

How and why to create advertising budgets.

# Budget Analysis

Target Media Group

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There are two areas of thought when it comes to budgeting for advertising; there is the passive analysis approach and the response analysis approach. The 'passive' analysis approach uses two methods discussed in the text by O'Guinn/Allen/Semenik; the percentage-of-sales method and the share of voice method. Both methods rely on an analysis of data to dictate the size of the budget. Percentage-of-sales use the sales from a prior or projected year to calculate a set percentage to spend for advertising. This is the first logical method a person would choose. It is a simple calculation based on how much income the company makes. A business figures that if they make x amount of dollars they will spend a % of x to make more income. However, advertising doesn't work like that. Advertising is not a dollar for dollar transition of funds.

The other method discussed is the share of voice method which uses the analysis of competitor's to determine the size of the company budget. Exact numbers of a competitor's advertising budget will not be easy to come by however and again won't show how the dollar for dollar transition of advertising expenses translates to sales revenue. These two analysis methods are almost random in their allocation. A response analysis method uses more accurate correlation examination.

A response method tries to more accurately match dollars spent on advertising methods with sales generated. These methods use marginal analysis to discover which particular ad choices generate which results in response. The response may be sales, awareness, social media buzz etc. These responses are tracked most accurately in an objective-and-task budgeting method. After determining the objectives for an advertising effort, "goals related to production costs, target audience reach, message effects, behavioral effects, media placement duration of the effort, and the like are specified."(O'Guinn/Allen/Semenik) With this method a company can identify any techniques which can help it meet its objectives. Since it is the "only budgeting

method that specifically relates spending to the objectives being pursued,”<sup>1</sup> it would be the option most likely used by a major corporation like American Express.

### Reference

1. O’Guinn/Allen/Semenik, Advertising and Integrated Brand Promotion, 6<sup>th</sup> ed., Cengage Learning 2012