# Chapter 6
# Determining the Advertising Appropriation and Budgeting

*No company that markets products or services to the consumer can remain a leader in its field without a deep-seated commitment to advertising.*[1]
*—Edwin L. Artzt, Chairman and CEO, Procter & Gamble*



## INTRODUCTION

The ultimate objective of most advertising is to sell products or services. When a company or an institution engages in communication with its various publics, it may have some different immediate goal, such as clarifying information about the use of a product, attracting potential investors by sharing corporate goals, or using public relations communication to solidify the company's public image. It is important to recognize, however, that ultimately a company's success is a function of its growth in sales and profits, and most of that growth will be fueled by advertising and marketing communications.

Companies cannot base their budgeting decisions on recent successes and assume that continued investment in advertising is not necessary. An example of this is the decision Pepsi had to make in 2008 to increase overall demand in the carbonated soft-drink market and to solidify its brands' market share. The successful campaign by BBDO that had made Pepsi the "choice of a new generation" was not enough to stop the overall sales declines for carbonated soft-drinks in 2008; the loss of 3% to 4% of the market was affecting the Pepsi brand and the company believed it was necessary to stem that decline while at the same time, fortifying their brands. For that reason, in a bold move, Pepsi decided to invest $1.2 billion over three years in a complete packaging, merchandising, and marketing overhaul of its soft drinks.[2]

Determining an advertising budget is an old challenge. But, as media choices have become more numerous and the "noise" in the marketplace has increased, the budgeting decision has grown increasingly difficult. This chapter explores some traditionally popular advertising budgeting techniques as well as the new challenges facing advertising managers when dealing with the allocation of budgets for advertising efforts.

[1]Edwin L. Artzt, "Grooming the Next Generation of Management," *A.N.A The Advertiser* (Spring 1992): 69.

[2]Natalie Zmuda and Rupal Pareh. "Pepsi Upends Brands with $1.2 Billion Shakeup," *Advertising Age,* October 20, 2008—http://adage.com/article?article_id=131846

The relationship between advertising objectives and budget decisions is a vital one. The size of the advertising budget, the selection of media, and the media strategy to be used as well as the creative content of the advertising message are all determined by the objectives that the company is pursuing.

This chapter will consider long-term and short-term advertising objectives as major criteria for budget decisions. The effectiveness of advertising expenditures will also be examined, as budgeting should be considered a control tool as well as a planning ingredient. In fact, one of the most important changes facing advertising agencies and professionals is the increasing demand of accountability for advertising and promotional expenditures by their clients—the advertisers. Approvals to spend money in advertising are a function of how well an agency can demonstrate an economic return. Whether that return is translated into additional sales, or in an increase in the number of potential customers visiting an advertiser's Web site, it is clear that agencies must be able to provide their clients with much more precise tools to measure the effectiveness of their advertising dollars.

## TRADITIONAL METHODS OF SETTING ADVERTISING BUDGETS



The advertising budgeting decision can be divided into two major components: (1) how much money should be spent on advertising and promotion within a specific time period, and (2) how the total advertising and promotion budget should be earmarked for different media, different products/services, and different geographic areas or target markets.

Determining the size of the advertising budget is a very important decision because it will affect the future impact of all of the firm's marketing efforts and be instrumental in determining the firm's future marketing strategy. In addition, an advertising and promotion budget is generally a major financial commitment of the firm and will be closely scrutinized by top management. It is crucial, therefore, that such a decision be made with a careful and thorough consideration of its potential effects, along with its constraints and limitations.

Some budgeting methods have been popular among advertising managers for many years. Although all such methods have some shortcomings, they have allowed managers to plan and control the performance of the advertising and promotion functions by comparing against results within their industry or against the performance of major competitors. Such methods will be discussed next.

### The Percentage-of-Sales Method

There are two ways of establishing an advertising budget according to the percentage-of-sales method. The first is to calculate advertising allocations as a fixed percentage of *past sales*. This calculation is done by applying a specific percentage number to the previous year's total sales revenue for a product, a line of products, or the whole company. The formula for this calculation is

$$A_2 = f(S_1)$$

where: $A_2$ is the total advertising budget for next year (or period 2)
$f$ is a percentage figure
$S_1$ is sales for period 1 (or last year's sales).

Advertising-to-sales ratios are computed by industry every year by professional advertising organizations. An example of such calculations can be seen in Table 6.1.

**Table 6.1** ■ Advertising-to-Sales Ratios for Selected Products, Retail Sales and Services

| Commodity of Class of Business | % of Annual Sales Spent on Advertising |
|---|---|
| Air Courier Services | 0.9% |
| Amusement & Recreation Services | 5.05 |
| Apparel & Accessory Stores | 5.2% |
| Appliance & Electronics | |
| Appliance Dealers | 3.2% |
| Electronics Dealers | 3.8% |
| Appliance & Electronics Dealers | 3.4% |
| Auto Dealers, Gas Stations | 0.8% |
| Auto & Home Supply Stores | 1.9% |
| Bakery Products | 0.7% |
| Beverages | 6.7% |
| Bicycle Dealers | 3.1% |
| Books, Publishing & Printing | 3.8% |
| Building Materials, Hardware, Garden (Retail) | 2.1% |
| Cable & Other Pay TV Services | 7.3% |
| Carpets & Rugs | 0.8% |
| Catalog, Mail-Order Houses | 3.5% |
| Child Day Care Services | 0.9% |
| Computer & Office Equipment | 0.6% |
| Convenience Stores | 0.1% |
| Department Stores | 5.1% |
| Direct Mail Advertising Services | 1.7% |
| Drug & Proprietary Stores | 0.7% |
| Educational Service | 12.8% |
| Engineering, Accounting, Research, Management & Related Services | 0.2% |
| Family Clothing Stores | 1.9% |
| Furniture Stores | 8.7% |
| Grocery Stores | 0.8% |
| Hardware, Plumbing, Heating Equipment (Wholesale) | 0.1% |

*Continued*

**Table 6.1** ■ Continued

| Commodity of Class of Business | % of Annual Sales Spent on Advertising |
|---|---|
| Hardware Stores | |
| <$500,000 | 2.4% |
| $500,000–$1,000,000 | 2.7% |
| $1,000,000–$2,000,000 | 2.5% |
| >$2,000,000 | 2.2% |
| Hobby, Toy & Game Shops | 2.9% |
| Home Centers | |
| <$2,000,000 | 1.3% |
| $2,000,000–$3,000,000 | 1.0% |
| $3,000,000–$6,000,000 | 1.1% |
| >$6,000,000 | 0.8% |
| Home Health Care Services | 1.1% |
| Hospitals | 0.6% |
| Hotels & Motels | 1.4% |
| Household Appliances | 1.9% |
| Household Audio & Video Equipment | 6.5% |
| Household Furniture | 6.1% |
| Insurance Agents, Brokers & Service | 0.4% |
| Investment Advice | 1.36% |
| Jewelry Stores | 5.4% |
| Leather & Leather Products | 2.1% |
| Lumber & Other Building Materials (Retail) | 1.7% |
| Malt Beverages | 10.0% |
| Mortgage Bankers & Loan Correspondents | 1.3% |
| Motion Picture Theaters | 1.0% |
| Musical Instruments | 2.2% |
| Office Furniture (excluding wood) | 0.6% |
| Office of Physicians | 1.2% |
| Ophthalmic Goods | 3.5% |
| Paints, Varnishes, Lacquers | 2.1% |
| Perfume, Cosmetic, Toilet Preparations | 19.2% |
| Photographic Equipment & Supplies | 1.4% |



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**Table 6.1** ■ Continued

| Commodity of Class of Business | % of Annual Sales Spent on Advertising |
|---|---|
| Racing, including Track Operations | 3.3% |
| Radio, TV & Consumer Electronic Stores | 2.4% |
| Real Estate Agents & Managers | 2.7% |
| Restaurants | |
| Full Service, < $15.00 | 2.0% |
| Full Service, $15.00–$24.99 | 1.8% |
| Full Service, > $25.00 | 2.2% |
| Limited Service | 1.6% |
| Security Brokers & Dealers | 0.5% |
| Shoe Stores | 2.3% |
| Skilled Nursing Care Facilities | 0.4% |
| Sporting Goods Stores | |
| Full Line, < $2,000,000 | 2.0% |
| Full Line, $2,000,000–$5,000,000 | 1.6% |
| Full Line, > $5,000,000 | 2.6% |
| Specialty, < $5,000,000 | 3.3% |
| Specialty, $500,000–$999,999 | 2.7% |
| Specialty, $1,000,000–$2,000,000 | 2.6% |
| Specialty, > $2,000,000 | 3.0% |
| Television Broadcast Stations | 8.3% |
| Tires & Inner Tubes | 2.2% |
| Tobacco Products | 4.0% |
| Variety Stores | 4.5% |
| Video Tape Rental | 4.7% |
| Women's Clothing Stores | 3.7% |
| | |

Sources: (as stated in the 2010 NAA Planbook)
Schonfeld & Associates Inc., Advertising Ratios & Budgets, June 2008
North American Retail Dealers Association, Cost of Doing Business Survey Report, 2007
National Bicycle Dealers Association, The Cost of Doing Business, 2006–07
National Retail Hardware Association, Cost of Doing Business Study, 2007
National Restaurant Association, Restaurant Industry Operations Report, 2007–08
National Sporting Goods Association, Cost of Doing Business Survey, 2006–07
Schonfeld & Associates Inc., Advertising Ratios & Budgets, June 2007

The reason for this practice is to provide a general overview of whether total advertising expenditures change over time by industry in response to market or competitive conditions. Year-to-year comparisons are also reported to provide another measure of relative growth for specific industries. For example, an article interpreting the advertising-to-sales figures of Table 6.1 stated that 11 of the business sectors reported had shown an increase in their advertising-to-sales ratio. The relative increase or decrease in advertising expenditures is also considered in light of economic conditions because it indicates the private-sector reaction to projected increases or decreases in sales.

