

Understanding and Developing a Promotion Budget

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Marketing is often listed as a single line item on a business expense account. This may infer that expenses for marketing are straight forward and easy to categorize. To the contrary, marketing is one of the most misunderstood and complicated areas of planning and running a business. Marketing is often referred to as a “necessary evil” for a business. Without it, sales will likely struggle and with it can come significant costs. Sometimes marketing expenditures are needed just to insure product awareness and to stay even with the competition rather than greatly expanding sales. Marketing experts often prefer to consider expenses for marketing as investments rather than expenses because successful marketing efforts will increase sales.

Marketing may be defined as the act of selling, purchasing or sending goods into a market. Marketing is often thought of as any or all of the functions involved in transferring title and moving goods from producer to consumer including buying selling, storing, transporting, standardizing, financing, risk bearing and supplying market information. The American Marketing Association’s official definition of marketing provides a good working definition of the term.

“Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual organizational objectives.”

Simplistically, marketing can be thought of planning and executing a set of objectives related to bringing buyers and sellers together so that a sale can take place. Marketing a product takes planning to be successful. The marketing plan is a process that identifies the steps necessary to implement a successful marketing strategy. Promotion, on the other hand, may be considered activities that are specifically aimed at advancing, increasing and boosting awareness, interest or sales.

Because marketing can be such a complex issue in the management of a business, it should not be dealt with lightly. In fact, a thorough understanding of marketing and promotion options should be one of the first steps in the evaluation of a new business or enterprise. Once this understanding is gained, promotion options should be narrowed to those best suited for a particular project. Then, a promotional campaign should be planned.

While a marketing budget is a listing of all the expenses planned for marketing, a promotional budget is the part of the overall marketing efforts devoted specifically to promotion. Because marketing is more than advertising, a marketing budget should include expenses for marketing personnel, marketing training, marketing consultants, market research, market development and promotion. A promotion budget should include those expenses for promotional activities such as advertisements, brochures, direct mailings, samples, trades shows, displays and sponsorships.

A promotional budget can be prepared by allocating a certain amount of expected sales to promotion activities or by planning certain promotion activities and allocating expenses for them. A promotion budget should be developed at the beginning of the year. For the existing business, a good place to start is using the past year’s expenses. Additional promotional costs can then be included based on any new promotional strategies that are to be implemented in the

upcoming year. Historically, firms have indicated spending around 5 percent (anywhere between 1 and 10 percent) of annual gross revenues on promotional activities. So, a business projecting to generate \$100,000 in gross revenues may plan to invest \$5,000 in promotional activities. An example of a promotional budget prepared as 5 percent of expected revenue is presented in Table #1. This method seems to work well for existing businesses with good information on expected sales.

Table #1 - - Promotional Budget as a Percent of Estimated Sales		
Expected Gross Revenue	\$100,000	
Percent of Gross Revenue for Promotion	5%	
TOTAL DOLLARS ALLOCATED TO PROMOTION		\$5,000
<u>Promotional Activities</u>	<u>Cost</u>	<u>Balance</u>
Newspaper Advertisements	\$1,500	\$3,500
Food Magazine Advertisement	\$500	\$3,000
Brochures	\$500	\$2,500
Sampling	\$1,000	\$1,500
Postage	\$300	\$1,200
Sponsorships	\$300	\$900
Trade Show Displays	\$800	\$100
Business Cards	\$100	-0-
TOTAL PROMOTIONAL EXPENDITURES/BALANCE	\$5,000	-0-

However, for a new or expanding business, sales and revenue projections may not be readily available and reliable. Therefore, promotion costs may have to be estimated based on the upcoming year's overall financial forecasts and marketing plans. The relation between dollars spent on promotion and the dollars (in sales) generated from promotion should be understood. If there is no direct relation between promotion expenditures and sales, the promotion techniques should be carefully questioned. Promotion plans and budgets should not be carved in stone but should be used as a guide and should be modified according to the marketing needs of the business during the year. An example promotional budget for a business with specific promotional plans (not constrained by a certain level of revenue) is presented in Table #2.

Table #2 - - Promotional Budget for Planned Activities		
<u>Promotional Activities</u>	<u>Cost</u>	<u>Expected Sales (units)</u>
Newspaper Advertisements	\$1,500	10,000
Food Magazine Advertisement	\$500	8,000
Brochures	\$500	2,000
Sampling	\$1,000	15,000
Postage	\$300	1,000
Sponsorships	\$300	5,000
Trade Show Displays	\$800	10,000
Business Cards	\$100	1,000
TOTAL PROMOTIONAL EXPENDITURES/SALES (units)	\$5,000	52,000