

The Impact of Advertisement on Financial Performance: A Case Study

Amitava Saha^{1*}, Dr. Kushal De²

¹Assistant Professor of Commerce, Bhairab Ganguly College West Bengal, India

²Assistant Professor of Commerce, Dhruva Chand Halder College West Bengal, India

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*Corresponding author: Amitava Saha

Assistant Professor of Commerce, Bhairab Ganguly College West Bengal, India

Abstract

The impact of advertisement on financial performance of a company is manifold and it plays as a leverage to increase net sales which have created positive effect on profit. The present study tries to examine how advertisement expenditure affects the variables like net sales of the product, retained earnings, earnings per share and profit after tax by a representative study on Maruti Suzuki India Limited from 2009-10 to 2019-20. It is seen that all the variables have a positive correlation with advertisement which implies that cost of advertisement have a causal relationship with the variables. It is found that advertisement expenses of the company have motivated the target customers' buying behavior and is reflected through the increase in net sales and profits of the product over a period of time.

Keywords: advertisement, sales, retained earnings, marketing, profit.

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INTRODUCTION

Advertisement is usage of public medium for promoting a product, service or event and is conventionally regarded as an important element of promotional mix. It is different from other marketing communications like public relations, personal selling, corporate communications or sales promotion. Through their advertising programs, companies can indicate their brand personality, social status and ideological position in the market place. Advertising, as the super-ordinate category, embraces all forms of marketing communication and carries great importance which reflects and informs about marketing and consumption of the companies' product.

Advertising has been adduced as a force for many kinds of cultural changes. Brand consumption shows in advertisements changes in the portrayals which reflect and validate changes in the social world beyond advertising. Though, good perspective regarding advertising, sometimes tends to be blamed for many social evils. In advanced economies there are many industry regulations and legal structures that give consumers considerable redress if they can show that an

advertiser's promise was literally untrue or that their product was dangerous. Advertisers try to find out a creative execution that is within the bounds of regulations and gets their brand noticed. From an advertiser's point of view, the brand is responsible for the livelihood of many people. A successful brand creates jobs and generates wealth for employees, shareholders and suppliers in the society. Successful brands are considered as a cornerstone of economic growth. In this wealth creation process advertising has played as an engine of economic growth, maintaining competition by communicating offers and by collectively promoting an ethos of consumption. Social advertising is a class that has informed the public on social issues and in some cases even changed human behavior. Many public services or charities use advertising campaigns to promote their causes or to change social behavior. Social advertising has developed in such a manner that it even shouts louder than brand advertising. Organizations survive by returning the value to shareholders and other stakeholders. Within regulatory frameworks and laws governing advertising standards that seem to them to be excessively restrictive they do what they must.

In the financial statement of a company, the true and fair view of the financial position should be highlighted. Net sales of the company indicate the growth as well as future prospects of the company's status. Profit after tax indicates how companies utilise their profit to increase earnings per share as well as utilise some part for future development as retained earnings. Advertisement plays as a leverage to increase net sales which have create positive effect on profit and simultaneously have a positive effect on retained earnings and earnings per share. The impact of advertisement on financial performance of a company is manifold and is portrayed through researches carried out on this issue.

LITERATURE REVIEW

Many studies have been conducted by various researchers on the impact of advertisement on economic performance of a company. Few important studies addressing the research issue are discussed hereunder in brief.

Buschken (2007) in his study investigated how inefficient is brand advertising in the German car industry and what are the determinants of advertising inefficiency. He found that only 8% of the brand's advertising budget is wasted. Significant advertising inefficiency is limited to just few brands. These brands show significant potential for efficiency improvement. Purchase feedback from users increases the communication effect of advertising and smaller product portfolios are less efficient in brand advertising.

Wang and Yang (2008) investigated the relationship between brand personality, country-of-origin (COO) image and purchase intention. The result of their study shows that both brand personality and COO image exert significant positive effect on purchase intention. A positive COO image could enhance the brand's personality and have a positive impact on purchase intention, whereas a negative COO image creates significant decrease in the positive brand personality and impacts on purchase intention.

Li *et al.* (2011) in their study investigated the effects of corporate-brand credibility, perceived corporate-brand origin and self-image congruence on purchase intention. They found that corporate-brand credibility, perceived corporate-brand origin, and self-image congruence have direct positive impacts on purchase intention. Corporate-brand credibility is more significant in influencing consumers' purchase intention toward the brand than perceived corporate-brand origin.

Thiripurasundari and Natarajan (2011) in their study examined different models of brand equity applicable to the car industry which means how brand knowledge, brand applications, brand relationships, brand preferences and brand loyalty impacts on building up of brand equity. They found that brand preference

and brand loyalty play an important role in creating brand equity.