This first budgeting model of advertising-to-sales ratio has some shortcomings. First, the use of past sales to determine future advertising allocation does not seem logical. Advertising is assumed to influence a firm's sales performance, yet the use of past sales to determine future advertising allocations will not take that interdependence into consideration. In addition, such a method would not allow the advertising manager to adjust the budget to meet emerging changes in the marketplace because the only criterion used in the past sales performance of the firm.

The second advertising-to-sales method attempts to eliminate these drawbacks. Instead of basing advertising expenditures on past sales, a forecast of *future (next year) sales* is made, and the advertising budget is calculated as a fixed percentage of that amount. The formula for this model is

$$A_2 = f\,(S_2)$$

where: $A_2$ is the total advertising budget for next year (or period 2)
$f$ is a fixed percentage
$S_2$ is the total sales forecasted for next year (or period 2).

This second model is an improvement over the previous one because it bases its budget calculation on the sales period that will theoretically be affected by the advertising expenditures to be budgeted. However, the model still reflects only one of the possible effects of advertising—its relationship to sales. It ignores all other possible variables that may be influenced by advertising, mainly some of its long-term effects.

The advertising-to-sales ratio is as good a method of budgeting advertising expenditures as a firm makes it. If used to develop a base allocation, which can be modified as the market or firm objectives change, then it is a very good initial yardstick for budget considerations.

Different authors cite 2% to 5% as the usual range of advertising-to-sales ratio. As Table 6.1 indicates, that ratio may vary considerably for specific industries or retail categories. As an example, automobile manufacturers in the United States traditionally spend 1%, or less of sales on advertising, whereas retailers and mail-order houses have had higher spending levels at 4% to 7% of sales.

As more advertisers shift their advertising dollars from traditional media to interactive and mobile media, the advertising-to-sales ratio might change considerably.

One approach to using advertising to sales ratio was developed by James O. Peckham and is known as Peckham's Formula. Below is a short description of that approach.

### Peckham's Formula

James O. Peckham developed a formula that establishes a relationship between sales and advertising expenditures by analyzing the Nielsen's store-audit data for grocery, toilet, and drug products, between 1960 and 1978. Peckham's formula is applicable only in product categories where there is a demonstrable correlation between "share of voice" and "share of market." Share of voice is the brand advertising expenditures as a percentage, or share, of the total advertising expenditures for the product category, whereas share of market is the brand's total sales units as a percentage of the total sales for the product category.

Peckham recommends setting a new brand share of voice at one and a half times the target share of market desired at the end of the brand's first 2 years. Peckham's formula was based on existing sales and advertising data collected over an eighteen-year period. Although the formula provides an interesting insight in allocation of advertising dollars for the introduction of a new product, the results of adopting this strategy cannot be generalized. Rossiter and Percy indicate that the "order of entry" of a brand in a market can affect the potential expected market share for that brand. As such, it should also be a major consideration when using Peckham's formula as a guideline for the allocation of advertising dollars.[3]

Leo Bogart indicates that Peckham did not report whether advertising expenditures were distributed equally over the 24-months period. In fact, in one specific case, a substantial portion of the expenditures took place during the initial introductory month.[4] It is important to also underscore that, although Peckham's formula was based on actual sales and advertising data, the environment of advertising and changes in the economy and distribution factors may affect sales results as well. Therefore, although Peckham's formula is an interesting application of the advertising-to-sales ratio model, it must be taken into consideration with prudence and only as an indication that the ratio between sales and advertising for new products entering a market is likely to be higher than that of established products with an existing market share.



### The Competitive-Parity Method

Another popular method for setting advertising budgets is the competitive-parity method. This method establishes an advertising budget as a proportion or share of the product or service's market share. The expenditure on advertising for the product is expressed as a share of the total advertising expenditures for all products in that category. As an example, if the total advertising expenditure for athletic shoes is $100 million, and the expenditure for Nike is $30 million, Nike would have a 30 percent share of advertising, or a 30 percent *share of voice.*

The formula for the calculation of the "share of voice" for a specific product/service is as follows:

$$A_{SV} = \frac{A_F}{A_C + A_F}$$

where: $A_{SV}$ is the firm's advertising share of voice
$A_F$ is the firm's advertising expenditures for the period in question
$A_C$ is all competitors' advertising expenditures for the period in question.

The reason for using share of voice as a method for setting advertising budgets is the belief that, in a stable market, a firm's share of voice should ideally be the same as its share of

[3](John R. Rossiter and Larry Percy, Advertising Communication and Promotion Management, 2nd ed, New York: McGraw-Hill, 1997). 39–40.

[4]Leo Bogart, Strategy in Advertising, 2nd ed. (Chicago: NTC Business Books, Crain Publication, 1986), 45–46.

market. If a firm were attempting to gain market share over its competition, its share of voice should be greater than its share of market. This would commonly be the case for new products entering a competitive marketplace.

The competitive-parity method also focuses on only one of the many variables affecting advertising. The fact that competitors' actions should be one of the variables considered when establishing advertising expenditures is undeniable. However, this method ignores other important factors that may affect advertising allocation. Changes in consumer habits, economic conditions, and the strategic objectives of a firm are some of the forces that should be taken into account.

This method does have some advantages. It provides a yardstick for comparing results whenever a product faces a very stable market and enjoys a mature competitive position. As such, it is a useful planning and control tool.

The competitive-parity method is used frequently when the total market potential is known and there are well-established competitors with relatively stable shares of the total market. For example, assume we are considering developing an advertising budget for one of the six dry cleaning companies operating in Concord, a community with a population of 350,000 people. The total market for dry cleaning services in Concord is divided among the six companies as follows:



| Company | Total Concord Market Share |
|---|---|
| The Adams Family Company | 30% |
| The Best Look Co. | 15% |
| The Clean and Iron Co. | 17% |
| The Dominion | 14% |
| Excellent Cleaners | 8% |
| Fresh and Ready | 16% |

Total advertising and promotion expenditures for dry cleaning businesses in Concord is approximately $300,000 per year (as of last year's reported data). Assuming all competitors in this industry in Concord are happy with their current market share and their overall goal for next year is to maintain their respective market positions, it is likely that their relative advertising and promotion budgets for the following year will be consistent with their relative market share.

It is also reasonable to assume that companies with relatively larger market shares and stable sales performance, will normally invest proportionally less in advertising and promotion, whereas less established companies and those with a smaller market share might invest relatively more to defend their market position. Therefore, share of voice for the six dry cleaning businesses in Concord will not reflect exactly their share of market. In other words, The Adams Family Company may decide that it does not need to invest an amount equivalent to 30% of the total advertising and promotion expenditures for the industry, because it can count on its business having greater consumer awareness and on the loyalty of its core customers, as a result of having operated in Concord for a longer period of time than any of its competitors.

Therefore, the dry cleaning businesses in Concord might budget their advertising and promotion expenditures for next year as follows:

| Company | Market Share | Share of Voice | Total A/P Budget |
|---|---|---|---|
| The Adams Family | 30% | 25% | $ 75,000 |
| The Best Look Co. | 15% | 15% | 45,000 |
| The Clean and Iron Co. | 17% | 16.6% | 50,000 |
| The Dominion | 14% | 15% | 45,000 |
| Excellent Cleaners | 8% | 10% | 30,000 |
| Fresh and Ready | 16% | 18.3% | 55,000 |



It is apparent from the preceding table that, although the dry cleaning businesses in Concord use a competitive-parity method to allocate their advertising and promotion budgets, each business allocation does not reflect the exact share of market of that business. Differences in budget allocation may reflect the desire by some of the businesses to achieve a larger market share. Another possible explanation for these differences is that some of the companies fear more aggressive moves by competitors and are taking a defensive position when deciding on their budget for the following year. Also, the Adams Family Company projected budget may reflect its confidence in continuing to secure the same relative market share without having to increase advertising and promotion spending.

The relationship between share of market and share of voice may not apply to all product categories and industries. Research conducted by J. O. Peckham for the A. C. Nielsen Company showed a demonstrable correlation between these two variables (J. O. Peckham, *The Wheel of Marketing,* Scarsdale, N.Y., Self-published, 1981). Peckham's research was conducted mainly for consumer products sold through retailers such as supermarkets and drugstores, and therefore might apply to most national brands of packaged goods, but not necessarily to other types of products. Therefore, a careful examination of the industry's advertising and promotional expenditures and of the relative share of market and share of voice of the companies that are responsible for the great majority of sales in that industry is necessary before deciding to adopt this budgeting method.

Another important consideration is that the competitive-parity method assumes a relatively stable demand and, therefore, a mature market as well as marketing communication strategies that are comparable across competitors.

The competitive-parity method also takes into consideration the long-term effects of advertising. To establish a stable market share, the competitive-parity method suggests that a firm should maintain a share of voice over a certain period of time. Many leaders in industry believe likewise. Edwin Artzt, chairman and CEO of Proctor & Gamble, stated that "advertising is a longer-term investment, and it shouldn't be intruded upon by short-term needs." This statement supports continued expenditures in advertising despite changes in profits and sales. The expenditures should continue to reflect a firm's competitive position as opposed to a concentration on immediate results.

### The Objective-and-Task Method

The objective-and-task method of setting advertising budgets is used by the majority of the largest advertisers in the United States.[5] According to this method, a firm will first set objectives for its advertising task. These objectives may include reaching a certain percentage of the population or of prospective customers, creating awareness of the product among a percentage of the individuals within a specific market or geographical area, and so on. After these objectives have been set, the firm calculates which media to purchase and at what cost. That cost may be arrived at by deciding what percentage of the total population should be reached by the advertisement and how many times each individual in that population should be exposed to the advertising message. The cost of obtaining this advertising reach and frequency will then be translated into an advertising budget.

This approach is more logical than the previous two approaches because it relates specific tasks of advertising to the amount of money being spent to accomplish those tasks. It also relates the theory of advertising effect to the budget decisions. For example, if the main goal of advertising is to develop awareness among the public, then fewer exposures per person will be needed than if the objective is to achieve customer preference for the product.

