies that maintain or even increase their adspend during a recession are likely to grow three times faster than those companies that cut the adspend when the economy turns round. The Renault Clio and the Nescafé Gold Blend brands were cited as examples of advertisers that had increased their adspends during the last downturn and succeeded in increasing their profitability and market performance.

A report undertaken for the Advertising Association (2004), however, found that the majority of brand leaders that use advertising as a substantial proportion of the communication mix continue to dominate their markets, just as they did 30 years ago. In doing so, the report concludes, they have thwarted the challenge of own brands. In other words, advertising can protect brands, as long as the adspend is substantial.

The role of the communication budget

The role of the communication budget is the same whether the organisation is a multinational, trading from numerous international locations, or a small manufacturing unit on an industrial estate outside a semi-rural community. Both types of organisation want to ensure that

they achieve the greatest efficiency with each euro they allocate to promotional activities. Neither can afford to be profligate with scarce resources, and each is accountable to the owners of the organisation for the decisions it makes.

There are two broad decisions that need to be addressed. The first concerns how much of the organisation's available financial resources (or relevant part) should be allocated to promotion over the next period. The second concerns how much of the total amount should be allocated to each of the individual tools of the communication mix.

Benefits of budgeting

The benefits of engaging in budgeting activities are many and varied.

The benefits of engaging in budgeting activities are many and varied, but in the context of marketing communication planning they can be considered as follows:

1. The process serves to focus people's attention on the costs and benefits of undertaking the planned communication activities.
2. The act of quantifying the means by which the marketing plan will be communicated to target audiences instils a management discipline necessary to ensure that the objectives of the plan are capable of being achieved. Achievement must be at a level that is acceptable and will not overstretch or embarrass the organisation.
3. The process facilitates cross-function coordination and forces managers to ensure that the planned communications are integrated and mutually supportive. The process provides a means by which campaigns can be monitored and management control asserted. This is particularly important in environments that are subject to sudden change or competitive hostility.
4. At the end of the campaign, a financial review enables management to learn from the experiences of the promotional activity in order that future communications can be made more efficient and the return on the investment improved.

The process of planning the communications budget is an important one.

The process of planning the communications budget is an important one. Certain elements of the process will have been determined during the setting of the campaign objectives. Managers will check the financial feasibility of a project prior to committing larger resources. Managers will also discuss the financial implications of the communication strategy (that is, the push/pull positioning dimension) and those managers responsible for each of the individual tools will have estimated the costs that their contribution will involve. Senior management will have some general ideas about the level of the overall appropriation, which will inevitably be based partly upon precedent, market and competitive conditions and partly as a response to the pressures of different stakeholders, among them key members of the distribution network. Decisions now have to be made about the viability of the total plan, whether the appropriation is too large or too small and how the funds are to be allocated across the promotional tools.

Communication budgets are not formulated at a particular moment in a sequence of management activities. The financial resources of an organisation should be constantly referred to, if only to monitor current campaigns. Therefore, budgeting and the availability of financial resources are matters that managers should be constantly aware of and be able to tap into at all stages in the development and implementation of planned communications.

Difficulties associated with budgeting for communications

There are a number of problems associated with the establishment of a marketing communications budget. Of them all, the following appear to be the most problematic. First, it is difficult

to quantify the precise amount that is necessary to complete all the required tasks. Second, communication budgets do not fit neatly with standard accounting practices. The concept of brand value is accepted increasingly as a balance sheet item, but the concept of investment in communication to create value has only recently begun to be accepted, for example by Jaguar and Nestlé. Third, the diversity of the tools and the means by which their success can be measured renders like-for-like comparisons null and void. Finally, the budget-setting process is not as clear-cut as it might at first appear.

The concept of investment in communication to create value has only recently begun to be accepted.

ViewPoint 14.2

What is the right level of spend?

Tiger Beer increased its UK spend up in 2008 from £85K to £5.5 million. This was partly because the owner wants to develop the brand away from its Asian origins.

Back in 1987 Nike's marketing president was pitching to the board for a revised advertising budget. The previous year Nike had spent \$8 million, and the marketing chief wanted to raise this to \$34 million, an astronomical increase, particularly for a company that was just getting going. The CEO, Philip Knight, turned to the marketing man and asked the question: 'How do I know if you are asking for enough?'

Sources: Holmes (2004), Charles (2008).

Question

Why did Tiger Beer settle at a £5.5 million investment? Why not £7m or £3m?

Task

Which brand invested the most in advertising last year and were they successful?

There are four main stakeholder groups that contribute to the budget decision. These are the organisation itself, any communication agencies, the media whose resources will be used to carry designated messages and the target audience. It is the ability of these four main stakeholders to interact, to communicate effectively with each other and to collaborate that will impact most upon the communications budget. However, determining the 'appropriate appropriation' is a frustrating exercise for the marketing communications manager. The allocation of scarce resources across a communication budget presents financial and political difficulties, especially where the returns are not easily identifiable. The development and significance of technology within marketing can lead to disputes concerning ownership and control of resources. For example, in many companies management and responsibility for the web site rests with the IT department, which understandably takes a technological view of issues. Those in marketing, however, see the use of the web site from a marketing perspective and need a budget to manage it. Tension between the two can result in different types of web site design and effectiveness and this leads to different levels of customer support.

There are four main stakeholder groups that contribute to the budget decision.

Smallbone (1972) suggested a long time ago that the allocation of funds for promotion is one of the primary problems facing marketers, if not one of the major strategic problems. Audience and media fragmentation, changed management expectations and a more global orientation have helped ensure that budgeting remains problematic.

Models of appropriation

At a broad level there are a number of models proposed by different authors concerning the appropriation of the communication mix. In particular, Abratt and van der Westhuizen (1985)

who refer, among others, to Smallbone's (1972) and Gaedeke and Tootelian's (1983) models of promotional appropriation. Abratt and van der Westhuizen have determined, among other things, that personal selling dominated the mix of all their respondents in a particular study of business-to-business markets and that the models themselves were too simplistic to be of any direct benefit.

These broad approaches to budget allocation are not therefore appropriate, and it is necessary to investigate the value of using particular techniques. It is useful to set out the theoretical approach associated with the determination of communication and, in particular, advertising budgets.

Techniques and approaches

Theoretical approaches: marginal analysis and response curves

This method is normally depicted as a tool for understanding advertising expenditures but, as Burnett (1993) points out, it has been used for all elements of the communication mix, including personal selling, so it is included here for understanding the overall promotional allocation.

Marginal analysis (or response curve analysis) enables managers to determine how many extra sales are produced from an extra unit of communication spend. A point will be reached when an extra pound spent on communication will generate an equal amount (a single pound's-worth) of revenue. At this point marginal revenue is equal to marginal costs, the point of maximum communication expenditure has been reached and maximum profit is generated.

