

**ASSOCHAM
ECO
PULSE
STUDY**

“Cost-Benefit Analysis of Advertisement Campaigns”

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INTRODUCTION:

As the degree of correlation between advertisement expenditure and net sales is generally found to be on a higher side, advertising and sales promotion campaigns have significant importance in corporate marketing strategy. According to the Assocham Research Bureau, "Advertising is one of the many marketing tools that are used to attract attention of prospective customers to a business or its products or services. The more effective an advertising campaign, more the customers it draws, and with greater frequency".

DATA SOURCE:

- **Bombay Stock Exchange (BSE)**
- **Companies Annual Reports**
- **Assocham Research Bureau**

PARAMETERS:

The **ASSOCHAM Eco Pulse** (AEP) Study is based on sectors elasticity of advertisements is the change in sales during the analyzed period.

- **Advertisement Expenditure**
- **Net Sales**

METHODOLOGY:

For the analysis major companies from three major sectors has been selected and the figures of Net Sales and Advertising & Publicity expenses for the period from 2007-2009 from the companies balance sheet and profit and loss account has been taken.

For the analysis of the collected data ARB used the following formula:-

Elasticity of Advertisements =

$$\frac{\Delta \text{ Net Sales}}{\Delta \text{ Advertisement Expenses}} * \frac{\text{Advertisement Expenses}}{\text{Net Sales}}$$

The study comprises of the following sectors and companies:

Sector	Company
FMCG	Britannia
	Marico Limited
	ITC
	Dabur
	HUL
Telecom	Bharti Airtel
	Reliance
	TATA
Auto (two wheelers)	Hero Honda
	Bajaj Auto Ltd.
	TVS Motors

Telecom & Auto sector witnessing robust growth in sales volume despite falling advertisement outlays: Assocham

With India emerging as one of the fastest growing market for Telecom and Auto sector, an analysis of their advertisement expenditure and net sales turnover suggests companies in these sectors witnessed growth in their sales turnover despite falling advertisement expenditure.

The elasticity of advertisement to net sales for the telecom and auto sector was found to be -9.31 per cent and -1.32 per cent respectively as against 0.80 per cent for the FMCG sector as analyzed by the Assocham Research Bureau (ARB).

A negative figure for the advertising elasticity for Indian telecom and auto industry implies, despite spending less on their advertisement and promotion campaigns, companies in these sectors were able to increase their sales volume significantly.

While for the FMCG sector, the advertising elasticity was found to be 0.8; signifying for every rupee increase in the net sales volume, companies in the sector spent 80 paise on advertisement costs.

According to the Assocham Eco Pulse (AEP) Study titled "Cost-Benefit Analysis of Advertisement Campaigns", the ad spend, proportionate to sales, by fast rising telecom and auto (two wheelers) sectors has grown the most among a host of sectors.

"With services becoming driver of the Indian economy, advertising which spreads awareness to consumers has made an important contribution to the growth in some of the dynamic sectors like telecommunications, auto and FMCG" said Assocham President, Mr. Sajjan Jindal.

The amount spent on the marketing expenses in proportion to the sales has undergone a substantial decline in 2008-09. As the advertising outlays of the sectors like auto and telecom swell down due to the low pace in the economic conditions to overcome the manufacturing cost of the products and services.

TELECOM:

As the Indian telecom sector which registered a robust growth rate of 38.51 per cent in 2008-09 as against the previous year by adding nearly 10 million subscriber month on month. India's largest telecom sector company Bharti Airtel added 32.38 million subscribers in 2008-09. Reliance Telecom added 26.88 million subscribers while Tata Telecommunications added 14.56 million subscribers in the last fiscal.

The telecom sector firms, which used to be fervent advertisers in the past, have marginally lowered down their advertisement, sales promotion and marketing budget by 3 per cent. However, their net sales increased by 26.9 per cent despite the decline in their advertisement expenditure.

Despite the intense competition and huge growing youth population as target customers, the telecom companies lowered the advertisement and marketing expenses. The elasticity of advertisement to net sales of telecom industry stood at - 9.31 per cent during the analyzed period.

The telecom major Airtel increased its subscriber's base by over 30 per cent in 2008-09, as the company increased its advertising and sales promotion expenses by nearly 10 per cent, while the company achieved 32.48 per cent growth in net sales figures during the same period over 2007-08.

Reliance Communications reduced its ad and sales promotion expenditure by 26 per cent in 2008-09, besides this reduction the company gained 21 per cent in its net sales.

While other telecom major Tata Telecommunications spent 63 per cent more on advertisement and sales promotion activities in 2008-09 over a year ago while it's net sales increased by 14.20 per cent over the previous year 2007-08.