The major problem with this approach is that it doesn't fully consider the relationship between short-term and long-term effects of advertising or translate them immediately into a budgeting decision. In addition, although a certain number of exposures may produce a specific effect on the audience, that relationship is not always constant or measurable. Nevertheless, the objective-and-task method is an improvement over the percentage-of-sales method and the competitive-parity method. This method has been refined using different mathematical models. Large advertising firms have developed their own internal models which they use to formulate budgets in specific product and service categories. This practice illustrates the belief that the memorability and efficiency of advertising will differ by product categories or according to geographic or demographic factors.

The appreciation of the task-and-objective budgeting method requires clearly stated objectives and fairly reliable estimations of the audience's response to different advertising or promotional messages—as, for example, assume a company's objective is to achieve an increase of 3% in its sales for the following years. The company's total sales are 400MM units; therefore the company's sales goal will be 412MM units.

Based on previous experiences, the company knows that if 100 people will buy its product, two will buy it once a month only and one will buy it an average of three times a month. Therefore if the people try the product, this will result in average sales of five products per month or 60 products per year. To increase total sales of the product by 12,000 units, the company needs to ensure that at least 20,000 new customers will try its product.

The company's advertising program and industry data show that for every 1,000 people that become aware of the product, 250 are likely to try it. Therefore, at least 160,000 consumers must become aware of the product to achieve the company's desired increased sales goal. The company plans to advertise its new product on the cable Food Channel *Family Food* to reach its key potential buyers.

Research provided by the Food Channel to its advertisers indicates that a 20% level of awareness is reached if subscribers are exposed to at least four commercials per month. Because the total audience of the Food Channel is over 1,000,000 people during average

[5]Charles H. Patti and Vincent Blasko, "Budgeting Practices of Big Advertisers," *Journal of Advertising Research* 21 (December 1981): 23–29.

viewing times, the company will potentially reach at least 200,000 people if it buys five 30-second commercials every month.

The average cost of a 30-second commercial on the Food Channel is $10,000: therefore, the total media costs for the company would amount to $480,000 per year. In addition, the advertising agency creative fees and production costs are forecasted to be $45,000. Therefore, the total estimated budget for advertising and production is $525,000.

Although there are many other ways to establish an advertising budget, the three methods discussed in this portion of the chapter are the ones most commonly used by advertising firms and agencies. Another method frequently mentioned is the "all-you-can-afford" method, meaning a firm will decide to spend as much money as it can on advertising without regard to specific objectives, to competitive parity, or even to the level of sales. In addition, economic models are used to try to achieve a level of expenditure that will bring a positive marginal gain to the company. Examples of such methods abound in specific studies made for classes or even brands of products over the years. As marketing factors change drastically and as the number of variables affecting marketing decisions increase, economic models to develop advertising budgets and to assess advertising effectiveness are becoming increasingly complicated. Nevertheless, in the future it is expected that more and more firms and advertising agencies alike will resort to such models because advertising expenditures are increasing and the accountability of advertising is becoming more of an issue, at least among U.S. advertisers. The next section will consider recent changes in advertising budgeting methods.



## RECENT TRENDS IN ADVERTISING BUDGETING DECISIONS

The late 1980s and the early 1990s witnessed a major change in consumer response to advertising in the United States. Following a period of economic growth caused by massive defense spending by the federal government, U.S. producers found themselves trying to reach a market faced with slowed income growth and higher unemployment. The American recession and the increase in foreign and domestic competition produced a market situation that advertisers had not faced before. One of its immediate effects was an increase in the number of appeals that proposed immediate results for the consumer. Coupons, price-cuttings, discounts, and special promotions became more common in the marketplace, with varying market reactions. One such reaction was the perception that brand advertising no longer worked. Brands are insubstantial things that signal differences between products. Good brands are supported by large amounts of advertising expenditures. Despite the evidence of the value of brands, in the early 1990s, creating and sustaining brands became increasingly difficult. Manufacturers were under pressure to make big short-run gains in sales, and a lot of brand managers gave up long-term advertising expenditures on behalf of short-term promotional tools such as sweepstakes, price-cutting, and price promotions.

The perceived problem of declining importance of brands and the emphasis on promotion to achieve short-term sales gains caused advertisers to seek alternative ways to allocate their budgets. Manufacturers tried to steer consumers' attention away from promotion by developing a stronger image for some of their specific products rather than developing an image for a product class. Campbell's Soup, for example, emphasized in its advertising soups with less salt or soups developed for consumption by children. This strategy of steering away from the umbrella strategy of brand advertising by focusing on specific brand attributes benefitting narrowly targeted audiences has been one of many attempts to reestablish the long-term importance of brand image in the marketplace.

Another trend of the early 1990s was the focus on environmental, political, or controversial issues. Some corporations have developed campaigns dealing with such issues; an example is the Benetton campaign mentioned in Chapter 3. When the topic was so controversial that a specific corporate sponsor might not want to be identified with it, a nonprofit organization of sorts established by interested corporations was used as the campaign spokesperson.

Corporate critics have argued that it is unfair for companies to campaign in their own interest while hiding behind fictitious foundations. An example is the campaign against the animal rights movement by Americans for Medical Progress, an "educational foundation" largely funded by U.S. Surgical Corp. U.S. Surgical is a medical company with annual sales of more than $800 million that kills thousands of dogs each year so that its customers—physicians—can practice surgery using U.S. Surgical products. The campaign features print advertisements with a picture of a white rat and the caption, "Some People Just See a Rat. We See a Cure for Cancer."

Several organizations of this kind provide a public relations front for corporations to campaign for causes that benefit them. The American Council on Science and Health, which counts among its contributors Anheuser-Busch, Philip Morris, and Dow Chemical, is another example of this type of entity.[6]

The twenty-first century has seen major changes in the media and in social communication patterns. The extraordinary growth of digital media,: the emergence and almost universal popularity of search engines such as Google, Yahoo!, and Bling: and the powerful influence of social networks have caused advertising agencies and advertisers alike to develop new communication strategies to reach their customers and their audiences. Advertising budgets in the past ten years have steadily shifted their expenditures from traditional media such as newspapers, magazines, television, and radio to the new channels provided by digital technology. A recent report by TSN Media Intelligence shows that from 2007 to 2008, advertising expenditures in network TV, spot TV, magazines, newspapers, and radio declined, whereas Internet advertising increased by 4.6%.

Some traditional media channels with very targeted audiences, also showed an increase in advertising expenditures. That was true for cable television, Spanish language TV, TV/national syndication, Spanish language magazines, and free-standing inserts.

In an effort to better understand changes in consumer behavior and in their use of all the new communication technology available to them, advertising professionals are attempting to measure more closely the effect advertising expenditures may have on brand equity and the overall sales of their clients.

The Internet's share of total media ad spending has been rising at least 1 percentage point each year since 2000. Online ad spending may exceed $25 billion in 2010.

There are many reasons for this growth: Internet ads are seen as more measurable by advertisers; and Internet ads can be targeted more specifically than traditional media ads. In addition, younger consumers spend less time on traditional media and an increasing amount of time using digital media through their computer and a host of emerging mobile devices.

Although most advertising professionals agree that there will continue to be growth in Internet advertising spending, there are/is still many differing opinions on what types of majors will be most effective on the Web. Continuing research on advertising banners, click-through ads, web videos, product placement, and in-game advertising will hopefully produce the answers advertisers need to allocate their budgets in the most efficient and effective manner.

[6]Laura Bird, "Corporate Critics Complain Companies Hide Behind 'Grass-Roots' Campaigns," *The Wall Street Journal,* July 8, 1992, B-1, B-6.

**Table 6.2** ■ Percent Change in Measured Ad Spending[1]

| **MEDIA SECTOR**<br>■ **Media Type**<br>**(Sectors & types listed in rank order of spending)** | **Full Year 2008 vs. 2007** | **4th Quarter 2008 vs. 2007** |
|---|---|---|
| **TELEVISION MEDIA** | **0.1%** | **−5.1%** |
| ■ Network TV | −0.8% | −10.6% |
| ■ Cable TV | 2.1% | −2.3% |
| ■ Spot TV[2] | −2.8% | −3.6% |
| ■ Spanish Language TV | 0.1% | −0.1% |
| ■ Syndication–National | 6.5% | 0.0% |
| **MAGAZINE MEDIA[3]** | **−7.5%** | **−13.9%** |
| ■ Consumer Magazines | −7.5% | −13.6% |
| ■ B-to-B Magazines | −10.5% | −18.3% |
| ■ Sunday Magazines | −4.8% | −12.0% |
| ■ Local Magazines | −4.6% | −13.0% |
| ■ Spanish Language Magazines | 4.9% | 3.4% |
| **NEWSPAPER MEDIA** | **−11.8%** | **−16.5%** |
| ■ Local Newspapers | −11.8% | −16.3% |
| ■ National Newspapers | −11.5% | −17.9% |
| ■ Spanish Language Newspapers | −14.2% | −18.3% |
| **INTERNET[4]** | **4.6%** | **7.0%** |
| **RADIO MEDIA** | **−10.3%** | **−14.8%** |
| ■ Local Radio[5] | −11.1% | −17.7% |
| ■ National Spot Radio | −11.2% | −11.6% |
| ■ Network Radio | −2.7% | −3.2% |
| **OUTDOOR** | **−1.7%** | **−11.2%** |
| **FSIs[6]** | **1.8%** | **5.0%** |
| **TOTAL** | **−4.1%** | **−9.2%** |

Source: TNS Media Intelligence

1. Figures are based on the TNS Media Intelligence Stradegy™ multimedia ad expenditure database across all TNS MI measured media, including: Network TV, Spot TV (101 DMAs); Cable TV (52 networks); Syndication TV; Hispanic Network TV (4 networks); Consumer Magazines (241 publications); Sunday Magazines (8 publications); Local Magazines (18 publications); Hispanic Magazines (24 publications); Business-to-Business Magazines (264 publications); Local Newspapers (144 publications); National Newspapers (3 publications); Hispanic Newspapers (49 publications); Network Radio (5 networks); Spot Radio; Local Radio (32 markets); Internet; and Outdoor. Figures do not include public service announcement (PSA) data.
2. Spot TV figures do not include Hispanic Spot TV data.
3. Magazine media includes Publishers Information Bureau (PIB) data.
4. Internet figures are based on display advertising only.
5. Local Radio includes expenditures for 32 markets in the United States.
6. FSI data represents distribution costs only.

