

11.6: The Promotion Budget

Learning Objectives

1. Understand different ways in which promotion budgets can be set.
2. Understand how the budget can be allocated among different media.

An offering's budget is a critical factor when it comes to deciding which message strategies to pursue. Several methods can be used to determine the promotion budget. The simplest method for determining the promotion budget is often merely using a percentage of last year's sales or the projected sales for the next year. This method does not take into account any changes in the market or unexpected circumstances. However, many firms use this method because it is simple and straightforward.

The affordable method, or what you think you can afford, is a method used often by small businesses. Unfortunately, things often cost more than anticipated, and you may not have enough money. Many small businesses think they're going to have money for promotion, but they run out and cannot spend as much on promotion as they had hoped. Such a situation may have happened to you when you planned a weekend trip based on what you thought you could afford, and you did not have enough money. As a result, you had to modify your plans and not do everything you planned.

Other companies may decide to use competitive parity—that is, they try to keep their promotional spending comparable to the competitors' spending level. This method is designed to keep a brand in the minds of consumers. During a recession, some firms feel like they must spend as much—if not more—than their competitors to get customers to buy from them. Other companies are forced to cut back on their spending or pursue more targeted promotions. When Kmart faced bankruptcy, they cut back on expenditures, yet they kept their advertising inserts (free-standing inserts, or FSI) in Sunday newspapers to remain competitive with other businesses that had an FSI.

A more rational and ideal approach is the objective and task method, whereby marketing managers first determine what they want to accomplish (objectives) with their communication. Then they determine what activities—commercials, sales promotions, and so on—are necessary to accomplish the objectives. Finally, they conduct research to figure out how much the activities, or tasks, cost in order to develop a budget.

Part of the budgeting process includes deciding how much money to allocate to different media. Although most media budgets are still spent predominantly on traditional media, shifts in spending are occurring as the media landscape continues to change. Mobile marketing continues to become more popular as a way to reach specific audiences. Over one-third of cell phone users were exposed to mobile advertising in 2009 and 16 percent of the people exposed to mobile advertising responded to the ads via text messaging. Younger people are typically the most accepting of mobile advertising (Loechner, 2009). Spending on mobile ads is expected to grow 80% from \$1.45 billion in 2011 to \$2.61 billion in 2012. A big part of the growth is due to the mobile search business of Google (Cotton, 2012).

The manufacturers of most major brands use texting and multimedia messages. Mobile marketing allows advertisers to communicate with consumers and businesses on the go. Over half of Chinese, Korean, Indian, and Thai Internet users access social media sites through their phones rather than through computers¹. While many marketers plan to use electronic devices for their mobile-marketing strategies, other firms may use movable or mobile promotions (see Figure 11.11), which, as discussed earlier, are also considered out-of-home advertising.

Key Takeaway

Companies can determine how much to spend on promotion several different ways. The percent of sales method, in which companies use a set percentage of sales for their promotion, is often the easiest method to use. Small companies may focus on what they think they can afford while other organizations may try to keep their promotions relatively equal to their competitors'. The objective and task approach takes objectives into consideration and the costs of the tasks necessary to accomplish objectives in order to determine the promotion budget.

Review Questions

1. Explain four different ways to set a product's promotion budget.
2. What is mobile marketing?

¹"Social Network Site Users Ready to Go Mobile But Telecom Carriers Need to Set the Stage for Mass Adoption, Says IDC," *IDC*, November 17, 2009, <https://www.ryt9.com/en/prg/89478> (accessed January 20, 2010).

References

Cotton, D., “Mobile-Ad Spending Projected to Reach \$2.61B in 2012,” *Ad Age Digital*, January 26, 2012, adage.com/article/digital/mobile-ad-spending-projected-reach-2-61b-2012/232334/

Loechner. J., “Advertising Growth Spreads in All Mobile Formats,” Research Brief, *MediaPost Blogs*, May 27, 2009, <http://www.mediapost.com/publications/article/106675/advertising-growth-spreads-in-all-mobile-formats.html> (accessed March 12, 2012).

This page titled [11.6: The Promotion Budget](#) is shared under a [CC BY-NC-SA](#) license and was authored, remixed, and/or curated by [Anonymous](#).

- [11.6: The Promotion Budget](#) by Anonymous is licensed [CC BY-NC-SA 3.0](#). Original source: <https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016>.