# WHY THIS YEAR'S ADVERTISING BUDGET CAN'T WORK NEXT YEAR

Jekyll+Hyde LABS

# Why This Year's Advertising Budget Can't Work Next Year

Whenever CPG brands evaluate their advertising strategies, many fall into the trap of assuming that 'What worked last year will work again.' However, market dynamics, consumer behavior, and competition are always evolving. Relying on the same approach without adapting to current trends and opportunities is rarely a formula for success.

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## INFLATION

Inflation hits everything and media is no different. Media for 2024 has averaged a 3% inflation rate, much of that fueled by 2.5% increase in advertising spending. So, you will need to increase your ad budget by roughly 3% just to run in place.

## REPLACEMENT RATE

The major reason advertising budgets have to increase is replacement rate. Every product has a replacement or replenishment cycle. For some products, it is close to zero. An example would be a blender, which is something a consumer may only buy every few years

Then there are products with replenishment rates in the once to twice a year category such as a topical antiseptic or itch cream.  Finally, at the other end are products like beverages or ready-to-eat-meal products like pasta sauce or pre-pared side dishes. But even these quick use items do not have the replenishment rate that you may think since consumers are fickle and like to try new things. Even on the high side, a replenishment rate of 20% would be high.

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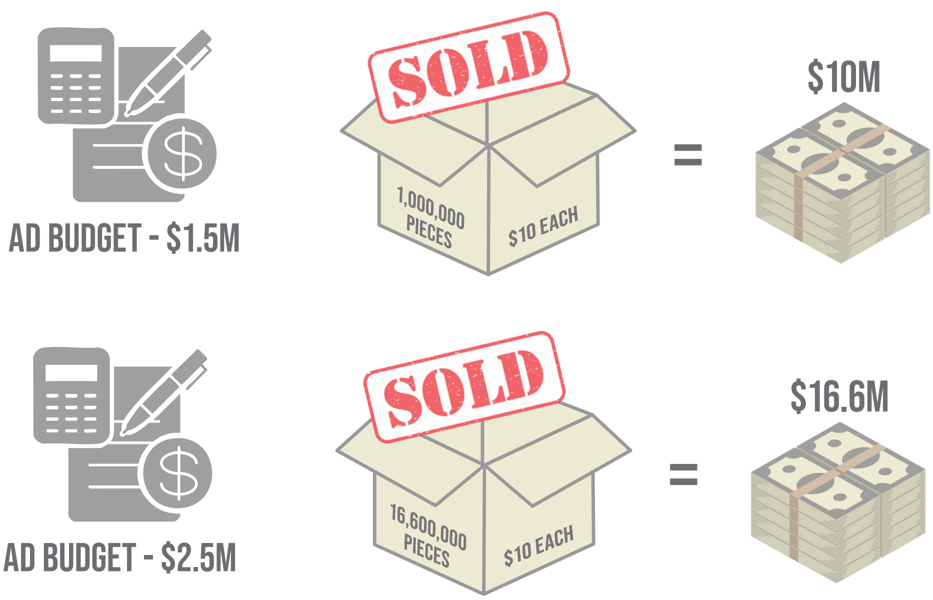
**What this means is that every day you have to "buy" new consumers to replace the previous ones that did not come back and repurchase.**

Let's say you currently have a product that sells one million pieces per year at $10. So, this is a 10 million dollar brand. Your current ad budget for this volume is probably about 1.5 million dollars. With growth in mind, you increase your budget this year by $1,000,000.  For the sake of this example, we will say the advertising cost to bring in one new customer is $1.




In the increased year, your increase in budget has the ability to nearly double the size of your brand.  That is a great return and rapid growth.

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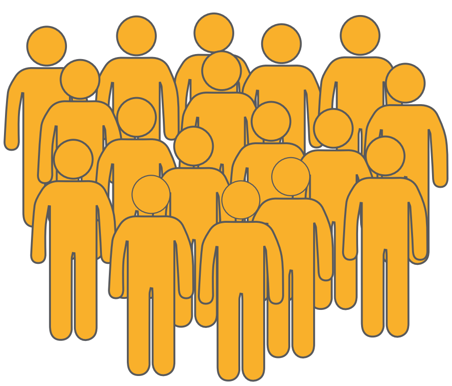
## NEXT YEAR


Now we go to the following year, and you have the same budget of 2.5 million. What is the impact? First, recall that you lost 3% due to media inflation.

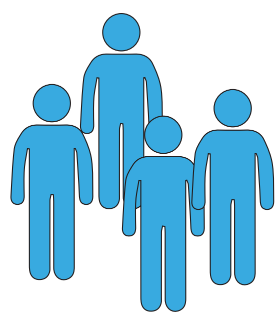
But let's say you have a solid 10% replenishment rate. This means that 90% of the sales this year will be coming from new consumers and 10% from returning customers.

NEW CUSTOMERS



90%

RETURNING CUSTOMERS



10%

So, what was last year's 100% increase in sales turns into a **7% growth rate** after we deduct the 3% for media inflation. This is due to the fact that you now have to backfill non-returning customers.

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**Now, there is nothing wrong with a 7% growth rate if you are a mature brand like Windex or Tide. But if you are an emerging brand that is competing with the category leader, after a nearly 100% increase the previous year, it suddenly appears that your brand appears is falling out of favor with the consumer. This places doubt in the mind of your category buyer, opening the door for your bigger competitors to chase your shelf space or your growth space, by claiming you were just a fad.**

## "What Have You Done for Me Lately?"

The fact is that every retailer carrying your product is focused on "What have you done for me lately?" Last year's success is nearly meaningless. Retailers are all focused on what product mix will net them the best return this year and how they can increase their gross and bottom line.

It is no longer good enough to just be above the minimum turn rate that the retailer expects; the brands that are above the line and showing the most upward velocity are the brands that will stay on the shelf and get additional facings.

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Incredibly, at one account we are now seeing SKU's that are moving product at million-dollar numbers - brands that in the past would have been safe – that are now being delisted because the velocity is not moving upward.

This is why major successful brands are constantly increasing their advertising budgets. They have learned that there is no such thing as successfully standing in place.

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**At Jekyll + Hyde Labs, we live and breathe consumer packaged goods.**

**No advertising agency in America has the depth of knowledge or the connections within the industry that we do. We love entrepreneurs and want to help every brand succeed.**

**If you think you could benefit from learning more about us and what we can do for you, please reach out.**

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