

## SOME METHODOLOGICAL PROBLEMS ON ALLOCATING BUDGET FOR MARKETING ACTIVITIES OF ENTERPRISE

Vu Phuong Thao<sup>(\*)</sup>

Some business managers often assume that allocating budget for marketing activities of enterprises is the “figure chewing work”, aiming at controlling, but not marketing. This point of view is completely erroneous. Marketing budgeting is a kind of decision which matters the marketing management of any enterprises because managers’ efforts in budgeting bring certain advantages to the marketing management and business operations of enterprises. The advantages are as follows:

- The marketing division can implement marketing strategies and specific plans in every period. Budgeting ensures the capacity of providing financial resources for marketing arrangement and implementation in a planned period.

- The budget defines the restrictions suitable for each marketing activity to achieve the set-up objectives.

- Budgeting creates the premise for the manager of each marketing division to combine the operations with the managers of other divisions and creates the basis for arbitrating the differences in operation among divisions.

- Budgeting is the standard which marketing managers use to measure the progress rate of implementing work

through controlling the input of the implementation process.

- Marketing budgeting provides information for the general financial determination process of enterprises. A financial plan which is based on specific figures and is practical will ensure enterprises to exist steadily.

Therefore, the marketing managers of businesses need to be aware of the importance of budgeting and the arrangement and implementation of this work in reality.

The nature of marketing budgeting in enterprises is that managers must find out the answers to the two questions below:

First, how much do enterprises need to spend on the entire marketing?

Second, how is the budget allocated to the variables of Marketing Mix, each target market and each product to ensure that the capital invested in marketing will gain a high goal?

In this article, we will only address to the first one.

### **1. Things that Need to be Considered when Planning the Budget for the Marketing of Enterprises**

To answer the question: “How much do enterprises need to spend on marketing?”, the marketing manager needs to find that marketing cost is a part composing of the

---

<sup>(\*)</sup>Dr., Faculty of Economics, Vietnam National University, Hanoi.

cost price of a product. Thus, if the expense of marketing is high, the cost price will be high and together with it, the selling price will be high. The high level of selling price can have impact on the selling quantity. It can curtail the selling quantity of enterprises and thus, enterprises won't probably gain the general objectives as well as the marketing ones set up in the planned period. Therefore, when planning the budget for marketing, managers should bear in mind that the more marketing cost they save, the better.

On the other hand, marketing cost is the capital invested in creating the prestige of enterprises to their customers. The more prestigious enterprises are in the market, the more competitive advantages they have. Creating prestige for customers requires the entire process. Thus, when budgeting, managers of enterprises should take the view of appropriate investment for marketing based on their own financial resources for creating prestige of their trademark in the market.

## **2. Theoretical Bases of Budgeting**

### ***2.1. The Theory of Maximizing Profits***

All business decisions aim at gaining certain purposes. The most popular and permanent purpose pursued by business managers is to maximize profits. If

enterprises admit that the purpose of maximizing profits is the main permanent objective of the marketing decisions of enterprises, they will define the cost level under the way to gain the maximum profits.

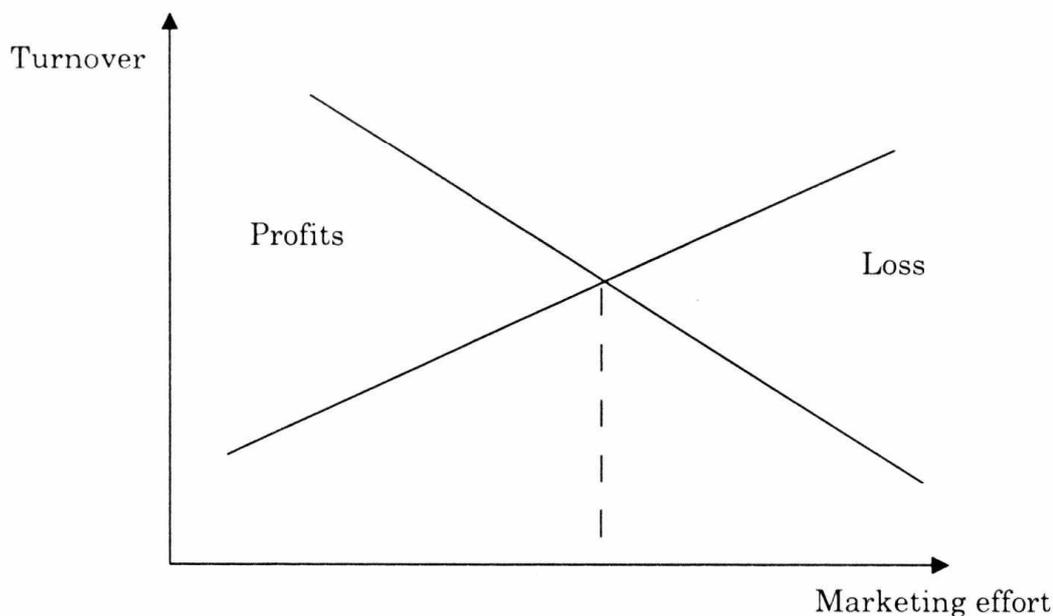
The model of maximizing profits is based on two main assumptions below:

