

## **Effects of Advertising Budget on Bank Sales in Botswana**

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### **ABSTRACT**

How much an individual firm spends on advertising is influenced by its resources and objectives more than by what other firms in the industry are doing. The amount of money spent on advertising differs widely among companies, even within the same industry. The main interest of the researchers was to find out if all the commercial banks adopt the same budgeting techniques when allocating money for advertising and the effect on sales of the respective bank, to find out if the increase in budget corresponded to increased sales. Responses from the questionnaire indicated that each bank utilizes a different method to allocate advertising budgets. None of the usual budgeting approaches were applied by the commercial banks. The approach to new products is similar to that of the objective and task method. The research showed that in all commercial banks, the sales levels do not necessarily affect advertising budgets nor do they dramatically affect sales.

**Key words:** Advertising budget, bank budgeting techniques

### **INTRODUCTION**

Most organisations engage in corporate advertising in which campaigns are created to promote awareness and understanding of a company. It is a means by which a company communicates with its publics. Every company offers a range of products and services to its customer's. How much an individual firm spends on advertising is influenced by its resources and objectives more than by what other firms in the industry are doing. The amount of money spent on advertising differs widely among companies, even within the same industry. The primary issue is that of determining the reasons for the wide variation in expenditure patterns and of determining an effective approach to setting a budgetary level. The determination of the advertising budget cannot be considered in isolation. It is part of the overall budgeting process, which affects all aspects of the company's operations. It is part of the overall marketing budget.

The major issue that encouraged the researchers to do a survey on budgeting in commercial banks is that commercial banks create many advertisements showing the products or services they render. Most of the advertisements change frequently and some of them are repeated but with different messages.

The research survey was designed to clarify and establish an understanding of the relationship between advertising budgets and sales in commercial banks in Botswana. The commercial banks are competing intensively to offer banking services to the public. The banks want to create awareness of their services to the public through advertising. The main issue is on understanding the methods used for advertising budgets especially in the commercial banks.

The main interest of the researcher is to find out if all the commercial banks adopt the same budgeting techniques when allocating money for advertising.

There are also different ways of breaking down an advertising budget such as according to the media used or depending on the products that are being advertised. As a result the researcher wants to know if each bank has its own way of breaking down the budget or they basically divide their budgets in the same way. There are only five commercial banks in Botswana, which form the basis of this research and these are Barclays, Standard Chartered, Stanbic, First National Bank and the New Bank of Baroda.

#### **Problem Statement**

- There is difficulty in determining optimum amount of money to spend on advertising. The main difficulty in determining the budget size is that no one knows precisely how a given amount of money spent for advertising will affect sales or other marketing goals.

- Not much is known on whether a higher or lower proportion of the bank's total sales are spent on advertising.
- In case of a particular product a bank may consider comparing its advertising budget to that of its competitors. This may be impossible as it may not articulate the objectives of the other bank and its profits.
- The main problem in setting advertising budgets is determining whether any given amount of money spent for advertising will attain a given set of objectives.

### **Objectives of the Study**

The main objectives of the study include the following issues;

- To obtain a clear understanding of budgeting methods used by the different banks.
- One of the objectives is to find out the methods used by commercial banks to allocate advertising budgets.

### **Assumptions and Hypothesis**

Through this research we will try to establish if the following assumptions and hypothesis hold:

- Commercial banks use similar methods to allocate advertising budgets
- Sales levels, profits and competition have an impact on advertising budgets
- Commercial banks allocate fixed budgets for advertising which limit selection of media.
- Small banks spend a higher proportion of their income on advertising than big banks

### **Budgeting and Types of Advertising Budget**

A budget is a quantitative plan of action that aids in the coordination and control of the acquisition, allocation and utilization of resources over a given period of time. The building of a budget may be looked upon into a program that all have agreed is workable in attempting to attain objectives. Budgeting involves planned manipulation of all the variables that determine the company's performance in an effort to arrive at some preferred position in the future. The agreed plan must be developed in a coordinated manner if the requirements of each sub-system are to be balanced in line with company objectives. Each manager must consider the relationship of his responsibility department to all others and to the company as a whole in the budgetary planning phase. (Wilson and Gilligan, 1997).

