How to Develop a Marketing Budget
A Step by Step Guide to Budgeting Your Marketing Activities

By BizMove Management Training Institute

Table of Contents

1.Introduction

Resource allocation is a critical part of any marketing plan. To simplify budget preparation, it is recommended that investments in labor, material and services be broken down into the five Ps of marketing:

Product - The item or service you have to sell.

Price - The amount of money you ask your customer to pay for your product.

Place - Where a product is now and how it is transported to your customer.

Promotion - The advertising and publicity neces sary to complete a transaction.

Persuasion - Personal selling of your business.

Each of the five Ps represents an investment in money, materials and services. We can represent this as a system of pipes consisting of a tank of money, which represents the total marketing budget, a main pipe through which the dollars flow and five valves that control the flow of money to each of the five Ps. The concepts of market planning, segmentation and positioning are shown as filters. Budgeting is the process of setting the valves to meet the needs of each marketing task for each segment and then monitoring the results over time to make sure you remain on target.

As your market segments change, you will have to reset the valves. The important thing is to have in place an effective marketing research system that gives you the confidence to move in the right direction for the right reason.

Go to Top

2. The Product (or Service)

When consumers think about using a product or service, they consider its advantages and disadvantages. In other words, they ask, What's in it for me? Therefore, it is not enough to define your product and its features; other questions must be answered. Think first of your perception of your product or service and then find out how your customers see it. Ask yourself questions such as:

What is a description of our product or service?

What image does it have in the market?

What are its features and benefits?

In the eyes of the consumer, is there a way for us to provide our product or service more effectively?

Where does our product or service fit in a product life cycle?

Introduction (maximum investment in development).

Growth (investment in marketing).

Maturity (maximize profits).

Decline.

Marketing decision - At some point during this declining stage, you must decide whether to invest more money in the product (i.e., create a new and improved model requiring additional investment and generating a new life cycle) or to discontinue it.

Go to Top

3. Price

There are a number of pricing strategies you can use to achieve your growth goal. Each has the potential of producing a profit, and most are tied to the critical relationship of price-to-sales volume and stock turnover. Some strategies you may want to consider are listed below.

Price Skimming

This refers to the practice of charging high prices for the purpose of maximizing profit in the short run. It works best when:

The product is unique and people are willing to pay extra just to have it. There are trendsetters in society who always are looking for something new and are willing to pay the price. A larger number are followers, and they will buy your product if it is accepted by the leaders. The followers, however, will not pay the higher price.

The cost of development is high and there is a chance of early obsolescence or imitation by competitors.

You have a strong patent position, or your product would be difficult to copy.

The real disadvantage of skimming is that it attracts competition. Your competitors will soon figure out what you are up to, and the high profit potential will encourage them to copy you. They may produce cheaper versions of your product or style, referred to as knockoffs in the market. Once you have meaningful competition on price, your skimming days are over and you run the risk of ending up with a warehouse full of products that cannot be sold at any price.

Penetration Pricing

The opposite of skimming is to introduce your product at such a low price that you will quickly gain a large share of the market. The purpose is to discourage competition. However, eventually you will have to raise your prices to start making some profit and, when you do, you will learn much about customer loyalty.

Buying a Market Position

A variation of penetration pricing is to buy your way into the market with free samples or heavy coupons, for example, 50 cents off on a 69-cent purchase. This tactic is usually used by big companies because it takes considerable financial backing and it may be six months or more before it starts to pay off. Small marketers can use it to the degree they know what they are doing and can control the process. Frequent follow-up is important to ensure samples are not going to professional collectors but are reaching potentially strong customers.

Loss Leader

This refers to promoting a few items at a sizable reduction to attract customers. The idea is that the increased traffic will result in greater sales of your regular-priced merchandise. The reductions have to be on recognized brands and items purchased frequently enough so customers know the prices and can recognize the savings. You must keep switching leader items - people are not going to buy catsup four weeks in a row regardless of its price. The danger is that you may develop a following of cherry pickers who will breeze into your store, scoop up the specials and buy nothing else.

Multiple Unit Pricing

You can increase the size of your individual sales by offering a meaningful discount for larger purchases. A liquor store usually will offer a discount or throw in a free bottle of wine when you buy a case. The same idea applies to the "baker's dozen," a discount on a "set" of tires or selling beer and soft drinks by the pitcher. This is a good technique for building customer goodwill, but you will not see your customers as often. The trade-off, of course, is that you save time and money on containers and packaging, save time by writing up fewer sales and, perhaps, can make your delivery service more efficient by selling by the truckload. Variations are "two-fors," "six-packs," "cheaper by the carton" and "bulk price."

Suggested Retail Pricing

This is the practice of selling at prices set by your suppliers. It is convenient because many product lines are available prepackaged and prepriced. However, you lose flexibility and must live with a set percentage markup. (To combat this disadvantage, some suppliers offer "two-for-three" options using the retail price). Because suggested-retail or retail-price-maintenance plans are illegal in some states, the practice usually is a loser. Using a slightly different strategy, Panasonic published a "minimum retail" price list showing a higher "average retail"; some stores use such gimmicks as "compare at" or "nationally advertised at" to imply that the "official" price is at a certain point.

