

IMPACT OF ADVERTISEMENT EXPENDITURE ON SALES AND FINANCIAL PERFORMANCE OF CONSUMER DURABLES COMPANIES OF INDIA

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ABSTRACT

Advertisement is a prominent feature of modern business operations. One can encounter advertising message, while watching TV, reading magazines, listening to the radio, surfing the internet or even simply while walking down the street. Companies are spending crores of rupees on advertising alone. Advertisement is a branch of commerce which is used to create awareness for particular product & it must be paid for. Advertising informs, educates and persuades people to buy the advertised goods and services. The advertisement imposes choices and preferences on the public mind through language, conversation, jingles, etc. Eventually, the advertiser fulfills his main goal of investing in an advertisement. With maximizing sales and lowering cost, the profit of an advertiser grows.

The major aim of this paper is to demonstrate the impact of advertisement expenditure on sales and profit of consumer durables companies and also examine the growth pattern and trends of advertising expenditure by consumer durables companies.

INTRODUCTION

The American marketing association has defined advertising as "Any paid form of non-personal presentation & presentation of goods, services or ideas by an identified sponsor." Advertising is a form of mass communication. The effective advertising must achieve the goal of delivering message to the right audience & thereby creating sales at a higher profit. Advertisement is a promotional tool also tends to remind, reassure and influence the decision of consumer because an advertisement itself enlightens, educates, and persuades consumer on their acceptability of the product offering. The link between advertising and profitability has long been a key focus for empirical studies. Many authors have reported a positive correlation between industry accounting profits and advertising intensity, generally restricted to consumer goods industries.

REVIEW OF LITERATURE

Dr. Sharma S & Sharma J (2009) examines the growth pattern and trend of sales and advertisement expenses for the selected companies over a period from 1992-93 to 2006-07. Further, it seeks to evaluate the effectiveness of advertisement expenses on sales of selected companies operating in India at aggregate and disaggregate levels. It also tries to analyze the behavior of share of advertisement expenses in total sales for the above mentioned categories. The contribution has found that the growth rate of sales revenue of manufacturing and non-manufacturing companies, whose sales revenue is more than 1000 crore, which is highest, in spite of the negative compound growth rate of advertising expenses of these two types of companies. While answering, how much advertisement expenses need to be incurred, the study concludes that to a large extent it depends on the nature and size of the industries.

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Olufayo T. O. Ladipo P. K & Bakare R. D. (2012) aims to investigate the effects of advertisement on the patronage of new products and also to find out if budget allocations for advertising have any significant effect on sales volume of Nestle Nigeria Plc. Results showed that there is relationship between advertising and consumer patronage just as it depicts that budget allocation to advertising will have effect on sales volume. It is recommended that Advertising strategy or tool cannot be overlooked in the business organization as it is pivotal to the success of Nestle Plc.

Dalvadi Y M. (2013) aims to investigate that advertisement is an indispensable part for any company for doing good business in modern times. Advertising expenditures has become a significant element in marketing of almost all the products. Companies are spending crores of rupees on advertising alone. Advertising has a vital communication function to play in marketing. As a part of the overall communication mix, the firm utilizes to inform and convince customers of the desirability of its products by means of advertisement only. Advertising can be viewed as an investment, so the goal of advertising should be to maximize the returns on the investment. Advertising may then be designed and evaluated in terms of attitude changes which the firm believes will ultimately enhance sales and profitability.

This paper makes an attempt to examine growth pattern and trends of advertising expenditure by large hotel companies and also examines whether the advertisement expenditure have any significant impact on the sales and profit of the companies or not? It was found that there is a strong relationship between advertisement expenses and sales, profit of large hotel companies of India.

Adekoya Olusola (2011) the major aim of this thesis was to demonstrate the impact of advertising on the sales and profit of a business organization taking Starcomms Plc as a case. Longe (2001) defined advertising as any personal paid form of non-personal communication which is directed to the consumers or target audiences through various media in order to present and promote a product, services and idea. Good advertising requires competent personnel including a number of specialists to enable it thrive in the ever

dynamic and competitive business environment. It is therefore imperative that key personnel in departments that are directly involved to be carefully selected and positioned to ensure continuous success. Advertising campaigns obviously informed by depressed consumer demand, thrive by persuading the consumer on the need for consumptions. At the completion of this thesis, the impact of advertising at Starcomms was clearly defined and it should have become a continuous practice for Starcomms.

OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

1. To study the advertisement spending by selected consumer durables companies in India.
2. To examine advertisement pattern followed by selected consumer durables companies in India.
3. To identify the impact of advertisement cost on its sales and financial performance of selected consumer durables companies.

RESEARCH METHODOLOGY

This study is analytical in nature, which is based on secondary data collected from Capital Line plus (www.capitalline.com). There are plenty consumer durables companies in India but availability of data of ten years was constraint so total six companies have been selected as a sample on the basis of availability of annual report. The company which get selected are Blue Star Ltd., Eveready Industries India Ltd., Hawkins Cooker Ltd., IFB Industries Ltd., TTK Prestige Ltd., Whirlpool Ltd. Appropriate statistical tests have been used to test the hypothesis with the level of significance 5%.

HYPOTHESIS

H_0 = There is no Significant impact of Advertisement Expenditure on Sales of Selected Companies.

H_1 = There is Significant impact of Advertisement Expenditure on Sales of Selected Companies.

GROWTH AND TREND OF ADVERTISING EXPENDITURE OF SELECTED COMPANIES
Advertising Cost of Selected Companies during the study period (Rs. in Crores)

Table 1: Advertisement spending of selected Consumer durables Companies for last 10 years

	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	Total
Blue star	92.77	76.57	61.42	62.54	69.99	57.43	43.96	34.23	28.75	26.79	554.45
Eveready	113.57	96.22	115.15	81.7	81.54	79.28	74.05	81.65	108.43	95.65	927.24
Hawkins	36.25	32.19	32.28	26.64	23.04	19.22	16.2	15.67	13.63	14.78	229.9
IIfb	47.6	36.89	40.86	49.13	54.83	35.39	25.14	23.63	15.13	12.99	341.59
Ttk	129.5	92.71	66.66	59.15	47.03	42.57	34.34	25.6	20.51	17.78	535.85
Whirlpool	192.82	169.16	158.31	122.93	107.81	88.59	80.71	77.59	108.87	95.65	1202.44
Total	612.51	503.74	474.68	402.09	384.24	322.48	274.4	258.37	295.32	263.64	3791.47

Advertisement Expenditure and Sales growth of Consumer Durables Companies during the Study period

Table 2: Comparison of Advt. expenditure and Sales

Year	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Total Sales of Selected companies During the Study Period (Rs. In Crore)	9490.16	9109.54	7696.09	6772.7	6154.23	4929.15	4035.37	3341.49	3663.7	3153.95
Total sales % increase/decrease	301	289	244	215	195	156	128	106	116	100
Total Advt Exps of selected companies During the Study Period (Rs. In Crore)	612.51	503.74	474.68	402.09	384.24	322.48	274.4	258.37	295.32	263.64
Total Advt cost % increase/Decrease	232	191	180	153	146	122	104	98	112	100

Graph 1: Comparison of Total Advertisement Expenditure and Total Sales of Consumer Durables Companies

