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Establishing and Allocating the Marketing Communications Budget in Indian Organisations

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Abstract

Two of the most critical decisions facing marketing managers are how much to spend on communications or promotion (i.e. to determine the marketing communications budget), and how to allocate it over the major tools or elements of the communications mix (viz. advertising, sales promotion, direct marketing, personal selling, public relations, and publicity).

There are four common methods used by companies to decide on the communications budget. These are the affordable method, the percentage-of-sales method, the competitive parity method, and the objective-and-task method. Many companies employ more than one method to arrive at relatively accurate budget figure.

Companies consider several factors when they allocate the communications budget, including the market size and potential, market share objectives, product market type, product life-cycle stage, and buyer-readiness stage.

The present study is undertaken to understand the usage of different communications budgeting methods and the allocation of the communications budget to the different promotional elements in Indian companies. These are further compared between consumer durables and non-durables, industrial products, and services.

Keyword: Social Media, Customer Complaints, Customer Perceptions, Customer Behaviour

"I know that half of my advertising is wasted, but I don't know which half."

- John Wanamaker (the Department Store Magnate)

Introduction

One of the most critical decisions facing marketing managers is how much to spend on communications or promotion. The size of an organisation's communications budget can vary from hundreds to billions of dollars. Large firms such as Procter & Gamble and Ford spend more than a billion dollars a year to promote their products. Establishing the communications or promotion budget is also very important to a firm spending a few thousand dollars.

Many managers treat communications budget as an expense rather than an investment. Instead of viewing the money spent on promotion as contributing to increased sales and brand-building, they see it as expenditure, squeezing profits. Hence, when the company faces difficult market situations such as recession or slowing down of the demand, the communications budget is the first to be cut. However, studies indicate that exactly the opposite should be done.

The theoretical bases used to establish advertising or communications budget are two-fold: the economic approach (i.e. marginal analysis), and sales response models. According to the economic approach, as promotional expenditures increase, sales and gross margins also increase up to a point, but then they level off. This approach seems logical, but certain weaknesses limit its usefulness. These weaknesses include the assumptions that sales are a direct measure of promotional expenditure, and that sales are determined solely by promotion. These assumptions ignore the remaining elements of marketing mix-viz. price, product, and distribution-which do contribute to a firm's sales and profit performance. Besides, sales are not the only goal of the communications

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effort - awareness and change in attitude are perhaps more important goals of advertising.

The second approach of sales response modeling determines the relationship between advertising expenditure and sales. It is usually represented either by a concave-downward response curve or an S-shaped response curve. Simon & Arndt (1980) concluded after reviewing more than 100 studies of the effect of advertising on sales that it must follow the microeconomic law of diminishing returns. Thus, budgeting under the concave -downward response function model suggests that less advertising may be needed to create the optimal influence on sales. On the other hand, many marketing managers believe in the S-shaped response function, in which initial expenditures of advertising have little impact on sales, but additional increments of expenditures result in increased sales, up to a point.

Even though the economic approach and the sales response models are of limited use to managers for direct applications, they give managers some insight into a theoretical basis of the advertising budgeting process. The weakness of theoretical bases is in attempting to use sales as a direct measure of response to advertising. There are several other factors - changes in promotional strategy, creative approach, competitive activity and spending levels, profit contribution goal, and soon-that contribute to establishing the communications budget, rather than the theoretical approaches discussed earlier. Instead, a number of methods, which have been developed through experience and practice, are more commonly used by firms for establishing the communications (or integrated marketing) budget. There are four common methods used by companies to decide on the communications budget. These are the affordable method, the percentage-of-sales method, the competitive parity method, and the objective-and-task method. Many companies employ more than one method to arrive at relatively accurate budget figure.

Once the marketing communications budget is determined, the next step is to allocate it over the major tools or elements of the communications mix-viz. advertising, sales promotion, direct marketing, personal selling, public relations, and publicity. Companies consider several factors when they allocate the communications budget. These are market size and potential, market share objectives, product market type, product life-cycle stage, and buyer-readiness stage.