Discount Pricing

The discount store usually offers lower prices as a trade-off for spartan interiors, lack of sales help and the efficiency of central checkouts. These stores typically work on a 35 to 38 percent markup compared to 42.5 to 45 percent for a department store. Since discount stores depend on the efficiency of greater volume to cover operating costs, they must maintain, or at least promote, good prices.

Full-cost Pricing

This pricing is calculated by adding the costs of the product or service plus a flat fee or percentage as the margin of profit. During inflation, you must keep track of your costs to make sure that you are charging enough. In many business lines, owners have come to realize that when they replace their stock, the wholesale price has often risen above their retail price. If they do not raise prices rapidly enough, they are faced with diminishing inventories at a constant dollar investment or with having to invest more money to restock their shelves at the constant level.

Keystone Pricing

This refers to the practice of setting the retail price at double the cost figure, or a 100 percent markup. It is most common with jewelry items and in specialty shops, high-ticket fashion shops and department stores. Typically, the merchandise is subject to drastic clearance markdowns on items that are slow sellers or held past the season.

Price Lining

This is the technique used by most retail stores of stocking merchandise in several different price ranges. A hardware store, for example, may carry hammers in good, better, and best categories at $6.49, $12.49 and $19.98, respectively, and a professional model at $27.95. The theory is that people buy products with different uses in mind and with different expectations for quality and length of useful life. If you do not carry a range of prices, you may lose the customers who cannot find the product at the right price. Price lining simplifies buying and inventory control because you buy only for the price levels that you know your customers will accept and eliminate those goods that fall outside the levels you want to carry.

Competitive Advantage

Here is where you copy or follow the prices set by your competition. Based on your service image, you can set your prices equal to, above or below those of your competition. This strategy requires constant vigilance by reading the ads and shopping your competition. It is a more passive technique because you're always following your competitors. Chances are your more aggressive competitor can make better purchases than you. A variation of this is the we-won't-be-undersold routine, where you offer to meet or beat the prices of all your competitors.

Pre-season Pricing

Many manufacturers offer price discounts or dated billing as incentives to buy early. This is important to manufacturers because of production planning and the lead time necessary for ordering raw materials. For the retailer, the same principles apply; also, off-season specials may be a way to profit in business on a year-round basis. When you sell at a lower price to get the early sales, you may be borrowing from later full price sales. On the other hand, anyone who has tried to buy snow tires during the year's first snowstorm knows the extent of delivery problems. In this case, early sales at a lower price would have allowed the merchant to serve the customers better and to capture sales that may be lost due to limited service facilities.

Price Is No Object

This refers to certain marketing situations in which the quality of the product or service is far more important than the price. If you need a kidney transplant, for example, you are not going to shop around and haggle over price. And even if you do press the doctor, he probably will quote you a range with a $5,000 spread rather than giving a specific number. The same is often true with high ticket fashions and jewelry. Using the same psychology, expensive automobiles and boats are not sold on price. They may use a starting at or base price to get people interested, but the prices of the options are usually in very small print. The extreme of this attitude is that if you have to ask the price you probably cannot afford the item anyway.

Go to Top

4. Place

Where the product is located when the potential customer is exposed to a buying opportunity can often mean the difference between success or failure. The distribution plan for a given product may be determined by several of the factors listed below.

Product Characteristics

Perishability - Refrigeration or frozen storage requirements can severely restrict place options and raise operating expenses.

Bulk - A product requiring large display space, or one that is heavy, may restrict transportation options as well as display opportunities.

Displayability - Package design that prevents stacking on store shelves can severely restrict customer exposure. (Log Cabin syrup was originally packaged in slanted-roof metal containers. As supermarkets placed increased value on shelf space for customer selection, the inability to stack the log cabins forced a change in package design.)

Buying requirements - If the item must be tried on to determine fit or if it must be demonstrated before the sale can be made, the place element is more restrictive than for a product that requires no package opening at the time of purchase.

Customer Characteristics

Impulse versus planned purchase - Items displayed in a high-traffic area can increase unplanned purchases.

Frequency of purchase - Items purchased once a week usually require more outlets than those purchased once a year. Grocery stores, for example, always outnumber retail furniture outlets.

Distance - How far is the customer willing to travel to purchase your goods or services?

Use Characteristics

How the customer uses the product after purchase also can determine place characteristics.

Do you need to train the customer to use your product, or supply instructions or a repair parts list?

Can you make more sales for service contracts, accessory items, consumable supplies, repair parts or companion items?

Location

For most small businesses, especially those involved in retail, finding the best location at the lowest price becomes an important consideration. You can draw customers to a poor location but the cost of advertising is often prohibitive. You should learn how much money you have to pay for the better location and see how that compares to the cost of drawing the same number of customers to the poorer location. Do not overlook parking, public transportation, quality of the neighborhood, sign restrictions, lighting, traffic flow and other factors that determine your store's convenience and safety.

Go to Top

5. Promotion

Perhaps the most versatile of the five marketing Ps is promotion. It covers all phases of communication between the seller and the potential customer. It is versatile because a change in budget, media or target audience can be made quickly. Promotions also can be effectively changed for specific market segment efforts. Major promotional concerns include the following.

