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ADVERTISING EXPENSES IN THE CORPORATE SECTOR IN INDIA

Advertising has become an important activity in the modern business world. Beyond doubts, it has proved its utility in familiarizing, reminding, spreading news, overcoming inertia and adding a value to the product which was not perceivable otherwise. Growing levels of expenses are being allocated to this activity which further corroborate about its increasing importance in our economy. The importance of advertising in an economy can be measured in three ways :—

- (1) by ascertaining total expenditure on advertising;
- (2) by ascertaining real advertising expenditures—eliminating the price factor ; and
- (3) by ascertaining the relative importance of advertising expenditure vis-a-vis Gross National Product, personal consumption Expenditure, etc.

The objective of this paper to highlight the amount of expenditure incurred on advertising by companies in India, the relationship which advertising expenditure has with sales, the inter-industry disparities in allocation of advertising expenses, and the way the advertising budget is determined by the companies in India.

Methodology :

With a view to know the state of the art with regard to the marketing practices of the companies in India, a questionnaire was sent to 240 of the top 300 companies in India. 93 companies (i.e. about 39 percent) responded favourably to this survey. Out of these 93 companies only 55 companies provided the information relating to the amount of expenditure actually incurred by them on advertising for the years 1973-74 and 1974-75. A reference to the Balance sheets of these companies was also made to cross-check the information so provided, wherever possible. It may be mentioned here that data on advertising expenditure incurred by various companies was not uniformly available and was called with different names such as

Advertising and Sales Promotion expense, Advertising Expenses publicity Expenses, Advertising and Publicity Expenses etc. The broad picture which emerges with the use of this data is described hereunder.

ADVERTISING EXPENDITURE :

The annual expenditure of the 55 companies covered in this survey ranged between Rs. 1,11,000 to Rs. 2,36,23,000. This expenditure when taken as a percent of average net sales of such companies ranged between 0.1 to 5 percent.

Analyzing the amount spent on advertising in absolute terms, it was found that 33 percent companies spent upto Rs. 10 lakhs, 40 percent companies spent between Rs. 10 lakhs to 30 lakhs, 15 percent companies spent between Rs. 30 lakhs to Rs. 50 lakhs, 9 percent companies spent between Rs. 70 lakhs to Rs. 100 lakhs, and only one company each spent between Rs. 100 lakhs to Rs. 200 lakhs and Rs. 200 lakhs and above annually. (See Table 1).

Analyzing the data from the point of view of the percentage which advertising expenditure formed of the net sales of these companies, it was found that 51 percent companies spent only upto one percent, 24 percent companies between two to four percent, and only 7 percent companies spent more than four percent of their net sales on advertising. (See Table 2).

INTER-INDUSTRY COMPARISON :—

Broadly speaking, as is also obvious from the nature of activities and the need of this function, the consumer nondurable goods companies spent highest amount among all the group of industries on this function, followed by the companies dealing in consumer durables and pharmaceuticals.

Among consumer non-durable goods companies 26 percent companies spent on advertising between Rs. 70 lakhs to Rs. 200 lakhs and above, and the remaining 74 percent companies upto Rs. 50 lakhs per annum. In the case of consumer durable goods companies 80 percent of them spent only upto Rs. 30 lakhs. In the case of pharmaceutical companies, only one company spent between Rs. 70 lakhs to

Rs. 100 lakhs, while 66 percent of them spent only upto Rs. 30 lakhs annually. In the case of industrial goods companies, and agricultural inputs companies, where personal selling played a vital role, no company spent more than Rs. 50 lakhs on advertising per year.

TEMPORAL COMPARISONS :—

The 55 companies spent Rs. 15.26 crores on advertising in 1974-75 as compared to Rs. 14.44 crores in 1973-74, thus representing an increase by 5.68 percent over the previous year. As a percentage of net sales it showed a decline from 0.73 percent to 0.66 percent. However the net sales of these 55 companies increased by 17.12 percent in 1974-75 as compared to 1973-74.