The size of market influences the budget allocation decision-in smaller-sized markets, it is often easier and less expensive to reach the target market, while in larger-sized markets, the target audience may be more dispersed and thus more expensive to reach. Markets also differ in terms of their potential. For instance, northern states in India have more potential for winter-wear products than southern states. Studies have discussed advertising spending related to maintaining and increasing the brand's market share. According to Jones (1990), new brands generally receive higher than average advertising support; in the case of more mature brands the advertising support is often curtailed; and for well-established brands, reduced advertising expenditures can still maintain market share.

Promotional allocations may also vary between consumer and business product markets. Consumer marketers spend comparatively more on advertising and sales promotion, while business marketers tend to spend more on personal selling. Communication tools also vary in cost-effectiveness at different stages of the product life cycle. For instance, in the introduction stage, advertising, public relation, and publicity have the highest cost effectiveness, while, in the decline stage, sales promotion tends to be more effective. Cost-effectiveness of communication tools also vary with different stages of buyer-readiness. For example, advertising, public relations, and publicity play important roles in the awareness stage, while closing the sales is influenced mostly by personal selling and sales promotion.

The present study is undertaken to understand the usage of different communications budgeting methods and the allocation of the communications budget to the different promotional elements in Indian companies. These are further compared between consumer durables andnon-durables, industrial products, and services.

Literature Review

There is relatively little recent research focusing on establishing the communications budget and allocating it to various promotional elements, viz. adverting, sales promotion, public relations and publicity, direct marketing, personal selling, and others (e.g. events and experiences).

There is a limited literature on the sales response modeling approach (Lilien *et al*., 2007). Luchsinger *et al*. (1977)

suggested that there was a critical advertising expenditure level, only after which there would be a noticeable effect on sales. In fact, in a comprehensive study, Farris (1977) identified as many as twenty variables that may affect the advertising/sales ratio.

Many marketing experts believe that the objective-and-task method is the best method of budgeting because it relates budgeted costs to achieving specific objectives. However, as pointed out by Lynch & Hooley (1990), large organisations with hundreds of products on the market, producing a communications budget based on objectives for each brand and product category is very time-consuming. Doyle & Saunders (1990) showed that proper allocation of marketing communications budget can have a bigger impact on profit than the size of the budget.

Low & Mohr (1991) reviewed the literature on how allocation decisions are made between advertising and sales promotion. They concluded that the allocation decisions are influenced by the organisation's structure (centralised versus decentralized decision making), power and politics in the organisation, and the use of expert opinions (or consultants).

The allocation decision includes deciding which promotional elements, products, and markets will receive what amount of the communications budget. Due to rising media costs and maturing of products and brands, marketers have begun to shift their budget from traditional advertising media to sales promotions (both consumers and trade) and direct marketing. However, as indicated by Welch (1993), advertising agencies may discourage more allocation of the budget to sales promotion. This may be due to fact that not much of the commissions to advertising agencies are made on sales promotions, but are made largely on advertising.

Low & Mohr (1998) observed that the communications budget-setting process was a perplexing issue to many managers and that the institutional pressures led to a greater proportion of the budget being spent on sales promotions than managers would have preferred. However many firms use a combination of the four methods for establishing the communications or promotional budget. They also had some interesting findings. They suggested that as products or brands move into the maturity phase of their life-cycle, managers allocate less of their communications budget to advertising and more to sales promotions. They also found that when performance rewards are focused on short-term results managers allocate their communications budget less to advertising relative to sales promotions. Further, they suggested that as retailers gain more influence, managers allocate less of their communications budget to advertising and more to trade sales promotions.

Naik & Raman (2003) found that the interaction between various tools of the communications mix creates a synergy. In other words, the combined effect of a communications mix is greater than the sum of the individual elements. However, Ai *et al*. (2010) have acknowledged that allocation of marketing communications budget is a considerable challenge to marketing managers.

