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How much should I spend?

Helping customers set up an advertising budget.

As sales people we hear the word “budget” almost every day. Many prospects use “it’s not in the budget” or “we’ve already spent our budget” to send pesky sales people on their way. Like most objections, this is usually a smoke screen to hide their real concern—they just don’t see the value in what you are offering. Many small businesses don’t have a well thought out advertising budget. They use the “fly by the seat of your pants” approach to their marketing, buying advertising only when they are desperate for customers. This haphazard approach is wasteful and ineffective. As advertising professionals, we should work with our customers to develop an advertising budget that will help them achieve their marketing objectives.

The importance of an advertising budget

A simple definition of budget is a “spending plan” and as in all other areas of life, the old proverb “failing to plan is planning to fail” applies. Lacking a cohesive plan, businesses can spend a great deal of money on advertising without generating any measurable response. Many business people will spend a few dollars here and a few dollars there on things like high school programs and community maps. They do not realize that these “low cost” media add up to a large sum of money in the course of a year. Budgeting for a well planned free paper program would give them greater penetration and readership delivering a healthy return on their investment.

Many businesses do not understand the value of investing in marketing and advertising. Research indicates that advertising is a key component in the success or failure of any consumer oriented enterprise. Franchise businesses have a much higher rate of success than other start-up businesses. Most franchise agreements require the franchisee to spend a clearly defined portion of their sales on promoting the business. This is a key factor in their high survival rate. Business people resist setting up a budget because they don’t understand the importance of advertising or they have no idea on how to create a marketing plan. We can help them on both accounts.

Some business people budget out of habit, spending the same amount with the same media each year. This may have been adequate in the past, but in today’s ever changing market a “steady as she goes” approach is very risky.

The advertising budget should be reviewed annually and factors such as the current state of the economy and changes in the competitive environment should be taken into consideration.

Budgeting 101—the basics

Many factors influence how much a business should budget for advertising, but a good starting point is to take a look at the annual sales figures. Many businesses set their budget as a fixed percentage of their overall sales. This method offers a number of advantages. Basing advertising expenditures on monthly sales figures automatically adjusts the amount up or down according to the seasonal busy and slack times. Pegging the advertising budget to sales, positions the business for continuous growth. Many advertising and industry organizations have compiled tables of "advertising to sales ratios." To get an idea of an appropriate percentage to apply to your customer's specific business, simply Google "advertising to sales ratios" along with the type of business. This information is a good starting point, but as no two business situations are alike, the budgeting process should take your customer's unique circumstances into consideration.

Factors to consider when establishing an advertising budget

Budgeting should be a holistic process and involve a 360 degree analysis of the customer's circumstances and objectives. Here are some of the factors that impact this important process:

Business model/industry—How the customer does business is the first thing to think about when setting a budget. Who do they want to target? What are their most profitable products or services? Do they have regular repeat customers or do people buy there just occasionally? You must know what the customer wants and needs to accomplish, before formulating a budget/plan to get them there.

Business models that use low price points to attract shoppers must budget for frequent advertising. Cost conscious customers can only react to prices when they are aware of the weekly specials. Businesses that fail to stay in front of potential shoppers risk losing that week's business to the competition.

Local Economy—Is the local economy growing or stagnant? What is the employment situation? What are the local economic trends? These are important considerations when establishing a budget. In a tight economy sales slow down and a natural reaction is to reduce or eliminate the advertising budget. This is the worst possible thing to do. In a tough market, businesses need to increase their marketing to attract new clients to replace the customers they are losing in order to grow their market share.

Location, location, location—The customers location has a big impact on their advertising budget. Customers who have invested in a high traffic location at a busy crossroads or strip center may be able to rely on walk-in traffic for cash flow. Customers in a "low-rent" district need to spend more on advertising to attract people to their less visible location.

Busy/Slow periods—Seasonal businesses have to consider how they will allocate their investment throughout the calendar year. Some businesses only advertise when customers are in the market seeking their products. This can be effective, particularly when consumers have a choice of suppliers for the same product. Businesses who remain open throughout the year should continue to advertise, at some level, through the "slow" months. This keeps the business in front of consumers twelve months a year building brand awareness and helps to maintain cash flow. Many seasonal businesses ramp up their marketing too late in the season. They should begin to promote their business well before the beginning of the season. This puts their name in front of potential buyers when they are planning their seasonal purchases. Advertising "pre-season" specials will ensure a quick start once the season gets under way.

Competitive pressures—the number of competitors a business has and how aggressive they are is a critical concern when setting a budget. Customers who are "the only game in town" may not need to invest as much in advertising. A business that is "swimming with the sharks" has to heavily promote themselves to maintain market share. A new enterprise trying to increase its market share against an entrenched competitor needs to spend more than an established concern. On the other side of this competitive struggle, an established firm needs to increase their spending to defend their customer base from a challenger. Many long established businesses, confident of their customer's loyalty, have closed because they failed to respond to competitive challenges in a timely fashion.

Customer's long term vision for the business—In 1965 Tom Monaghan scraped together $75 for a down payment on an established pizza shop near the East Michigan State campus. Within a decade he turned Domino's Pizza into a major national player in the restaurant industry. What was the difference between

Monaghan and the other pizza shops in his market? Monaghan had a desire to see his business and his income grow. This desire led him to invest heavily in marketing his business. A customer who is satisfied with their income may want to only invest a minimal amount to maintain their current market share. Customers, who want to aggressively grow their business, must aggressively advertise to realize their goals.

Budgets are written on paper, not cast in stone

Most businesses have some flexibility built into their budgets. With the exception of large organizations like hospitals or non-profit groups whose budgets must be approved by a board, most businesses will expand their spending if they believe the additional investment is justified. Even in organizations with fixed budgets, funds can be reallocated. If you make a good case for your program, a buyer can take money away from other media or other expenditures to purchase your recommendation. In this way they can purchase your program while staying within budget. In most cases, if you can convince a buyer that your program will help them achieve their goals, they will find the money.

Conclusion: Working with customers and their budgets

I like to work with customers who have a well thought out budget and advertising plan. If a customer doesn't have a clear objective or budget in mind, we need to show them the importance of advertising to the success of their enterprise. If a customer knows what they want to spend, we can work with them to develop a long-term plan to build their business. A customer who has a carefully planned program is much more likely to see a good response and become a long-term advertiser. Talking to your customers about their budget and their budgeting process establishes you as a true business consultant and a valuable business resource. As professional salespeople, when we hear the word "budget" we should think "opportunity" not "obstacle."

This article was written by Jim Busch of the Pittsburgh Pennysaver.