Budget

Because promotional costs can originate from several sources, it is vital to establish a written budget and closely monitor actual costs. The budgeting procedure is simplified if separate budgets are prepared for advertising and promotional activities. Sales goals in dollars, units or both are usually the basis for promotional budgets.

Timing

Selling when the consumer wants to buy is a fundamental factor in the marketing concept. Promotional efforts, whether in-store or through mass media advertising, should be timed to coincide with maximum seasonal or cyclical demand.

Distribution of Promotional Efforts

Advertising - The major portion of a firm's promotional budget is advertising. Some advertising media, such as the Yellow Pages, where a specific amount is charged each month, can be budgeted as fixed advertising expenditures. The mass media-newspapers, radio, TV, direct mail and magazines-should be individually budgeted to achieve sales goals, improve your image and expand your customer base.

Promotion - Many firms classify promotion as a separate budget category. In this case, promotional efforts include in-store displays, sampling, specialty advertising, giveaways and other nontraditional media efforts.

Publicity - This is the no-cost element, meaning there is no charge by the newspaper or other medium for carrying a news release or feature. There will be an internal cost, however, for the preparation of publicity releases and photography. Many businesses miss publicity opportunities because they do not have a written marketing plan. Every promotion or addition of personnel is an opportunity for free publicity, but only if the news release is prepared and sent to the media. Business expansion, remodeling, automation or changes in product name all deserve a publicity program.

Promotion Strategy

All advertising and other promotional activities should be in tune with the firm's stated position in the marketplace. This suggests that not only advertising themes but also media selection must be based on building and strengthening that position.

Benefit approach - Regardless of your media, to make your marketing concept work in advertising messages you must analyze each product and service in relation to these two elements:

Product point - Those features built into the product or service. Product points are usually highly touted in advertising messages, but they are relatively ineffective unless they are integrated with the second ingredient.

Benefit - The advantage a customer receives after purchasing the product. Your advertising should promise benefits and make those promises believable by naming the product points that will produce the benefits. For example, "You'll feel better about your family's safety (benefit) when they are riding on the new steel-belted radials from Armstrong-thanks to the interwoven blankets of steel embedded deep in the tread (product point)."

Media - Consider many types of media in your promotional campaigns.

Newspapers

Shoppers

Television

Radio

Online (Google, Facebook)

Billboards

Direct Mail

Magazines

In summary, the importance of promotion in the overall marketing strategy suggests you devote time to its written plan and constantly monitor the plan's performance. Be creative but avoid cuteness. Stick to the benefit approach, and your customers will respond.

Go to Top

6. Persuasion

Your business's success will depend on your ability to persuade others to take actions that will help them while also helping you. This is referred to as a win-win situation. Both parties in the transaction must receive a benefit in value or in satisfaction. There are many buying motives that may bring a customer to your business:

Gain

Utility

Conformity

Time saved

Productivity

Saved effort

Health

Convenience

Money saved

Comfort Happiness

Need

Protection

Pride (vanity)

Want

Pleasure

Fear

Economy

Amusement

Love

Luxury

Security

Profit

Safety

The key to successful selling is to determine which motives brought the customer to you and then develop a sales presentation that will convince the customer that you and your product can meet those needs. This process can be broken down into a series of steps:

Prospecting - This is the activity of identifying potential customers or running ads to entice people into your store.

Pre-approach - This includes planning what you will say to customers and what evidence or displays you will need to enhance your presentation.

Approach - This may include a greeting, statement of objective or series of questions to determine exactly what the customer wants. Learn as much as possible about the customer and his or her buying motive before you begin your presentation.

Presentation - This is the opportunity to tell customers everything they need to know to make an intelligent buying decision.

Dramatization - Show enthusiasm for your product or service.

Proof - Words may not be enough. You may need to show facts and figures, endorsements, testimonials or other means of backing up your claims.

Visualization - Help your customers visualize the satisfaction they will derive from buying now.

Demonstration - If possible, let the customer experience the product. Many items are difficult to sell without a test drive.

Trial close - This is a statement or question designed to let you know how close the customer is to making a buying decision.

Uncover objections - Find out why the customer is not ready to buy.

Meet objections - Go back over your presentation to clear up misunderstandings or doubts the customer may have.

Final close - Ask a question that causes the customer to make a buying decision in your favor.

Follow-up - This includes all the steps you take to write up the sale, arrange delivery, receive payment and ensure customer satisfaction.

The above process may be inefficient in many selling situations. The genius and creativity of advertising is its flexibility in preconditioning the customer and answering some objections. Certainly your reputation, attitude and the atmosphere of the selling situation can do much to alleviate fears or concerns in the mind of the customer. Your best prospect often is a satisfied customer or the friend or relative of a satisfied customer.

For many products or services, direct mail and telephone selling can be used to complete the sale or to qualify prospects for a personal follow-up.

Motivation is an essential ingredient in persuasion. You and your employees must maintain a positive mental attitude. You must learn to sell yourself, your company and your product.

Go to Top

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