

Research on Flexible Budget of Marketing Expenditure

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Abstract: This article analyzes the traditional methods of marketing expenditure budget systemically, and points out that the traditional methods are all short of opera ability. Then a flexible, dynamic idea, which combines resource guide, competition guide and market guide together, is put forward to investigate the marketing expenditure budget. In addition, the paper discusses the application of flexible budget method and rolling budget method in marketing expenditure budget in details, and builds a flexible operational mechanism to adjust the marketing expenditure.

Key words: Flexibility; Marketing expenditure; Budget

1 Introduction

The enterprise marketing expenditure represents the expenditure used by enterprises for marketing activities to realize operation objectives. Since the competition is getting tough, the marketing expenditure in most enterprises is turning up sharply, which gobbles up a great deal of enterprise profits, and the proportion of marketing expenditure in the enterprise operational cost is increasing gradually. Whether an enterprise can effectively manage marketing expenditure or not is essentially related to its performance, or even the existence. Attempt to provide some ideas for budgeting marketing expenditure, this article discusses the methods of marketing expenditure budget with the idea of flexibility.

2 The Analysis of Traditional Budget Methods of Marketing Expenditure

The analysis of traditional budget methods of marketing expenditure mainly includes the following: the method of acting according to one's true capability, the method of prices fluctuating in response to market conditions and the analytic method of market opportunities. They are explained respectively as the following.

2.1 The method of acting according to one's true capability

This method means that when enterprises decide their marketing expenditure budget, they do as much as they can to decide the investment of enterprise marketing expenditure in accordance with their current resources. It has many advantages. The primary advantage is that there are not too many risks and it will not bring serious financial crisis to enterprises. Besides, this method is generally feasible. But disadvantages lie in this method too. Mainly, it only concentrates on their own resources. The competition situation and the opportunities from the external environment are ignored completely. Consequently, if there is any marketing opportunity in the market, this method will have the marketing opportunities lost once enterprises have no current resources. This goes against operation objectives. And furthermore, if there isn't any marketing opportunity in the marketplace, the marketing expenditure budget based on this method will cost more than that of the practical market demand, which causes a huge waste of market expenditure. Thereby, the method of acting according to one's true capability is not scientific enough.

2.2 The method of prices fluctuating in response to market conditions

This method means that when enterprises do their marketing budget, they mainly consider competitors' current tactics and decide the marketing expenditure budget of their own with the reference to the budget level of competitors' marketing expenditure. Its major advantage is that it's beneficial for the stabilization of marketing environment and will not be paid attention to by competitors. Moreover, it can win a favorable living environment for enterprises by adopting competition measures aiming at enterprises themselves. The main disadvantage is its risky hypothesis that the competitors' marketing expenditure budget is reasonable. Besides, if the enterprise is in the leading position of its industry, or the industry is a newly emerging one, this method will not be suitable. Thereby, the method of prices fluctuating in response to market conditions needs to be consummated.

2.3 Analytic method of market opportunities

This method means that when enterprises carry out marketing expenditure budgets, they mainly consider whether there is any enterprise marketing opportunity or not, then decide their marketing

expenditure budgets. Its advantage is that it is in favor of grasping market opportunities and it has quick response to market changes. But the disadvantage is that the physical truth is not concerned when enterprises decide their marketing expenditure budgets. It might cause the failure of carrying out the ready-made marketing expenditure budgets by the end. Besides, competitors' situations are not considered in this method. In the practical market operation, the market opportunities, which are already analyzed out, might be market traps instead of market opportunities. Thereby, this method is not perfect too.

To sum up, the traditional methods have the disadvantage that they are lack of operability in the practical operation. Since the current methods are not perfect, the authors attempt to discuss a kind of reasonable method to determine marketing expenditure budgets.

3 The Ideas of Marketing Expenditure Budget

According to the foregoing analysis, this paper concerns that the following ideas should be reflected by the budget of enterprise marketing expenditure which is suitable for marketing economy.

3.1 The idea of flexibility

Flexibility represents the ability of being accommodated with environment changes or the ability of handling the indeterminacy caused by the environment quickly and economically. The marketing expenditure budget must be adapted to the environment changes rapidly. A certain flexibility is necessarily required. One of the application methods of this idea is the flexible budget method.