Budgets are both a resource and a constraint and increased emphasis is being placed on being able to justify them in the light of marketing communications performance. In determining budgets it is important to clearly identify what they are to be used for because what is included or excluded from marketing budgets seems to vary from company to company. While many managers view marketing communication expenditure with suspicion, seeing it as an expense, it is more appropriate to view it as an investment in the brand and the organisation. Expenditure had to be fought for by marketing managers and evaluating marketing communication expenditure showing its value to the organisation facilitates this. Spending money on advertising is an investment with an intent to make returns. Nowadays, with increased emphasis on brand values and accounting practices developing approaches to assess brand assets, advertising is increasingly recognised as an investment in brands. What is included in the advertising budgets tends to differ between companies (David and Broderick, 2001).

Once the advertising budget has been determined, then it must be allocated or apportioned in some reasonable way. When relating advertising to source of sales, advertising budgets are allocated to geographic areas. Many advertisers, however particularly on a national level, allocate their budgets on a basis of national media selection with relatively little concern for geographic business areas. The budget level is important in terms of advertising campaign because it determines how much advertising the advertiser can afford. Media choice and targeting strategies reflect a company's budget.

Establishing advertising budgets or promotional budgets is extremely challenging because sometimes management lacks reliable benchmarks for determining how much to spend altogether on advertising or personal selling and how much of the total budget to allocate to each promotional mix element. A firm may have the alternative of adding five sales people to increase its advertising budget by P 200 000 a year but it cannot determine precisely what increase in sales or profit to expect from either expenditure. There are few common budgeting methods that can used they include the following:

### **Task and objective**

An advertising objective is first established in specific terms. For example, a firm may decide to increase the

awareness of its brand in a certain population segment by 50%. The tasks that are required to accomplish this objective are then detailed. They might involve the development of a particular advertising campaign exposing the relevant audience. The cost of obtaining these exposures then becomes the advertising budget. The task and objective method offers attractive logic by starting with the objectives, identifying tasks that need to be accomplished to meet those objectives, figuring out the cost of doing those tasks and then totalling a budget based on those costs.

### **Affordability**

The affordability method provides no model or formula, advertisers simply spend as much as they can afford on advertising. This is sometimes referred to as the residual method, because the amount spent on advertising is what is left over after everything else has been paid for. Firms with limited resources may decide to spend all that they can reasonably allocate to advertising after other unavoidable expenditures have been allocated. This rule ensures that they are not advertising too heavily, that advertising monies are not being wasted.

### **Percentage of Sales**

Percentage of sales defines the advertising budget as some pre-determined percentage of expected sales. It is used to compute the budget level that is based on the relationship between cost and total sales. It is the calculation between past expenditure and sales, sometimes referred to as advertising per sales ratio. The previous year's expenditure are calculated as a percentage of the total sales and the resultant figure is used to calculate the budget for the coming year. For example, if P12 million worth of sales was achieved against a communication budget of P300 000, the percentage would be 2.5%. Assuming that a sales forecast for the coming year was P15 million, this would yield a budget of P375 000 (Yeshin, 1998).

### **Competitive Parity**

Competitive method involves adjusting advertising budgets so that it is comparable to those of competitors. It depends on setting the budget in relation to the amount of competitive spending. Simply match whatever your competitors are spending and use their budget as your benchmark (Bovee and Courtland, 1995).

The first step of the budgeting process is an extensive review and analysis of marketing and advertising objectives, current and past budgets and whatever evidence you might have about the effects advertising has had on the company's brand so far. The second step involves using several of the budgeting methods described to arrive at suggested budget amounts. The third step is the reality check, in which advertising manager evaluates the figure arrived at in the second step and has to determine if it is affordable. It is also important to verify whether the amount identified will meet the company's advertising objectives. Setting advertising budgets requires determination of sales response to advertising (Forbey, 1998). Advertising can make a positive contribution to profitability in many ways, depending on the particular business object. Most firms realize that advertising is a cost, but a cost that brings savings in its wake. The problem lies not in deciding whether or not to spend money on advertising but in deciding how much to spend. There are several stages to the financial planning involved. Businesses need a business plan and within that a marketing plan that integrates the product or service the company provides with its pricing, distribution, selling and advertising policies, all geared to achieving sales in a chosen market (Aaker *et al.*, 1992).