Comparing the two year on the basis of absolute amount spent, all group of industries except one (Agricultural-inputs) showed a rise in the advertising expenses. This expenditure declined in the case of agri-inputs companies by 2.07 percent in 1974-75, The largest rise was in the consumer durable (17.52 percent) followed by industrial goods (7.41 percent) and consumer non-durables (4.07 percent). Correspondingly the net sales in these group of industries increased by 20.89 percent, 9.81 percent and 17.22 percent. (See Table 3).

However, comparing the two years, all groups of industries, showed a decline in the advertising expenditure as a percentage of net sales. The largest decline was in case of pharmaceuticals from 1.38 percent to 1.14 percent of net sales followed by consumer non durables by 0.11 percent, chemicals by 0.09 percent and agri-inputs by 0.08 percent. (See Table 4).

ADVERTISING BUDGET :

The state of the art with regard to the determination of the advertising budget continues to be the traditional and an unsophisticate one. 90 out of 93 companies provided information on this point. It was found that 24 companies were making use of "Affordable Funds Method", 9 companies 'Percent of Sales Method', and 15 companies 'Objective and Task Method' for determining their advertising budgets. The remaining companies were using a mix of the different methods, out of which as many as 24 companies stated

that they first determined their advertising budget through the 'Objective and Task Method' and then moderated it with the funds that they could afford for this purpose. (See Table 5).

CONCLUSION :

1. The annual expenditure on advertising as a percent of net sales ranged between 0.1 to 5 percent in India.
2. The advertising expenditure was higher in the case of consumer non-durable goods companies followed by companies dealing in consumer durable and pharmaceuticals.
3. Though the total advertising expenditure in 1974-75 rose by 5.68 percent over 1973-74; as a percent of net sales it showed a decline from 0.73 percent to 0.66 percent. The largest decline was in the case of pharmaceutical industry followed by consumer non-durables, chemicals and agri-inputs.
4. An inverse relationship was found between the sales and the advertising expenditure as a percentage of sales i.e. as the sales increased advertising expenditure as a percent of sales decreased.
5. The art of determining advertising budget continue to be traditional and a large number of companies determined their advertising budget by 'Affordable funds method'. However the member of companies using the "Objective and Task Method" considered to be the best for this purpose, was on the increase.

TABLE-1. ANNUAL AVERAGE EXPENSES ON ADVERTISING IN THE CORPORATE SECTOR
(Absolute Amount-wise Break-up of Companies).

| Amount (Rs.) | Type of Industry/Number of Companies Covered | | | | | | | Total |
|-----------------|--|------------------------------|----------------------|----------|---------------------|-----------------|---------|-------|
| | Consumer Non-durable Goods | Consumer Durable Goods | Pharmaceuti- cals | Chemical | Industrial Goods | Agri- Inputs | | |
| Upto 10 Lakhs | 4(21) | 4(40) | 3(33) | 2(50) | 4(44) | 1(25) | 18(33) | |
| 10-30 Lakhs | 7(37) | 4(40) | 3(33) | 2(50) | 4(44) | 2(50) | 22(40) | |
| 30-50 Lakhs | 3(16) | 1(10) | 2(22) | —(—) | 1(12) | 1(25) | 8(15) | |
| 50-70 Laks | —(—) | —(—) | —(—) | —(—) | —(—) | —(—) | —(—) | |
| 70-100 Lakhs | 3(16) | 1(10) | 1(12) | —(—) | —(—) | —(—) | 5(9) | |
| 100-20 Lakhs | 1(5) | —(—) | —(—) | —(—) | —(—) | —(—) | 1(1.5) | |
| Above 200 Lakhs | 1(5) | —(—) | —(—) | —(—) | —(—) | —(—) | 1(1.5) | |
| Total | 19(100) | 10(100) | 9(100) | 4(100) | 9(100) | 4(100) | 55(100) | |

Figures in brackets are percentages.