The flexible budget is founded on the basis of cost behavior analysis. According to the dependence relationship among portfolio, cost and profit, the variable cost and fixed cost can be distinguished and the correlative budget methods can be set down based on each kind of foreseeable professional competence.

3.2 The dynamic idea

The marketing expenditure budget of enterprises must be able to embody the dynamic capability, which emphasizes that the marketing expenditure cannot be unalterable and there must be a dynamic adjustment mechanism. The chief method is the rolling budget method.

3.3 The idea of combining resource guide, competition guide and market guide

When the marketing expenditure budget is carried out, it cannot only be considered to adopt the method of acting according to one's true capability for recourse factors or the method of prices fluctuating in response to market conditions for competition factors, not even the market opportunity analytic method for market factors. There must be an all-sided consideration which includes company's recourses and market competition, etc. And then adopt a reasonable method to decide the enterprise recourse budget. The basic flow chart of marketing expenditure budget, which is based on competition, market opportunities and resources, is illustrated in the Fig.1. Enterprises may conduct their marketing expenditure budget referring to the flow.

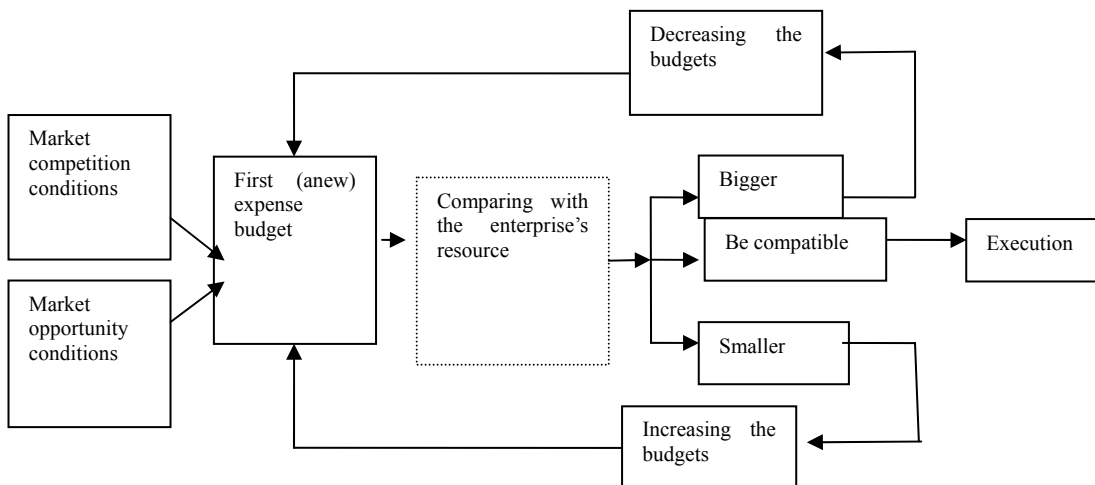


Figure 1 The basic flow chart of marketing expenditure budget based on competition, market opportunities and resources

4 The Budget Methods of Enterprise Marketing Expenditure

4.1 The flexible budget method

The flexible budget represents the expenditure formulating mode based on the analysis of expenditure behavior, which is used to reflect the expenditure level and the income level under different professional competence according to the relevant budget amount calculated out by various portfolio levels predicted by plans or budgets. The flexible budget is adjusted in accordance with the portfolio changes, and many kinds of portfolio changes in the plan period are considered in this method. Thereby, it is also called the alteration budget.

The basic premise of flexible budget is to classify all the cost into variable expenses, constant expenses and semi variable expenses according to the expenditure characteristic and state (the dependence relationship between the total expenditure changes and the portfolio level).

In order to explain the application of the flexibility idea used in the marketing expenditure budget better, based on the principle of simple, the marketing expenditure is mainly divided into the following: salesmen's basic salary, salesmen's commission award, office expenses, expenses aiming at promoting selling products, advertisements and public relationship activity expenses and post sale service expenses.

