

The Preparation and Selection of Budget Methods for Promotion in Kosovo

Halit Karaxha, Hidajet Karaxha, Arjan Abazi

MSc. Halit KARAXHA, MSc. Hidajet KARAXHA,
Dr.Sc. Arjan ABAZI

Abstract

Selecting the adequate method for promotion has a huge importance in increasing business's performance. Selecting the method of the budget depends from a number of factors. The formulation of budget is known as the most critical period which requires special analysis from marketing's managers. The expenses for promotion are usually high, and every investment made in the field of promotion directly influences in the business situation. Thus, the selection and adequate formulation of budget methods for promotion influences the growth of profit. The allocated amount for promotion depends from a number of factors, such as: the size of the firm, the sector in which it operates, competition etc. After planning the budget, we have to do the budget allocation to select the promotional form which is considered to be successful by the firms in promoting the products and services and that will help the company to connect with its clients. In this paper, I have elaborated the role and importance of the preparation and selection of budget methods for promotion in the theoretical aspect and the practical one as well.

Key words: Promotion; Preparation; Budget;

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1. The preparation and selection of budget methods for promotion

The money spent for advertisements constitutes an important factor of cost regardless the kind of the company, big or small. Advertisements can be considered as an investment for sales in the future. Decisions regarding the budget can lead to profitability or losses. The allocation of budget is necessary to avoid excessive costs and to preserve the image of the company (Khan, 2006). The creation of a budget is the most important decision in the company in many aspects. Budgeting is an important decision having in mind that usually, advertisements are very expensive. If very little is invested in the field of marketing communication, the volume of sales will not achieve its potential and the profits will be small. The profit will also decrease if unnecessary amounts are spent. Accordingly, the managers face the dilemma regarding the optimal level of costs in order to increase the sales (Shimp, 2007).

Alternative types of budgeting: 1. *Zero based budgeting*: in a dynamic business, it often makes sense to develop a budget based on the last performance; 2. *Strategic budgeting*: this kind of budgeting includes the identification of new opportunities, and then designing a plan; 3. *Rolling budgets*: By bearing in mind the speed of changes and the general uncertainty of the external environment, shareholders require fast results: American companies usually report to shareholders every three months, compared with United Kingdom where they report every six months. Rolling budget includes the evaluation of the previous 12 months continuously, and the performance forecast for the next three months; 4. *Activity based budgeting*: this kind of budgeting reviews individual activities and evaluates the power of their contributions in the success of the company (Jobber & Lancaster, 2009).

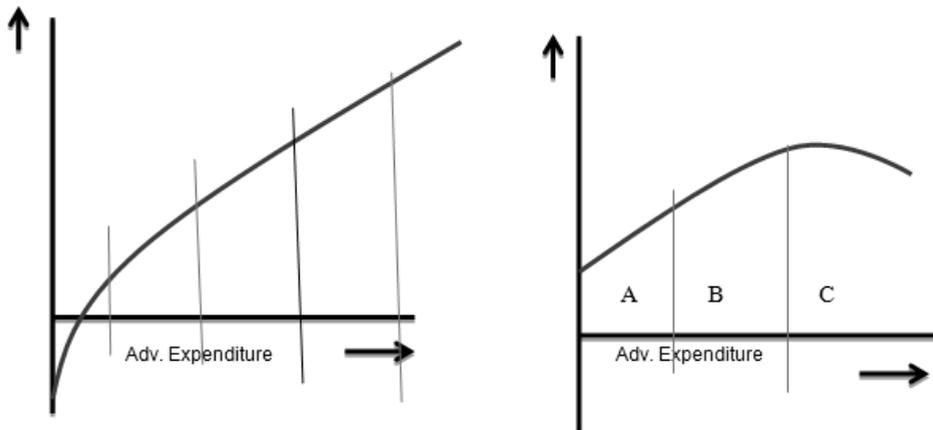
The amount of the budget for a firm's advertisements and promotions can vary from thousands of dollars to more than a billion. When companies such as Ford, Procter & Gamble and General Motors have spent more than 2 billion dollars a year to promote their products, with these expenses these companies expect to achieve their declared objectives. One of the most important decisions faced by the marketing managers is how much should they spend in promoting the company's products and services. Unfortunately, many managers don't understand the value of advertisement and promotion. They treat the budget for communication as an expense, and not an investment (Belch & Belch 2003). One of the hardest

decisions a company has to face is the amount it should spend in promotion. It is not surprising that companies and industries vary regarding the budget that they designate for promotion. Promotion expenses can take from 10-12% of sales for the packed goods of consume, 14% for cosmetics and only 1% for industrial machinery. Inside a given industry we can encounter high and low budgets for promotion (Kotler & Armstrong, 2011).