Some companies see advertising budgets as a sub-set of profit in that they mistakenly reduce the budget when they need to show an increased short-term profit. Inappropriate reductions in advertising budgets can lead to reduced market share and thus to reduced profit in future years. The amount to be spent on advertising is known as the appropriation and the advertising manager usually initiates the appropriation policy. The board then confirms it, some three months or more before the start of the marketing year. If the company has an advertising budget of a fixed amount, the advertising manager can have no idea whether this is a sufficient sum or too much or too little money unless he/she knows the period of time for which this amount must provide advertising support (Jewler, 1985).

### **Scope of the Study**

Banks are competing intensively to serve the public. The main focus of this study is on the banking industry especially commercial banks. The major reasons for selecting banks is they extensively and continuously advertise their products or services. Advertising is usually done for increasing awareness of existing products or services as well as introducing a new product to the market. Most commercial banks have several branches in many villages and focus around the entire country.

The study is on all commercial banks in Gaborone due to their centralized operations controlled and monitored by the headquarters. Time is also a constraint limiting research to Gaborone. Branches get instructions from headquarters to operationalize goals and advertising. Branches or outlets essentially operate as distribution channels and they receive all information from the headquarters. Managers of the various banks will be interviewed on how they plan their advertising budgets.

## **MATERIALS AND METHODS**

The main method of collecting data and analysis for this research was through the use of a questionnaire which was supplemented by personal interview to clarify some responses. Managers involved in allocating advertising budgets in each bank were interviewed personally in their offices at a time convenient for them.

The researchers surveyed all the commercial banks selected for the survey by sending the marketing manager of each bank a simple structured questionnaire. The questionnaire contained questions relating to budgeting for advertising in commercial banks in Botswana. These questions elicited information required to test the hypotheses that the researcher intended to test and the objectives of the study. It was dropped with the manager and picked later after was completed. This allowed the respondents to answer the questions privately. Arrangements were made with the managers to inform the researcher once the questionnaire is complete and ready for collection.

### **Interview**

In addition to the questionnaire, an interview was conducted to supplement the responses provided in the questionnaires after completion to clarify some questions and probe more information.

The relevant population of survey is defined as all commercial banks in Botswana. There are only five of them. The banks continuously advertise their services extensively. Only the banks in Gaborone were selected, as they are the Headquarters of the branches in other places in the country. The operations and decision-making are centralized. That is, information regarding publicizing the services, new product launches and advertising is all processed in the headquarters.

### **Procedure of Data Collection**

#### **Data Collection forms and Data Collection Plan**

The main method to be used in collecting the data was through the use of a questionnaire, which was administered to marketing managers of all the commercial banks. The questionnaire was used to collect information on how the banks allocate funds for advertising, the methods used and why they use a particular method. Some questions were on analyzing the budget to determine the most appropriate media to use in advertising a certain product or service.

In addition to the survey questionnaire, data was collected through personal interviews with the marketing manager of each bank. Advertising budgets of each bank for the past two years was used as a valuable source of information.

The questionnaire consisted of questions requiring all the managers to state their views about key factors that are considered when budgeting for advertising. It consisted of open ended questions to allow them to contribute their views clearly. Some questions focused on the amount allocated to advertising depending on the need for advertising a particular product, the choice of specific media normally determined by the type product or service and the target market.

There were questions on how the marketing manager draws up the total amount of the budget. It also included the objectives of advertising a particular product or service. It consists of six semi-structured questions that enabled the manager to provide information on issues considered in choosing media. Other questions concerned the methods used for allocating advertising budgets, why they use a particular method and not the other methods. It also inquired on key factors that make up the criteria for the method used.

### **Processing**

The data collected from the questionnaires was used to analyze the different procedures used by the banks to allocate advertising budgets. All the information obtained from the questionnaire was tabulated to compare the expenditures spent on advertising. Frequency distributions were also used in analyzing the data. Other statistical tables were utilized to compare and contrast the different methodologies used by each bank as well as the percentage

of sales used to determine advertising budgets.

The expected results are that the researcher had a better understanding of how different banks set their advertising budgets. The researcher also have an idea on the different criteria used by the different banks in analyzing previous budgets to come up with a new budget.