Another way of looking at this approach is to track the path of sales and communication expenditure. Even with zero promotional effort some sales will still be generated. In other words, sales are not totally dependent upon formal communication activity, a point that will be returned to later. When there is a small amount of promotion effort, the impact is minimal, as the majority of potential customers are either unaware of the messages or they do not think the messages are sufficiently credible for them to change their current behaviour. After a certain point, however, successive increments in communication expenditure will produce more than proportionate increments in sales. The sales curve in Figure 14.1 can now be seen to rise steeply and the organisation moves into a position where it can begin to take advantage of the economies of scale in communication. Eventually the sales curve starts to

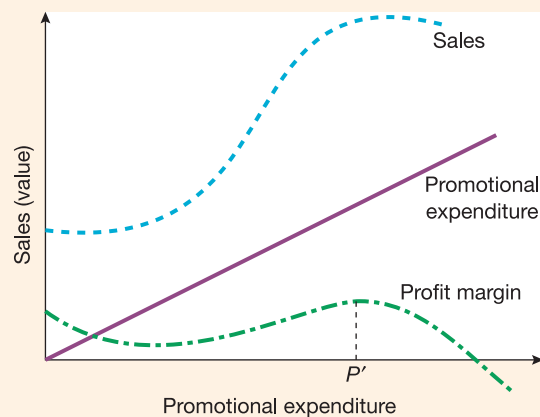


Figure 14.1

Marginal analysis for promotional expenditures. P' is the point of maximum profit, the optimal level of promotional expenditure

Table 14.2 Difficulties with the marginal analysis as a way of setting communication budgets

Assumes communication activities can be varied in a smooth and uniform manner.
Requires perfect data that in reality are very difficult to obtain.
Assumes only communication activities impact upon sales.
Does not consider all the costs associated with communication activities.
No account is made of the actions of direct and indirect competitors.
Adstock effects are ignored.
All messages are regarded as having equal impact. No consideration is given to the quality of messages.

flatten out as diminishing returns to promotion begin to set in. This is because the majority of the potential target market have become aware of the offering and have decided whether or not to become customers.

This model suffers from a number of disadvantages (Table 14.2). First, it assumes that communications can be varied smoothly and continuously. This is not the case. Second, it assumes that communications are the only influence upon sales. As discussed previously, sales are influenced by a variety of factors, of which planned communication is but one. Controllable and uncontrollable elements in the

The model assumes that communications can be varied smoothly and continuously. This is not the case.

environment influence sales. Next, no account is taken of the other costs associated indirectly with the presentation of the offering, such as those allied to distribution. Each communication thrust will often be matched, or even bettered, by the competition. Furthermore, the actions of rivals may even affect the sales performance of all products in the same category.

It is fair to say, therefore, that the marginal approach fails to account for competitor reactions. The model assumes that sales are the result of current communication campaigns. No attempt is made to account for the effects of previous campaigns and that adstock (or carryover) may well be a prime reason for a sale occurring. The time parameters used to compute the marginal analysis could be totally inaccurate.

One of the most important shortcomings of the theory is its failure to account for the qualitative effects of the messages that are transmitted. It is assumed that all messages are of a particular standard and that relative quality is unimportant. Clearly this cannot be the case.

The marginal approach is suspect in that it operates outside the real world, and it requires data and skill in its implementation that are difficult and expensive to acquire. Theoretically, this approach is sound, but the practical problems of obtaining the necessary information and the absence of qualitative inputs render the technique difficult for most organisations to implement.

However, before moving to some of the more pragmatic approaches, it should be noted that marginal analysis is not entirely without practical foundation. For example, Weaver and Merrick (2004) consider ways in which response-curve approaches can be combined with econometrics and management judgement and through the merged processes a more accurate and meaningful budget can be determined.

Practical approaches

If the marginal approach is not practical then a consideration of the alternative approaches is necessary. Practitioners have developed a range of other methods that tend to reflect simplicity of deduction and operation but raise doubts over their overall contribution and effectiveness.

Practitioners have developed a range of other methods that tend to reflect simplicity of deduction and operation but raise doubts over their overall contribution.

The following represent some of the more common approaches. It should be noted, at this point, that none of the techniques should be seen in isolation. Organisations should use a variety of approaches and so reduce any dependence, and hence risk, on any one method. The main methods are arbitrary, inertia, media multiplier, percentage of sales, affordable, quantitative, and objective and task.

Arbitrary

Sometimes referred to as ‘chairperson’s rules’, this is the simplest and least appropriate of all the techniques available. Under chairperson’s rules, what the boss says or guesses at is what is implemented. The fact that the boss may not have a clue what the optimal figure should be is totally irrelevant. Very often the budget is decided on the hoof, and as each demand for communication resources arrives so decisions are made in isolation from any overall strategy.

Apart from the merit of flexibility, this method has numerous deficiencies. It fails to consider customer needs, the demands of the environment or marketing strategy, and there is an absence of any critical analysis. Regrettably this approach is often used by many small organisations.

Inertia

An alternative to guesswork is the ‘Let’s keep it the same’ approach. Here all elements of the environment and the costs associated with the tasks facing the organisation are ignored. Not an impressive approach.

Media multiplier

One step more advanced is the method that recognises that media rate card costs may have increased. So, in order to maintain the same impact, the media multiplier rule requires last year’s spend to be increased by the rate at which media costs have increased.

Percentage of sales

One of the more common and thoughtful approaches is to set the budget at a level equal to some predetermined percentage of past or expected sales. Invariably, organisations select a percentage that is traditional to the organisation, such as ‘We always aim to spend 5.0 per cent of our sales on advertising.’ The rationale put forward is that it is the norm for the sector to spend about 4.5–5.5 per cent or that 5.0 per cent is acceptable to the needs of the most powerful stakeholders or is set in recognition of overall corporate responsibilities. For example, a local authority will be mindful of the needs of its council taxpayers, whose finances contribute to the funding and maintenance of local tourism activities, for example a museum or park facilities.

There are a number of flaws with this technique. It is focused upon the sales base on which the budget rests. Planned communications, and advertising in particular, are intended to create demand, not to be the result of past sales. If the demand generators of the communication mix are to be based on the last period’s performance, then it is likely that the next period’s results will be similar, all things being equal. This must be the logical implication when the percentage is based on past performance.

Another way of looking at this method is to base the spend on a percentage of the next period’s sales. This overcomes some of the problems, but still constrains the scope and the realistic expectations of a budget. No consideration is given to the sales potential that may exist, so this technique may actually limit performance.

Affordable

This approach is still regarded by many organisations as sophisticated and relatively free of risk. It requires each unit of output to be allocated a proportion of all the input costs and all

the costs associated with the value-adding activities in production and manufacturing, together with all the other costs in distributing the output. After making an allowance for profit, what is left is to be spent on advertising and communication. In other words, what is left is what we can afford to spend.

The affordable technique is not in the least analytical, nor does it have any market or task orientation. It is a technique used by organisations of differing sizes (Hooley and Lynch, 1985), that are product-rather than customer-oriented. Their view of advertising is that it is a cost and that the quality of their product will ensure that it will sell itself. Organisations using this technique will be prone to missing opportunities that require advertising investment. This is because a ceiling on advertising expenditure is set and borrowings are avoided. As sales fluctuate in variable markets, the vagueness of this approach is unlikely to lead to an optimal budget.

The affordable technique is not in the least analytical, nor does it have any market or task orientation.

Quantitative approaches

Various quantitative approaches have been offered in an attempt to determine a precise, all-encompassing model to derive a budget. Weaver and Merrick (2004) refer to Dyson (1999), who published a mathematical model to help apportion a budget within a brand portfolio. They also mention Harper and Bridges (2003), whose scoring system approach was offered as a contrast to the algorithms of Dyson. Neither is entirely satisfactory, if only for their lack of flexibility and interpretation of the competitive environment.

Objective and task

The methods presented so far seek to determine an overall budget and leave the actual allocation to products and regions to some arbitrary method. This is unlikely to be a realistic, fair or optimal use of a critical resource.