There are some factors that have to be considered for preparing the budget. These are:

1. The phase of the product's life cycle: the allocated budget is different in different phases. The products that have been sold and that are in the mature phase of their life cycle require less expenses, while products in the entering phase of their life cycle require much more expenses.
2. Market's division is also an important factor for preparing the budget. To win the biggest part of the market, the allocated budget for advertisements has to be larger.
3. By contest someone can try to outdo the methods of competition.
4. The frequency for large advertisements requires higher costs and higher budget.
5. If the product is well-differentiated we don't need large expenses for the advertisement of the product (Khan, 2006). In the general process of decision-making regarding the budget for marketing communication, the division depends a lot from industries and companies, and general marketing (Kim, 2011).

In this, three ranges A, B and C are shown. In the A range, the expenditure is lower than required and there is no increase in sales. In the second one or B range which is most effective, the sales start increasing and go up to the beginning of sales and C where with the additional expense there is little increase (Khan, 2006).

Figure 1: Adaptive Control Model

Source: (Khan, 2006)

There are four common methods used for fixing the total budget for the advertisement: the method of affordability, the method of percentage of sales, the method of competitive parity and method of objectives and tasks (Kotler & Armstrong, 2011).

The companies use the method of percentage of sales by fixing their promotional budgets in a percentage of actual or foreseen sales, or they set the budget based on a percentage of the price of sale per unit. This method can prevent the increase of costs, sometimes needed to totally change the decreased sales (Kotler & Armstrong, 2011).

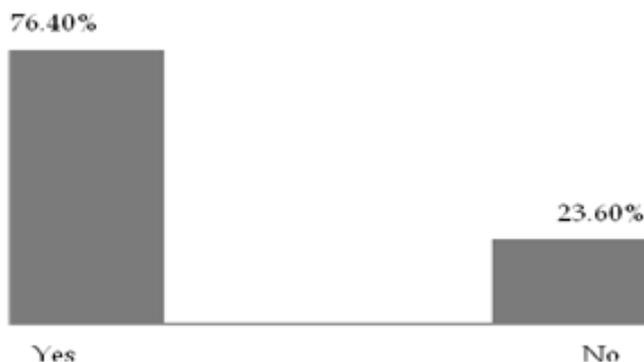
The method of affordability in setting the budget - based on this method the companies fix the budget for promotion in the level which they think the company can afford. A disadvantage of this method is that it totally ignores the effects of promotion in sales (Kotler & Armstrong, 2011). The firm sets the amounts that will be spent for production and after this they share the parts for advertisement and promotion (Khan, 2006). Based on the method of affordability, a firm spends for advertising only the remained funds after allocating the budget for every other sector in the firm (Shimp, 2007). Based on the method of competitive parity the allocation of budget is done by fixing their promotion budget to the extent that they share the same amount with the one of their competitors. They monitor their competitors' advertisements or evaluate their promotional expenses from publications or trade associations and then they fix their budgets based on the average of the industry (Kotler & Armstrong, 2011). Often, marketing

managers deny that they set their promotion budget based on their competitors, however if we review some companies' expenses for advertisements we will see a very small change in the allocation of budget in these companies, and these results don't happen by chance. The companies that offer information about advertisements, trade associations and other industries are sources for the expenses of competitors (Belch & Belch, 2003). The Objective and Task Method - based on this method, the company sets the budget for promotion based on what it wants to achieve through promotion (Kotler & Armstrong, 2011).

2. Research results

From the interviewed companies, 76.4% said they shared budget for promotion, and 23.6% didn't share budget for promotion. As we can see, big companies and a part of average companies shared a part of their budget for advertisements, while only a small part of small companies shared their budget for promotion.

Figure 2: Does your company allocate budget for promotion?

