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*Review Article*

# Marketing Budget – Critical For Business Success

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***Abstract***

*Marketing is a customer oriented philosophy which is integrated throughout an organization to serve the customers better than competitors in order to achieve profitability and growth. However businesses either allocate insufficient amount to marketing or spend excessively on it. It is thereby essential that good marketing is supported by proper budgeting of all marketing activities. A marketing budget is an estimate of projected costs to ensure proper planning, pricing and distribution of products or services. Thus this paper attempts to provide different techniques to determine the amount of marketing budget. It also suggests steps which can be considered to allocate the cost of different marketing activities in preventing waste, reducing marketing expenses and building brand profitably.*

***Keywords:*** *Marketing budget, SMART marketing goels.*



## Introduction

“Marketing is the analysis, planning, implementation and control of programmes designed to bring about desired exchange with target audiences for the purpose of personal and mutual gain. It realizes heavily on the adoption of product, price, promotion and place for achieving effective response”- Philip Kotler. It is a customer oriented philosophy which is integrated throughout an organization to serve the customers better than competitors in order to achieve profitability and growth. However businesses either allocate insufficient amount to marketing or spend excessively on it.

Lilien(1979) investigated business marketing practices in a major project called **Advisor** and stated the following findings:

- The average industrial company set its marketing budget at 7% of its sales. It spent only10% of its marketing budget on advertising. Companies spent the remainder on sales force, tradeshows, sales promotion and direct mail.
- Industrial companies spent a higher than average amount on advertising where their products had higher quality, uniqueness or purchase frequency or where more customer growth was occurring.
- Industrial companies set a higher than average marketing budget when their customers were more dispersed or where the customer growth rate was higher.

In (2013) Adobe conducted a survey of 1000 U.S. marketers and found that only 40% of those surveyed felt that their company’s marketing efforts were effective. This same survey indicated that 68% of marketers were feeling “more pressure to show a return of investment on marketing spend" (ROMI).It is thereby essential that good marketing is supported by proper budgeting of all marketing activities.

A marketing budget is an estimate of projected costs to ensure proper planning, pricing and distribution of products or services. It is an overall blue print of a comprehensive marketing plan of operations and action expressed in financial terms. Basically a marketing budget includes all marketing costs such as- marketing communications, salaries of marketing managers, cost of office space, advertising agency commission, marketing assets, fixtures fittings, fixed costs etc. However major part of the budget is concerned with marketing communication for e.g. Personal selling, public relation, print and broadcast media, trade shows, printing and designing, website development and hosting, brochure design, advertising–television advertising, radio advertising, newspaper advertisement, proposal development, event attendance, sales promotion etc. In a competitive environment it helps to address questions as how much and how to spend on different marketing activities in order to attain sustainable development of the business.

Bonoma (1984), in an article titled, 'Making Your Marketing Strategy Work', in the Harvard Business Review, states that marketing strategy and the execution of this strategy have a reciprocal effect on each other. Problems in implementation can often disguise a good strategy. If the execution of the strategy is poor, it may cause marketing management to attribute the failure to a poor strategy and permanently change its approach. However, at the other extreme, one may find an inappropriate strategy compensated for by excellent execution. In this situation, management may have time to recognize the strategic mistakes and adjust its strategy.

Kotler (2000), in a study of seventy-five companies of varying sizes in different industries with the objectives of studying the marketing plan control procedures in implementing marketing strategies reports the following findings:

- Smaller companies do a poorer job of setting clear objectives and establishing systems to measure performance.
- Less than half of the companies studied knew their individual products profitability.
- About one-third of the companies had no regular review procedure for spotting and deleting weak products.
- Almost half of the companies fail to compare their prices with those of the competitors, to analyze warehousing and distribution costs, to analyze the causes of returned merchandise, to conduct formal evaluations of advertising effectiveness and to review their sales force call reports. This implies that marketing department has to monitor and control marketing activities continuously to prevent failures.

Thus this paper attempts to provide different techniques to determine the amount of marketing budget. It also suggests steps which can be considered to allocate the cost of different marketing activities in preventing waste, reducing marketing expenses and building brand profitably.

**Techniques of Marketing Budget:**

Marketing budget vary from business to business. Generally there are four common methods to determine the amount of marketing budget.

**Percentage of Sales or Net Profit Method:**

Percentage of sales or net profit is the most popular method for developing marketing budget. It is ratio of the companies' past marketing budget to the past sales or net profit to compute the percentage. The same percentage is then applied to the projected sales or net profit to ascertain the budget for that year. Usually companies allocate between 1% and 10%of their revenue to marketing budget. The main advantage of this budget is that the marketing budget increases or decreases with sales or net profit. However this method is not suitable in case of new product.

**The flat rate / amount method:**
The companies which cannot afford to spend huge amount on marketing use this method. It is based on historical approach as the companies allocate a uniform rate or amount on marketing every year. It is suitable when there is no change in the market or slow growth is slow. However it is difficult for new companies to define flat rate or amount as there are no past records of sales and marketing expenditures.