The objective and task approach is different from the others in that it attempts to determine the resources required to achieve each objective. It then aggregates these separate costs into an overall budget. For example, the costs associated with achieving a certain level of awareness can be determined from various media owners who are seeking to sell time and space in their media vehicles. The costs of sales promotions and sales literature can be determined and the production costs of these activities and those of direct marketing (e.g. telemarketing) and PR events and sponsorships can be brought together. The total of all these costs represents the level of investment necessary to accomplish the promotion objectives that had been established earlier in the marketing communications plan. This approach is sometimes referred to as zero-based budgeting.

The objective and task approach is different from the others in that it attempts to determine the resources required to achieve each objective.

The attractions of this technique are that it focuses management attention on the goals to be accomplished and that the monitoring and feedback systems that have to be put in place allow for the development of knowledge and expertise. On the downside, the objective and task approach does not generate realistic budgets, in the sense that the required level of resources may not be available and the opportunity costs of the resources are not usually determined. More importantly, it is difficult to determine the best way to accomplish a task and to know exactly what costs will be necessary to complete a particular activity. Very often the actual costs are not known until the task has been completed, which rather reduces the impact of the budget-setting process. What is also missing is a strategic focus. The objective and task method deals very well with individual campaigns, but is not capable of providing the overall strategic focus of the organisation's annual (period) spend. The case of Procter & Gamble illustrates this point.

The use of this approach leads to the determination of a sum of money. This sum is to be invested, in this case in promoting the offerings of the organisation, but it could equally be a

new machine or a building. To help discover whether such a sum should be invested and whether it is in the best interests of the organisation, a 'payout plan' can be undertaken.

Payout plans

These are used to determine the investment value of the advertising plan. This process involves determining the future revenues and costs to be incurred over a two- or three-year period. The essential question answered by such an exercise is 'How long will it take to recover the expenditure?'

Sensitivity analysis

Many organisations use this adjusting approach to peg back the advertising expenditure because the payout plan revealed costs as too large or sales developing too slowly. Adjustments are made to the objectives or to the strategies, with the aim of reducing the payback period.

Competitive parity

In certain markets, such as the relatively stable FMCG market, many organisations use communication appropriation as a competitive tool. The underlying assumption is that advertising is the only direct variable that influences sales. The argument is based on the point that while there are many factors that impact on sales, these factors are all self-cancelling. Each factor impacts on all the players in the market. The only effective factor is the amount that is spent on planned communications. As a result, some organisations deliberately spend the same amount on advertising as their competitors spend: competitive parity.

Competitive parity has a major benefit for the participants. As each organisation knows what the others are spending and while there is no attempt to destabilise the market through excessive or minimal communication spend, the market avoids self-generated turbulence and hostile competitive activity.

There are, however, a number of disadvantages with this simple technique. The first is that, while information is available, there is a problem of comparing like with like. For example, a carpet manufacturer selling a greater proportion of output into the trade will require different levels and styles of advertising and promotion from another manufacturer selling predominantly to the retail market. Furthermore, the first organisation may be diversified, perhaps importing floor tiles. The second may be operating in a totally unrelated market. Such activities make comparisons difficult to establish, and financial decisions based on such analyses are highly dubious.

The competitive parity approach fails to consider the qualitative aspects of the advertising undertaken by the different players.

The competitive parity approach fails to consider the qualitative aspects of the advertising undertaken by the different players. Each attempts to differentiate itself, and very often the communication messages are one of the more important means of successfully positioning an organisation. It would not be surprising, therefore, to note that there is probably a great range in the quality of the planned communications. Associated with this

is the notion that, when attempting to adopt different positions, the tasks and costs will be different and so seeking relative competitive parity may be an inefficient use of resources. The final point concerns the data used in such a strategy. The data are historical and based on strategies relevant at the time. Competitors may well have embarked upon a new strategy since the data were released. This means that parity would not only be inappropriate for all the reasons previously listed, but also because the strategies are incompatible.

The competitive parity approach fails to consider the qualitative aspects of the advertising undertaken by the different players.

Advertising-to-sales ratio

An interesting extension of the competitive parity principle is the notion of advertising-to-sales (A/S) ratios. Instead of simply seeking to spend a relatively similar amount on communication as one's main competitors, this approach attempts to account for the market shares held by the different players and to adjust communication spend accordingly.

If it is accepted that there is a direct relationship between the volume of advertising (referred to as weight) and sales, then it is not unreasonable to conclude that if an organisation spends more on advertising then it will see a proportionate improvement in sales. The underlying principle of the A/S ratio is that, in each industry, it is possible to determine the average advertising spend of all the players and compare it with the value of the market. Therefore, it is possible for each organisation to determine its own A/S ratio and compare it with the industry average. Those organisations with an A/S ratio below the average may conclude either that they have advertising economies of scale working in their favour or that their advertising is working much harder, pound for pound, than some of their competitors. Organisations can also use A/S ratios as a means of controlling expenditure across multiple product areas. Budgets can be set based upon the industry benchmark, and variances spotted quickly and further information requested to determine shifts in competitor spend levels or reasons leading to any atypical performance.

Budgets can be set based upon the industry benchmark, and variances spotted quickly.

Each business sector has its own characteristics, which in turn influence the size of the advertising expenditure. In 2006 the A/S ratio for female fragrances was 8.96 per cent, chewing gum 4.3 per cent, analgesics 5.1 per cent, digital cameras 2.19 per cent, toilet tissue 1.52 per cent, cereals 6.38 per cent and shampoo 4.95 per cent (Advertising Association). It can be seen that the size of the A/S ratio can vary widely. It appears to be higher (that is, a greater proportion of revenue is used to invest in advertising) when the following are present:

- the offering is standardised, not customised;
- there are many end-users;
- the financial risk for the end-user customer is small;
- the marketing channels are short;
- a premium price is charged;
- there is a high gross margin;
- the industry is characterised by surplus capacity;
- competition is characterised by a high number of new product launches.

A/S ratios provide a useful benchmark for organisations when they are trying to determine the adspend level. These ratios do not set out what the communication budget should be, but they do provide a valuable indicator around which broad commercial decisions can be developed.

A/S ratios provide a useful benchmark for organisations.

Share of voice

Brand strategy in the FMCG market has traditionally been based on an approach that uses mass media advertising to drive brand awareness, which in turn allows premium pricing to fund the advertising investment (cost). The alternative approach has been to use price-based promotions to drive market share. The latter approach has often been regarded as a short-term approach that is incapable of sustaining a brand over the longer term.

The concept underlying the A/S ratio can be seen in the context of rival supporters chanting at a football match. If they chant at the same time, at the same decibel rating, then it is

difficult to distinguish the two sets of supporters, particularly if they are chanting the same song. Should one set of supporters shout at a lower decibel rating, then the collective voice of the other supporters would be the one that the rest of the crowd, and perhaps any television audience, actually hears and distinguishes.

This principle applies to the concept of share of voice (SOV). Within any market the total of all advertising expenditure (adspend), that is, all the advertising by all of the players, can be analysed in the context of the proportions each player has made to the total. Should one advertiser spend more than any other then it will be its messages that are received and stand a better chance of being heard and acted upon. In other words, its SOV is the greater. This implies, of course, that the quality of the message transmitted is not important and that it is the sheer relative weight of adspend that is the critical factor.

This concept can be taken further and combined with another, share of market (SOM). When a brand's market share is equal to its share of advertising spend, equilibrium is said to have been reached (SOV = SOM).