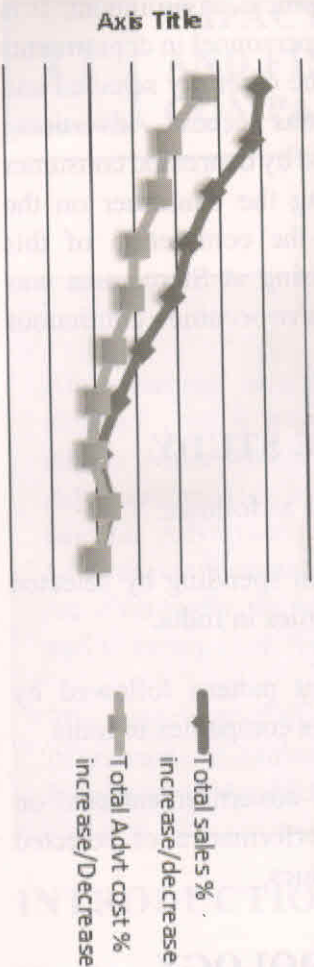


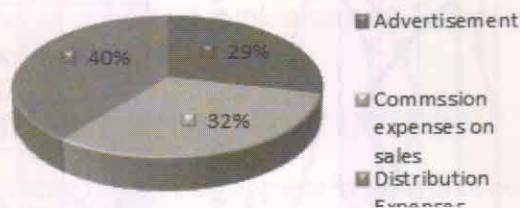
Table 1 and 2 shows the advertisement spending and sales of consumer durables companies which is found to be on an increasing trend. Whirlpool Ltd. spends highest among the other selected companies followed by Eveready Ltd. Hawkins Ltd. spends least on advertising. If we compare the advertisement expenses with sales, we found that after 2003-04 it was decreasing trend in both it can also see that there was increase in both in same proportion. However from the year 2011-12 onwards, the total spending on advertisement increased at a higher rate as compared to the sales.

COMPOSITION OF ADVERTISEMENT EXPENDITURE OF THE SELECTED COMPANIES FOR THE PERIOD OF LAST 10 YEARS

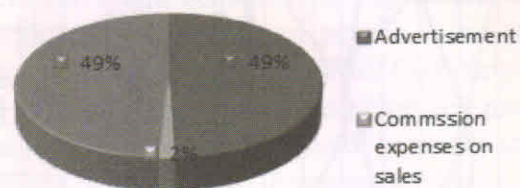
Table3: Composition of Advertisement Expenditure

Company	Composition	Expenditure
Blue Star Ltd.	Advertisement	29%
	Commission expenses on sales	32%
	Distribution Expenses	40%
	Total	100%
Eveready Ltd.	Advertisement	49%
	Commission expenses on sales	25%
	Distribution Expenses	49%
IFB Ltd.	Advertisement	60%
	Distribution Expenses	23%
	Other Selling Expenses	17%
	Total	100%
Hawkins Ltd.	Advertisement	39%
	Commission expenses on sales	4%
	Distribution Expenses	56%
	Total	100%
TTK Ltd.	Advertisement	55%
	Commission expenses on sales	1%
	Distribution Expenses	44%
Whirlpool Ltd.	Advertisement	44%
	Distribution Expenses	56%
	Total	100%

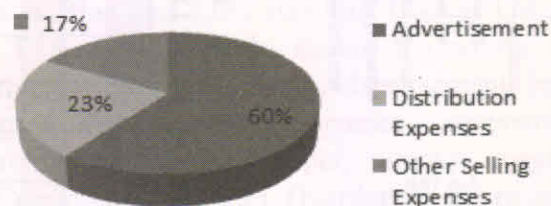
Advt. Exps. of Blue Star Ltd.



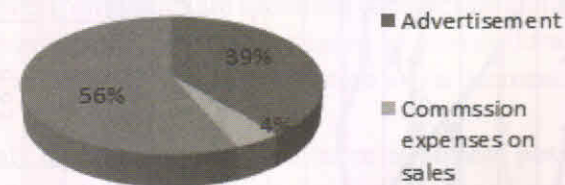
Advt.Exps. of Eveready Ltd.



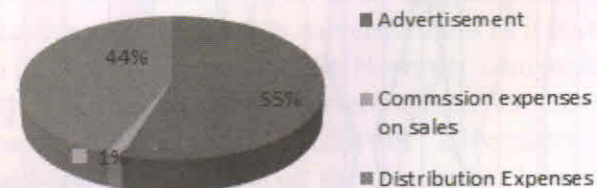
Advt. Exps of IFB Ltd.



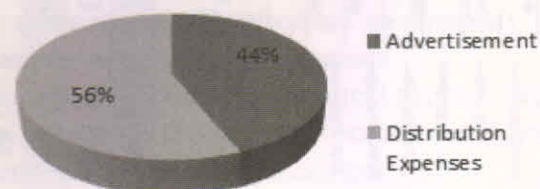
Advt.Exps of Hawkins Ltd.