**Source of Information**

The information was obtained through primary data collection using questionnaires and conducting personal interview with the marketing manager of each bank.

More information was collected from the responses to the questionnaire completed by the manager in each bank. Some of the information was obtained from an analysis of an advertising budget of each bank for the past two years. Redundancy information was obtained from each institution’s brochures, leaflets, annual reports and from the library reports.

**Limitations**

The advertising budgets for First National Bank for the past two financial years was not available to compare with the advertising budgets of other banks because it has become an established company policy not to provide such information. It is considered to be private and confidential to the management of the bank. At Stanbic Bank, a lump-some amount of money is set aside for all advertising activities for that financial year from which some money are deducted when the need arises. For example if a new product needs to be launched and promoted, the money for advertising the new product is deducted from the amount set aside. This is because the bank does its advertising on a small scale. Bank of Baroda allocates money to be used for both Publicity and Advertising activities, they do not have a separate advertising budget. As a result of these limitations the analysis of this research was mostly qualitative as there was not enough quantitative data to compare the advertising budgets of all the commercial banks.

**Analysis**

**Analysis of Data**

The information obtained through personal interviews and data collected from questionnaires are analysed to compare the commercial banks. Standard editing and coding procedures were utilized. Simple tabulation and cross tabulation were utilised to analyse the data. Each questionnaire is edited and coded by assigning numbers to each of the answers to the questions so that they can be analysed by a computer. The data is the tabulated using the computer programme, Microsoft excel. Most of the information was analysed qualitatively explaining the different techniques used by the commercial banks to allocate advertising budgets. Stanbic Bank and Bank of Baroda only provided the figures for the advertising budget. For both banks the budgets were not categorized on how the money will be spent. Standard Chartered Bank provided their advertising budget, which is divided according to products or brands to be advertised. Barclays Bank’s advertising budget is divided into the type of media to be used to advertise the products/ brands.

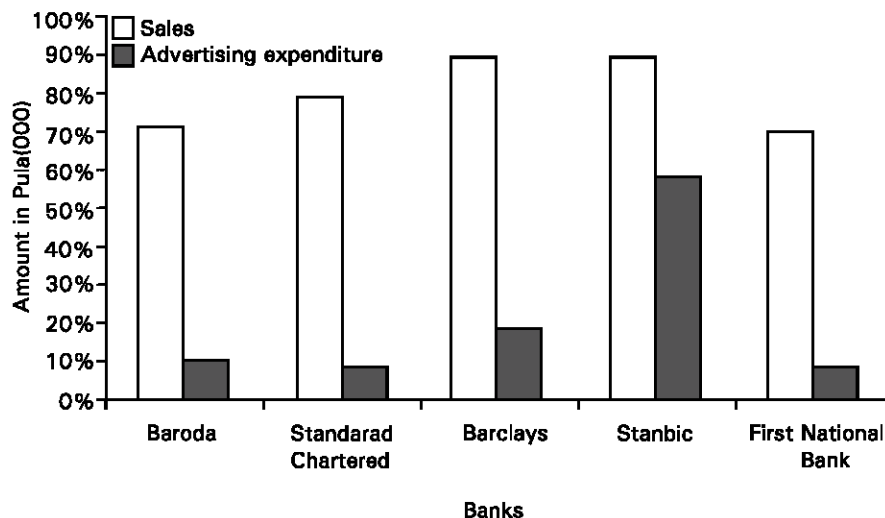


Fig. 1: The impact of sales levels on advertising budgets

The above illustrate that, in all commercial banks, advertising budgets are not necessarily affected by the sales levels. Stanbic bank spends most of its sales revenues on advertising though the bank advertises on a small scale. For other banks, the advertising budgets are mostly determined by the advertising objectives for a particular financial year, the brand to be advertised as well as the new products. Standard Chartered's advertising budget is mostly influenced by the targets the bank wants to achieve and promoting the most selling brands.

