

7.5: Managing a Budget

Now that you understand the importance and implications of marketing investments, it's important to set up your budget specific to the needs of the campaign and the client. From Figure 7.3 we know that msnbc.com had to monitor its spending by month and by category (agency fee, production, media, promotions, etc.). This budget was set up to reflect the contract between SS+K and msnbc.com that spelled out the categories and the amounts of the client's money that the agency was entitled to spend.

The open collaboration and understanding of financials is key to the success of any business partnership. Both sides are responsible for staying in budget, and the agency is specifically responsible for justifying anything it spends for any purpose to a client. Former Ogilvy and Mather executives Shona Seifert and Thomas Early learned this lesson the hard way. In 2005, both were convicted and sentenced to prison for their roles in overbilling one of the agency's clients, the Office of National Drug Policy. Seifert also was ordered to write a code of ethics for the entire ad industry as part of her sentence.

There are a few key pieces to managing the budget: *bids*, *estimates*, *invoices*, and *actuals*. A **bid** is the estimated cost that a vendor will charge for a service. In some cases, the agency will have an exclusive partnership, and only one bid is needed. In other cases, a producer will take bids from multiple potential vendors or partners in order to understand the scope and price of that service.

Once the agency collects the bids, it will recommend the partner to the client. The formal acceptance of costs is the **estimate**. It is generated from the producer or accounting department. The agency outlines the job, a description, and the costs associated with the job. A job number is assigned to every estimate, and this job number and cost are inserted into the budget.

The agency *invoices* the client, and the client then pays the agency on the agreed-upon schedule. Sometimes jobs are billed at 100 percent of an invoice. Another common practice is to bill 50 percent of an invoice up front and 50 percent upon completion. It is important for the account manager to establish a system that works both for the agency and for the client when it comes to billing.

Actuals are the final cost of a job upon completion. In the SS+K/msnbc.com budget tracker that Figure 7.3 shows, the bid is indicated in *italics*, the estimate is indicated with no treatment, and actuals are indicated in **bold**. This helps the agency and the client understand the money flow and make future spending decisions accordingly.

Key Takaway

The open collaboration and understanding of financials is critical to the success of any business partnership. Both agency and client are responsible for establishing and maintaining the budget. The agency is specifically responsible for justifying anything it spends for any purpose to a client. The key components that an agency must manage are *bids*, *estimates*, *invoices*, and *actuals*.

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