



Establishing An Advertising Budget

There is no universal rule or formula for establishing a retail advertising and promotion budget. There are however, some guidelines that can be applied along with common sense and strict adherence to previously planned objectives.

Here are some common paths followed by large and small advertisers alike:

THE PERCENTAGE OF SALES METHOD:

Your advertising budget should be related to your sales in some way as a cost control measure. Many budgets are based on a percentage of the previous years sales, assuming these sales will be repeated the following year. More progressive advertisers base their budget on a percentage of **PROJECTED SALES**, acknowledging that increased sales (and increased profits) require increased investments in advertising to generate those sales.

Most retailers appropriate between 2% and 5% of their gross sales for advertising.

THE TASK METHOD:

With this method, the advertiser clearly defines his specific marketing goals ("an increase in sales by 20%", "an increase in sales of high-profit merchandise to 40% of total sales", "increase market share from 20% to 30%", etc.) A plan is then prepared to achieve these goals and a budget figure is derived from the cost of executing the plan.

For example, increasing sales by 20% may require a 25% budget increase in advertising.

The first sales are the easiest and that incremental increases become more and more difficult. You will want to look beyond advertising and promotion to determine how to achieve such goals. Consider pricing and product mix, store atmosphere, location, etc.

The great advantage of the Task Method is its realism. Specific activities are planned to achieve specific goals. Plans made this way should be continually checked against projected results and adjusted accordingly.

THE GARBAGE METHOD:

This budget is made up of all the leftovers in your financial plan. A budget made up of leftover funds is not a plan, but an arbitrary appropriation. Such a method indicates the business owner does not care about the results of his or her advertising plan. Hope your competitor plan his advertising budget this way.

THE "ME-TOO" METHOD:

This method copies the spending pattern and activity of your competition. If you let your competition run your advertising program, you've bypassed the opportunity to be different, creative and successful.

THE CARBON COPY METHOD:

This method simply repeats what was done last year without considering if it worked, if competition has changed, if the market has changed, or if changing can bring about greater sales. Each year should be a new opportunity to increase business. Sure, keep what was good, then work to make it better.

**Advertising is nothing more than inviting people
to do business with you.**

**Running a business without advertising is like
winking in the dark...
You know what you are doing, but nobody else does!**