Table 1: Proportion of sales spent on advertising in percentage

Banks	Sales	Advertising Expenditure
Baroda	70	10
Standard Chartered	80	10
Barclays	90	20
Stanbic	80	60
First National Bank	70	15

Table 2 : Extent of involvement of Advertising Agency in allocating advertising budgets

Name of bank	Rate in percentage
Bank of Baroda	75%
Standard Chartered	30%
Barclays	50%
Stanbic	85%
First National Bank	95%

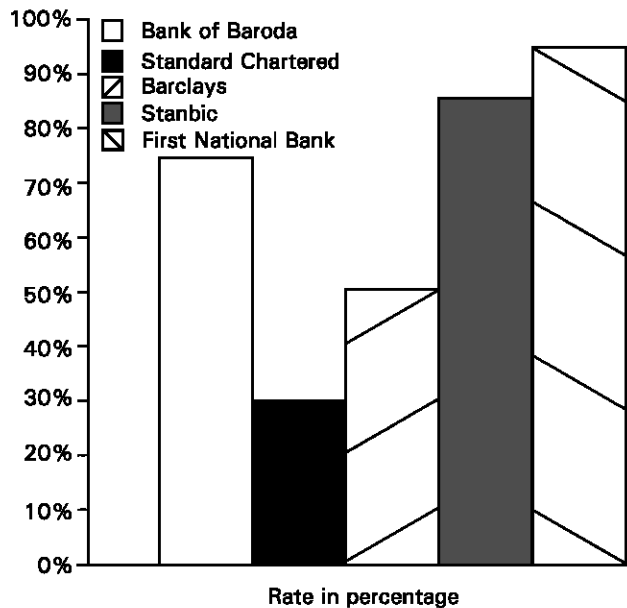


Fig. 2: Extent of involvement of Advertising Agency in allocating advertising budgets

The above Fig. 2 illustrates the extent of engaging an advertising agency by the commercial banks in allocating advertising budgets. First National Bank engages its advertising agency right at the inception of the advertising budget objectives. The head of sales works concurrently with the agency in developing an advertising budget for all the products or brands that need to be promoted for a particular financial year. The budget includes all the media to be used and the period of the promotion. At Stanbic the agency is also highly involved in determining how much to spend on advertising. The amount to be spent in all the products in a particular financial year is estimated, it includes media, publicity and the period of the advertising campaigns. The budget is then made basing on the estimation. Bank of Baroda also negotiates with the agency the amount to be spent in advertising activities. On the other hand, Barclays partly engages the advertising agency regarding their advertising budgets. Sometimes the agency is involved depending on the product to be promoted. Standard Chartered does not engage the agency at all. The marketing manager, after allocating the advertising budget, consults the agency to give them a brief on the products they want to promote. The brief contains the amount which the agency should use to promote or produce

the advert for a particular brand. The budget is very fixed and the agency can only negotiate an increment of the advertising budget if prices have risen in the market.

## **RESULTS AND DISCUSSIONS**

The amount of money spent on marketing communications differs widely among the commercial banks, even though they are within the same industry. Each bank considers the role of the new brand within the bank and the importance of the brand to the achievement of the overall objectives. The manager responsible reviews the brand budgets, considers how the brand has performed in the past, since this has a significant implications for its ability to perform in the future. If the brand has been in decline, then the previous advertising budget will need to be increased if the decline is to be reversed.

### **Bank of Baroda**

The bank's main focus in this new market is concentrating on enhancing financial soundness and offering new services that are of this value to bank customers. Before opening branch in Botswana, bank management researched extensively and analysed the whole system of banking in Botswana before operation. As a potential competitor the bank analysed advertising strategies of competitors in marketing. Since the bank is still new in the Botswana market and developing, the bank's Managing Director allocates funds for advertising, which are mainly from capital employed into business as investment for the future.

### **Standard Chartered Bank**

The marketing team considers the bank's strategy and plan when making advertising budgets. No particular budgeting method is used. The team takes into account performance of products, which involves how to improve existing product. Introducing new products can increase advertising budgets. Advertising budgets are based on strategy for the year, which are fixed for that financial period. The team also considers the previous year's advertising budget and analyse performance. For example, if money was spent on increasing awareness of Debit cards and campaign was successful then more money will be allocated to Debit cards promotion. Fixed budgets indicate strategic planning for the bank.