Yusof *et al.* (2013) in their study examined purchase intention of environment-friendly automobile by investigating the interrelationships between the consumers' environment responsibility feeling, values, knowledge, perceptions of environmental advertisement and environment-friendly automobile. They have found that the perception of the environmental advertisement has no effect on purchase intention of environment-friendly automobile, but the perception of environment-friendly automobile can affect purchase intention which implies that environmental knowledge plays an important role to form any kind of environmental attitude and perception.

Mkhitaryan (2014) in his study measured the valuation models of brand equity for automobiles companies in China. Result indicates that the brand strength relies on the consumer perception. Brand loyalty and brand preference play significant role in building brand equity. The elements of brand equity should be consistent in their actions so that coherent image of the company is recognized and satisfies the customer which is shown through loyalty and positive brand perception.

Srivastava and Matta (2014) investigated the consumer behaviour towards passenger cars in Delhi NCR. They have found in the study that there are four major classes of consumer behaviour determinants and expectations, namely, cultural, socio-economic, personal and psychological. Rising income and dynamic consumer demand has enhanced the purchasing power and more and more people are purchasing the cars not only as a means of transport but as a social status symbol.

Oyedokun *et al.* (2015) in their study examined the effect of advertising on sales and profit in Nigeria. They have found that there exists a significant relationship between marketing expenses, turnover, inventory and profitability of the firm which implies profitability of the firm depends on turnover, marketing expenses and inventory.

Hamri *et al.* (2016) in their study examined the cognitive and psychological aspects and found that there is a thin line of differences between men and women regarding the brand image. Men claim themselves as 'knowledgeable' but they find themselves lost in their description of the product. Women, on the other hand, perceive that they lack technical knowledge but in reality, they have a very clear idea about the brand.

Sakthivel and Senthil Kumar (2017) in their study measure the consumer behaviour of automobile passenger car customers in Coimbatore. They found

that auto organizations ought to embrace the ‘think global – act global’ approach in system making which includes institutionalization, judged by purchasers in light of accessibility around the world with institutionalized items, mark name, dispersion channels and correspondences. The organization will appreciate an expansion in piece of the overall industry with economies of scale, diminish cost per unit and increment generation productivity bringing about serving clients productively and financially.

Shetty and Penkar (2019) in their study investigated the role of advertising media and evaluated the various advertising media alternatives by passenger car consumers of Maruti Suzuki Limited and Tata Motors Limited. The results show that magazines are less reliable source for car consumers for collecting information on cars. Consumers prefer internet and newspaper for information over other media. Family and friends also become important influencers for an Indian consumer while taking decision on car purchase.

Objectives of the study

It is seen from the above literature that main focus of research is on brand image and consumer

behaviour. There are few literatures where application of advertising media applied to see how it is responsible in influencing the purchase decision of consumers. The present study tries to examine how advertisement expenditure affects the variables like net sales of the product, retained earnings, earnings per share and profit after tax by a representative study on Maruti Suzuki India Limited.

DATA AND METHODOLOGY

Maruti Suzuki India Limited was chosen as sample for the purpose of this study. The annual reports of Maruti Suzuki for the period from 2009-10 to 2019-2020 were taken by the researchers and the net sales of the products (only vehicles, spare parts, dies and moulds and components are considered), retained earnings, earnings per share (only basic earnings are considered), profit after tax and advertisement expenses data were collected. The data are purely secondary in nature. A correlation test on the data was performed to examine the existence of causal relationship with advertisement and inferences are drawn there from.

Findings of the study

Table-1: Variable wise data

Variables	Year and figures (Rs. in million)											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Sales	203583	289585	361282	347059	426126	426448	486055	563504	669094	781048	830265	716904
Advertisement	2585	2810	3104	2781	3536	3452	4638	7720	8324	8686	7338	6703
Retained Earnings	80042	100499	118578	130777	153043	173849	210116	250037	313189	363008	407016	432385
Earnings per share	42.18	86.45	79.22	56.60	79.19	92.13	122.85	177.58	243.32	255.62	248.30	187.06
Profit after Tax	12187	24976	22886	16352	23921	27830	37112	53643	73502	77218	75006	56506

Source: Annual Report of Maruti Suzuki

The above table shows how the net sales, advertisement, retained earnings, earnings per share, and profit after tax have changed with the passage of time from 2009 to 2020. Net sales value had increased every year except in the year 2020.