Strategic implications of the SOV concept

These concepts of SOV and SOM frame an interesting perspective of competitive strategy based upon the relative weight of advertising expenditure.

These concepts of SOV and SOM frame an interesting perspective of competitive strategy based upon the relative weight of advertising expenditure. Schroer (1990) reports that, following extensive research on the US packaged goods market (FMCG), it is noticeable that organisations can use advertising spend to maintain equilibrium and to create disequilibrium in a market. The former is established by major brand players maintaining their market shares with

little annual change to their advertising budgets. Unless a competitor is prepared to inject a considerable increase in advertising spend and so create disequilibrium, the relatively stable high spend deters new entrants and preserves the status quo. Schroer claims that if the two market leaders maintain SOV within 10 per cent of each other then competitive equilibrium will exist. This situation is depicted in Figure 14.2. If a market challenger launches an aggressive

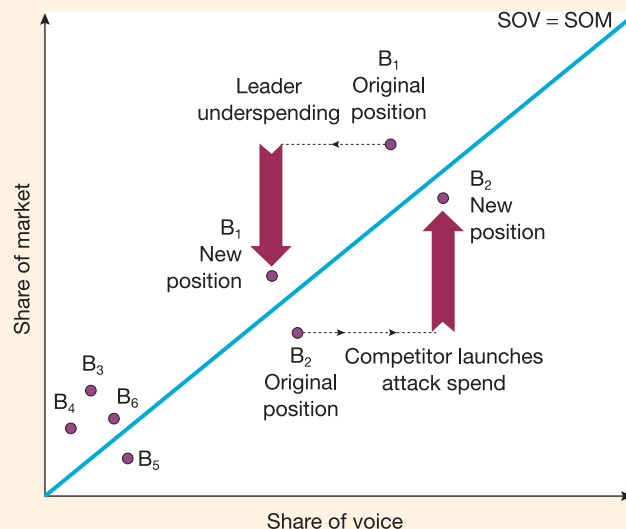


Figure 14.2

Strategy to gain market share by an increase in adspend

Source: Reprinted by permission of *Harvard Business Review*. From *Ad spending: growing market share* by J. Schroer, January/February 1990, 44–8. Copyright © 1990 by Harvard Business School Publishing Corporation, all rights reserved.

assault upon the leader by raising advertising spend to a point where SOV is 20–30 per cent higher than the current leader, market share will shift in favour of the challenger.

In Figure 14.2, brands 1, 3, 4 and 6 have an SOM that is greater than their SOV. This suggests that their advertising is working well for them and that the larger organisations have some economies of scale in their advertising. Brands 2 and 5, however, have an SOM that is less than their SOV. This is because brand 2 is challenging for the larger market (with brand 1) and is likely to be less profitable than brand 1 because of the increased costs. Brand 5 is competing in a niche market and, as a new brand, may be spending heavily (relative to its market share) to gain acceptance in the new market environment.

ViewPoint 14.3

Gauging brand success

One of the (many) problems associated with digital media is that there has been very little activity on which to build knowledge about how to optimise its use.

Brand Gauge is a propriety tool developed to assist both budgeting and media planning. Incorporating the goals of particular campaigns, this system stores online competitive data regarding particular expenditure on ads and market share across different categories. This enables it to generate share-of-voice and share-of-market calculations. These data are filtered through reach and effective frequency figures and compute the size of market covered, awareness levels and from this is delivered a figure that is equated to a 'positive brand reaction' score or PBR. The PBR is related to a campaign's objectives and therefore provides a measure of the value a campaign has delivered, whether this be a shift in brand perception, awareness or behaviour.

Of the many benefits of this approach one of the key ones is that wastage is reduced as the system advises when exposure is optimised and budget well spent.

Source: Longhurst (2006).

Question

Can these types of systems replace the human touch when devising budgets?

Task

Find out other methods used or recommended to set digital budgets.

This perspective brings implications for advertising spend at a strategic level. This is shown in the matrix, Figure 14.3, which shows that advertising spend should be varied according to the spend of the company's competitors in different markets. The implications are that advertising budget decisions should be geared to the level of adspend undertaken by competitors in particular markets at particular times. Decisions to attack or to defend are also set out. For example, communication investments should be placed in markets where competitors are underspending. Furthermore, if information is available about competitors' costs, then decisions to launch and sustain an advertising spend attack can be made in the knowledge that a prolonged period of premium spending can be carried through with or without a counter-attack.

This traditional perspective of static markets being led by the top two brands using heavy above-the-line strategies and the rest basing their competitive thrusts on price-based promotions was challenged by Buck (1995) through reference to a study of Superpanel data by Hamilton. It was found that the brand leaders in many FMCG markets spent nearly 50 per cent more than the industry average on advertising, while the number two brand spent about 8 per cent less than the industry average. In addition, the gap with the other actors was not as significant as Schroer reported. This is, of course, a comparison of European and US markets, and there is no reason why they should be identical or at least very similar. However, the data

		Share of market	
		High	Low
Competitor's share of voice	High	Defend position by increased adspend	Find niche position, decrease adspend and deploy other tools
	Low	Stabilise position by moderating adspend and use other tools	Attack competitors and use large adspend

Figure 14.3

Strategies for advertising spend

Source: Reprinted by permission of *Harvard Business Review*. From *Ad spending: growing market share* by J. Schroer, January/February 1990, 44–8. Copyright © 1990 by Harvard Business School Publishing Corporation, all rights reserved.

are interesting in that the challenge of brand 2, postulated by Schroer, is virtually impossible in many of the UK, if not also in continental European, markets.

The concepts of SOV and SOM have also been used by Jones (1990) to develop a new method of budget setting. He suggests that those brands that have an SOV greater than their SOM are 'investment brands', and those that have a SOV less than or equal to their SOM are 'profit-taking brands'.

There are three points to notice. First, the high advertising spend of new brands is an established strategy and represents a trade-off between the need for profit and the need to become established through advertising spend. The result, invariably, is that smaller brands have lower profitability because they have to invest a disproportionate amount in advertising. Second, large brands are often 'milked' to produce increased earnings, especially in environments that emphasise short-termism. The third point is that advertising economies of scale allow large brands to develop with an SOV consistently below SOM.

Using data collected from an extensive survey of 1,096 brands across 23 different countries, Jones 'calculated the difference between share of voice and share of market and averaged these differences within each family of brands' (p. 40). By representing the data diagrammatically (Figure 14.4), Jones shows how it becomes a relatively simple task to work out the spend required to achieve a particular share of market. The first task is to plot the expected (desired) market share from the horizontal axis; then move vertically to the intersect with the curve and read off the SOV figure from the vertical axis.

Appropriation brand types

Using this approach it is possible to determine three main types of brands, based upon the amount of advertising investment.

Using this approach it is possible to determine three main types of brands, based upon the amount of advertising investment. In each market there are brands that are promoted without the support of any advertising. These small niche players can be regarded as zero-based brands.

Where brands are supported by token advertising, represented by a small SOV, the brand is probably being milked and the resources are being channelled into developing other brands. New launches are typified by the heavy advertising investment, which is necessary to get them off the ground. Here the SOV will be larger than the SOM and these can be referred to as investment brands.