### **Barclays Bank**

When budgeting for advertising, the marketing team including the communications manager first looks at the performance of each product in the previous year. The performance is then compared with previous year and targets for the next financial year. When planning advertising budgets, specific performance against targets is evaluated. It involves analysing how much m was spent on advertising and in which media, which indicate the most effective method. Through regular surveys in the market, the team set new targets and allocate money looking at responses to media used. Effectiveness of media used depends on the products they are selling and the target market. Target market determines the media to be used. When budgeting for advertising the team keep some amount on contingency to use in case of shortages or unforeseen uncertainties or a new product or service is introduced during the financial year and was not budgeted for or included in the budget.

### **Stanbic Bank**

In determining an advertising budget, a marketing budget that includes Public Relations is allocated every year based on a percentage of anticipated revenues. The advertising is then generally set at 60-75% of the marketing budget. The budget is therefore pre-determined. There is no formal method that has been adopted or used. Stanbic's long term marketing strategy is to be a niched player focusing on clearly and tightly defined segments of the retail business and personal banking category. There is no professional organisation that offers media monitoring in Botswana. So broadly Stanbic does not directly monitor competitor activity. Nevertheless they do keep competitor activity top of mind by observing spending and activity by competitors in the mainstream print media and their outdoor holdings. Stanbic Bank does not have Marketing or an Advertising Manager per se. To have a person dedicated to this function would not be viable due to their size and strategy. The bank does its advertising on a small scale basis. Hence the bank spends a smaller proportion of their income on advertising than other banks, i.e. Standard bank and Barclays. The Business Support Officer with the approval and input of the Managing Director undertakes broadly advertising and marketing decisions.

### **First National Bank**

The Head of Sales and Services schedules their advertising budget with the bank's advertising agency. When budgeting for advertising for the next financial year, the bank asks for quotations from the agency for all the media they will use to advertise their services. The advertising agency charges the media basing on the total number of media types and quantity to be used. The agency then makes an estimation of all adverts basing on the previous year's advertising budget. The bank constantly works in conjunctions with the agency and allocates money basing on the agency's estimated figures. The marketing manager keeps some money on miscellaneous in case the agency is short of funds. The money can also be used to advertise a newly launched service or product. The managing director only allows for a ten percent increase on the advertising budget. As a result the head of sales and services can only base the increase on the amount spent in the previous year or increase the amount that remained.

Responses from the questionnaire indicated that each bank utilizes a different method to allocate advertising budgets. None of the usual budgeting approaches were applied by the commercial banks. The approach to new products is similar to that of the objective and task method. Calculations are made of money required to achieve objectives for the brand. However First national Bank has a different approach. For example; if a new product(s) are introduced after the beginning of the financial year and have not been included in the advertising budget for that financial year, the product is not launched and will be included in the following year's advertising budget.

In the other banks, a contingency budget is reserved to respond to circumstances which represent a change from the planning phase. Each bank prefers utilizing a budgeting method suitable for the bank's banking procedures. In all the banks new products typically receive large advertising budgets to build awareness and to gain consumer trial. Established brands usually are supported with lower advertising budgets as a ratio to sales. High market share brands usually require less advertising expenditure as a percentage of sales to maintain their share. To build share by increasing market size requires larger advertising expenditures. In a market with a large number of competitors and high advertising spending, a brand must advertise more heavily to be heard above the noise in the market. The headquarters of each bank develop advertisements for new services or if management want to increase awareness of current bank services, they send them to the branches, which act more as distribution channels than branches. They depend on main headquarters for other activities especially those relating to finance. Hence only the marketing managers in the headquarters were interviewed to get adequate information. There was no direct relation between the increase in sales and increase in advertising budget

### **Recommendations**

The results indicate that the commercial banks use different methods to allocate advertising budgets and none of them utilize the commonly used budgeting methods. Thus it would be better to conduct a research on how the advertising agencies allocate their own budgets.

It would be necessary to measure the amount allocated for advertising against the increase in sales so as to get effectives of advert and to gauge optimum utilization of budget resource

Different branches have different need being dictated by the environment. Thus the branch managers should be given lee way to decide the important message to be passed to the market and the amount of money to be utilise rather than the headquarters doing all the budgeting and in the advertisement on their behalf

### **Future Research**

There is a need to conduct research to find out how advertising agencies deal with the fixed advertising budgets allocated by the clients/advertisers and how they affect media choice. This could help the banks in choosing the media, allocation of recourses among the different medias and modes of advertising and better equitable budgeting for marketing activities.

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