According to the expenditure characteristic and state (the dependence relationship between the changes of the total expenditure and the portfolio level), with the precondition that the quantity of salesmen fixed, the constant expenses include salesmen's salary, rent of office space, etc. The variable expenses include expenses aiming at promoting selling the product, salesmen's commission award. And the semi constant expenses include aftersales service expenses, advertisements and PR activity expenses.

The model can be set up like the following:

Suppose the relation between budgeting enterprise marketing expenditure and the portfolio is the typical linear relation, then the way to budget the marketing expenditure would be like the following.

$$Y = (a + b_1) + (b_2 + c)X \quad (1)$$

In the formula, Y represents the total marketing expenditure of the budget. a represents the constant expenses of the budget, b_1 represents the fixed part of the semi constant marketing expenses of the budget, b_2 represents the amount that the alterable part of the semi constant expenses allocated to the unit's business in the budget. c represents the variable expenses of the unit budget, and X represents the budget portfolio.

Some discussions about a , b_1 , b_2 , c in the formula will be carried out as the following.

As for c , the variable expenses, the total amount will be changed in proportion with the portfolio. The unit expenditure is not influenced by the output changes, and its amount keeps in a specified level all the time. The budget of the variable expenses is calculated by the ascertained budget value of unit change timing the portfolio anticipated. Facing the market environment full of uncertainties, the fixed budget which is formulated only by a certain kind of professional activity level is very hard to satisfy the need of controlling purpose. Once there is an obvious difference between the enterprise's actual operational result and the professional activity level of budget, the budget loses its deserved function at all.

One reasonable method is that to ascertain the budget amount of the variable expenses by many kinds of professional activity levels in the budget process, compare the actual changes and the budget amount related to the actual business amount after the actual portfolio changed, and have the evaluation and check of the budget operation situation built on the more objective and comparable foundation, which means it is more efficient to carry out the variable expenses budget with the flexible budget method.

From the static aspects, the budget method of c , the variable expenses of the unit budget in marketing expenditure, can be done by the flow in the chart 1 with synthetic consideration of the following factors, such as market competition conditions, market opportunity conditions, profit conditions of enterprise unit's business and enterprise implementation ability, etc. It would be wrong to only consider some single factor or the enterprise leader's personal favor to decide the budget of unit's variable expenses.

From the dynamic angle, the budget of c , the variable expenses, is mainly about to add one emergency response mechanism in the process of the marketing expenditure budget. And then according to the specific industrial circumstances of the enterprise, the adjustment of the marketing expenditure

budget can be carried out every three months or every half a year on the basis of the practical conditions of the portfolio to decrease the marketing expenditure waste caused by the absence of the adjustment mechanism.

As for the fixed marketing expenses, since its total amount is not influenced by the portfolio changing in the related areas, there are difficulties to budget it by carrying out the flexible budget method directly. The idea of budgeting this part of expenditure is to consider the integration of the resource conditions of enterprises, the market competition conditions, the enterprise tactics and the market opportunity conditions synthetically, and then decide the total investment amount of the fixed marketing expenses of enterprises.

The model is as the following;

$$I_g = f(x_1, x_2, \dots, x_n) \quad (2)$$

In the formula (2), I_g represents the investment amount of the fixed marketing expenses. f represents the investment function of the fixed marketing expenses. And $x_1, x_2 \dots x_n$ represent the decisive factors of the investment amount of the fixed marketing expenses.

As for b , the semi variable expenses, though its total amount is influenced by the changing of the portfolio level, the alteration range keeps no strict proportion with different portfolio changes. In fact, it is the mixed expenditure mingled with b_1 , the restraining constant expenses, and b_2 , the considering constant expenses. The constant expenses mainly belong to the marketing ability expenditure, which is related with the formation of the whole enterprise marketing ability and its regular upkeep. Once the enterprise marketing ability formed, it is very difficult to make a significant change in a short period. It will exist a long period to anticipate the related expenditure. Thereby, the restraining constant expenses are unavoidable and need to be fully satisfied preferentially. They have certain controllability. But the considering constant expenses are comparatively more flexible and the amount can be ascertained by the income situation of the unit and the operational need. They have a certain uncontrollability. Thus to ascertain the budget amount of the considering constant expenses reasonably is the most important factor to make full advantages of the budget for controlling the constant expenses.