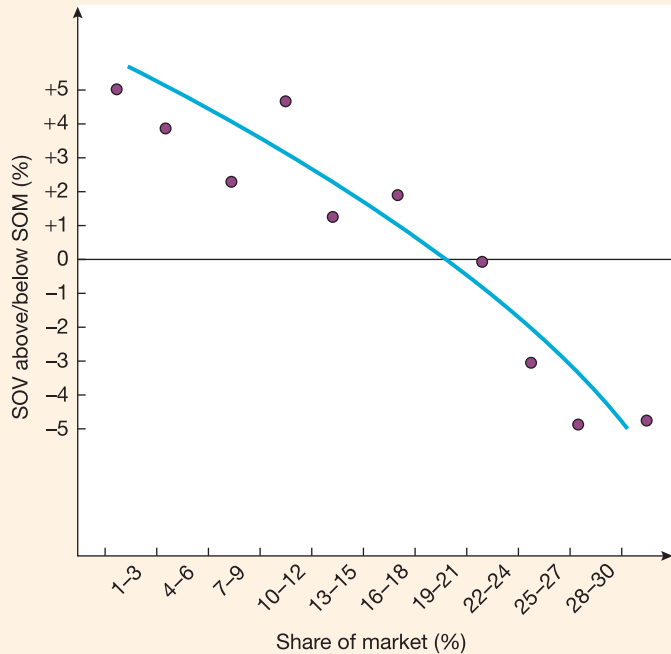


Figure 14.4

Curve comparing SOV with SOM

Source: Reprinted by permission of *Harvard Business Review*. From *Ad spending: maintaining market share* by J.P. Jones, January/February 1990, 38–42. Copyright © 1990 by Harvard Business School Publishing Corporation, all rights reserved.

In situations where the SOM is very large and the SOV much smaller, these profit-taking brands are running a risk of losing market share if a competitor spots the opportunity to invest a large sum in a prolonged attack. Finally, there is a group of brands that maintain stability by respecting each other's positions and by not initiating warfare. These brands can be referred to as equilibrium brands.

- Investment brands – $SOV > SOM$; heavy advertising to drive growth.
- Milking brands – $SOV < SOM$; low-level advertising to take profits out of the brand.
- Equilibrium brands – $SOM = SOV$; steady-level advertising to maintain position and avoid confrontation.

Assessing brands in the context of the advertising resources they attract is a slightly different way of reflecting their power and importance to their owners. If the SOV approach is limited by its applicability to stable, mature market conditions then at least it enables the communication spend to be seen and used as a competitive weapon.

The value of brand communications

The ideas and principles associated with the SOV concept provide a foundation upon which to consider the value of marketing communications as an aid to brand development. The importance of brands cannot be understated. Indeed, many organisations have attempted (and succeeded) in valuing the worth of their brands and have had them listed as an asset on

The ideas and principles associated with the SOV concept provide a foundation upon which to consider the value of marketing communications as an aid to brand development.

their balance sheets. While this has stimulated the accountancy profession into some debate, the concept of a brand's worth to an organisation cannot be refuted. Among other things, when companies buy other companies or brands, they are purchasing the potential income streams that these target brands offer, not just the physical assets of plant, capital and machinery. However, as discussed in Chapter 14, communications are a vital element used to develop these assets and so it is organisationally important to understand the relationship between the required level of investment in communications and the asset value that results from this activity.

Butterfield (1999) argued that marketers are required to account for their activities in terms of the contribution they make to the financial performance of an organisation. This means that markets and customers will be viewed as assets, which in turn will become subject to development, cultivation and leverage. Marketers will also be required to use different measures of performance. Market share, margin and revenues will give way to terms such as return on investment, net present value of future cash flows or just shareholder value. He commented that it will not be just a question of how much your adspend is, but how much you spend relative to your main competitors' market share. Although some of his views have yet to become reality there are signs that this longer-term, strategic value-oriented approach is beginning to become part of the overall marketing communications vocabulary, if not yet part of everyday practice. Ideas concerning shareholder value as a means of developing marketing strategy have become quite common and articulated by an increasing number of authors (Doyle, 2000) since Butterfield first speculated about future techniques.

Although there are exceptional cases, it is generally accepted that stronger brands are more likely to maintain market share in the following year than weaker brands. This means that the revenue streams from stronger brands are more secure and attract lower risk than weaker brands. Farr (2004) refers to the use of brand-related communications as media pressure. He defines media pressure 'as the brand's share of communications spending minus its prior-year market share' (p. 30). A brand's strength is in (major) part due to the accumulated investments and activities in the past. It follows therefore that these investments in communications should be continued rather than truncated. Figure 14.5 shows the relationship between risk (of share loss) and media pressure.

A brand's strength is in (major) part due to the accumulated investments and activities in the past.

Farr uses data from 350 brands, across a range of categories that have been divided into 20 groups based on media pressure. As media pressure grows so the risk (per cent) of losing share declines. This approach can be used to determine media budgets. Using discounted cash flows

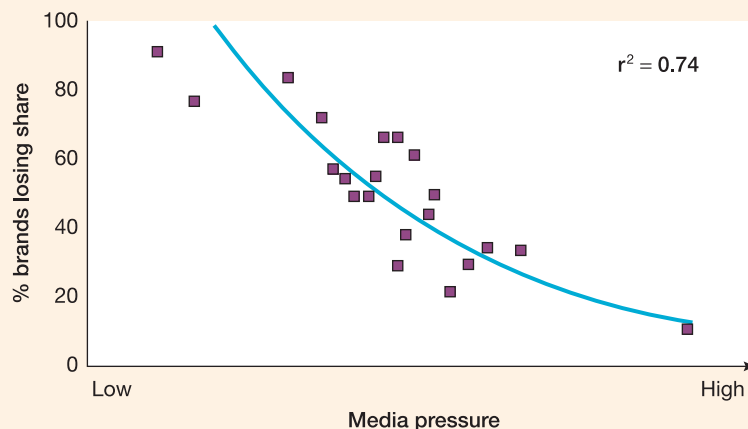


Figure 14.5

Communications investment to reduce risk
Source: Farr (2004). Used with permission from WARC.

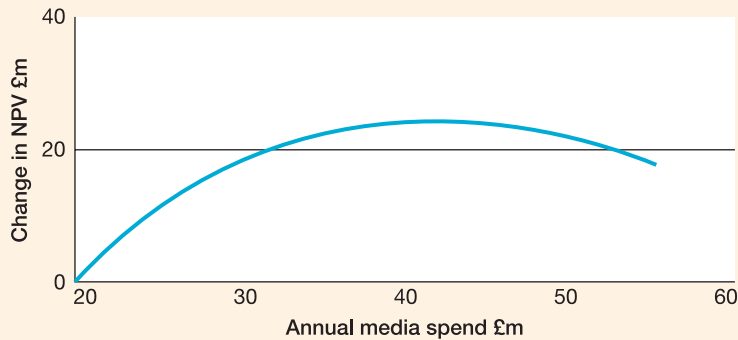


Figure 14.6

Media payback versus brand strength

Source: Farr (2004). Used with permission from WARC.

(DCFs) Farr shows that it is possible to estimate changes in the net present value (NPV) of the cash flows arising from different levels of media pressure. In the example depicted in Figure 14.6, investments up to around £40 million provide a positive impact on NPV but further investments fail to increase the value of future earnings, and should therefore not be utilised. He acknowledges that the assumption that investments in stronger brands will be more profitable may be misleading and other approaches to budget setting may need to be used when weaker (smaller) brands launch new variants or extensions.

At the end of the communication process one of the benefits that management hopes will emerge is an overall increase in the valuation of the brand. This net value arises as a result of the investment (for example, communication expenditures) generating a return to reward those who risked the capital invested in the brand. Some believe that this value arises from these activities and that the brand itself is worth £x; this should therefore be regarded as an asset and be placed on the balance sheet.