The Variable-wise graphical presentations are shown in Figure 1 to 5:

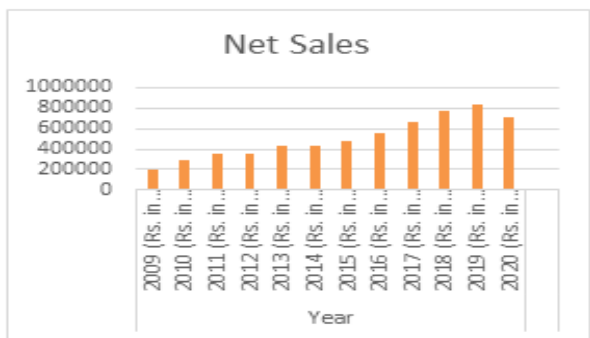


Fig-1: Net sales of product

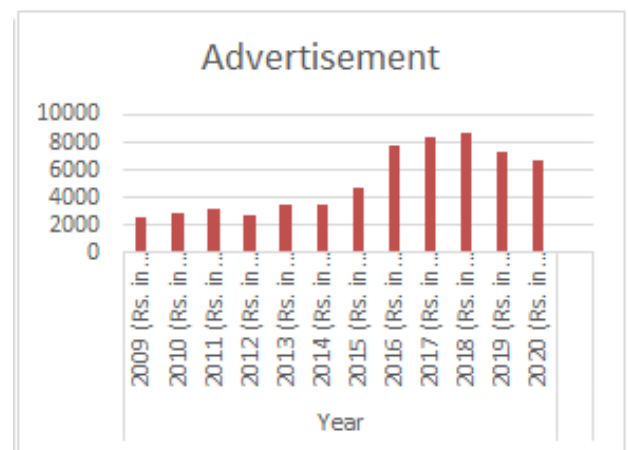


Fig-2: Advertisement



Fig-3: Retained earnings

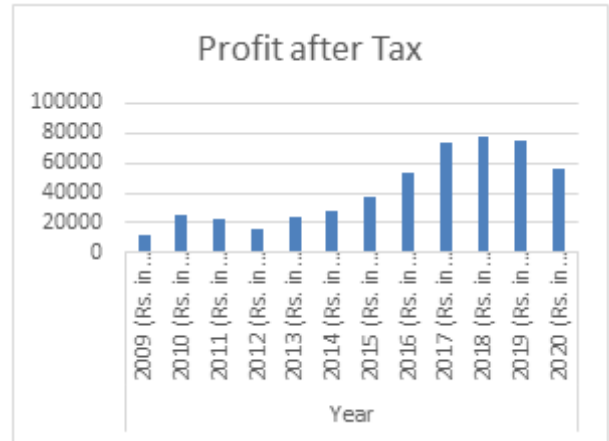


Fig-5: Profit after tax



Fig-4: Earnings per share

The graphical presentation shows that with the passage of time, the net sales of the company have gradually increased except in the years 2012 and 2020. Advertisement expenditure remained more or less at par till 2015 but from 2016 onwards, it increased sharply. This may be due to a tight competition from Tata motors and Hyundai motor company. Profit after tax was satisfactory from 2017 to 2019 and there were increases in earnings per share in those years. Retained earnings show a positive growth which indicates bright prospects of the company.

Table-2: Correlation test result

Variables	Variables	Variables	Variables	Variables
Advertisement	Net sales of product	Retained earnings	Earnings per share	Profit after tax
	0.911225	0.87404	0.967646	0.968983

The above table shows the correlation results of different variables with advertisement. It is found that all the variables have a positive correlation with advertisement implies that cost of advertisement have a causal relationship with the variables which increase the net sales of the company's product and also increase the profit after tax which help to maintain retained earnings in one part as well as increase earnings per share in another.

It is found that correlation between net sales of product and advertisement is 0.911225 implies a positive association exists between the two means that increase in advertisement cost increases the net sales of the company's product.

It is also found that correlation between retained earnings and advertisement is 0.87404, between earnings per share and advertisement is 0.967646 and between profit after tax and advertisement is 0.968983 implies that there exists a strong relationship between the advertisement and profit after tax, retained earnings and earnings per share and

which means that increase in advertisement cost increases the net sales, increases the profit after tax and a part of the profit kept for future contingencies as retained earnings and simultaneously increases the earnings per share of the companies.

CONCLUSION

All companies in the world try to capture the market and expand their line of business. Advertisement plays a significant role for this purpose. It presents the products of companies in such a manner that develops the brand values. It has a dual role in the context of the company as well as in the context of the customer. It impacts the conscious and unconscious minds of the customer on one hand and impacts on the financial performance of the companies on the other. How advertisement expenditure affects on net sales, profit after tax, retained earnings and earnings per share of the car selling companies like Maruti Suzuki India Limited is examined in the present study. It is found that advertisement expenses of the company have motivated the target customers buying behavior and is reflected through the increase in net sales of the product over a

period of time. Increase in the profit after tax over time also indicates the strong relationship it has with advertisement cost. Increase in profit after tax also motivates companies to keep a part of their profit for future contingencies as retained earnings. Increase in profit after tax has a positive impact on increase of earnings per share which also shows a positive correlation with the advertisement expenses made by the companies on their products.

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