

Total Promotion Budget and Profit

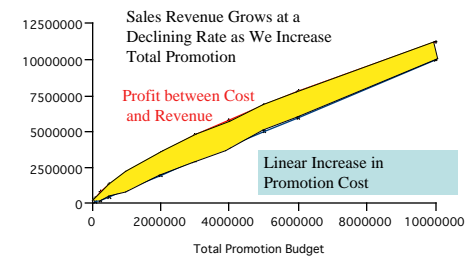
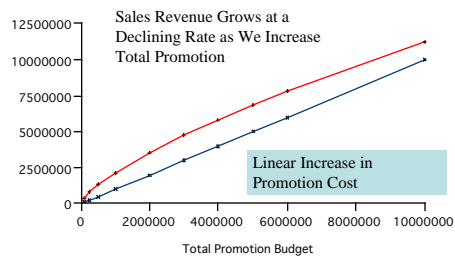
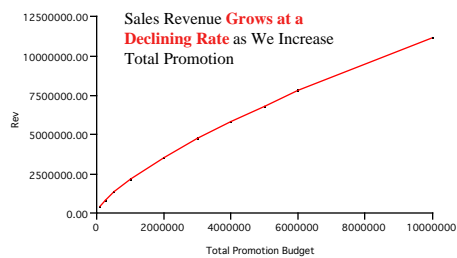
Ted Mitchell

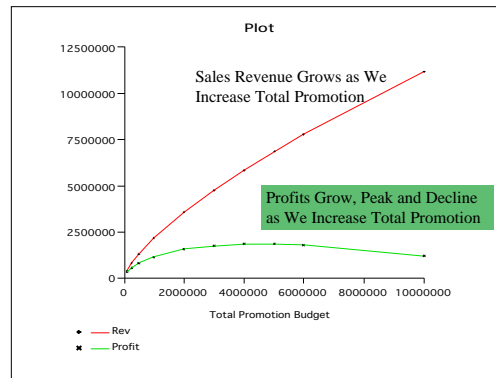
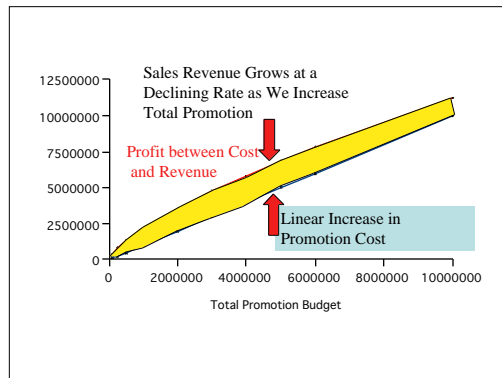
New Shoes Recommends

- A maximum of
- \$2,000,000 in Advertising
- \$1,000,000 in Consumer Promotion
- 10-12 salesmen (\$960,000)
- \$1,000,000 Dealer Promotions
- For a Total of **\$5 Million**

Volume and Expense

- The more you spend on promotion, then the more stuff you sell
- However**
- Selling more stuff does **NOT** mean you must be making more profit





Key Points

- Each Market responds differently to different amounts and combinations of Promotions
- There is an Optimal or Profit Maximizing Promotion mix for each Market

Example

- An Estimated formula for the Quantity Sold Using Promotion Expense is
- $Quantity\ Sold = 3(Total\ Promotion)^{0.71}$
- The dollar markup unit is \$40 per unit
- Profit Contribution = $\$40(Quantity\ Sold)$
- Total Net Profit = Profit Contribution - Total Promotion Expense

Example: Spend 5 million

- Total Promotion = \$5,000,000
- **What is the Net Profit?**
- $Qty = 3(Total\ Promotion)^{0.71}$
- The dollar markup unit is \$40 per unit
- Contribution = $\$40(3(Total\ Promotion)^{0.71})$
- Net Profit = $40(3(Total\ Promotion)^{0.71}) - Promotion\ Expense$
 $40(3(5,000,000)^{0.71}) - 5,000,000$ **\$1,846,000**

Spend another million

- Total Promotion = \$6,000,000
- **What is the Net Profit?**
- $Qty = 3(Total\ Promotion)^{0.71}$
- The dollar markup unit is \$40 per unit
- Contribution = $\$40(3(Total\ Promotion)^{0.71})$
- Net Profit = $40(3(Total\ Promotion)^{0.71}) - Promotion\ Expense$
 $40(3(6,000,000)^{0.71}) - 6,000,000$ **\$1,792,000**

- **Selling more stuff can result in smaller profits!**