## CONCLUSION

Advertising budgeting is a very important management function. The advertising budget is a planning tool in that it allows the advertiser to develop both short-term and long-term objectives and to allocate a specific allowance of money to accomplish them. At the same time, budgeting is a control tool in that it allows the advertiser to verify which advertising techniques best serve their intended purposes.

In recent years, advertising budget decision makers in the United States have faced a changing environment. In an effort to adapt to that environment, advertisers and advertising agencies alike have come up with different techniques yet to be proven effective. This experimentation has led to the view that advertising expenditures should be integrated more directly with all other marketing functions of the firm, thereby strengthening their interdependence.

As our markets become more global, the clutter of advertising messages increases, and consumers become more educated and more discriminating, advertising budgets will have to adapt to these changing conditions. More innovative ways of spending advertising allocations will have to be devised by advertising agencies and by manufacturers. In addition, new and innovative media channels are continuing to appear, allowing advertisers to experiment with different ways of conveying their messages to the public. Interactive media and sales channels are but a few that are changing the world of advertising today. An advertising manger should keep in mind that adapting to change is essential to survival, and the ability to adapt and to devise effective advertising methods is crucial to the long-term survival both of the firm and of advertising as we know it today.



## EXERCISES

**1.** The Excellent Company sells (gift) products to retailers in Blanco County. Blanco County covers 711.24 miles, contains 3 cities/towns, and has 9,082 inhabitants. The median income per family of Blanco County is $49,320.

The Excellent Company products are sold through 15 different stores in the area and retail prices range from $20 for small gift items, such as picture frames, to $200 for larger gift items. Average retail markup is 40% over manufacturers' prices. Total sales of The Excellent Company products in 2007 for all of Blanco County were $6,500,000 (at retail prices).

In 2006, total sales of The Excellent Company were $2,800,000 (at manufacturer's prices). The Marketing Director decided to increase the annual marketing budget from its customary 15% of past sales to 20% of past sales for 2007. Resulting sales were considerably increased from 2006 to 2007, as shown in the previous paragraph.

Excited by the 2007 sales results, the Marketing Director decided to increase the marketing budget of The Excellent Company for 2008 to 25% of sales. Total retail sales for 2008 for Excellent Company products were $8,000,000 at retail prices.

Disappointed by the 2008 results, the Marketing Director decided to cut the overall advertising budget for The Excellent Company for 2009 back to 20% of sales. Total sales for 2009 for the Excellent Company dropped 20% compared to 2008 sales.

**a.** Plot the four points on the sales-response-to-advertising curve and estimate from them the shape of the curve.

**b.** What do the results indicate about the appropriateness of the current level of advertising?

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## Case 6.1

# The Happy Dog Company

Maryanne Lupus and George Ration started a successful small company manufacturing dog biscuits from only natural organic ingredients. The company struggled during its first two years, but through word of mouth and referrals from dog lovers and other (non-) nonprofit associations, the Happy Dog Company was able to break even the third year of its operations.

During 2002, at the beginning of their fourth year of operations, Maryanne and George made a first modest investment in marketing. Most of their marketing budget was spent in advertising in specialty magazines targeting dog owners concerned with their animals' well-being and health. The demographic profile of the Happy Dog Company's customers was as follows:

| | | |
|---|---|---|
| Household size: | 1 adult | 50% |
| | 2 adults | 35% |
| | 2 adults and 1–2 children under 18 | 15% |

| | | |
|---|---|---|
| The age distribution of the heads of the households was: | 25–35 | 60% |
| | 36–45 | 25% |
| | 46–65 | 15% |



There appeared to be an overall ratio of 60% male and 40% female customers (excluding children under 18)

The average household income of Happy Dog customers was $ 85,000.

Most Happy Dog customers described themselves as concerned with health and physically active. Most owned at least one dog, and the average household owned 2.5 dogs. Happy Dog's customers bought their dog food at specialty stores or at their veterinarian practice. After trying the product for two months, they frequently became repeat buyers. In fact, over the three years of operations, the company had only lost 10% of all the customers it had acquired during that period.

Therefore, Happy Dog Company customers were very loyal and appeared to be very valuable ambassadors for its products through their interaction with friends and other dog owners.

At the end of 2001, their second year of operations, the Happy Dog Company had total gross sales of $550,000, and an increase of 50% over the total gross sales of their first year of operations. At the end of 2002, after their first marketing investment, the company owners were anxious to see the results of their advertising campaign. Table 6.1.1 is the Profit and Loss statement of the Happy Dog Company at the end of 2002.

Total gross sales for the Happy Dog Company had grown almost 33% from 2001 to 2002. The owners assumed that although some natural growth could have occurred just as a result of continued word of mouth and perhaps some increase in per capita consumption of their products, it would be reasonable to assume that the expenditures made in advertising in 2002 had been mostly responsible for the company's overall sales results. They just were not sure of what should be the optimal amount of advertising expenditures to ensure the projected gross sales growth and to attain their desired market share goal.

Maryanne and George were hoping to be able to continue to have a growth in gross sales ranging from 20% to 25% a year, until the company had established a market share of 50% in its niche market. The organic dog food and dog biscuits were still a small percentage of the total pet food market.

**Table 6.1.1** ■ Profit and Loss Statement, 2002

| | | | | |
|---|---|---|---|---|
| Gross Sales | | | | 730,500 |
| | Less Returns | 15,200 | | |
| | Less Allowances | 7,800 | | |
| | Total | | 23,000 | |
| Net Sales | | | | 707,500 |
| | Less Cost of Goods Sold | | 340,000 | |
| Gross Margin | | | | 367,500 |
| | Less Operating Expenses | | | |
| | Marketing Expenses | 53,000 | | |
| | Sales Salaries | 89,000 | | |
| | Delivery | 18,000 | | |
| | Total | | 160,000 | |
| | Administrative Expenses | | | |
| | Office Salaries | 102,000 | | |
| | Office Supplies | 9,600 | | |
| | Miscellaneous | 4,500 | | |
| | Total | | 116,100 | |
| | General Expenses | | | |
| | Rent | 43,000 | | |
| | Miscellaneous | 6,400 | | |
| | Total | | 49,400 | |
| | Total Operating Expenses | | 325,500 | |
| | Net Profit Before Taxes | | | 42,000 |



In 2003 it was forecasted that total U.S. pet food sales would exceed $13 billion. Dog treats, which included dog biscuits were a small portion of total sales and in 2003 it was forecasted that dog treats would account for $1.8 billion in sales. However, the organic pet food category was growing at a much faster rate than overall sales growth of pet food. Leading manufacturers were just starting to consider entering this new market, and it was very important for new companies, like the Happy Dog Company, to establish their market share and their brand as soon as possible in this growing market.

The Happy Dog Company competed directly with two other manufacturers of organic dog treats. These other companies were much smaller than Happy Dog, but directed their sales efforts to the same customer target sought by the Happy Dog Company. Together the two competitors had gross sales of approximately $100,000 in 2002, but they were planning to expand their sales as their production capacity might allow.

Advertising expenditures as a percentage of sales for the specialty pet food products ranged from 3% of sales to about 8% of sales. No figures were available for the large manufacturers such as Purina, because their advertising and market expenditures were reported as a whole for all the products they manufactured.

Maryanne and George were comparing two possible strategies to set the advertising budget for 2003. Maryanne argued that they should set the budget as a percentage of future sales. She felt that if Happy Dog were to invest at least 7% of future sales in advertising for 2003, the company would be able to increase sales by at least 13%, which was the overall industry growth of sales for dog biscuits for 2003. She also felt that, if they were to allocate around 11% of future sales to advertising in 2003, the company might be able to reach its goal of overall sales increase of 20%.

George was more optimistic. He believed that the 32% growth in sales the company experienced from 2001 to 2002, had been a direct result of their advertising investment of $53,000 during that year. He, therefore, estimated that an investment of a little over 7% of forecasted sales would yield an increase in total gross sales of over 30% for 2003.

If the Happy Dog Company owners were to opt for using a competitive-parity method to develop their company's advertising budget for 2003, their overall advertising expenditures should not exceed an average of 5% of sales every year.

Some additional factors also had to be considered. The variable costs of manufacturing the organic Happy Dog biscuits was also forecasted to increase by 5% in 2003, due to increasing demand of the ingredients needed and due to rising utility costs. In addition, it was very important for the Happy Dog Company to continue to generate a net profit before taxes each year, as it would be its major source of capital for financing future expansion of its market and operations. An average of $40,000 to $50,000 a year in net profit was needed to continue to grow and to take advantage of its expanding niche market.

Consider the data in Table 6.1.1, and assume that all fixed costs for the company would remain the same for 2003. Also, assume that returns and allowances would continue to be the same percentage of overall gross sales. Based on the information Maryanne and George had, and on the data in the case, what would you recommend as the overall 2003 Happy Dog Company's advertising budget, if it were to attain the goals stated by its founders? Please explain your recommendation in detail and provide a pro-forma profit and loss statement for 2003.

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## Case 6.2

# BusinesSuites (A)[7]

### THE COMPANY AND CURRENT OPERATIONS

#### Background

Established in 1989, BusinesSuites' (BSS) core business was to provide office space and infrastructure support to businesses and individuals that were their clients. The company was in the "office business center industry" and offered a one-stop office solution with immediate access to full-service, furnished offices on terms ranging from one week to twelve months.