Advt. Exps of TTK Ltd.



Advt. Exps. of Whirlpool Ltd.



Above table and graph indicates that advertisement budget of consumer durables companies comprises of Advertisement (in news paper, internet, magazine etc), Commission on Sales, Distribution expenses and other selling expenses. We can see companies spends mainly on advertisement and commission on sales however, composition of sales expenditure is different for every company. Blue star Ltd., Eveready Ltd., Hawkins Ltd., IFB Ltd., TTK Ltd. have spends on variety but Whirlpool Ltd. on Advertisement and distribution expenses only.

And also found that Whirlpool Ltd. spends highest on advertisement than other companies.

ADVERTISEMENT TO TOTAL COST RATIO OF SELECTED COMPANIES

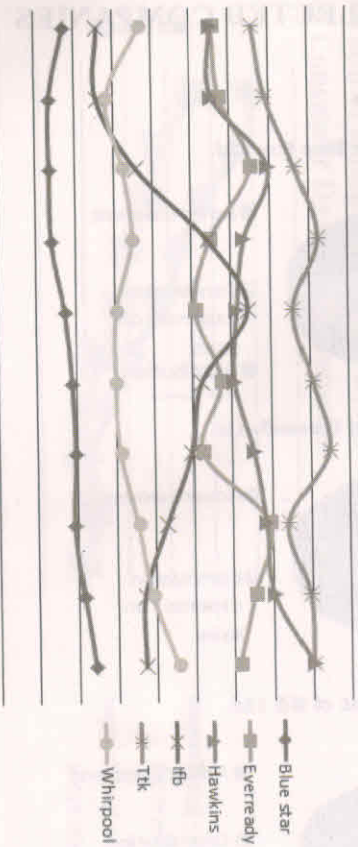
Table 4: Advertisement to total Cost Ratio (%)

Companies	Advertisement to Total Cost										average
	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	
Blue star	3.49	2.72	2.71	2.79	3.46	3.80	3.94	3.85	4.32	4.86	3.59
Eveready	11.10	11.46	13.01	10.91	10.13	11.44	10.46	13.85	13.08	12.23	11.77
Hawkins	11.02	11.08	13.95	12.67	12.30	12.13	13.10	13.71	14.07	16.09	13.01
IFB	5.21	5.14	7.19	10.78	12.85	10.45	9.91	8.61	7.43	7.45	8.50
TTK	13.18	13.82	15.30	16.46	15.18	16.13	16.97	14.84	15.91	16.05	15.38
Whirlpool	7.38	5.65	6.49	6.92	6.08	6.03	6.23	7.12	7.82	9.13	6.89
Average	8.56	8.31	9.78	10.09	10.00	10.00	10.10	10.33	10.44	10.97	9.86

Table 5: Advertisement Expenses to Sales %

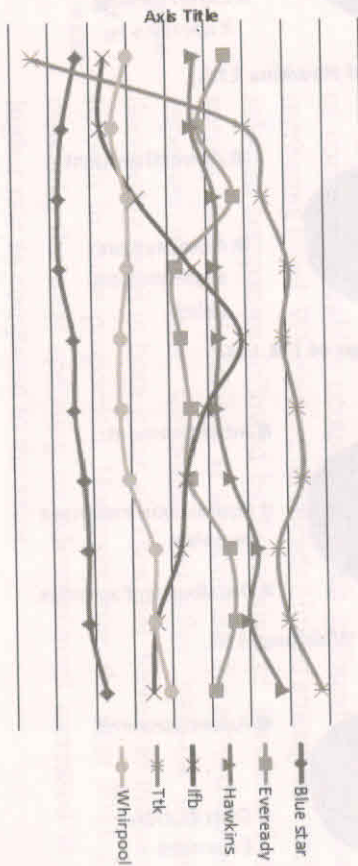
Companies	Advertisement Expenses to Sales %										Average
	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	
Blue star	3.4	2.65	2.4	2.45	3.15	3.15	3.6	3.76	3.73	4.6	3.289
Eveready	10.99	9.59	11.38	8.38	8.62	9.07	8.95	10.95	11.2	10.15	9.928
Hawkins	9.45	9.31	10.43	10.46	10.59	10.41	11.16	12.46	12	13.64	10.991
IFB	4.79	4.59	6.44	9.28	11.76	9.81	8.83	8.5	7.2	7	7.82
Ttk	1.15	11.95	12.9	14.21	13.84	14.58	14.81	13.52	14.04	15.66	12.666
Whirlpool	5.97	5.16	5.91	5.89	5.49	5.46	5.87	7.15	7.11	7.83	6.184
Average	5.96	7.21	8.24	8.45	8.91	8.75	8.87	9.39	9.21	9.81	8.48

