

Uses for Advertising as a Percentage of Sales

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Percentage of Sales (PoS)

- A ubiquitous marketing metric is the ratio of a marketing budget to the sales revenue.
for example
- Advertising to Sales ratio or Advertising Expense as a Percentage of Sales Revenue
- Promotion to Sales ratio or Promotion Expense as a Percentage of Sales Revenue
- Sales Force to Sales ratio or Sales Force Expense as a Percentage of Sales Revenue

Our Domestic Shoe Business

Revenue = Price x Quantity	\$11,392,663
Cost of Goods Sold = Variable cost x Quantity	2,664,236
Gross Profit	8,728,427
Advertising= 1,400,000	
Cons Promotion= 600,000	
Sales Force= 160,000	
Dealer Promotion= 600,000	
Total Promotion Expense	2,760,000
Net Profit Contribution From Marketing	5,968,427
Product Development and Market Research	800,000
Net Profit Contribution	\$5,168,427

Domestic Market Income Statement

Revenue = Price x Quantity	\$11,392,663	
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Percentage of Sales

Domestic Market Income Statement

Revenue = Price x Quantity	\$11,392,663	
Cost of Goods Sold = Variable cost x Quantity	2,664,236	
Gross Profit	8,728,427	76.6%
Advertising= 1,400,000		
Cons Promotion= 600,000		
Sales Force= 160,000		
Dealer Promotion= 600,000		
Total Promotion Expense	2,760,000	
Net Profit Contribution From Marketing	5,968,427	
Product Development and Market Research	800,000	
Net Profit Contribution	\$5,168,427	45.4%

Percentage of Sales

The Ratios are Used

1) to indicate performance

- Decline in markup is bad
- Increase in ROS is seen as an increase in efficiency

2) to help calculate cost based price

$$\text{Price} = V / (1 - \text{Target Markup})$$

$$\text{Price} = \text{BEP} / (1 - \text{ROS})$$

Domestic Market Income Statement		Percentage of Sales
Revenue = Price x Quantity	\$11,392,000	
Cost of Goods Sold = Variable cost x Quantity	2,664,236	
Gross Profit	8,728,427	76.6%
Advertising= 1,400,000		12.3%
Cons Promotion= 600,000		5.3%
Sales Force= 160,000		1.4%
Dealer Promotion= 600,000		5.3%
Total Promotion Expenses	2,760,000	24.2%
Net Profit Contribution From Marketing	5,968,427	
Product Development and Market Research	800,000	
Net Profit Contribution	\$5,168,427	45.4%

Budget to Sales Ratios

- Are compared from period to period
- Are compared from budget to actual

Budget to Sales Ratios

- The ratios and the changes in the percentage of sales are used
- 1) as **indicators of good or bad performance**
 - 2) as **to set advertising and other marketing budgets.**

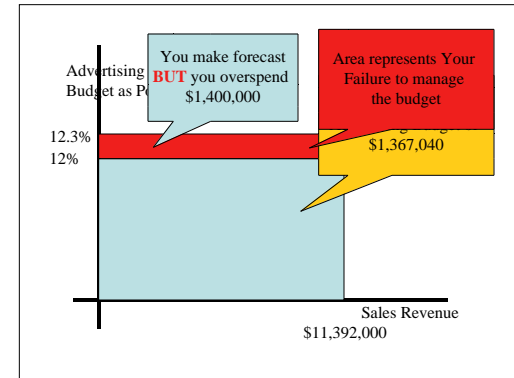
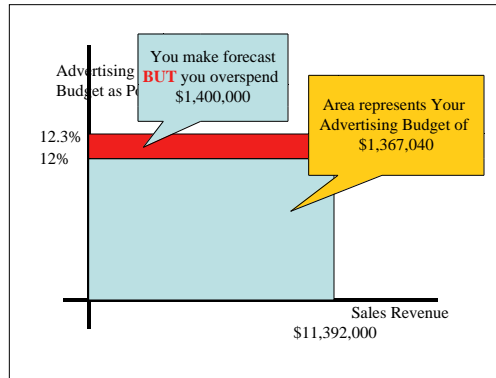
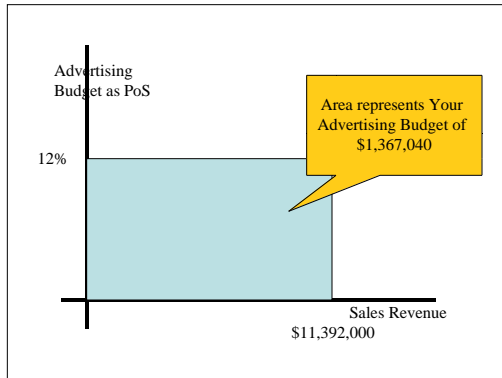
- Accountants like Percentage of Sales (PoS) because it is a simple method for controlling the size of the advertising budget.

Accountants see advertising as an expense and expenses are considered a bad thing (not as profit driver)

- “At the end of this accounting period your advertising expense is to be 12% of sales revenues.”
- “The difference between the budgeted 12% and the actual percentage is a measure of **your failure** to control the advertising budget.”