Thus, not much research has been done on establishing and allocating the marketing communications budget in firms, and almost none in emerging economies like India. The present study examines the practices followed by Indian firms, manufacturing durable, non-durable, and industrial products as well as those offering core services in the methods followed for setting their marketing communications budget and allocation of the same to various communications tools.

Methodology

The objectives of the study were to examine how different methods are used for establishing communications budget and how the budget is allocated to the various elements or tools of communications mix across Indian industries, and to compare these between consumer durables, non-durables, industrial, and service-oriented firms. A sample of 57 firms operating in Bangalore, India, was selected for the study. The data for the study were collected from the marketing managers of the sample firms, pertaining to the methods used for determining their promotional budget and the allocation of the budget made by them to communications tools.

The sample firms were further classified into product-oriented firms and service-oriented firms, based on their core offerings. The product-oriented firms were further classified into durable, non-durable, and industrial product-producing firms. Of the sample firms, 44.6% were durable product producing firms, 8.9% were non-durable product producing firms, 3.6% were industrial product-producing firms, and 42.9% were service-oriented firms.

Analysis

The overall usage of different methods for determining the communications budget across the sample companies is summarised in Table 1.

Table 1: Methods for Determining the Communications Budget

		subset I	*subset II*	*subset III*
percentage-of-sales method	Mean	48.21%		
	Std. Dev.	50.42%		
objective-and-task method	Mean	39.29%	39.29%	
	Std. Dev.	49.28%	49.28%	
affordable method	Mean		25.00%	25.00%
	Std. Dev.		43.69%	43.69%
competitive-parity method	Mean			12.50%
	Std. Dev.			33.37%
	p-value	0.4280	0.1590	0.1090

The most prevalent method for determining the promotional budget was the percentage-of-sales method (48.2%), followed by the objective-and-task method (39.3%), the affordable method (25.0%), and lastly the competitive-parity method (12.5%). Also, there was a significantly higher usage of the percentage-of-sales method than of the affordable method and the competitive-parity method, and a significantly higher usage of the objective-and-task method than of the competitive-parity method. Moreover, there was high variability in the usage of all the methods for determining the promotional budget.

The usage of different methods for determining the communications budget between product-focused companies and service-oriented companies is compared in Table 2.

Table 2: Methods for Determining the Communications Budget in Product and Service-Based Firms

		Core products	*Core services*	*z-stat*	*p-value*
percentage-of-sales method	Mean	56.25%	37.50%	5.5580	0.0000
	Std. Dev.	50.40%	49.45%		
objective-and-task method	Mean	37.50%	41.67%	-1.2637	0.2064
	Std. Dev.	49.19%	50.36%		
affordable method	Mean	21.88%	29.17%	-2.4942	0.0126
	Std. Dev.	42.00%	46.43%		
competitive-parity method	Mean	12.50%	12.50%	0.0000	0.5000
	Std. Dev.	33.60%	33.78%		

The usage of the affordable method was significantly higher for service-oriented companies than for product-focused companies, while the usage of the percentage-of-sales method was significantly higher for product-focused companies than for service-oriented companies. There was no significant difference in the usage of the other methods for determining the promotional budget between product-focused companies and service-oriented companies.

The usage of different methods for determining the communications budget is compared across different core products/services in Table 3.

