

Here Are Some of the Methods Companies Use to Set Their Marketing Budgets.

1. The Percent of Sales Method: The advertising campaign budget is a constant percentage of desired sales. A car manufacturer may spend less than 1% of sales, while a small retailer may budget 3 -7% of sales. A jewelry store may budget 8 -12% of sales, and other companies may budget 20% or more.

This method works as long as the advertising campaign budget is set as a percentage of desired sales. If the budget is set to actual sales, and sales drop, you do not want to cut your advertising campaign budget, or you will get caught in a downward spiral.

2. The Task Objective Method: How much money do you need to spend to reach the specific goals you have outlined for the advertising campaign? This is especially effective when you are starting out, or if you are trying to grow rapidly. Some advertising campaign strategies call for heavy spending up front in order to win long-term customers.

3. The Historical Method: How much did you spend to reach your sales goals in previous years or periods? You will find that by tracking your ads, you will know in advance what you need to do to accomplish your goals.

4. Share of Market - Share of Voice: This method links market share to advertising expenditure. A company with a 20% market share would spend slightly more than 20% of the total advertising dollars spent in the market for that product or service. For new companies, expenditures would be 1.5 times the desired market share until that position is attained. (So if you want 20% market share, you spend 30% of total advertising dollars in that market until you get it).

5. Competitive Parity: With competitive parity you spend in equal amounts to your competitors as a percentage of market share. This is a self-defense method of budgeting marketing and advertising expenditures.

6. The Combination Method: The best advertising campaign budget you can set will be based on some combination of all of the previous models. You want to maintain a minimum level of advertising, fulfill specific goals, maintain your market share, keep up with your competitors, and compare everything to last year.

Here Are A Few Additional Questions To Consider:

- How much extra can you afford to invest?
- What unexpected opportunities have popped up?
- What media deals or opportunities are available?
- What new advertising campaign objectives do you want to attain?
- What kind of growth do you want for your company?
- Do you need to slow the business down a little?
- What are your competitors doing?
- Are there any new threats in the marketplace?

The point here is to do something—have a plan that you can stick to. Whether you do it monthly or quarterly, you should have a good idea of what is available to spend, where you will spend it, and how to divide your resources.