

## 4.7 METHODS OF DETERMINING BUDGET FOR PROMOTIONAL EXPENDITURE

### 4.7.1. AFFORDABLE METHOD

Many companies employ the affordable method for determining the promotion budget. The promotion budget is set in a manner which the company can afford. This method is a subjective assessment, as it pays little attention to the long-term promotional needs of a service. This method does not consider the role of promotion in sales volume. Employment of affordable method very often results in an uncertain annual budget, making the long-range planning difficult.

### 4.7.2. PERCENTAGE OF SALES METHOD

Under this method, promotion expenditure is determined as a percentage of sales. The advantages of percentage of sales method are:

First, expenditure on advertising is closely related to the sales. So, the company can easily afford to spend a specified percentage of sale on promotion.

Second, this method facilitates an analysis of the relationship among promotion cost and selling price per unit. Third, this method ensures stability when competitors are also spending the same percentage of sales on promotion.

### 4.7.3. COMPETITIVE-PARITY METHOD

Under this method, advertising expenditure of the firm is equal to the amount spent by competitors. This method follows the policy of the competitors in respect of promotion budget. It is based on the assumption that competitor's expenditure represents the prudence of the industry.