Table 3: Methods for Determining Communications Budget across Different Products/Services

		durable products	*non-durable products*	*industrial products*	*services*	*χ^2-stat*	*p-value*
percentage-of-sales method	Mean	56.00%	60.00%	50.00%	37.50%	3.1791	0.3648
	Std. Dev.	50.66%	54.77%	70.71%	49.45%		
objective-and-task method	Mean	40.00%	40.00%	0.00%	41.67%	16.2466	0.0010
	Std. Dev.	50.00%	54.77%	0.00%	50.36%		
affordable method	Mean	20.00%	20.00%	50.00%	29.17%	9.2315	0.0264
	Std. Dev.	40.82%	44.72%	70.71%	46.43%		
competitive-parity method	Mean	12.00%	20.00%	0.00%	12.50%	4.8629	0.1821
	Std. Dev.	33.17%	44.72%	0.00%	33.78%		

A combination of methods is used by most comparies for determining the promotional budget, instead of using a single method. The usage of the affordable method was significantly higher for industrial product-producing companies than for service-oriented companies and durable and non-durable product-producing companies. This may be explained partially by the fact that for industrial product-producing firms, promotional expenditure is of less importance than other alternative expenditures on product development, lower prices, or quality of product and customer service. Hence, promotional expenditure is allocated after allocating expenses to all other marketing mix components, i.e. based on what is affordable to the company. On the other hand, the usage of the objective-and-task method was significantly higher for service-oriented companies and durable and non-durable product-producing companies than for industrial product-producing companies.This is because the objective-and-task method is used especially when the promotional expenditure is substantial, which is the case for consumer durables and non-durables as well as service-oriented firms, as compared to industrial product-producing firms. Besides the objective-and-taste method is the most logical of all the methods and requires a higher degree of managerial involvement. There was no significant difference in the usage of the other methods for determining the promotional budget across different core products/services.

The overall allocation of communication budget to the elements or tools of communications across the sample companies is presented in Table 4.

The highest allocation was in advertising (31.4%), followed by sales promotion (23.8%), direct marketing (14.9%), public relations (14.3%), personal selling (13.7%), and the least allocation was in other channels (2.0%).

Table 4: Allocation of the Communication Budget

		subset I	*subset II*	*subset III*
advertising	Mean	31.39%		
	Std. Dev.	21.04%		
sales promotion	Mean	23.75%		
	Std. Dev.	20.93%		
direct marketing	Mean		14.88%	
	Std. Dev.		16.44%	
public relations	Mean		14.28%	
	Std. Dev.		16.22%	
personal selling	Mean		13.66%	
	Std. Dev.		15.19%	
Others	Mean			2.04%
	Std. Dev.			5.17%
	p-value	0.1070	0.8510	1.0000

Table 5 shows the allocation of communications budget between core-product and core-service company.

There were significantly higher allocations made to advertising and direct marketing elements by the service-oriented companies than product-focused companies, Also significantly higher allocation to sales promotion by the product-focused companies than for service-oriented companies. There was no significant difference in the

Table 5: Allocation of Communications Budget for Product and Service-Based Firms

		Core products	*Core services*	*z-stat*	*p-value*
Advertising	Mean	28.22%	35.80%	-2.4476	0.0144
	Std. Dev.	18.92%	23.45%		
sales promotion	Mean	30.17%	16.14%	4.9356	0.0000
	Std. Dev.	23.85%	13.90%		
direct marketing	Mean	12.44%	17.75%	-2.2435	0.0249
	Std. Dev.	14.48%	18.80%		
personal selling	Mean	13.73%	12.97%	0.3367	0.7364
	Std. Dev.	17.19%	12.64%		
public relations	Mean	13.78%	15.06%	-0.5482	0.5836
	Std. Dev.	19.91%	10.80%		
others	Mean	1.67%	2.29%	-0.6794	0.4969
	Std. Dev.	4.42%	6.08%		