Based in Austin, Texas, BSS operated 14 centers in four states. BSS had four centers in Maryland (Baltimore, Columbia (2), and Owings Mills); seven in Texas (Austin (3), Houston (2), and Houston suburbs Sugar Land, and The Woodlands); two in Virginia (Newport News, and Richmond); and one in Las Vegas, Nevada. In total, BSS had 829 individual offices available (see www.businessuites.com for a virtual tour of the centers).

The company's mission was to provide their clients "the freedom to succeed by understanding our clients' businesses, anticipating their needs, and personalizing our service." In addition to office space at prestigious addresses, BSS offered their clients a wide range of services. For example, these services included: call screening and patching, data/word processing, copies and scanning, office supplies, and catering.

BSS had 1,188 clients (589 regular office leased and 599 virtual office (VO)). Note that since many regular office clients leased multiple offices, the number of regular office client companies is less than the number of offices leased. VO clients were individuals and businesses that did *not* have a permanent office at BSS but had their telephone calls, mail and delivery services received at a BSS center. VO clients also could arrange to use the BSS conference meeting room or a guest office on an hourly basis. Table 6.2.1 presents a breakdown of the number of VO clients, regular offices leased, square footage, and the number of offices in each of the 14 centers.

During the present year, BSS was projected to have total revenue of approximately $14,500,000. Regular office rentals accounted for 78% of total revenue and services[8] 22%. Classified as service revenue, VO clients accounted for approximately 10.2% of BSS's total revenue.

Led by BSS President John Jordan and his executive team of Nancy Brown, Ronnie Bulanek, and Connie Shortes, BSS had a total of approximately 50 team members. Most of the team members worked at the center level. Each center had a Manager who ran the business by serving as the primary contact on all sales, management, and operations issues. A back office Client Service Coordinator served as the "second in command" to the center manager, providing support and backup on sales, billing, and client support. In addition, each center had a front desk Client Service Coordinator in charge of taking care of the reception desk and meeting and greeting clients in person and on the phone. This coordinator was a critical client service position because this person represented the face and voice of the company to clients.



[7]This case was written by John Murphy, the University of Texas at Austin and John Jordan, BusinesSuites. The case is designed to serve as the basis for classroom discussion and not to illustrate either the effective or ineffective handling of an administrative situation. The case is used with permission granted by BusinesSuites.

[8]Services revenue included virtual office revenue (49%), conference room charges (7%), office setup fees (3%), telephone extra services (3%), long distance (8%), parking (5%), postage/currier services (8%), administrative assistance (1%), copies and faxes (13%), other services (2%), and late fees (1%).

**Table 6.2.1** ■ Client Categories, Sq. Feet, # Office, Occupancy % by Center

| | Clients | | | | | |
|---|---|---|---|---|---|---|
| **Center** | **VO** | **Full S.** | **Total** | **Sq. F** | **# Offices** | **Occupancy** |
| Austin, TX | | | | | | |
| Arboretum | 39 | 40 | 79 | 17,499 | 62 | 64.5% |
| Barton Springs | 28 | 47 | 75 | 20,174 | 66 | 71.2% |
| Westlake | 51 | 45 | 96 | 16,600 | 55 | 81.8% |
| Houston, TX | | | | | | |
| Chasewood | 28 | 50 | 78 | 18,198 | 62 | 80.6% |
| Sugar Creek | 49 | 50 | 99 | 16,371 | 58 | 86.2% |
| Uptown | 81 | 49 | 130 | 19,630 | 59 | 83.1% |
| Waterway | 44 | 42 | 86 | 14,688 | 50 | 84.0% |
| Las Vegas, NV | | | | | | |
| Hughes | 78 | 48 | 126 | 20,269 | 82 | 58.5% |
| Southwest Total | 398 | 371 | 769 | 143,429 | 494 | 75.1% |
| Baltimore, MD | | | | | | |
| Harborplace | 68 | 52 | 122 | 16,890 | 54 | 96.3% |
| Owings Mills | 37 | 30 | 67 | 12,922 | 47 | 63.8% |
| Park View/T. Center | 70 | 90 | 160 | 35,784 | 121 | 74.4% |
| Newport News, VA | | | | | | |
| Oyster Point | 10 | 29 | 39 | 17,544 | 65 | 44.6% |
| Richmond, VA | | | | | | |
| West End | 16 | 17 | 33 | 13,017 | 48 | 35.3% |
| Northeast Total | 201 | 218 | 419 | 96,157 | 384 | 60.9% |
| Grand Total | 599 | 589 | 1,188 | 239,586 | 829 | 71.0% |

Note: The Park View and Town Center locations in Columbia, Maryland are combined in this table. The two Virginia centers were relatively new and working to become established.

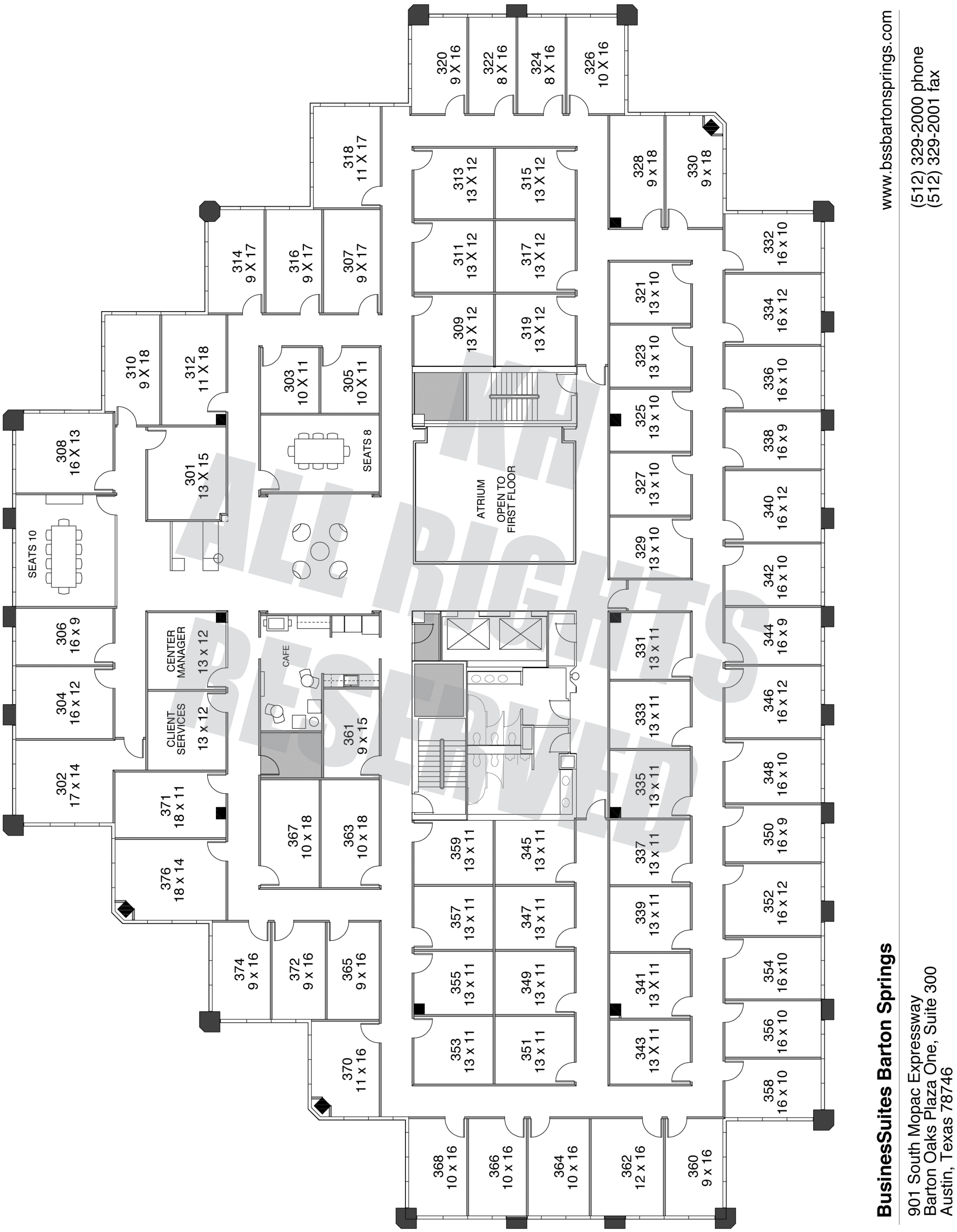
Source: BSS Confidential



## Regular Office Clients

BSS offered companies and individuals the option of immediate access to a furnished office with telephone, wireless Internet access, copy and other services in a prestigious location. Note that pricing on the offices varied by center plus the size and location of the space within a center. For example, at the Barton Springs BSS Center a small (130 sq. ft.) interior office leased for $1,150; a slightly larger interior (180 sq. ft.) office for $1,375; a small (160 sq. ft.) exterior office for $1,725; and a large (252 sq. ft.) exterior, corner office for $2,450. Exhibit 6.2.1 presents a floor plan of the Barton Springs Center.

**Exhibit 6.2.1** ■ Floor Plan Barton Spring Center



### Virtual Office Clients

VO clients were offered a flexible option that allows a company or individual to have access to BSS services and present a professional appearance at a relatively low monthly cost vis-à-vis full-time (regular) office clients. The VO program requires that an individual sign a service agreement with a minimum term of three months. A VO client may receive mail only or mail and telephone service at any one of BSS's centers. Sixteen hours of conference room/day office time per month could also be included in regular VO contract. The use of administrative and other services plus technical support could be negotiated for inclusion in a VO package. Prices for the VO packages ranged from $125 (discounted to $79 at some times) to $350 per month. Table 6.2.2 presents a breakdown of VO clients by categories of service plus service billings for a typical month all by individual centers.

### The Competition

BSS competed in the office business center industry that had grown to be a multi-billion dollar market with more than 4,000 locations in North America. Key competitors included Regus and a number of independent operators in a highly fragmented industry. Typically, local competitors tended to target a price point that was about 25% less than BSS in terms of revenue per occupied office. Regus promoted its "network" of thousands of locations worldwide as a primary basis for leasing one of their offices. More information on the industry was available from the Office Business Center Association International (www.obcai.com), which was the industry trade association.

