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# Money

*Darren Jubb*

Marketing requires the utilisation of a significant amount of organisational resources. Managing these resources in an efficient and effective manner is essential to achieve the desired objectives of marketing activities. One of the primary concerns of organisations is the financial implications of the resources required to conduct marketing activities, and is therefore an area that marketing managers must be familiar with. Engaging with the marketing budget, considering how marketing activities are measured both financially and non-financially, and being able to successfully report on their performance to the organisation are essential skills for a marketing manager in the contemporary business world. These issues are discussed in this chapter.

## Marketing costs money

Marketing is without doubt an essential element in the continuing success of organisations. The importance of marketing is reflected in the substantial amounts of money that organisations dedicate to marketing activities. For example, it is now common for around 20-25% of the overall expenditure of an organisation to be focused on activities related to marketing (Stewart, 2009). With marketing costs representing a considerable percentage of the overall expenditure for organisations, marketing managers have come under increased pressure to justify their actions and to account for the contribution that marketing makes to the current and future financial success of the organisation.

Since the overall goal of a commercial organisation is primarily the maximisation of profit and generation of shareholder value, those running the organisation are often first and foremost concerned with the financial consequences of marketing activities. An important aspect of marketing management thus lies in considering the financial impact of the activities

of marketing. It is important for marketing managers to be able to plan for, evaluate and report on marketing activities in financial terms. Recognition of the increasingly important role that marketing activities play within organisations, coupled with the increased significance of the cost of those marketing activities, has a number of impacts on marketing managers. From the point of view of the marketing manager, significant attention must be placed on considering both the financial costs of marketing activities and the contribution those activities are making to the overall value of the organisation. In order to do this the marketing manager must be familiar with the techniques of how the costs of marketing activities are assessed by the organisation, on the one hand, and how the overall success of the marketing function is assessed by the organisation, on the other.

### **Exercise 1**

Think of some of the most common marketing activities within the marketing mix. Which of these activities will be the most financially significant for organisations?

## **How marketing budgets work**

One of the first steps in undertaking successful marketing is establishing how much to spend and where to spend it. The costs associated with marketing must be budgeted for. A budget is a method of expressing, in financial terms, a proposed plan of action that is designed to assist in the coordination and control of an organisation over a set period of time. Typically a budget is prepared for a maximum of one year into the future with the annual budget often then divided into quarters and, in some instances, months. The exact period of the budget relates to the specific preferences of the organisation with respect to reporting, performance evaluation, and control. Based on organisational objectives for the period in question, the budget shows the expected financial revenues and costs associated with the expected activities during this period. As such, the purpose of a budget is to assist management in making judgements and decisions, as well as being a useful tool for planning and control, and it can act as a guide for the organisation to follow in the upcoming period. Once the budget for the organisation as a whole has been set, it can be split up into individual budgets for each separate division or function of the organisation. Each function of the organisation will have a set of budgeted figures relating to their activities. To achieve the goals that are

set out in the organisation's overall budget, coordination between all of the functions of the organisation must be encouraged.

## Exercise 2

Write down your own personal budget for the next month, including all expected income and expenditure. Reflect on how difficult this task is. What issues did you have when attempting to create your budget?

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Budgeting is an essential operational function of an organisation. When used in an appropriate manner a budget is a useful tool that can assist in the management of organisations in a number of different ways. Table 3.1 discusses some of the most common roles that a budget plays within an organisation.

**Table 3.1:** Roles of budgeting.

Role	Description
Planning	Preparing a budget encourages management to bring together all aspects of the organisation through the process of formal financial planning. Budgets are prepared in coordination with each business function and in line with the overall objectives of the organisation.
Performance evaluation	Comparing the actual financial performance of activities at the end of a period with the budgeted financial performance allows the organisation to assess performance. Management attention is required for areas where actual results differ from expected results.
Communication	The budget can be used as a tool by management for bringing together the different business functions of the organisation. The budget is a means of communicating the objectives to be achieved in financial terms.
Motivation	Targeted levels of performance set by management can have a motivating impact but care must be taken. If a performance level is seen to be too difficult to achieve, the target may be viewed as unrealistic and employees could cease trying to achieve it. If a target is too easily achievable the organisation may be underperforming. A careful balance must therefore be struck.

## Exercise 3

Consider again the personal budget that you created in Exercise 2. Think about how the above roles relate to that budget. How useful is the budget for planning? At the end of the month, has everything gone to plan?