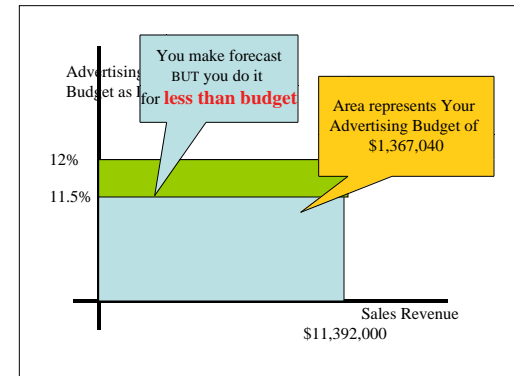
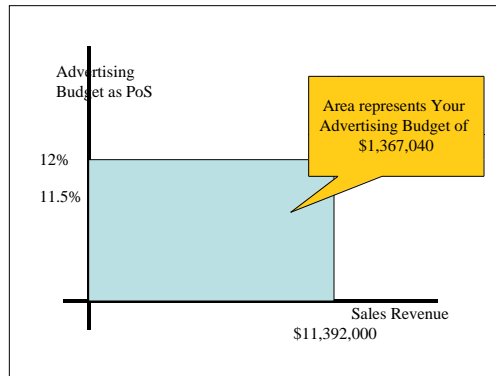
Example

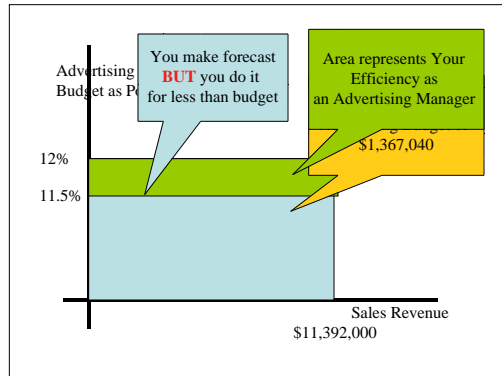
- You Forecast Your Sales Revenue in Your Marketing Plan to be \$11,392,000
- You are given an advertising budget of 12% of Sales Revenue
- At the end of the period you must **NOT** have spent more than 12% of Sales!!
- You have Advertising Budget of **\$1,367,040**



Percentage of Sales Revenue

- **PoS Can also make you look good!**





Advertising as PoS

- Advertising as percentage of sales (PoS) is used as a **measure of operational efficiency**
- It is a very poor measure BUT learn to live with it!

Setting the Promotion Budget with Percentage of Sales (PoS)

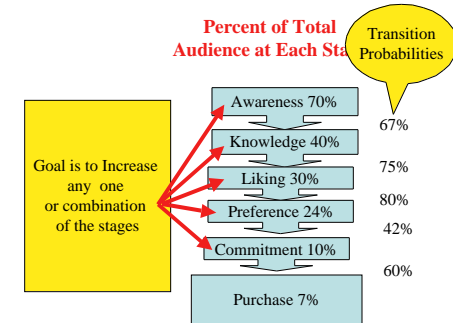
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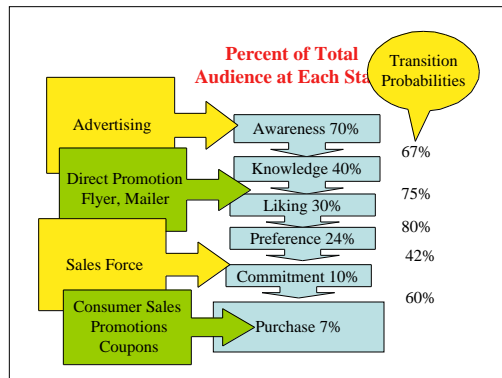
Budgeting Methods

- Affordable
- Percentage of Sales (PoS)
- Competitive Parity
- Objective Task

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Budgeting Methods

- Affordable
- **Percentage of Sales (PoS)**
- Competitive Parity
- Objective Task

- It is a very popular method for choosing and controlling advertising budgets
- Assume
- Forecasted Revenue is **\$100,000,000**
- Desired Ratio of Advertising Budget to Sales Revenue is **6%**
- Then
- Advertising Budget is
- $6\% (\$100,000) = \mathbf{\$6,000,000}$

Budget Amount

- You can be given a fixed dollar amount such as \$6,000,000
- Or
- A “Moving” Target Budget such as 6% of Sales Revenue

Percentage of Sales (Revenue)

- You Need
 - 1) Forecasted Sales Revenue
 - 2) A Desired Percentage of Sales Revenue (PoS)
- Desired Percent may come from
 - 1) The historical percentage the firm uses
 - 2) The average industry percentage
 - 3) The percentage used by close competitor

Backwards to Theory

- Using Correct Marketing Theory
 - You choose the budget size and the budget size determines the sales volume
- BUT! Using Percentage of Sales (PoS)
- Sales Revenues are dictating Budget Size
 - If sales go up then the budget goes up
 - If sales go down then the budget goes down

Percentage of Sales Used For

- 1) Measures of Marketing Management's Efficiency
 - 2) To set Marketing Budgets
Advertising Budget = PoS(Revenues)
- It is not the best metric for either purpose

Any Questions