Several national firms who specialize in VOs provided aggressive competition for BSS. These firms included Intelligent Office, Davinci Virtual, and easyvirtualoffices.com.



### Current Marketing Activities

Total marketing expenses for the current year were projected to be $432,541. This appropriation was 2% less than the previous year. This total was divided into three broad categories: (1) broker commissions/referrals $82,847; (2) client goodwill and promotions $61,685; and, (3) advertising and marketing $288,009.

Broker commissions/referrals related to direct commissions were paid to traditional commercial brokers and online brokers/referral services as well as promotional programs targeted at commercial brokers. Generally, BSS paid commercial brokers $1,000 when a referred prospect was converted to a client. For online brokers, BSS paid 10% of the value of the office portion of the transaction.

Client goodwill and promotions related to breakfasts, snacks, and luncheons provided regularly to clients. Advertising and marketing expenses consisted of pay-per-click advertising (60%) and direct mail (15%) with the remainder for sales collateral; search engine optimization; collateral and other direct selling supplies; print advertising and print directories; and other advertising and selling expenses.

**Table 6.2.2** ■ VO Client by Categories and Monthly Services Billings by Center

| | Clients[1] | | | | | |
|---|---|---|---|---|---|---|
| **Center** | **Conf. R[2]** | **Mail** | **M/Phone** | **Full VO** | **Total** | **Services[3]** |
| Austin, TX | | | | | | |
| Arboretum | 0 | 15 | 10 | 14 | 39 | $2,214 |
| Barton Springs | 0 | 8 | 5 | 15 | 28 | $1,067 |
| Westlake | 0 | 25 | 15 | 11 | 51 | $819 |
| Houston, TX | | | | | | |
| Chasewood | 3 | 6 | 5 | 14 | 28 | $191 |
| Sugar Creek | 2 | 20 | 11 | 16 | 49 | $2,491 |
| Uptown | 0 | 43 | 21 | 17 | 81 | $823 |
| Waterway | 0 | 16 | 6 | 22 | 44 | $734 |
| Las Vegas, NV | | | | | | |
| Hughes | 0 | 52 | 13 | 13 | 78 | $111 |
| Southwest Total | 5 | 185 | 86 | 122 | 398 | $8,450 |
| Baltimore, MD | | | | | | |
| Harborplace | 3 | 34 | 14 | 17 | 68 | $1,914 |
| Owings Mills | 1 | 20 | 4 | 12 | 37 | $870 |
| Park View/T. Center | 0 | 30 | 23 | 17 | 70 | $1,381 |
| Newport News, VA | | | | | | |
| Oyster Point | 0 | 4 | 1 | 5 | 10 | $206 |
| Richmond, VA | | | | | | |
| West End | 1 | 6 | 2 | 7 | 16 | $273 |
| Northeast Total | 5 | 94 | 44 | 58 | 201 | $4,644 |
| **Grand Total** | **10** | **279** | **130** | **180** | **599** | **$13,094** |

Note: Park View and Town Center locations in Columbia, Maryland are combined in this table.

Source: BSS Confidential

[1] Monthly charges for the categories of VO clients were: mail service only at prestigious address $125 (some discounted to $79); mail/phone that included telephone answering $250; full virtual office that included telephone answering plus 16 hours of meeting room time $350.
[2] Conference room VO clients only use the conference rooms (no mail or phone services). Some of these clients paid a fixed amount every month for a block of conference room time (use it or lose it) at a discount and others paid for time as they use it at the "client" rate.
[3] For the most recent one month only.

The company generated new business from the following sources:

| Source of New Business | % of Total Value of New Business |
|---|---|
| Client Referrals & Expansions | 31.4% |
| Pay-Per-Click Advertising and Search Engine Optimization | 31.4% |
| Commercial Real Estate Brokers | 18.8% |
| Online Brokers and Referral Services | 8.0% |
| Direct Mail to New Businesses | 4.9% |
| Signage on and in front of Buildings | 4.5% |
| Other Marketing Efforts | 0.8% |
| Print Advertising and Print Directories | 0.2% |
| Total | 100.0% |



Based on client feedback, the reasons for selecting an office center, in the order of importance were: (1) location; (2) people; (3) price; and (4) amenities. Jordan noted, however, that BSS's experience was that while everyone cites location as most important, in many cases when it comes down to BSS or a competitor down the road, BSS people and the prospect's interaction with the team during the sales process made the difference in getting the deal closed. Further, in the long-run, BSS has found that their people also made the difference in retaining clients.

Past experience clearly indicates that one of the best sources of new clients is a recommendation from existing clients. Therefore, BSS offered cash incentives to clients for referrals who sign a contract.

Individual center managers were responsible for direct sales to prospects. BSS's broad strategy was that corporate should be responsible for generating leads while center managers are responsible for closing the sales. All managers received formal training in managing the sales process, dealing with objections, and so on. In closing sales, BSS recognized the importance of the first impression of both the center and the manager. Further, BSS relied on their website plus high quality collateral pieces to convey the desired image to prospects during the sales process.

## LOOKING AHEAD TO THE NEXT FISCAL YEAR

### Marketing Strategy for Next Year

BSS President Jordan established an overall marketing objective for next year's integrated brand promotion plan to be to increase overall revenue by 8%. The fiscal year was from July 1 through June 30. This 8% target was based on a projection of significant VO revenue growth and contributions from regular office leases (improving both pricing and occupancy) and other client service charges.

In achieving this overall objective Jordan anticipated that a significant proportion of this growth would be achieved by (1) increasing occupancy while maintaining and/or selectively slightly increasing prices for regular office clients, especially in low performing centers; (2) significantly increasing the number of VO clients in all 14 locations; and (3) by increasing the services utilized by regular office plus new and existing VO clients.

VO clients were to be a primary focus of BSS's marketing efforts during the coming fiscal year. Further, Jordan believed that any proposed marketing programs would need to be simple, rely on repetition, be focused, easy to execute, and inexpensive.

Consistent with this strategy, the three centers that had occupancy rates below 60% needed special attention. These centers were: Hughes, Oyster Point, and West End. Therefore, each of these centers needed to be individually addressed so that client occupancy rates could be increased to a target of 70% for Hughes and 60% for Oyster Point and West End by the end of the upcoming fiscal year. Oyster Point and West End were both opened in the past two years. This special focus on these three centers was not to suggest that continuing efforts were to be ignored at other centers where constant work and changes were required to maintain their occupancy rates.

An important component of Mr. Jordan's overall marketing strategy was to increase the type and volume of services utilized by regular office and VO clients. A program(s) that specifically increased BSSs' revenue stream via telephone, Internet, day use of offices and conference rooms, and administrative support services provided was an important strategic issue that needed to be addressed. Achievements in this area were to be measured by revenue per occupied office (RevPOO).

One of the possibilities management had considered in the past to stimulate both regular office and VO clients was forming a strategic alliance or partnership with a firm(s) that was important to their clients and prospective clients. Candidates for these alliances included Office Max, The Office Depot, FedExOffice, and UPS. Such a partnership seemed to hold potential for helping both BSS's clients' and the firm's bottom-line.



### The IBP Appropriation for Next Year

With BSS's past marketing budgets and the strategy described above in mind, Jordan felt that the first step in planning the firm's IBP efforts for next year was to establish the total appropriation. Once the appropriation was set he could break this down into the three major categories followed by specifying amounts for specific programs.

In approaching this task Jordan felt that it would be prudent to begin by identifying three levels of investment—low, medium, and high. Then, by examining the trade-offs created by funding requirements at these different levels of investment, he felt that a more rational appropriation could be identified.

The final appropriation and budget must include all SEM expenses, production, mailing, media, and other costs. Note that the compensation of center personnel who would be involved in implementing any programs would not be charged against this budget. Finally, cost efficiency and return-on-investment were important criteria in evaluating each level of investment.

Name ______________________ Date ______________

## QUESTIONS FOR DISCUSSION AND REVIEW

**1.** Of the major strategic areas of to be emphasized in the coming fiscal year, which holds the most promise in terms of increasing revenue? Why?

**2.** How appropriate is the BSS marketing strategy of corporate being responsible for generating leads and the local center manager closing the sale?



**3.** How important is the present year's appropriation level in identifying next year's?

**4.** In the coming year, would you recommend that BSS focus more resources on (a) new or underperforming sources of new business or (b) attempting to grow its top sources of new business? Why?

**5.** Based on the information provided, how would you rank the return-on- investment for the various sources of new business?

**6.** Has the company over-invested or under-invested in its marketing efforts or is investment appropriate at the current levels? Why?

## Case 6.3

# The Corner Flower Market

The Corner Flower Market was a full-service florist shop located in an upscale residential area in a medium-sized city in central Texas. Marion Berry, the owner of the shop had been doing business for over 10 years and had a regular clientele, which was responsible for about 30% of his normal revenue. The store sold primarily cut flowers, flower arrangements, and plants.

The store was a member of wire services, including the FTD national network of florists. Berry believed that service was a most important component of his product offerings; therefore, he did not charge for home deliveries. He also maintained a very diverse stock of items to be used in the preparation of the flower gifts ordered by clients. These items ranged from special baskets or containers, exotic ribbons, elaborate and humorous cards, as well as balloons and other specialty items.

Mr. Berry had a staff of two trained florists, a stock maintenance and storage specialist, and two customer service/order taking persons. The store maintained a sophisticated database on their regular customers, and they were able to identify special dates, as well as the types and sizes of arrangements that were customarily ordered for occasions such as formal dinners and family/friends parties.

Mr. Berry was able to handle also large orders, such as weddings, religious ceremonies, funerals and anniversary parties. A very small percentage of his sales were orders from businesses and corporations, and these were usually businesses owned by his regular residential customers.

Like all other florists, most of the fresh-cut flowers in the store were imported domestically from California or internationally from South America. Mr. Berry believed that his customers were also very price sensitive and was able to establish his prices below those of his competition. Therefore, with a high level of service and competitively lower process, the Corner Flower Market had to achieve a pretty stable level of sales to provide adequate profits.