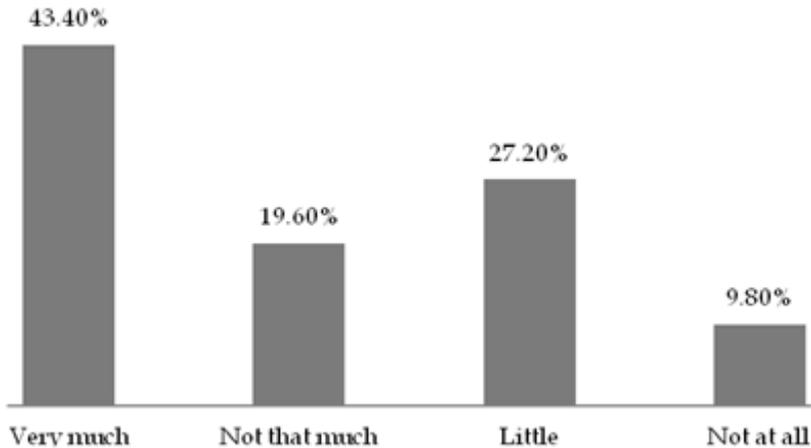


Source: Calculations from the authors based on the research data

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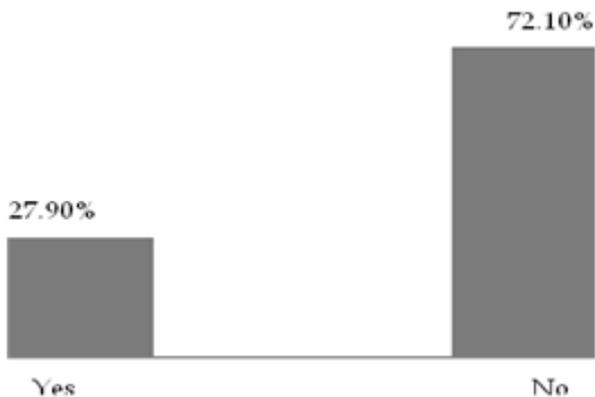
Figure 3: Did the budget shared for promotion affect the increase of sales in your company?



Source: Calculations from the authors based on the research data

From the survey results, we can see that in most of the companies the budget affected the increase of sales. From the respondents 43.4% said that the budget shared for promotion had a huge impact in increasing sales, 19.6% said that the budget had an average impact, 27.2% said that the shared budget had a very little impact in increasing sales and only 9.8% said that the budget shared for promotion had no impact at all in increasing the sales.

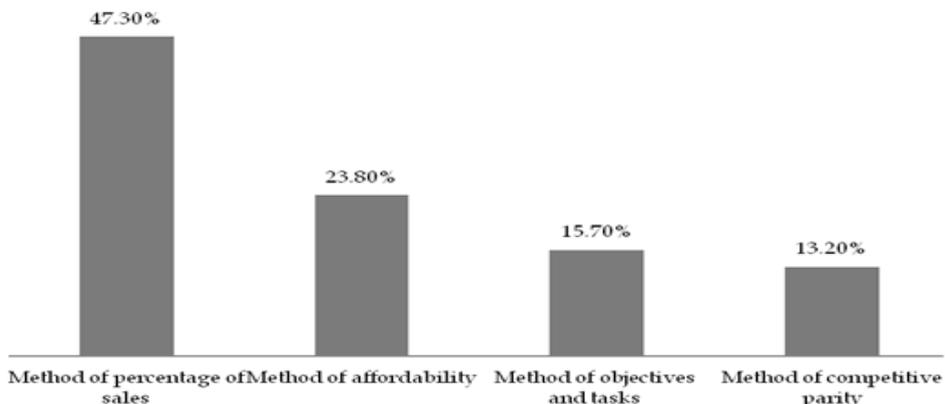
Figure 4: There are four common methods used for fixing the total budget for the advertisement: the method of affordability, the method of percentage of sales, the method of competitive parity and method of objectives and tasks; do you use any of these methods in your company?



Source: Calculations from the authors based on the research data

Based on the results, we can see that a small number of companies use the four common methods for fixing the total budget with only 27.9%, and most of the interviewed companies 72.1% don't use any of the four methods for fixing the total budget for advertisements.

Figure 5: Which of the four methods for fixing the total budget for advertisement do you use in your company (only for the respondents that answered Yes in the above question)?



Source: Calculations from the authors based on the research data

As we can see from the previous results, only a small number of the interviewed companies use one of the four common methods for fixing the total budget for advertisement, and from the companies that answered Yes in the previous question, it results that 47.3% of them use the method of percentage of sales, 23.8% use the method of affordability, 15.7% use the method of objectives and tasks and only 13.2% use the method of competitive parity.

3. Conclusions and Recommendations

Selecting the adequate method for promotion budget is one of the indicators that show the success of promotion in the company. The preparation and selection of methods for promotion budget is one of the hardest tasks faced by the marketing managers, and in the mean time it is one of the most difficult challenges, which requires adequate knowledge and preparation by marketing managers. The companies that want to increase their sales and have a high performance in market, share a considerable part of their profits to promote their products and services. In the latest decades, successful companies have understood that the increase of sales and the resistance in turbulent markets is achieved by increasing the budget for promotion. Based on the results, we can see that most of the interviewed companies share a part of their budget for promotion, and investments in promotion have an impact in increasing the sales in these companies. The method of percentage of sales is the most used method in the interviewed companies when allocating the budget for promotion.

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