+ The income from each unit of cost added to marketing efforts tends to decrease when the cost level of expenses continues growing. The deeper the market was penetrated, the more difficult the chances to gain an added level of turnover become.

+ To gain an added unit of marketing effort, enterprises have to waste more resources because effective means are always chosen at first, less effective means are often used afterward.

Economic theories suggest that managers should continue to raise expenses for marketing efforts until the marginal income or the marginal turnover is still bigger than the marginal marketing cost. Managers should only maintain marketing expenditure at the level that the marginal spending for marketing efforts balances the marginal income or the marginal turnover.

The graph below illustrates this.



Effective  
marketing  
activities

Profits  
maximal  
path

Ineffective  
marketing  
activities

## 2.2. The Relationship between Marketing Efforts and Turnover

When applying the theory of maximizing profits, managers should know that both the total profits and real marginal profits are stipulated by the level of turnover. Therefore, it is necessary to examine the level of turnover created from a certain quantity of cost. The relationship of the level of turnover (Q) and marketing cost (C) is called Turnover Satisfying Function.

The relationships of satisfying turnover are examined with two assumptions.

- First, the market is basically stable in terms of size and competition.

- Second, there are no changes in marketing strategies during the time we survey.

There are four primary models of turnover satisfying function.

### + The First Model

The relationship between turnover and marketing effort is linear. The increase in marketing effort will add to the turnover and profit. Given that if enterprises want to increase the turnover and profit, they have to try to raise the marketing budget to the maximal level. The marketing cost is the capital that enterprises invest for their prestige. The higher the prestige is, the more possible it is to create a greater sale volume.

Therefore, in their certain financial circumstances, enterprises should spend on marketing as much as possible.

### + The Second Model

When the level of turnover is directly proportional to the level of marketing cost, but the total of cost has to reach a certain

minimum level, it will increase the turnover so that the turnover and profit will rise. This case is called threshold effect. This turnover satisfying function shows that enterprises should not spend too little on marketing because the cost which is too low doesn't create motivation to increase the turnover as well as enterprises doesn't spend any money on marketing.

*+ The Third Model*

The level of turnover is inversely proportional to the level of marketing cost. In this case, each level of additional effort will create one level of gradually satisfying turnover. At first, when increasing the marketing cost, the turnover will get the higher real marginal one or will not create any real marginal turnover because of the following reasons:

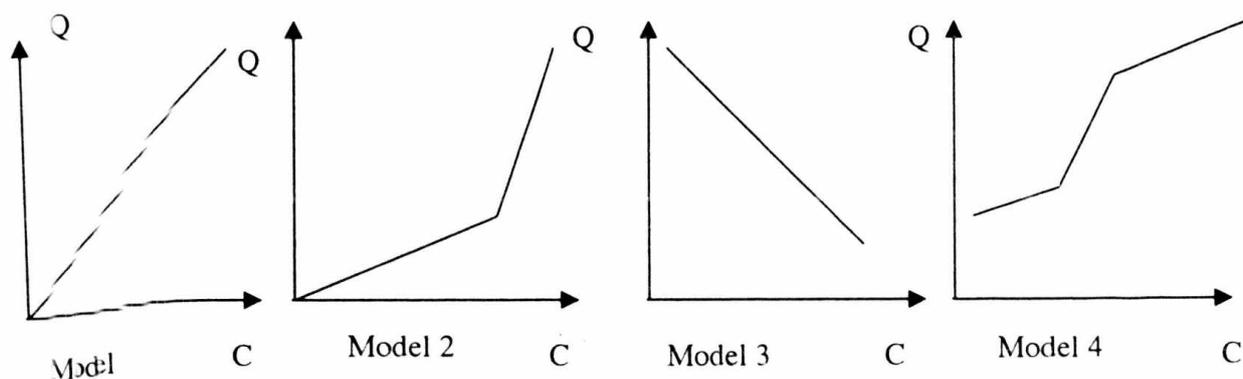
First the market is regularly limited in terms of size. The consumers at a certain time will reach the saturation of using products. In stead of increasing the turnover scale, the additional marketing effort can have an inverse effect.

