OPINION

Woolley Marketing: Top down or bottom up? Which budgeting approach is best?

In his regular column for Mumbrella, Trinity P3 founder and global CEO Darren Woolley examines which way is up when it comes to budgeting.

June 3, 2021 10:18
by DARREN WOOLLEY

If you want to see terror in a marketer's face, then start off a conversation around Zero Based Budgeting – also known as bottom up budgeting. This budgeting approach has been around for decades, but it is still feared and loathed by many in marketing. The alternative is the opposite and much more popular – top down budgeting. This is where there is a set amount to spend. The top number. And your job is to work out how, where and when to spend that amount. No more. No less.

So which approach is best? Well if you decided which is best based on popularity, the best is a top down budgeting approach. But its popularity may be due to the fact it is simply easier. After all, deciding how to spend your money can be fun. Calculating what you need and why you need it is harder. So, let's go beyond popularity and look at the functionality. Which approach provides the better outcome?

Cartoon by Dennis Flad, with permission (2021)

To answer that we need to delve into the methodology of each. On one hand the more palatable top down approach is the one that leads to a discussion over last year's budget and the need to justify increasing the budget for the coming year based on cost of living increases. The reference point is usually a previous budget or some budgeting benchmark such as marketing spend to revenue, and the conversation starts there. It is the one that has an advertising agency wanting an increased production budget because the client wanted a bigger idea for this year's campaign over the previous campaign. So, of course this requires more budget.

Meanwhile, the less comfortable bottom up approach means you start with nothing, which is why it is sometimes known as zero based, and you build the budget based on requirement. Or in the case of Zero- Based Budgeting, the proposed return on spend. This requires that you have a reasonably detailed plan in place and an approximate spend level for each element to justify the budget. Of course, there is flexibility in any plan, but the process of planning brings about review and change too.

Now let's consider the two processes from a business perspective. Where would you put your money? First, the top down conversation focuses on whether to maintain the expenditure of the previous year, increase it, or even decrease it. The considerations for which way to go could be influenced by economic, financial, strategic and a myriad other variables. But to minimise risk, the best you could hope for are incremental increases or, worst-case scenario, potentially massive decreases.

On the other hand, with the bottom up budgeting approach, the budget is allocated to particular tasks, with specific outputs and outcomes justifying the expenditure. Each component of the plan has a cost and a priority based on what is required and is focused on delivering against the objectives and the strategy. Potentially, and within reason, the sky is limited only by what can be justified by the business for investment.

The fact is, for setting an annual budget, the bottom up approach results in a more considered and strategic approach. When supported by projections of return on spend, it re-frames the budget from a cost to an investment.

But now the budget is approved. More often than not in conversations around marketing, media and advertising budgets, the concern is there is not enough budget. This is invariably the consequence of the top down approach. The problem is that when dividing up the top down budget, the desire is often to buy as much as possible with the money at hand. It is not that there is not enough budget, it is that the expectations are misaligned with reality. The problem here is that trying to squeeze the budget at every opportunity risks the outcomes.

The difference with the bottom up budgeting is the allocations are discussed, set and prioritised at the outset. But top down budgeting has a very important role when it comes to spending the budget, providing your proposed budget allows for this to be a top down approach. In providing an agency with a campaign budget, it can then make recommendations on how best to split it. Without a budget amount they would be required to use a bottom up budget, with the potential to blow the budget altogether. Sound familiar?

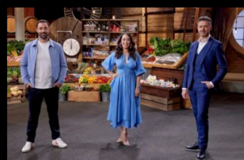
So, while bottom up budgeting may be a proverbial pain in the butt, and while top down budgeting can be a bitter pill to swallow when it goes wrong, the fact is they both have roles to play in managing marketing expenditure.

Darren Woolley is the founder and global CEO at Trinity P3. Woolley Marketing is a regular Mumbrella column.

topics DARREN WOOLLEY WOOLLEY MARKETING ZERO-BASED BUDGETING

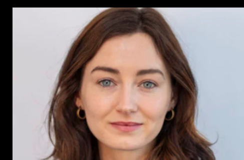
LATEST

Telstra's Belong appoints Howatson + White for strategy & creative, retains OMD for media



MasterChef tops entertainment and wins key advertising demos

Facebook expands transparency for social issue ads in Australia



Maddison Connaughton finishes up as editor of The Saturday Paper

Saatchi & Saatchi Australia appoints Georgia Jones as Melbourne GM