The advertising budget

By Chris Brewer

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As John Jones (of JWT at the time) once said "*we have a very patchy understanding of the connection between advertising's influence (if any) on behaviour, knowledge and attitudes. We have a very inadequate knowledge of how to calculate the optimal budget for a brand and how to deploy this budget most efficiently in media plans*."

Before going any further about budgeting I implore you to not, **under any circumstance**, allow an accountant or a CA anywhere close to you when you are doing the necessary calculations - **neither should they be allowed any say whatsoever in the approval of a budget**. The reason for this is simple; **accountants kill advertising**.

This sum of money I'm talking about is sometimes described as the 'advertising appropriation'. The difference between the two is subtle. A 'budget' is a plan to spend a specific sum over a specific period. An 'appropriation' is a sum of money set aside for a specific purpose - based, hopefully, on 'The Plan' - It doesn't always mean every cent must be spent.

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Robert Townsend was a bit more dramatic than Jones when he proclaimed "*budgets are based on little more than the past and some guesses. Yet they are treated with reverence by accountants and by incompetent CEO's*."

The problem is that the return on media spend cannot be measured in the same way as a traditional investment can. Too little will mean failure and too much will mean a waste of funds.

There is a peculiar paranoia about budgets which is more common than it should be; it concerns the misguided belief that the major criterion in any advertising campaign is the quantum of adspend.

Whilst the amount of money spent is certainly a serious consideration, and will have a marked effect on the campaign results, it is not the most important thing.

A good advertising campaign will produce good results - even when the advertising budget is theoretically insufficient. Conversely, a poor advertising campaign will not produce good results even though it has an ample budget. I do concede, however, that sheer volume (or weight) of advertising exposure can rescue a poor campaign - but it will be hugely expensive. It's infinitely better to run a great campaign with a carefully constructed budget. This point is clearly obvious so all we have to do now is to calculate what we should spend.

But before addressing the issue of how much to spend on advertising, perhaps the question should firstly be asked "can we afford to advertise at all?"

The reality of that question is a dilemma.

Advertising is usually an investment opportunity and, like most opportunities, they can rarely be exploited to the full. For example, I have the need for a motor car - one of many opportunities is a new Mercedes but, faced with the economic realities of life, I may decide to continue using the bus.

One of the budgeting methods I'll be covering over the next few articles on Bizcom is one of 'affordability'. In essence the business is saying to itself that it will spend "as much as we can afford".

This approach, clearly, undermines the very nature of advertising as an investment.

The essential motivation for an investment is the anticipation of a return (profit). So to dismiss the advertising budget as "that which we can afford" is not accepting the advertising process as an investment at all (in its true sense). And to use last year's budget is simply unforgiveable.

Surprisingly many advertisers do opt for this method. It's really very strange when one considers that most other aspects of their businesses are considered as pure investments (aggressive pricing, improved packaging, profit margins, stock levels, staff, premises etc.)

With media inflation continuing its rampant surge upwards, shareholder demands getting bigger and those executive bonuses draining the life out of many organisations, it's not unusual to see **adspend** increasing annually whilst media **weight** decreases - which gives rise to the (similar) question; "how little can we get away with?"

That last question is more credible than the affordability one because it does, at least, assume an investment relationship between sales and advertising.

Before we begin calculating we have to gather some **intelligent** data.

1) In what market will the brand compete (what is the media weight in that market)?
2) What is the brand's current market position (and what is the current spend)?
3) How are competitors advertising and what are they spending?

4) Where will the brand be advertised?

Take no notice if anyone tells you otherwise, but historical spend is always used as a starting base. Some advertisers get smarter and adjust this amount by considering:

a) Media inflation.
b) Any revised market share objectives.

c) Major shifts in competitive activity/strategy.

d) New product development/launches.

We'll be considering the above points when we investigate the various ways to set a budget - starting next week.

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Having joined the ad industry in London, Chris Brewer spent most of his career in media analysis and planning - but has performed just about every advertising task from Creative to Research. He's an honorary lifetime member of the Advertising Media Association and regularly advises agencies and clients regarding their media plan costs and strategies. He is also often asked to talk at industry functions. Email: chris@brewers.co.za. Twitter: @brewersapps. Read his blog: www.brewersdroop.co.za

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