Hence, as for the budget of the semivariable expenses b , at first, b should be disassembled into b_1 , the restraining constant expenses and b_2 , the considering constant expenses. Then budget b_1 by the budget method of fixed marketing expenses, and budget b_2 by the budget method of variable marketing expenses.

While budgeting the considering fixed marketing expenses, one practicable way is to carry out the expenditure benefit analysis of different considering expenses items and consider the importance and urgency of each item, then decide what kinds of expenditure items are necessary, what kinds of them can be canceled, and how much financing can be distributed to each necessary expense item in the budget process.

4.2 Rolling budget method

Rolling budget method is also called continuous budget or sustained budget. It means according to the principle of paying particular attention to the recent situation in details and a rough attention to the future briefly, on the basis of the budget completion situation of the last term, to adjust and concretely formulate the budget of the next term, and roll the period of budget formulating forward regularly and sustainably to keep a certain time range among the budget. In other words, it is a kind of budget formulating methods, which is based on the accomplishment situation of the budget index for adjusting and making the budget of next term, and rolling the budget period forward sustainably.

The application of rolling budget method in the marketing expenditure budget may be consulted from the above-mentioned application methods of the flexible budget method in the marketing expenditure. The marketing expenditure can be divided into the fixed marketing expenses, the variable marketing expense and the semi variable marketing expenses, etc. The budget period may be extended longer when the rolling budget method is used for the fixed marketing expenses, such as a year or half a year. But the budget period needs to be shorter when it is used for the variable marketing expenses. The cost of the semi constant expenses budget can be classified into restraining fixed budget and considering fixed expenditure, and then the rolling budgets can be calculated by the periods of the constant expenses and the variable expenses respectively.

To budget the enterprise marketing expenditure with the rolling budget method can have the budget

and the actual conditions fit more in each other and produce the best possible results of conducting and controlling. It is also helpful for various levels of the management crew in the enterprise marketing system to keep careful and detailed consideration and the comprehensive plan of the future marketing work to guarantee the marketing work carried out methodically.

4.3 Integration mechanism of flexibility and marketing expenditure budget adjustment

In the marketing process, enterprises are confronted with a fast changing market environment. The marketing expenditure budget cannot be accomplished in an action. The budget effect of the enterprise marketing expenditure depends on a key factor that whether the enterprise can establish a flexible adjustment mechanism of marketing expenditure or not. The author thinks that the establishment of the integration mechanism between flexibility and the budget adjustment of marketing expenditure should be set about as the following.

4.3.1 A certain amount of marketing expenditure reserves should be kept by decision-makers

In the process of marketing decision-making, decision-makers should hold a certain amount of reserves for marketing expenditure adjustment in case of emergency. This is an important method to enhance the flexibility of marketing expenditure budget.

4.3.2 Constructing specified organization of market analysis which concentrates on analyzing market opportunities, competitors' dynamic situation and market emergencies

For the convenience of decision-makers to adjust the marketing expenditure budget, the green channel through which analysts can suggest decision-makers directly should be established once market opportunities and competitors' dynamic situation influencing the industry competition are discovered, and a huge expenditure increase or decrease needed by market emergencies occurs.

4.3.3 Constructing periodic evaluation mechanism of marketing expenditure usage

The usage of marketing expenditure moves in circle. After one marketing cycle gets over, all-sided evaluation of the marketing expenditure usage should be carried out. The ones with better application efficiency should be used in the next cycle. And the ones which are lack of application efficiency should be adjusted in the next cycle. Only in this way, the marketing expenditure can be effectively used.

5 Conclusion

The flexible and dynamic idea, which is also combined with the recourse guide, the competition guide and the market guide, should be reflected in the marketing expenditure budget. The flexible budget method and the rolling budget method should be integrated with each other in order to budget the marketing expenditure successfully. The adjustment of marketing expenditure budget should be managed by perfect mechanism and scientific procedures. It is not unalterable and it shouldn't be changed randomly.

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