**Competition oriented Method:**
This is another method of establishing a marketing budget. Companies which want to stay competitive spend in line with the competitors. Though it is difficult to get reliable information but it is quite beneficial in case of new products and services. The company is also able to utilize the budget more efficiently and achieve more with less money.

**Marketing objective oriented method**:
In this budget the companies allocate the cost of all marketing activities for the next year. Then total amount of all these costs gives the marketing budget for that year. Though it is a simple technique to set the budget but acquiring accurate costing information from different dealers in advance is very difficult. Apart from this there is little scope for making changes in strategy during the year.
All the above methods are arbitrary and may not provide an easy solution to the problem of allocation. Generally, allocations can be made in relation to sales or profit but an ad-hoc allocation is found in practice at the initial stage.

**Steps to Design a Sound Marketing Budget:**
After deciding the amount of limit that could be spent on marketing of product and services, the problem arises how and where to spend the amount to achieve maximum return. The marketing manager in association with an accountant can take into consideration the following steps (Fig:1) to apportion cost of all marketing activities:

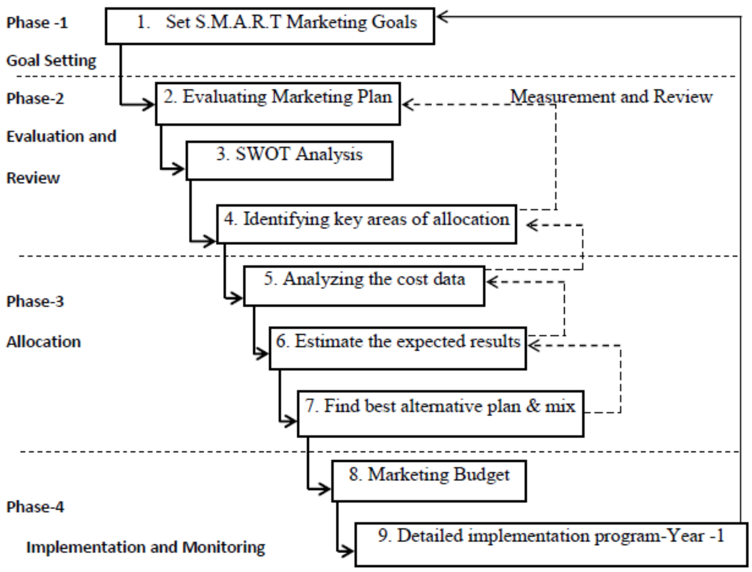


**Fig: 1 Steps to design a sound marketing budget**

**Set S.M.A.R.T Marketing Goals:**
Business goals are the foundation stone of budget construction. Thus setting of S.M.A.R.T (specific, measurable, attainable, realistic, time based) marketing goals is the first and foremost step towards the allocation of marketing budget.
Some of the smart goals can be –

- To increase the website traffic measured by visitors per month.
- To add three new features to the product this quarter.
- Starting new business or developing a new division measured on the basis of total leads and sales revenue.
- Evaluating Marketing Plan and Identifying Key Areas of Allocation

The comprehensive knowledge of the key industry and market research of both micro and macro environmental variables help the business to identify and allocate the cost of different areas where it needs to focus in marketing the products and services to reach the target audience. However it depends on three main factors:-

- The size of the budget for e.g. business having limited marketing budget should use small print ads, online ads, social media and e-mail to increase the number of customers.
- The past records /experiences and growth – the internal records and performances guide the spending plan. Reviewing the performance of internal records and measuring the return on investment regarding a certain marketing activity help to drop or choose the same to reach the right customer in the changing environment.

  The allocation of cost of marketing is also affected by competitor. The business should assign the amount as to take the advantage of competitor's weakness and emphasize its strength to increase the market share or improves its brand equity. Apart from this the companies in business for more than five years which have established itself and have brand equity should allocate between 6and12% of gross revenue or projected revenue. It is important for these companies to spend time and money in improving the content of the websites so as to create consistent brand image for consumers. The companies which have been in business for one to five years should allocate 12-20% of gross revenue or projected revenue for marketing budget. They can budget money for customer surveys and focus groups to bring in new clients. And the companies less than a year in business should allocate sufficient amount for market research. It can develop a target customer profile and test–marketing for new product and service including the cost of free samples or demonstration.

- Able to reach the right customer through appropriate marketing channels- For this the business should identify their prospective customer and media they are using. They should find their niche markets. This is the place where it should go for advertising. Business can also set aside small portion of marketing money for testing a new marketing channel.

**Analyzing the Cost Data and Making Appropriate Changes:**
The final step to make the sound marketing budget is the proper assessment of the marketing plan and making appropriate changes. The main aim of marketing plan is to increase revenue. If any marketing strategy is not able to generate extra revenue in excess of cost, then it is better to change the strategy and use the best alternative solution. When maximum profit yielding combinations of marketing estimates are selected, the estimates should be treated as final.

**Conclusion:**
The marketing budget helps in preventing waste, reducing marketing expenses and

building brand profitably. However its success or failure depends upon the accuracy of basic estimates or forecasts. Mere preparation of marketing budget will not ensure proper execution. It is very much required that each executive must feel the responsibility to attain the set goals.

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