

BUDGET SETTING METHODOLOGIES

Build a business case for your marketing communications budget

Luminosity Perspectives

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The Need for Systematic Methodology

At this time of year, many marketers are involved in budget planning exercises for next fiscal year. While most marketers have a wish-list of projects they would like to accomplish, it is important to frame these ideas within a model that can be understood by a company's financial team. Only by taking a systematic approach supported by evidence are marketers likely to obtain appropriate budgets to achieve their goals.

There are dozens of ways to calculate necessary marketing budgets. When estimating, marketers should aim to arrive at a budget with a reasonable level of confidence, as efficiently as possible. When we estimate for our clients, we triangulate a two to three different methods. Some of the more common methods we incorporate are outlined below. Which ones we recommend for a particular client depends on each company's specific circumstances including industry segment, market maturity, marketing channel complexity, ease of obtaining metrics, etc.

Typical Budget Setting Methods

1. Target Sizing Approach

We begin by calculating the number of potential target prospects in the designated geographic footprint for the business. Then, we set an impression goal based on reaching an agreed upon percentage of that audience with the message at effective levels. Typical/average CPMs are applied to generate the recommended advertising budget.

2. Sales Goal Approach

This approach starts with a specific sales goal and backs into the number of prospect "touches" that must be generated. Luminosity does this by mapping the conversion process (ex: aware-interest-purchase-repeat). We apply costs & conversion rates to each layer to generate the budget.

3. Share of Voice Approach

Here, the spending estimate based on achieving an equivalent (or superior) communications presence to competitive brands. We use combination of data such as syndicated sources (TNS, Nielsen), mail tracking, press/press releases, as well as investigative calls to media sales reps. The key to successful use of this method is incorporation of intuitive analysis to account for underreporting by syndicated sources.

4. Advertising/Sales Ratio Approach

Advertising/Sales Ratio examines the industry benchmark or marketing costs per dollar of revenue. This is done by examining annual reports and other investor/analyst documents for public companies or through industry reports for private companies. Often, figures can be compared with syndicated media spending sources to fill in any information gaps.

5. Share of Market Approach

Share-of-Market combines share of voice and advertising/sales ratios by assuming that a company should spend at an A/S level equivalent to the share of market they wish to achieve, as opposed to their current level.

6. Task-Based Approach

The Task-Based method involves developing prototypical costs for marketing elements to create a "menu" of costs. This is most typically used by marketers in developing their budgets. We recommend that this methodology always be benchmarked against other calculations to verify that the budget will be sufficient and not unreasonable based on actual in-market marketing costs.

Take Away

Once the budget figures are determined, the budgets and sales results predicted by each method are combined to determine the average Return-On-Investment for the corporate marketing budget. At Luminosity, we present these approaches as a Business Case supporting the need for the funds Marketing Directors are requesting from management teams and investors. This provides clear quantitative rationale and supporting evidence for the requested budget which can be understood in the language of CEOs/CFOs, boards of directors and equity investors.

About Luminosity Marketing

Luminosity Marketing provides media consulting and marketing research services. We specialize in connection planning, including target development, competitive intelligence, touchpoint mapping, media planning and media buying.

To find out how to apply these budget setting methods to your company, please call Elizabeth Dolinski at 646-213-4860.

Visit us online at www.LuminosityMarketing.com