Calculating the budget

By Chris Brewer

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Last week I said that we'd be investigating the various ways to calculate a budget. And I lied, of course (but I will cover them all over a couple of weeks)...

There's no simple answer to this in less than 1,000 words (which is all I have here) so I'm going to give you some broad definitions first - then I'm going to give the best tip imaginable. Honest.

The calculation of an advertising appropriation can take many forms - all have their own, unique, disadvantages - and, having read volume upon volume about budgeting, I have yet to find a satisfactory method.

They all share one common disadvantage, as was expressed by Lord Leverhulme (and attributed to several others);

"Probably half of every advertising budget is wasted, but nobody knows which half."

Deciding upon the amount of the budget - either as an annual whole or a separate, tactical, campaign - is a vital step because much of the later planning will depend on this decision. (Rather like inviting your friends to dinner and preparing a lamb curry and then, when they all arrive, you say "I hope you all like curry" only to discover that three of them are vegetarian, one is allergic to lamb and four absolutely hate curry). You have to plan your budget with future activities in mind.

Indeed, one of the basic reasons for having a definite appropriation in the first place is that it makes planning absolutely essential.

If no budget were fixed, it is quite probable that an irresponsible attitude would prevail where statements like "it's about time we ran another ad" are made.

When a budget does exist then it tends to muster the available marketing forces within an organisation in an orderly and effective manner.

There are very few advertising managers who will spend less than their budget. Why? Because next year, the accountants will automatically reduce the allocation. And their reasoning is about as sensible as people who free-fall from the stratosphere. It's totally ridiculous. Amongst the many reasons for making this cut is that it implies the advertising manager didn't accurately forecast what he was going to spend and that, by doing his job properly (such as spending below budget by negotiating better) he's going to be penalised.

So what happens is that the accountants get very excited (which mainly involves pencil sharpening by the way, and testing their ball point pens) and cut the advertising budget, demand an increase in sales of 20% and report to the board that everything is going along swimmingly.

Before we look at the options for calculating the perfect budget it would be wise to pause and reflect that it will **never** be found - and that we wouldn't recognise it even if we stumbled upon it.

1. Guess

The most significant importance of this method is its honesty.

It makes no claim to scientific motivation but is based on pure gut-feel and guesswork as well as previous experience.

The value of gut-feel should never be underestimated - but it depends on whose gut is doing the feeling and how reliable that gut is, of course.

Many advertising experts will dismiss this method out of hand as being worthless - but it **does** have a valuable contribution to make.

"Gut feel" is defined by the OED (Oxford English Dictionary) as "arising from, or characterised by, what is basic, essential or natural."

My personal view is that, in the right hands, this is the most accurate option.

2. Historic percentage

When the last year's advertising expenditure is known, together with last year's sales, an attempt can be made at establishing and observing the perceived relationship between sales and advertising.

Of course, as intelligent as this method sounds, it assumes that all conditions will remain unchanged, which of course they won't.

However, it has an air of 'common sense' about it, by virtue of the fact that it associates sales with adspend. So it's not altogether stupid.

3. Dynamic difference analysis

This is a more scientific application of the 'historical percentage' method and Moroney, its author, states in his preamble:

"***Other things being equal, a brand's share will increase in direct proportion to the extent by which its share of total***

advertising exceeds its share of market in the previous year." (You might want to read that again, because it's important to understand).

The observed imbalance between share of advertising and share of market is termed the "dynamic difference" (as applied to the brand.)

The assumption implies that if a brand was able to hold its share of total advertising exactly equal to its market share in the previous year, then no change would take place.

I'll try to explain without the use of diagrams...

Share of Market Last Year	Share of Adspend Last year	Dynamic Difference	Share of Market This year	Change in Market Share
All Other: 70%	All Other: 55%		All Other: 60%	
		15%		10%
Our Brand: 30%	Our Brand: 45%		Our Brand: 40%	

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The formula states that, other things being equal, changes in the brand's market share from year to year (10% in this example) will be directly related to the dynamic difference to that year (15%). The formula can be tested by calculating the two figures for a series of years and then plotting the points they give on a diagram - I will explain how to calculate a straight line in later articles.

I fear, however, that I have already put too much information into this (supposedly short) article, so I am going to end here and pick it up again next week. In the meantime, you are very welcome to contact me directly.

At the beginning of this article I promised you "the best tip imaginable", and this is it:

My friend, Erik du Plessis, wrote a book about, inter alia, "setting an advertising budget" where he goes into far more detail than I ever could here. It's a MUST read called "The Branded Mind", published by Kogan Page and available in 13 languages. You can get it on Amazon. If you have any problems, let me know.

Next week, I'll give you the details of where, perhaps, Erik is speaking in public next (they don't let him out often).

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