Graph 3: Advertisement to total Cost Ratio (%)



ADVERTISEMENT TO TOTAL COST

Graph 4: Advertisement Expenses to Sales %



Above tables and charts indicates that Blue Star Ltd., Hawkins Ltd. and Whirlpool Ltd., spends consider amount on advertisement expenditure. In recent years, Eveready Ltd has spends up to 10% on advertisement on its total cost. We also conclude that Eveready Ltd. Company spending considerable amount on advertisement. However, it can also found that TTK Ltd. spends least amount on advertisement than other companies.

HYPOTHESIS TESTING

CORRELATIONS

DESCRIPTIVE STATISTICS

	Mean	Std. Deviation	N
Advt_exp	66,8139	85.37525	170
Sales	1244.3068	2202.03585	170

CORRELATIONS

		Advt_exp	Sales
Advt_exp	Pearson Correlation	1	.891(**)
	Sig. (2-tailed)	.	.000
	N	170	170
Sales	Pearson Correlation	.891(**)	1
	Sig. (2-tailed)	.000	.
	N	170	170

** Correlation is significant at the 0.01 level (2-tailed).

NONPARAMETRIC CORRELATIONS

CORRELATIONS

		Advt_exp	Sales	
Spearman's rho	Advt_exp	Correlation Coefficient	1.000	.856(**)
		Sig. (2-tailed)	.	.000
		N	170	170
	Sales	Correlation Coefficient	.856(**)	1.000
		Sig. (2-tailed)	.000	.
		N	170	170

** Correlation is significant at the 0.01 level (2-tailed).

Inference: We can observe that Pearson correlation is 0.891 suggest that the advertisement expenditure and sales are highly correlated. As p value is 0.00 which is less that 0.05 so we reject the null hypothesis and accept alternative hypothesis which means there is significant impact of Advertisement Expenditure on Sales of Selected Companies.

FINDINGS AND CONCLUSION

Advertising is major instrument in growth of consumer durables business as there is stiff competition in the market. There is a considerable improvement in life of people and expectancy of people as a result this investment in research is increase. Company spends on advertisement every year to develop new product as well as existing product that make company strong in market and develop it fast. From the selected company for study, Eveready Industries Ltd. and Whirlpool Ltd. shows increasing trend on advertisement expenses where as Blue Star Ltd., Hawkins Cooker Ltd., IFB Ltd., TTK Prestige Ltd., shows fluctuating trend on advertisement expenses. Advertisement budget of consumer durables companies comprises of Advertisement (in news paper, internet, magazine etc), Commission on Sales, Distribution expenses and other selling expenses. Companies spend mainly on advertisement and commission on sales. Consumer Durables Companies are spending considerable amount on advertisement. Few progressive consumer durables spend up to 10% of its total cost on advertisement.

Overall finding suggest that there is strong positive impact of Advertisement expenses on sales and financial performance of consumer durables companies. Therefore, we could suggest that company should spend more amount towards Advertisement as it gives return in terms of sales and profit. However, companies should focus on nature of advertisement expenses. Company should select media of advertisement carefully. So that it boost up the temptation level of customer to buy the product. It should able to increase image of company. Hawkins Cooker Ltd. spends fewer amounts on advertisement so company should increase the advertisement expenses
We can conclude that advertisement expenditure has a strong impact on the sales performance and financial performance of the selected companies

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