### The U.S. Florists Industry

In 2009, the U.S. Department of Commerce's Bureau of Economic Analysis estimated the size of the floriculture industry at retail in 2008 total revenue was about $35.6 billion. This industry typically includes cut flowers, potted flowers, foliage plants, and bedding and garden plants. There were 1,759 retail florist shops in the United States, and the estimated annual sales per florist were $320,000. Most consumers buy flowers from florist shops, supermarkets, garden centers and discount chain stores. Internet sales of fresh flower arrangements have expanded in the past few years. Sales to businesses make up from 15% to 20% of a retail florist in business.

Most florists nationwide are small businesses, and as an industry, florists have experienced steady growth for the past 20 years at least, despite changing economic conditions. Excluding sales of outdoor bedding and garden plants (46% of total retail sales), fresh flowers account for 36% of total sales and flowering/green houseplants account for the remainding 20% of retail sales.

The consumers market is dominated by women (79%), and this is also true for sales of fresh-cut flowers (65% are purchased by women). The largest segment of consumers for this industry is represented by affluent empty nesters (18%), followed by lower-income empty nesters (13%). Other significant segments are married active elderly, affluent traditional families, and singles.

Sixty-three percent of those who buy florists' products buy for themselves and 37% buy the products as gifts. However, fresh flowers are bought primarily as gifts (67%).

An industry report published in 2010 (1) indicates that calendar events account for only 15% of overall floral sales. Of the remaining 85%, Mother's Day sales are 23% and Valentine's Day sales are 16%. It is also interesting to note that consumers indicated that 21% of all cut flower sales are purchased for

**Table 6.3.1** ■ Precentage of Retail Sales by Month

| | All Retail Sales | Florists |
|---|---|---|
| January | 7.0% | 6.7% |
| February | 6.9 | 8.2 |
| March | 8.2 | 7.5 |
| April | 8.0 | 10.0 |
| May | 8.4 | 13.7 |
| June | 8.5 | 6.3 |
| July | 8.2 | 6.2 |
| August | 8.8 | 5.8 |
| September | 8.2 | 6.4 |
| October | 8.6 | 6.7 |
| November | 8.9 | 7.0 |
| December | 10.3 | 15.5 |
| Sources: U.S. Department of Commerce and Florists' Transworld Delivery Association | | |



home decoration. (2) A threat of some concern to the florist industry's growth was the entrance of supermarkets, nurseries, and discount stores into the fresh-cut flowers market. These new entries had in the past concentrated on selling green plants and had met with relatively little success because of the overall weakness of this market. However, many of the larger retailers had begun carrying fresh-cut flowers at lower prices than those of florist shops. The new entries introduced some long-run uncertainties in the market.

Historically, florists had higher sales in the months of April, May and December (see Table 6.3.1). Flowers and plants are generally considered a "safe" gift because they are emotionally appealing and the vast majority of people appreciate receiving them, hence the fact that 67% of fresh-cut flowers are purchased as gifts. The reasons for purchasing flowers as gifts are get-well wishes (20%), funerals (14%), anniversaries (13%), surprise (10%), birthdays (9%), and other occasions (31%).

An important institution in the florist industry is the FTD organization. The number of wire orders for flowers continues to increase since the establishment of the FTD. FTD is a cooperative of over 20,000 florists in the United States and over 52,000 florists in 142 countries. FTD is the only member-owned floral cooperative of its kind. Recently, some other businesses have started to offer floral wire services as well. However, these are still a very small portion of the total market.

## TARGET MARKET

In organizing the firm's marketing efforts, Mr. Berry indentified its target market. The market consisted of businesses in a ten- to fifteen-block radius of the store. This geographic market area included the downtown area, its immediate upscale residential area, student neighborhoods, and some other affluent residential areas west of downtown. Mr. Berry believed that obtaining business accounts first would lead to a great chance of procuring personal accounts. Not only would the store get the new business account, but also there would be the potential of developing a personal account with every individual who worked in the business.

## COMPETITION

The Corner Flower Market competed in a market that was highly fragmented, with no truly dominant florist competitor. Most of the 97 local firms listed in the Yellow Pages under "Florists—Retail" could be classified as reasonably small businesses grossing under $100,000 per year. Eighty-nine percent of the city's florists had only one location. The Rose Shop had the most locations (five), and another large florist had three locations. The bulk of the other multiple-outlet florists had two locations.

Like all other businesses, the Corner Flower Market has developed its own Web site. The Web site provided general information about the store and its location and included instructions for ordering flowers over the telephone and some examples of the baskets and arrangements that were commonly available. The Web site did not allow prospective customers to order online, but Mr. Berry was seriously considering adding more functionality to the Web site to give its customers and prospective customers more flexibility and better service. He felt that online orders would be very attractive to businesses in particular and had been consulting with an advertising agency in town on the possibility of developing a more functional and attractive Web site for his store.

Several of Mr. Berry's competitors made greater use of the Web by advertising their stores on different sites. For example, the local Chamber of Commerce had a Web site that illustrated all the amenities available in the city and around it, and it also allowed local businesses to advertise. The Chamber of Commerce Web site charged different rates for banner ads and for click-through ads, but it did not allow the placement of animated commercials.



## CURRENT SALES AND ADVERTISING

The Corner Flower Market was projecting average monthly sales for 2011 of $40,000. It is important to note, however, that the business climate for florists had suffered a decrease in sales because of the economic downturn the country had experienced in 2009, and the projections made for 2011 might not be entirely realistic. Mr. Berry was hopeful, however, that with a smart strategic communication plan and an increase in the annual advertising allocation, the store could achieve total sales for 2011 of at least $450,000.

Traditionally, the Corner Flower Store sales were as follows: 10% sales of cut flowers, 60% sales of flower arrangements; 10% sales of plants, and 20% sales of gift items.

In previous years, the Corner Flower Market advertising consisted of its Web site, a listing in the Yellow Pages directory, two direct mailings to regular customers and potential customers in its geographic area, and one half-page ad in the largest circulation local newspaper in the week prior to Valentine's Day.

## NEXT YEAR'S ADVERTISING BUDGET

Mr. Berry wanted to increase awareness in the shop's target market and was considering an increase in advertising for the coming year. As part of this campaign, he had approved a new series of print ads for the coming year. Exhibit 6.3.1 presents three representative ad from the upcoming campaign. He felt these ads were appropriate and would do much to sharpen the store's image. Management's task now was to determine the advertising appropriations for the upcoming year and a supporting rationale. Industrywide, florists used the percentage-of-sales method to set advertising appropriations, and Mr. Berry was willing to invest a percentage of sales in this manner. The average flower shop typically spent between 10% and 15% of sales on advertising. After identifying an appropriate total amount to invest in advertising, management would develop a budget allocation and supporting rationale.

**Exhibit 6.3.1**


Several questions needed to be answered before the budget could be created. Would the campaign be continuous or seasonal in nature? What media vehicles should be used? Should the target market be divided into business and personal accounts? Should there be a contingency fund to allow for flexibility, and if so, how large should it be? At this point, it became clear that budgeting and media planning decisions were interrelated. Representative media costs are presented in Appendix 6.3.1.

**Appendix 6.3.1** ■ Representative Media Costs

| THE DAILY<br>Monthly Earned Rate<br>Per-Column Inch | | |
|---|---|---|
| **Inches per Month** | **Daily** | **Sunday** |
| Open-transient rate | $38.98 | $47.33 |
| 1 to 14 | 32.21 | 39.60 |
| 15 | 29.01 | 35.70 |
| 35 | 26.79 | 32.96 |
| 65 | 25.90 | 31.84 |
| 350 | 25.34 | 31.16 |
| 650 | 25.02 | 30.80 |
| 1,300 | 24.65 | 30.31 |
| 3,300 | 24.28 | 29.87 |
| 4,500 | 23.10 | 28.38 |
| 6,500 | 22.24 | 26.87 |
| 7,500 | 21.38 | 25.34 |



| The Weekly Tabloid | | | | | |
|---|---|---|---|---|---|
| | **1x** | **3x** | **6x** | **13x** | **26x** |
| Full page | $1,150 | $1,025 | $965 | $910 | $790 |
| 3/4 | 925 | 835 | 785 | 735 | 640 |
| 2/3, or junior page | 850 | 770 | 720 | 680 | 590 |
| 1/2 | 650 | 585 | 550 | 525 | 450 |
| 3/8 | 550 | 485 | 460 | 435 | 375 |
| 1/3 | 485 | 435 | 410 | 385 | 335 |
| 1/4 | 365 | 325 | 310 | 290 | 250 |
| 1/6 | 270 | 250 | 235 | 220 | 190 |
| 1/8 | 220 | 200 | 185 | 170 | 150 |
| 1/12 | 165 | 145 | 140 | 135 | 115 |
| 1/16 | 125 | 115 | 110 | 100 | 90 |
| Color advertising is available upon request. Add $160 per standard color per page to the black-and-white rates. | | | | | |

| Local Business Magazine (Monthly)<br>Display Rates (ROP) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Black & White** | | **1x** | **4x** | **7x** | **13x** | **26x** | **39x** | **52x** |
| Full page | | $1,290 | $1,225 | $1,155 | $1,095 | $1,030 | $970 | $900 |
| 3/4 page | | 1,120 | 1,060 | 1,015 | 950 | 900 | 840 | 780 |
| 1/2 island | | 970 | 920 | 870 | 820 | 775 | 730 | 675 |
| 1/2 page | | 885 | 820 | 775 | 730 | 695 | 650 | 605 |
| Magazine 2/3 | | 735 | 695 | 655 | 620 | 590 | 550 | 520 |
| 1/4 page | | 580 | 545 | 520 | 490 | 465 | 435 | 410 |
| Magazine 1/3 | | 485 | 465 | 435 | 415 | 390 | 365 | 340 |
| 1/8 page | | 385 | 370 | 350 | 330 | 310 | 290 | 270 |
| 1/16 page | | 200 | 190 | 180 | 170 | 160 | 150 | 140 |
| **Color Rates:** | | | | | | | | |
| One process color: | $250 | | | | | | | |
| Full color: | $350 | | | | | | | |
| Two color: | $300 | | | | | | | |
| One PMS color: | $300 | | | | | | | |