Profit impact on market strategy (PIMS)

One of the problems with the SOV and media pressure approaches is that they fail to take into account how much of a finite budget should be allocated to the other elements of the communication mix. Considering the relative amounts that are spent on advertising and sales promotions, let alone direct marketing, it is important to try to understand and determine how much of the budget should be spent on the other tools. In many markets a more useful strategic approach is to determine the relative spend of above- to below-the-line communication activities. As noted earlier, Procter & Gamble actually sets limits on what proportion of a brand can be spent below-the-line.

An alternative approach is the impact of marketing communications on profitability. One of the more notable commercial research organisations is PIMS. PIMS is a major database of the performance of 3,500 business units and includes profiles of over 200 variables measured over a rolling four-year period. The database records data of business performance, enabling managers to understand and develop strategies based on empirical results of businesses in particular sectors. One of the major findings is that total advertising spend is not correlated with profitability. What has emerged is that profitability is related to an optimum communication mix that is dependent on a number of key factors: again, an argument for integrated marketing communications.

PIMS is a major database of the performance of 3,500 business units and includes profiles of over 200 variables measured over a rolling four-year period.

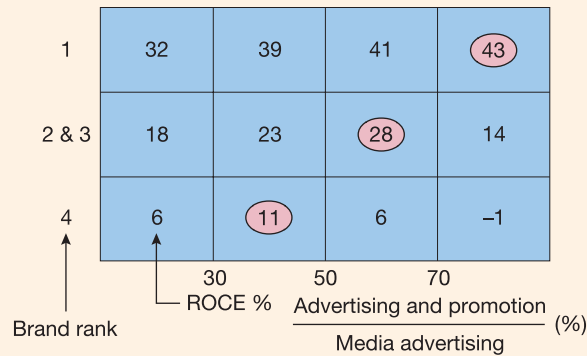


Figure 14.7

Brand leaders to concentrate on media advertising
Source: PIMS (2000).

The questions that brand managers need to answer are ‘Should communication investment be used to build brand image or should the goal be to drive sales off the shelf?’, and ‘Where is the balance?’

According to PIMS, brand leaders spend 70 per cent plus above-the-line and make 43 per cent return on capital employed (ROCE). As if to make the point, Mistry (2001) reports that market leader snack food manufacturer Walkers spends approximately 33 per cent of its overall marketing budget below-the-line. Brands ranked 2 or 3 should invest a smaller amount above-the-line but above 50 per cent, whereas brands ranked 4 or lower should only really use below-the-line investments if they are to be less than moderately successful (see Figure 14.7).

The evidence from the database reveals many statistical relationships, too many to present here. Some of the other pointers are that brands should use advertising in declining markets and use sales promotions in expanding or rapid growth markets. One other outcome appears to be that above-the-line advertising should be used when there are many distributors and where there is little innovation or sister brands.

There is some debate about the applicability and real usefulness of the PIMS data and PIMS itself points out the limitations of its work. However, the database serves to counter the arguments of the SOV school of thought that media advertising alone is the only significant variable that determines performance. One measures market share, and the other uses market share to determine ROCE.

Which methods are most used?

From this review and commentary it is necessary to draw out the degree to which these particular tools are used in practice. Mitchell’s (1993) study to determine the methods and criteria used by companies to determine their advertising budgets found that 40 per cent of respondents claimed to use the objective and task approach, 27 per cent used percentage of future sales (8 per cent used past sales) and 19 per cent used a variety of company-specific methods that do not fit neatly within any one item from the list presented above.

Although the figures resulting from the study can only be used to indicate trends of overall preferences, another set of important factors also emerged from this study. These are the range of organisational influences that impact on individual organisations. Over half the respondents reported that the method used to set these budgets actually varied, internally, across product categories. Different methods were used for new and established products.

The criteria used by organisations to set their communication budgets are many and varied. Mitchell suggests that the criteria used could be grouped as *controllables* (41 per cent), such as financial, product, production and goals; *uncontrollables* (41 per cent), such as sales, competition, market, media and distribution and *signals* (18 per cent), such as national activities, experience, effectiveness of expenditures and awareness. He reported that the processes used to determine the budgets were found as either essentially centralised or top down (52 per cent), decentralised or bottom up (13.5 per cent) or bargaining (top down and bottom up) (21 per cent). Gullen (2003) suggests ways in which all of the techniques can be grouped but concludes that management judgement based on weighting key criteria is required to determine the optimal budget. The main factors associated with the determination of marketing communications (advertising) budgets are:

Management judgement based on weighting key criteria is required to determine the optimal budget.

- organisational strategy and direction, values and cultural perspective;
- the relative amount of financial resources that are available;
- competitive activities and market conditions;
- the overall level of economic confidence felt by buyers and sellers;
- the level of product/brand development and the marketing objectives.

Over time a number of models and methods have been developed to manage these criteria to enable an appropriation to be determined.

Budgeting for the other elements of the communication mix

The methods presented so far have concentrated on the FMCG sector. The assumption has been that only one product has been considered. In reality, a range of products will need investment for communication and the allocation decision needs to reflect the requirements of an organisation's portfolio of brands. Broadbent (1989) suggests that this situation and others (e.g. direct marketing, corporate advertising) require particular combinations of the approaches presented so far. The recommendation again is that no single method will help organisations to determine the optimal investment sum.

Sales promotion activities can be more easily costed than advertising in advance of a campaign. Judgements can be made about the expected outcomes, based upon experience, competitive conditions and the use of predictive software tools. The important variable with sales promotion concerns the redemption rate. How many of the extra pack, price deals and samples will customers demand? How much extra of a brand needs to be sold if all the costs associated with a campaign are to be covered? The production and fulfilment costs can also be determined, so in general terms a return can be calculated in advance of a sales promotion event. However, there are a large number of sales promotion activities and these will often overlap. From a management perspective the brand management system is better, since a single person is responsible for the budget, one who is able to take a wider view of the range of activities. While the objective and task approach appears to be more easily applied to this element of the mix other methods, such as competitive parity and fixed ratios, are often used.

The costs of *public relations* activities can also be predicted with a reasonable degree of accuracy. The staffing and/or agency costs are relatively fixed and, as there are no media costs involved, the only other major factor is the associated production costs. These are the costs of the materials used to provide third parties with the opportunity to 'speak' on the organisation's behalf. As with sales promotion, if a number of public relations events have been calculated as a necessary part of the overall communication activities of the organisation, then the costs of

the different tasks need to be anticipated and aggregated and a judgement made about the impact the events will make. The relative costs of achieving a similar level of impact through advertising or other elements of the mix can often be made, and a decision taken based on relative values.

It has already been stated that the costs associated with the *sales force* can be the highest of all the elements of the mix, especially in business-to-business situations. This would indicate that the greatest degree of care needs to be taken when formulating the size and deployment of the sales force. The different approaches to the determination of the sales force are covered in Chapter 22. The costs associated with each activity of personal selling and the support facilities (e.g. car, expenses, training) can be calculated easily, but what is more difficult to predict is the return on the investment.

These approaches to calculating the amount that should be invested in communication activities vary in their degree of sophistication and usefulness. Of all these methods, none is the ideal answer to the question of how much should be allocated to marketing communications or, more specifically, the advertising spend. Some of the methods are too simplistic, while others are too specific to particular market conditions. For example, formulating strategy to gain market share through increasing SOV seems to ignore the dynamic nature of the markets and the fact that organisations need to satisfy a range of stakeholders and not concentrate solely on winning the greatest market share.