Second, the growing marketing cost will result in the increase in the selling price. In its turn, the increase in the selling price will raise the sale quantity. This case is called gradually decreasing effect. This turnover satisfying function shows that if the turnover wants to be effective in using investment capital for marketing, enterprises need to define the restriction of marketing cost.

*+ The Fourth Model*

This is the combination of the two cases above. The "S" shaped curve of the turnover satisfying function shows that the turnover level depends on how the market satisfies the different levels of marketing. The relationship between the turnover and marketing effort is not always linear. When budgeting, managers need to consider the features of the target market, which regulate the size and the features of the market demand, in other words, the satisfaction of the target market to marketing effort.

Turnover satisfying functions are described on the graphs below:



### 3. Techniques of Marketing Budgeting in Enterprises

For managers, the application of the theories mentioned above in order to make a decision on budget in reality is very hard because of the following reasons:

- First, managers have too little or do not have any data to measure the relationships between marketing expense and turnover satisfaction. In addition, the requirements for time and necessary cost for collecting and processing these data to get essential information make enterprises hesitate to measure these relationships.

- Second, the relationships of turnover satisfaction mentioned above are based on certain suppositions. In fact, these suppositions are difficult to be accepted because business environment always has changes, but it is not always stable ideally.

- Thus, in reality some techniques are used to define the cost for the Marketing Programme of enterprises.

The techniques are as follows:

#### 3.1. The Previously Similar Method

The nature of the previously similar method is the marketing budget in the planned period, based on the cost for this activity in the previous year. If in the planned year there aren't any big changes in business operations, the budget level will be considered as much as the fact of the previous year. Managers can adjust the budget level in the planned year to special situations. For example, in the planned year, an enterprise developed an additional new product. If the marketing budget last year is 600 million VND, the

marketing budget this year is also 600 million VND. When the enterprise intends to introduce a new product in the market in the planned year and estimates that the marketing cost for this product is 200 million VND, the marketing budget in the planned year will be 800 million VND (600 million VND + 200 million VND = 800 million VND).

The advantage of this method is simple and easy to be applied. The planned figure of the budget is reliable because the budget level is based on the real experience of the previous year.

This method has disadvantages. Budgeting based on the thorough research into the relationship between cost and profit can lead to the ineffectiveness of investment capital in marketing. On the other hand, the business environment (the demand of customers and competition) changes, if the enterprise still applies his method, it can miss valuable opportunities brought about by these changes or it may not realize to ineffectiveness to be modified.

Due to these disadvantages, the previously similar method is only suitable when the enterprise operates in a quite stable condition and the enterprise is satisfied with the gained levels of turnover and profit without wanting to move the business goals.

#### 3.2. The Percentage-of-Sale Method

This method is the improvement of the previously similar method. It is based on the ratio relationship between the marketing cost and turnover of an enterprise in the past. This is the most popular method.

According to this method, to determine the budget for marketing in the planned period, managers must have predictive figures on the turnover in the planned year and the percentage of the marketing cost in comparison with the turnovers of the previous years.

This method has the main advantages as follows:

- It is simple and easy to be applied.

- It concerns about the changes in business environment as well as turnover levels. If the turnover in the planned year is higher than the reported one in the implementation year, the marketing budget in the planned year will grow compared with that in the implementation year and vice versa.

- It allows enterprises to control the cost and ensures that this cost will be compensated.

The disadvantages of this method are that it is unsystematic and it doesn't reflect the cause and effect relationship between marketing and turnover. Besides, this method makes us confuse that the turnover affects the marketing cost while, in fact, the marketing cost has a decisive influence on the turnover.

This method should be applied when the turnover of an enterprise doesn't depend too much on the level of marketing effort.

### **3.3. The Viable Method**

Unlike the two methods above, the method of maximal possibility does not depend on experience and the relationship

between turnover and marketing cost in the past, but it relies on the current finance of an enterprise.

This method is based on the viewpoint that marketing cost is not the cost to create the future turnover, but is an investment in the turnover and prestige of a product brand or the prestige of an enterprise in the future. Thus, in fact, at a certain time, the enterprise can reduce or reject this cost to overcome financial difficulties in a short-term. When the advantages of the enterprise become better and thus, the financial resources of the enterprise get better, it will spend on marketing.