| Outdoor Advertising<br>Local Market Only | | | | |
|---|---|---|---|---|
| | | **Coverage** | | |
| | | **Posters** | | |
| **Population** | **GRP/Show** | **Nonilluminated** | **Illuminated** | **Cost per month** |
| 850,000 | 100 | 12 | 32 | $14,008 |
| | 75 | 9 | 24 | 10,626 |
| | 50 | 6 | 16 | 7,064 |
| | 25 | 3 | 8 | 3,562 |

| Radio<br>Cost same for :30 and :60 spots | | |
|---|---|---|
| **KLEB-FM B-93** | **Time** | **Cost** |
| AMD | 6–10a | $95 |
| MID | 10–3p | 85 |
| PMD | 3–7p | 95 |
| NITE | 7p-12a | 45 |
| TAP | 6a-7p | 92 |
| **KSRU-FM** | **Time** | **Cost** |
| AMD | 6–10a | $90 |
| MID | 10–3p | 82 |
| PMD | 3–7p | 90 |
| NITE | 7p-12a | 50 |
| TAP | 6a-7p | 88 |
| **KTBJ-AM** | **Time** | **Cost** |
| AMD | 6–10a | $75 |
| MID | 10–3p | 45 |
| PMD | 3–7p | 65 |
| NITE | 7p-12a | 25 |
| TAP | 6a-7p | 50 |

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Name ______________________ Date ______________

## QUESTIONS FOR DISCUSSION AND REVIEW

**1.** In planning the advertising appropriation for the coming year, how large a role is the current level of investment likely to play? How might the new advertising campaign (see Exhibit 6.3.1) affect the decision of how much to invest in advertising?

**2.** How realistic is the sales increase forecasted for the coming year? How should this forecast be related to the level of advertising investment?

**3.** What major considerations should be evaluated in establishing an amount to invest in advertising? What factors are most important in allocating the advertising investment across budget categories, such as target markets and months of the year?

In addition, if Mr. Berry were to consider spending some of his advertising dollars on improving his Web site or advertising on local and national digital media, the following options were available to him:

**1.** Development, update and added functionality to the Corner Flower Market Web site:

Initial production cost: $20,000.00
Annual maintenance and updating: $10,000/year
(This was the average bid he had obtained from a local advertising company.)

**2.** Advertising on the Chamber of Commerce Web site:

The cost of a banner ad would be $500/month and the Chamber of Commerce required a minimum of 6-month contracts.

The "pay-per-click" rate for the same Web site was $3.00 per click, and the Web site data indicated an average of 750 clicks per advertiser per week. "Pay-per-click" ads could be purchased on weekly contracts with a minimum commitment of 4 weeks per year.

## Case 6.4

# Ben's Workshop[9]

### BACKGROUND

Ben's Workshop (BW) was a first-class automotive repair and maintenance facility committed exclusively to the mechanical repair and servicing of Mercedes-Benz vehicles. Since its establishment by Ben Scholtz in Austin, Texas in 1979, the shop's reputation for professional service and excellent work had propelled its evolution into the largest independent Mercedes-Benz repair facility in the region, and one of the premier facilities in the country.

In 1991, A new, state-of-the-art facility was custom-designed by Scholtz and his father-in-law, an engineer with Brown & Root, an international construction firm. The facility was uniquely tailored to accommodate the repair and maintenance of Mercedes-Benz automobiles. It included an on-site warehouse stocked with Mercedes-Benz parts, sixteen custom service bays, an innovative ventilation system, and a comfortable reception area to welcome clients. But the pride and joy of the shop was its possession of two Star Diagnostic System (SDS) computers introduced by Mercedes-Benz in 1998. All Mercedes-Benz models since 2000 are completely dependent on the SDS, and BW was one of only a few independent service providers in the nation with access to it. This had allowed the shop to build and maintain valuable contacts at Mercedes-Benz, providing insightful benefits that were passed on to its clients.

Such superior facilities attracted not only clients, but talented auto technicians as well. The entire staff at BW averaged 18 years of experience working with Mercedes-Benz automobiles, the majority of which had been accumulated at BW. Each of the technicians viewed their work as a craft, and had genuine concern for the quality of their craftsmanship. The familiar faces under the hood were an important reason for the loyalty of the shop's clients.

In January 2007, Bill and Jennifer Morey purchased BW. Morey's father was an assistant general manager at General Motors, affording Bill ample exposure to all areas of the auto industry. Morey saw an opportunity for BW to expand and grow, while still maintaining the ideals of fairness and quality upon which the shop was founded. All of the shop's employees stayed through the transition, and several new ones were added. Most importantly, clients remained loyal to the shop. This resulted from customers' confidence in BW's quality work and lent stability to the business. One of Morey's first moves was to update the firm's website.



### A PROPOSED DIRECT MAIL PROGRAM

The staff at BW defined their job simply: they fix Mercedes-Benz cars. This specificity yielded an equally specific target market of Mercedes-Benz owners, which make up a fractional share of the auto market. The first step in achieving BW's mission was to connect with these Mercedes-Benz owners in the Austin area, and to give them a reason to visit their facility.

To do this in an effective and cost-efficient way was the shop's biggest marketing challenge. BW had approximately 6,000 established customers on file, about half of which were "active customers", or those that had visited the shop within the last 24 months. The shop identified the members of its target market who had not yet visited the shop as "conquest customers". Morey believed that communication with both established

[9]This case was written by Erin Cutchen and John H. Murphy, The University of Texas at Austin. The case is designed to serve as the basis for classroom discussion and not to illustrate either the effective or ineffective handling of an administrative situation. The case is used with permission granted by Ben's Workshop.

and conquest customers would be crucial to maintaining and expanding the shop's clientele. Further, he felt that the business's primary method of communication with their present and targeted customers would logically be direct mail.

However, as an advertising medium, direct mail had several disadvantages. First, the effectiveness of direct mail in BW's situation would depend on having a mailer distinctive enough to garner the prospect's attention. Morey felt that, given the volume of mailing piece received by relatively affluent Mercedes owners, designing such a mailer would be challenging. Further, direct mail was relatively costly or incorrect addresses on various mailing rendered some lists inefficient.

On the other hand, Morey felt that since his business's target market was small and specific, direct mail offered several powerful advantages. First, various messages could be tested and refined using samples drawn from mailing lists. Second, these messages could literally be tailored on a consumer-by-consumer basis, allowing for even more precision of communication.

A conversation with a direct mail supplier revealed that BW could have access to all registered automobile owners in the state of Texas, allowing them to identify every Mercedes-Benz owner in Travis County (whose county seat was Austin) and its contiguous counties of Blanco, Burnet, Caldwell, Hayes, and Williamson. The supplier estimated that there would be approximately 14,000 Mercedes-Benz owners in this six county area. For each owner the data base included the owner's name, address, the year, make, and model of their vehicle, and its vehicle identification number.

From this pool of 14,000, the direct mail supplier offered to clean the list and merger it with BM's customer data base, correcting any changes in address and performing a "de-dup", or eliminating duplicate individuals who own more than one Mercedes. The supplier estimated that the cleaned list would contain approximately 9,500 Mercedes-Benz owners of which approximately 7,000 would be classified as conquest customers and 2,500 would be active BW customers.

In planning a direct mail program, Morey felt that potential clients should be contacted at least twice a year. He also felt that every direct mail contact must include a special discount offer of some type to encourage action. Further, if the receiver of the conquest mailer lived in any of the five outlying counties, the card also should include an offer for a free car rental.

For those on the mailing list who were already established BW customers, further divisions could be made, placing the customers into active and inactive categories. Active customers could receive "service reminders", letters alerting the receiver to any services their car may need. Inactive customers could be contacted quarterly, with letters also carrying special offers and a mention of the time elapsed since their last visit. In addition, after any service performed at BW, the customer should receive a thank-you letter asking for feedback, and requesting that the customer recommend the shop to fellow Mercedes owners. This letter would serve to reassure the customer that their money had been well-spent.



## PLANNING FOR NEXT YEAR

Further, in planning his new firm's marketing efforts for the coming fiscal year, Morey forecasted total income from repairs, service, sales of parts, and so on of $2.1 million, up 5% from the previous year.

Further, in planning BW's marketing efforts for next year, Morey had decided that while he would consider expanding the total amount of money invested in direct mail, he must definitely sharpen the focus of the firm's direct mail efforts. Perhaps more emphasis should be placed on the "conquest" or the "inactive customers" groups in terms of frequency or the type of mailing piece? In adding more impact to the mailers he wanted to develop new strategies and specific pieces that would enhance the likelihood that the prospects would read, consider, and respond to the offers. Further, he wondered about the use of other vehicles instead of postcards and traditional envelopes to increase the impact of the firm's mail contacts.

As he contemplated these and other possible changes or refinements aimed at improving the effectiveness of the BW's direct marketing efforts, Morey felt that his first decision was to identify the total appropriation or amount to be invested in the direct mail campaign next year. In structuring his thinking he decided to initially establish three levels of investment: high, medium, and low. He reasoned that examining how these levels of spending restricted his direct marketing options should prove useful in deciding on what would be the optimal trade-off in terms of the appropriation for next year.

**Exhibit 6.4.1** ■ Floor Plan Barton Spring Center




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## QUESTIONS FOR DISCUSSION AND REVIEW

**1.** What factors play an important role in determining how much money BW should invest in direct mail next year?

**2.** What is the relationship between identifying a reasonable appropriation and media costs and planning?



**3.** What factors are most important in allocating the direct mail allocation across the three target customer groups?

**4.** What other effective yet cost-efficient IBP marketing tools might BW use to further advance their business? How might these tools be used to supplement a direct mail campaign?

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