Setting budgets specifically across digital media has not yet been well researched.

Setting budgets specifically across digital media has not yet been well researched. Renshaw (2008) offers advice for those with and without digital budgets. Where there is a digital budget he advocates 70 per cent allocated to 'emerged' digital media, 20 per cent to media 'going mainstream' and the remaining 10 per cent going to emerging digital media (see Table 14.3 and Viewpoint 14.4).

Organisations that do have a digital marketing budget are advised to consider a step process.

- Audiences – what do they do, when do they do it, when and what media/content do they consume?
- Media – which media has worked in the past? performance
- Competitors – use media that deliver results but are there media which present opportunities for advantage?
- Be bold – Consider all digital opportunities not just the Internet.

Table 14.3

Lea Burnett's recommended allocations for digital media budgets

Status of digital media	Explanation
Emerged digital media 70%	These media can be optimised and will provide results. Key media include: broadband video, rich media/video-based ads and search marketing.
Going mainstream 20%	These are media that are not as well proven as emerged media but which are increasingly prominent and appear to be emerged media at some point in the future. These include: mobile marketing, online social networks and specific types of gaming.
Emerging digital media 10%	These media are just appearing and are not well known either by large audiences or by researchers in terms of their commercial potential and performance.

Source: Renshaw (2008). Used with permission from WARC.

ViewPoint 14.4

Indy racing with cats and dogs?

Most organisations need to keep pace with the changing technological environment. To that extent Leo Burnett advocate that 10 per cent of the digital marketing budget should be allocated to testing new and developing digital areas and to treat the spend as an experiment and to not expect to measure for a return on investment.

As an example, they refer to the work they undertook for Nestlé Purina Petcare in conjunction with Joost, the Internet-based video television channel that can reach global audiences and is said to be the next generation of television for viewers, content owners and advertisers. Material was made available on Joost as a branded channel by reusing TV content from the Purina Incredible Dog Channel. So, when Joost broadcast the Indy 500 motor race an 'overlay' of the Purina content appeared so that when clicked viewers were taken to the Purina site.

Source: Renshaw (2008).

Question

The use of overlays can be distracting (annoying) to viewers. So, is this approach merely experimenting old interruptive techniques with contemporary technology?

Task

Next time your screen time is interrupted with an overlay or pop up, click through and consider the degree to which the programme content and advertised brand complement each other.

Readers may well have reached the conclusion that the most appropriate way forward for management is to consider several approaches in order to gather a ball-park figure. Such a composite approach negates some of the main drawbacks associated with particular methods. It also helps to build a picture of what is really necessary if the organisation is to communicate effectively and efficiently.

Of all the methods and different approaches, the one constant factor that applies to them all concerns the objectives that have been set for the campaign. Each element of the communication mix has particular tasks to accomplish and it is these objectives that drive the costs of the promotional investment. If the ultimate estimate of the communication spend is too high, then the objectives, not the methods used, need to be revised.

Summary

In order to help consolidate your understanding of some of the financial matters associated with marketing communications, here are the key points summarised against each of the learning objectives:

1. Determine current trends in advertising and promotional expenditure.

The decision to invest in marketing communications is relatively easy. The real difficulty lies in determining just how much to invest and in which tools and media. This is because the direct outcomes are intangible and often distant, as the advertising effects may be digested by potential buyers immediately but not acted upon until some point in the future.

Current trends in communication are a general move away from offline advertising and sales promotion and an increase in direct marketing and online investments, particularly advertising.

2. Explain the role of the communication budget.

The role of the communication budget is to ensure that the organisation achieves the greatest efficiency with each euro allocated to communication activities. Managers cannot be profligate with scarce resources, and they are accountable to the owners of the organisation for the decisions made. The budgeting process provides for internal coordination and helps ensure that communications support the marketing strategy.

3. Clarify the benefits of using budgets for communication activities.

There are many benefits associated with marketing communication budgets among which the following are significant. The process serves to focus people's attention on the costs and benefits of undertaking the planned communication activities. The act of quantifying the means by which the marketing plan will be communicated to target audiences instils a management discipline necessary to ensure that the objectives of the plan are achievable. The process facilitates cross-function coordination and forces managers to ensure that the planned communications are integrated and mutually supportive. The process provides a means by which campaigns can be monitored and management control asserted. This is particularly important in environments that are subject to sudden change or competitive hostility.

4. Examine various budgeting techniques, both practical and theoretical.

Marginal analysis provides a theoretical basis to determine the 'right' budget. However, this approach is impractical so organisations use a variety of practical approaches. These range from guesswork, a percentage of sales, what is affordable, inertia and objective and task. The last is considered to be the most appropriate.

5. Provide an appreciation of the advertising-to-sales (A/S) ratio.

If it is accepted that there is a direct relationship between the weight of advertising and sales, then if an organisation spends more on advertising it will see a proportionate improvement in sales. The underlying principle of the A/S ratio is that, in each industry, it is possible to determine the average advertising spend of all the players and compare it with the value of the market. Therefore, it is possible for each organisation to determine its own A/S ratio and compare it with the industry average.

6. Set out the principles concerning the strategic use of the share of voice (SOV) concept.

Within any market the total of all advertising expenditure (adspend), that is, all the advertising by all of the players, can be analysed in the context of the proportions each player has made to the total. Should one advertiser spend more than any other then it will be its messages that are received and stand a better chance of being heard and acted upon. In other words, its SOV is the greater. This implies, of course, that the quality of the message transmitted is not important and that it is the sheer relative weight of adspend that is the critical factor.

This concept can be taken further and combined with another, share of market (SOM). When a brand's market share is equal to its share of advertising spend, equilibrium is said to have been reached ($SOV = SOM$).

7. Appreciate how budgets might be set for the other elements of the communication mix.

In reality, a range of products will need investment and the allocation decision needs to reflect the requirements of an organisation's portfolio of brands. The recommendation is that no single method will help organisations to determine the optimal investment sum and that a combination of approaches is necessary. Each of the remaining tools requires different approaches.

There are specific techniques available to determine the optimum sales force size and costs. The size of the public relations effort depends on usage but the financial investment can be reduced to a judgement. Sales promotions and direct marketing are project-oriented and can be costed accordingly.

Review questions

1. How might organisations benefit from adopting an appropriation-setting process?
2. What problems might be encountered when setting them?
3. Write a brief paper outlining the essence of marginal analysis. What are the main drawbacks associated with this approach?
4. Why is the objective and task method gaining popularity?
5. What is a payout plan?
6. Discuss the view that if the A/S ratio only measures average levels of spend across an industry then its relevance may be lost as individual organisations have to adjust levels of promotional spend to match particular niche market conditions.
7. How might the notion of SOV assist the appropriation-setting process?
8. What are 'profit-taking' and 'investment' brands?
9. Determining the level of spend for sales promotion is potentially difficult. Why?
10. How might understanding brand value assist in developing a communications budget?

MiniCase

Spending on breakfast can be cereal

The UK Ready-to-Eat (RTE) breakfast cereal market is worth £1,080 million and is dominated by three main manufacturers, Kellogg's, Weetabix and Cereal Partners. They hold 69 per cent market share but are faced with a number of competitive pressures, one of which is the 21 per cent share held by the own-label distributors that is growing at 5 per cent each year. The market is mature and is characterised by strong competition. Growth in the market has been slow with only product innovation and segmentation activities (e.g. chocolate flavours and children's products) showing above average performance. Branding in the RTE sector is extremely important.