According to this method, the budget for marketing depends on the enterprise's financial resources after ensuring some certain profits. When applying this method, the enterprise can ensure the minimal level of profit to exist and develop. On the other hand, at a certain level, the marketing cost really creates the future's value. This can allow an enterprise operating in a quite stable environment to decrease the marketing cost in a short term without damaging its position in the market. It is necessary to know that the investment in marketing before was enough to create a result of turnover as expected. This is the main advantage of this method.

However, this method has some disadvantages as follows:

- The application of this method does not require the profound knowledge of the marketing influence on turnover and profit. The budget is independently built from what the marketing can create, so it

may result in a situation in which the enterprise will spend more than needed level or does not spend enough to take advantage of the attractive opportunities which may emerge in the market in the planned period.

- Marketing cost changes, depending on fiscal years. If in any financial years, there is much, much is spent. If in any fiscal year, there is little, little is spent. Or if in any financial years, there are a lot of difficulties, nothing is spent. Therefore, the long term marketing strategies of the enterprise are hard to gain the results as expected.

### ***3.4. The Method of Planning Budget Based on Competitors' Marketing Cost Level***

This method is based on the view that considers marketing as a competitive weapon which can help an enterprise improve its competition position in the market. According to this method, the enterprise will spend more than the cost level of the competitors if it wants to overwhelm the competitors. The enterprise can spend on its marketing less than the cost levels of the competitors if it believes that it will use the cost more effectively.

The primary strong point of this method is that it is simple to calculate and possible to set business managers' mind at rest.

This method has some drawbacks as follows:

- The implementation of this method requires enterprises to have in hand sufficient, accurate, and timely information

about the competitors and their marketing operations. It is to implement this or it is possible to implement this with a high cost to collect information.

- Using this method can speed up competition among the enterprises in the same good branch to the extreme, which makes all the members in the good branch incur damage. In such a situation, any enterprises which are the strongest will win if they still continue staying in the branch.

- This method is based on the assumption that the budgeting of competitors is the scientific and logical basis. In fact, if the competitors' budgets are not spent systematically and they do not examine rightly the conditions of business environment, the enterprises will follow "this broken wheel track."

- It is difficult to gain certain guarantee because the marketing targets, marketing resources, and opportunities of enterprises might not be similar to competitors'. Therefore, it is impossible for enterprises to spend on their marketing operations, which is based on competitors' experience.

### ***3.5. The Objective and Task based Method***

According to this method, to determine the marketing budget, managers need to set up specific targets of marketing operation in the planned period. After defining the targets, marketing managers need to plan any work which is necessary to implement in order to achieve the set-up targets and the cost for implementing each work. The marketing budget level will be

determined on the basis of cost to implement the entire work. Moreover, a measure system will control the progress rate in carrying out these targets.

This method has the following advantages:

- It requires marketing managers to present in detail enterprise's targets of marketing operation. Thus, the enterprises will have clearer pictures of the targets that need reaching at as well as the work that needs doing. The clear and specific understanding about the work will be the good directions for marketing divisions to implement their plans well and combine actions with others.

- It requires setting up an information system to measure the progress rate of implementing the targets and plans accurately and appropriately.

- It provides managers with useful feedback to better the budgeting process and set up the work targets or plans.

- This is the method attractive to the enterprises where the short-term goals play an important role or in case the enterprises' marketing influences on the goals of business operations are separated from the effects of the changes of other business environment factors such as the economic situation, the operations of competitors, and the technological changes.

- When applying this method, the main obstacle is that marketing managers must understand clearly about the relationship between targets and correlative commissions to implement the targets. If a fixed activity is unsuitable for implementing the set-up targets, it will not allow the

enterprise to gain the targets as expected. To understand this relationship clearly, marketing managers should carry out serious, research effort. Thus, this method should be applied in the organizations with financial resources.

It is possible to say that except for the last method, the methods mentioned above have the following disadvantages:

- The application of these methods helps managers avoid their responsibilities for measuring the relationships between marketing expense and the goals of turnover and profit implementation. This is their advantage and disadvantage at the same time. These methods don't give suggestions to the marketing managers when they wish to improve the goals of turnover and profit implementation. Moreover, these methods do not help the marketing managers understand thoroughly and guide them in terms of marketing when operating in the changing environments.

- Marketing budgeting originates from the satisfaction with the goals of previous implementation and following the past precedents will not give trials to marketing divisions. It does not require the marketing divisions to improve their effort to contribute to the success of their enterprises through understanding, research skills and creative and hazardous analyses. In stead of being offensive and foreseeing, these methods are only defensive and responsive.

When using these methods to budget for the marketing operations of enterprises, marketing managers should pay attention to the following points:

First, when we use any methods, we must examine them. The combination of methods will be the basis of planning budget.