Table 6: Allocation of Communications Budget across Different Products/Services

		durable products	*non-durable products*	*industrial products*	*services*	*χ^2-stat*	*p-value*
advertising	Mean	28.04%	39.30%	2.50%	35.80%	10.8260	0.0127
	Std. Dev.	16.36%	25.20%	3.54%	23.45%		
sales promotion	Mean	31.45%	34.33%	5.00%	16.14%	8.0163	0.0457
	Std. Dev.	21.76%	34.07%	7.07%	13.90%		
direct marketing	Mean	13.12%	8.33%	15.00%	17.75%	1.0610	0.7865
	Std. Dev.	14.82%	13.12%	21.21%	18.80%		
personal selling	Mean	14.78%	4.40%	25.00%	12.97%	4.6937	0.1956
	Std. Dev.	17.09%	6.65%	35.36%	12.64%		
public relations	Mean	11.52%	8.65%	52.50%	15.06%	30.4544	0.0000
	Std. Dev.	12.38%	9.58%	67.18%	10.80%		
others	Mean	1.09%	5.00%	0.00%	2.29%	1.8322	0.6080
	Std. Dev.	3.00%	8.66%	0.00%	6.08%		

allocation in other promotional channels between product-focused companies and service-oriented companies.

The overall allocation of communication budget to the various tools of communications across different core products/services is compared in Table 6.

There was significantly higher allocation in advertising for durable, non-durable core product and service companies than industrial product companies (in fact, allocation in advertising for industrial product companies was negligible). This is because durables, non-durables, and services are b2c, and thus a higher allocation in advertising is required in order to communicate messages to the masses. On the other hand, in the case of industrial or business customers, the number of customers is limited, and hence personal selling is preferred over advertising. There was significantly higher allocation in sales promotion for durable and non-durable product companies than for core service companies and industrial product companies (again, allocation in sales promotion for industrial product companies was negligible). This is because durable and non-durable products are sold through retail shops, and these traders need to be given incentives, in addition to incentives to customers, in order to improve sales. On the other hand, there was significantly higher allocation in public relations for industrial product companies (more than 50%) than for core service companies and durable and non-durable product companies. This perhaps reflects usage of publicity (which is a subset of public relations) in technical publications in trade journals and magazines in order to influence the technical members of the buying centres. There was no significant difference in the allocation in other promotional channels across different core products/services.

Discussion

In earlier studies, as indicated in the literature review, many firms use a combination of the four methods for establishing the communications budget. In the present study also it was found that many Indian organisations use more than one method for setting their promotional budget, instead of using a single method. The main reason for this is that a combination of methods ensures a relatively accurate budget figure. It is interesting to find that percentage-of-sales method is used maximum, followed by objective-and-task method, by Indian companies with core product offerings, whereas objective-and-task method is used maximum, followed by percentage-of-sales method, by organisations providing core service offerings. Overall, Indian firms use maximum percentage-of-sales method, followed by objective-and-task method, which is followed by affordable method, and competitive-parity method.

In terms of allocation of the communications budget, as found in previous studies, it was also found in the present study that the highest allocation was made to advertising, followed by sales promotion. The other promotional elements (or communications tools) like direct marketing, public relations, and personal selling have almost the same percentage of allocation.

However, core product manufacturing firms allocate maximum budget to sales promotion, followed by

advertising, whereas core service providing organisations allocate highest amount of the budget to advertising, followed by direct marketing. Interestingly, consumer durable product manufacturers spend more money on sales promotions than advertising, may be because of requirement of short-term incentives to both consumers and the trade. For industrial products sold to business customers, a higher level of allocation to personal selling is absolutely normal, what is surprising is the highest spending on public relations. This may be due to use of publicity (which is also termed as 'marketing P.R.' or a subset of public relations) in technical publications such as trade journals and magazines. In addition, corporate advertising, which is actually an extension of the public relations function, promotes the firm and not any one specific product or service. Many business marketing firms may be spending substantial amount on corporate advertising.

There is a lot of scope for further research. One area is to understand the reasons why percentage-of-sales method is used by majority of core product producing Indian firms, although it is less logical and less scientific compared to objective-and-task method. Another area for research is to find out if there is a shift in allocation of the communications budget from traditional advertising media (such as newspapers and television) to new media like internet advertising, direct marketing, and public relations. It is also important to understand what factors influence allocation decisions made by marketers.

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