With high penetration levels (90 per cent of UK households hold stock and 73 per cent of consumers claiming to eat them for breakfast) opportunities for real growth appear to be limited. However, research has shown that regular eating of the right sort of breakfast can help us get the right balance of foods we need. The nutritional value of breakfast cereals and their impact on health, diet and weight combined with their convenience, suggests that there are new opportunities for

product development and marketing communications. This health orientation has helped broaden market opportunities through new products (e.g. the very successful launch of Nutrigrain cereal bars from Kellogg's for those who need to eat a mobile breakfast, for example when travelling to work) and the promotion of breakfast cereals as an all-day snack food (which has

Table 14.4

Market share and advertising spend for three leading UK cereal manufacturers

Manufacturer	Market share by volume %	UK advertising spend £m
Kellogg Co UK	42	55
Weetabix Ltd	15	15
Cereal Partners Ltd	12	18
Own-label	21	0
Others	10	14
Total	100%	£102m

Table 14.5 Market share and advertising spend for three leading UK cereal brands

Manufacturer	Leading brands	Brand market share by value (%)	Brand advertising spend £Ms
Kellogg Co UK	Kellogg's Cornflakes	9	8
Weetabix Ltd	Weetabix	7	9
Cereal Partners Ltd	Shredded Wheat	4.5	5

Note: Information for this case has been collected from a variety of public sources. The figures have been adjusted to enable clearer relationships to be observed. The material is not intended to imply good or bad management practice. This mini-case is presented as illustrative material and is suitable for teaching purposes only.

been referred to as guilt-free snacking). The development of the Nutrigrain bars also demonstrates how Kellogg's have moved into new marketing channels (e.g. petrol forecourts) and are reaching new audiences. The different strategies adopted by the leading brand manufacturers suggest that there is no single best way to use marketing communications in this market.

Kellogg's are the leading brand manufacturer, but have been most affected by the growth of own-label brands. Faced with declining market share they have just announced an aggressive marketing policy, by slashing prices by 12 per cent on its top six brands. They also intend to increase its advertising spend by 40 per cent. In the past their advertising has been based around a benefit-oriented message that aims to educate audiences about the nutritional values of their products. In doing so, Kellogg's acknowledge the role parents play in the decision-making process. Kellogg's also collaborate with the government's Health Education Authority to raise awareness of the need for a balanced diet and the important role breakfast plays in our daily food intake.

The **Weetabix** company is privately owned and discloses very little about its activities. The Weetabix biscuit, the company's main brand, has a unique characteristic in that it turns very soft and mushy when milk is poured on it. Rather than work as a product disadvantage it increases the product's utility as it makes the product a suitable food for all ages: from babies as a weaning food, to young people as a quick and convenient snack food through to those in their later years. In addition to specific brand advertising that has been

largely attribute-based, Weetabix aim to add value to their brands through the use of sales promotions rather than focus on price reductions and discounts. For example, one promotion used 40 free drawstring tea-bags banded on top of a Weetabix 48-pack while another linked into an offer with Maxwell House coffee. Weetabix have been very profitable and they do not want to be drawn into a price war.

Cereal Partners was formed through an alliance between General Mills and Nestlé and is the single largest producer of own label products. The core part of their activities has been brand extensions and relaunches of established brands. This is demonstrated through the extensions of their largest single brand, Shredded Wheat, into Fruitful, Honey Nut and Bitesize. They do not see price as a significant factor in the decision-making process as they claim that research indicates that breakfast cereals are perceived to be a good value food. Their advertising messages are often directed at children and stress the taste and fun properties of their main line brands.

MiniCase questions

1. Evaluate the marketing communications strategy of each of the three main brand manufacturers.
2. Discuss how application of the SOV principles to the determination of advertising budgets might be applied to this case.
3. Suggest how Weetabix Ltd might use marketing communications to counter the new promotional strategy announced by Kellogg's.

References

- Abratt, R. and van der Westhuizen, B. (1985) A new promotion mix appropriation model. *International Journal of Advertising*, **4**, 209–21.
- Advertising Association (2004) *Advertising Statistics Year Book*. Henley: World Advertising Research Centre.
- Broadbent, S. (1989) *The Advertising Budget*. Henley: NTC Publications.
- Buck, S. (1995) The decline and fall of the premium brand. *Admap* (March), 14–17.
- Burnett, J. (1993) *Promotion Management*, New York: Houghton Mifflin.
- Butterfield, L. (1999) *Excellence in Advertising: The IPA Guide to Best Practice*. Oxford: Butterworth Heinemann.
- Charles, G. (2008) Tiger Beer plans UK spending hike to £5.5m, *Marketing*, 19 March, 5.
- Donnelly, A. (2008) Cut spend, damage the brand, *Marketing*, 19 March, 4.
- Doyle, P. (2000) *Value-based Marketing: Marketing Strategies for Corporate Growth and Shareholder Value*. Chichester: Wiley.
- Dyson, P. (1999) How to manage the budget across a brand portfolio. *Admap*, **37**(10) (December), 39–42.
- Farr, A. (2004) Managing advertising as an investment. *Admap*, **39**(7) (July/August), 29–31.
- Gaedeke, R.M. and Tootelian, D.H. (1983) *Marketing: Principles and Application*. St Paul, MN: West.
- Gullen, P. (2003) 5 steps to effective budget setting, *Admap* (July/August), 22–4.
- Hall, E. (1999) When advertising becomes an expensive luxury. *Campaign*, 10 December, 18.
- Harper, G. and Bridges, D. (2003) Budgeting for healthier ROI. *Admap*, **38**(7) (July/August), 25–7.
- Holmes, S. (2004) What happened to ‘just do it’? *Independent on Sunday*, 12 September, 8–9.
- Hooley, G.J. and Lynch, J.E. (1985) How UK advertisers set budgets, *International Journal of Advertising*, **3**, 223–31.
- Jones, J.P. (1990) Ad spending: maintaining market share. *Harvard Business Review* (January/February), 38–42.
- Longhurst, P. (2006) Budgeting for online: is it any different? *Admap* (November), 36–7.
- Mistry, B. (2001) Walkers revives Tazo route, *Promotions and Incentives* (March), 26–8.
- Mitchell, L.A. (1993) An examination of methods of setting advertising budgets: practice and literature. *European Journal of Advertising*, **27**(5), 5–21.
- PIMS (2000) www.PIMS-Europe.com.
- Renshaw, M. (2008) How to set digital media budgets. *WARC Exclusive*. Retrieved 20 March 2008 from www.warc.com.
- Schroer, J. (1990) Ad spending: growing market share. *Harvard Business Review* (January/February), 44–8.
- Smallbone, D.W. (1972) *The Practice of Marketing*. London: Staple Press.
- Tomkins, R. (1999) If the return is right, keep spending. *Financial Times*, 19 March, 8.
- Tylee, J. (1999) Survey warns against adspend cuts. *Campaign*, 12 March, 10.
- Weaver, K. and Merrick, D. (2004) Budget allocation revisited, *Admap*, **39**(7) (July/August), 26–8.
- White, R. (2007) How to use the budget better. *Admap*, July/August, 14–15.
- Whitehead, J. (2008) IPA backs ads in face of downturn. *Marketing*, 9 January, 4.