AUTO:

As per the analyses carried out by Assocham Research Bureau for the income and expenditure of the auto sector, it has been observed that the top auto companies in the two wheeler segment have decreased their advertising expenses by 5.87 per cent in 2008-09 as compared to the corresponding period of 2007-08, whereas the sector grew by 2.5 per cent in terms of net sales.

However the two wheeler companies sold 74,37,670 units in 2008-09 on top of 72,49,278 units sold during 2007-08. While the elasticity of advertisement to net sales during the analyzed period for auto sector was observed at - 1.32 per cent, signifying lower ad expenses translating into higher sales volumes.

According to the company wise analyses it has been seen that the Indian major two wheeler manufacturer Hero Honda spent 12.54 per cent more on the advertising and sales promotion activities in 2008-09 as compared to 2007-08 while its net sales increased by 19.23 per cent during the period.

Bajaj Auto Ltd. and TVS motors cut their advertising expenditure by 32.94 per cent and 12.02 per cent respectively in 2008-09. In regards to net sales figures, TVS

motors registered a growth rate of 14.02 per cent whereas Bajaj Auto Ltd. witnessed a decline of 6.61 per cent during 2008-09 over the corresponding period of 2007-08.

FMCG:

The FMCG sector which had kept the highest advertisement expenses as the proportion of sales, has kept the ad expenses almost proportionate to growth in net sales. The elasticity of advertisement of the sector stood at 0.80 per cent to their net sales during the analyzed period.

Income and expenditure statement of the major companies in the segment analyzed by AEP for the FMCG companies, which used to be fervent advertisers in the past, have marginally hiked their ad budget in 2008-09 in comparison with 2007-08.

According to the analysis of FMCG sector, Hindustan Unilever Limited increased its advertising costs in 2008-09 by 48 per cent to 2,130.92 crore which was at 1,440.22 crore in 2007-08.

Another FMCG major, ITC Limited, spent nearly 33 per cent more in 2008-09 than the previous year, as the company earned 8.37 per cent growth in net sales during the same period whereas Britannia which spent about 17.47 per cent more on advertisements in 2008-09 as compared to the previous year recorded a growth of 20.44 per cent in the same period.

Dabur spent nearly 14.85 per cent more on advertisements in 2008-09 as against the corresponding period of previous year while the company's net sales increased by 15 per cent in 2008-09. Marico Limited which cut its advertising expenses in 2008-09 by 6.05 per cent saw a growth rate of 22.52 per cent in the net sales figure in 2008-09 as compared to 2007-08.

Annexure

Fast Moving Consumer Goods (FMCG) Sector					
Companies	Parameters	2008-2009	2007-2008	% Change	▲ Elasticity
		(value in crore)			
Britannia	Advertising and sales promotion	211.18	179.78	17.47	1.17
	Net sales	3,112.21	2,584.10	20.44	
Marico Limited	Advertising and sales promotion	169.56	180.47	-6.05	-3.73
	Net sales	1,917.17	1,564.74	22.52	
ITC	Advertising and sales promotion	502.30	377.54	33.05	0.25
	Net sales	23,143.53	21,355.94	8.37	
Dabur	Advertising and sales promotion	284.93	248.10	14.85	1.01
	Net Sales	2,396.16	2,083.40	15.01	
HUL	Advertising and sales promotion	2,130.92	1,440.22	47.96	0.98
	Net Sales	21,649.51	14,715.10	47.12	

Auto (two wheelers) Sector					
Companies	Parameters	2008-2009	2007-2008	% Change	▲ Elasticity
		(value in crore)			
TVS Motors	Net Sales	3,670.92	3,219.50	14.02	-1.17
	Advertising and sales promotion	91.82	104.37	-12.02	
Bajaj Auto Ltd.	Net Sales	9,050	9,690	-6.61	0.20
	Advertising and sales promotion	85.27	127.15	-32.94	
Hero Honda	Net Sales	12319.12	10331.8	19.23	1.53
	Advertising and sales promotion	249.6	221.78	12.54	

Telecom Sector					
Companies	Parameters	2008-2009	2007-2008	% Change	▲ Elasticity
		(value in crore)			
Airtel	Advertising and sales promotion	622.89	566.47	9.96	3.26
	Net Sales	33,999.58	25,664.75	32.48	
Tata	Advertising and sales promotion	67.62	41.52	62.86	0.23
	Net Sales	3,749.43	3,283.30	14.20	
Reliance Communications Limited	Advertising and sales promotion	386.65	501.21	-22.86	-0.92
	Net Sales	20,742.91	17,148.48	20.96	