MARKETING

Calculating Your Ad Budget

Before you pour money into advertising, figure out exactly how r

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Q: I've never really done much advertising for my business; I've always relied c a small campaign, but I'm frightened it will cost a lot of money. How can I figur

A: The first thing you must do is calculate your minimum and maximum allowable

- **Step 1: Take 10 percent and 12 percent of your projected annual, gross sale average transaction.** In this first step, it's important to remember that we're ta gross profit above cost, expressed as a percentage of cost. Margin is gross pı item for $150 when it only costs you $100, and your markup is 50 percent. Yo the same $50 gross profit represents 50 percent of your cost (markup,) but oı stores in America (carpet, jewelry and so on) operate on an average markup c 50 percent markup and others add as much as 200. More expensive items, s carry a markup of only 10 to 15 percent.
- **Step 2: Deduct your annual cost of occupancy (rent) from the adjusted 10 p number.**
- **Step 3: The remaining balances represent your minimum and maximum all** calculation, you may learn that you've already spent your ad budget on exper a lot more advertising than you had previously suspected.

Now let's calculate an ad budget. Assume that my business is projected to do $1 percent, and my rent is $36,000 per year. The first thing to do is calculate 10 perc $120,000, respectively).

Second, we must convert my 48 percent profit margin into markup, because marl

Most business owners know their margin by heart, but never their markup. To ma
gross profits by cost. Dividing $480,000 (gross profits) by $520,000 (hard cost) s
92.3 percent. Bingo.

Now we multiply $100,000 times 92.3 percent to see that our adjusted low budg
multiply $120,000 times 92.3 percent to get an adjusted high budget for total cos
budgets, we must now deduct our $36,000 rent. This leaves us with a correctly c
side to a maximum of $74,760 on the high side.

Most advertising salespeople will tell you that "5 to 7 percent of gross sales" is th
believe it. It simply isn't possible to designate a percentage of gross sales for adv
your average sale and your rent. Yes, expensive rent for a high-visibility location i
business with a good sign in a high-visibility location will need to advertise signifi
To prove this, just look at the example above and change the rent to $75,000 pe
$17,300 to $35,760, representing just 1.7 to 3.5 percent of sales. The formula I've
with your rent as well as the profitability of your average sale. Good luck!