Second, budget is the figure to quantify the marketing strategies. It is not absolute and constant. The changes of the environment can require enterprises to change the marketing strategies and the changes of marketing strategies, in turn, require the changes of budget to ensure the implementations of the targets. Therefore, enterprises implement the marketing plans and the budget plans, managers need to examine and evaluate the budget level regularly so that it is possible to adjust the budget level to the environment and the marketing strategies.

Third, when we use any methods, we must combine them to support and strengthen the checking procedures.

Fourth, the detailed marketing budgets only matter if they are relevant to the general financial plan. Similarly, the general marketing budgets matter when they are sufficient to implement certain work.

#### **4. Budgeting Procedures**

To determine the general marketing budget of an enterprise, the budget for each division or each specific operation and specific work, two methods are usually used:

##### *+ The top-down method*

The nature of this method is that the marketing managers provide the decision on the general common budget size for the whole enterprise, every unit of the enterprise and every product channel. The manager of each unit or each product channel will distribute the received budget to the divisions or the operations of their

own units. If the managers of the divisions find that such budget cannot ensure the achievement of the goals, the senior manager will discuss with them to reallocate the budget. If the managers of some divisions require the increase in the budget for their own divisions, the senior managers can settle this problem by raising the total general budget to support the divisions or reduce the budget of others when it is impossible to increase the total budget of the whole enterprise.

##### *+ The bottom-up method*

The nature of this method is that the managers of divisions themselves define the operations which must be implemented in the planned period to gain the targets of the marketing strategies of the enterprise. Then they estimate the cost of these operations, submit them as a budget plan of the division to the senior manager in charge of the marketing operations of the enterprise. The senior manager examines these budget plans and if they meet the requirements, they will be considered as the general marketing budget and is submitted to the director board of the enterprise to incorporate it in the enterprise's annual financial plan. If the annual financial plan need to be adjusted, the process will be reversed and the managers of the divisions will have to adjust the estimated plans to the budget restriction of their divisions. The managers of the divisions balance and adjust the real costs and the goal of implementing the inspected budget plan when they are imbalanced.

Each enterprise must depend on its own real situation to choose appropriate methods.

## REFERENCES

1. Philip Kotler, *Quản trị Marketing* (Bản dịch tiếng Việt của Vũ Trọng Hùng), NXB Thống kê Hà, Nội, 1994.
2. Philip Kotler, *Principles of marketing*, Third edition, Pentice – Hall of India, New Delhi, 1998.
3. Joseph P. gultinan and others, *Marketing management: Strategy and programs*, Sixth edition, McGraw- Hill companies, Inc., 1996
4. Davit W. Cravens, *Strategic marketing*, Sixth Edition, McGraw – Hill companies, 2000

TẠP CHÍ KHOA HỌC ĐHQGHN, KINH TẾ – LUẬT, SỐ 1E, 2004

## MỘT SỐ VẤN ĐỀ PHƯƠNG PHÁP LUẬN HOẠCH ĐỊNH NGÂN SÁCH CHO HOẠT ĐỘNG MARKETING CỦA DOANH NGHIỆP

**TS Vũ Phương Thảo**

*Khoa Kinh tế, Đại học Quốc gia Hà Nội*

Hoạch định ngân sách cho hoạt động Marketing trong tương lai là một trong những quyết định quan trọng trong quản lý marketing chiến lược. Vì mục đích đưa ra các phương pháp hoạch định ngân sách cho hoạt động marketing, bài viết này được cấu trúc làm bốn phần. Phần thứ nhất tác giả nêu lên một số quan điểm cho rằng các nhà quản lý phải nắm được để dự toán khi giải quyết các vấn đề liên quan tới hoạch định ngân sách cho hoạt động marketing. Phần tiếp theo là hai cơ sở để hoạch định ngân sách cho hoạt động marketing. Trong phần thứ ba nêu lên năm phương pháp hoạch định ngân sách cho hoạt động marketing tổng thể mà các nhà quản lý có thể sử dụng. Các phương pháp đó là: (1) Phương pháp giống như lần trước; (2) Phương pháp phần trăm bán hàng; (3) phương pháp theo khả năng tối đa; (4) Phương pháp xác định ngân sách dựa trên mức chi tiêu cho hoạt động marketing của đối thủ cạnh tranh; (5) Phương pháp căn cứ vào mục tiêu và yêu cầu của hoạt động marketing. Vì mỗi phương pháp có ưu và nhược điểm cho nên nhà quản lý phải chọn phương pháp phù hợp với doanh nghiệp của mình. Phần cuối đề cập đến thủ tục hoạch định ngân sách cho hoạt động marketing.