TABLE 2. EXPENSES ON ADVERTISING IN THE CORPORATE SECTOR
(Industry wise analysis as percent of net sales)

| Ad. Exp. as percent of net sales | Type of Industry/Number of companies covered | | | | | | Total |
|----------------------------------|--|------------------------|----------------|----------|------------------|-------------|---------|
| | Consumer non-durable goods | Consumer durable goods | Pharmaceutical | Chemical | Industrial goods | Agri-Inputs | |
| Upto one percent | 10(53) | 3(30) | 4(44) | 2(50) | 5(56) | 4(100) | 28(51) |
| 1 to 2 percent | 3(15) | 3(30) | 1(11) | 1(25) | 2(22) | — | 10(18) |
| 2 to 4 percent | 6(32) | 1(10) | 3(33) | 1(25) | 2(22) | - | 13(24) |
| 4 to 5 percent & above | — | 3(30) | 1(12) | — | — | — | 4(7) |
| | 19(100) | 10(100) | 9(100) | 4(100) | 9(100) | 4(100) | 55(100) |

Figures in brackets are percentages.

TABLE-3 EXPENSES ON ADVERTISING IN THE CORPORATE SECTOR
 (Percentage change in Net Sales and Ad. Exp: in 1974-75 over 1973-74 (Rs. in Lakhs).

| Industry | No. of companies covered. | Net Sales | | | Adnertising Expenses | | |
|-----------------------------------|---------------------------|-----------|---------|---------------------------|----------------------|---------|---------------------------------|
| | | 1973-74 | 1974-75 | Percentage change 1973-74 | 1973-74 | 1974-75 | Percentage change over 1973-74. |
| Consumer Non-durable | 19 | 81112 | 95080 | (+)17.22 | 779.85 | 811.60 | (+)4007 |
| Goods. Consumer Durable Goods. | 10 | 29852 | 36989 | (+)20.89 | 191.81 | 225.61 | (+)17.62 |
| Pharmaceuticals | 9 | 14954 | 18684 | (+)24.94 | 206.40 | 213.48 | (+) 3.43 |
| Chemical | 4 | 9399 | 11763 | (+)25.15 | 51.28 | 53.52 | (+) 4 37 |
| Industrial Goods. | 9 | 42102 | 46234 | (+) 9.81 | 123.36 | 132.40 | (+) 7.41 |
| Agri-Inputs. | 4 | 19558 | 22842 | (+)16.79 | 91.27 | 89.38 | (-) 2.07 |
| Total | 55 | 196977 | 230692 | (+)17.12 | 1443.97 | 1525.99 | (+) 5.68 |

TABLE 4 EXPENSES ON ADVERTISING IN THE CORPORATE SECTOR.
Comparison of Ad. Exp. as percent of Net Sales in 1974-75 over 1973-74 (Rs. in Lakhs).

| Industry | Number of Companies covered. | 1973-74 | | | 1974-75 | | | Net change 5-8. |
|-------------------------|------------------------------|---------------|-----------|-----------------------------------|--------------|-----------|-----------------------------------|-----------------|
| | | Ad. Expenses. | Net Sales | Ad. Exp. as Percent of Net Sales. | Ad. Expenses | Net Sales | Ad. Exp. as percent of Net Sales. | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Consumer Non-durable | 19 | 779.85 | 81112 | 0.96 | 811.60 | 95080 | 0.85 | (-)0.11 |
| Goods, Consumer Durable | 10 | 191.81 | 29852 | 0.64 | 226.61 | 36089 | 0.62 | (-)0.02 |
| Goods. | 9 | 206.40 | 14954 | 1.38 | 213.48 | 18684 | 1.14 | (-)0.24 |
| Pharmaceuticals | 4 | 51.28 | 9399 | 0.54 | 53.52 | 11763 | 0.45 | (-)0.09 |
| Chemicals. | 9 | 123.36 | 42102 | 0.29 | 132.40 | 46234 | 0.28 | (-)0.01 |
| Industrial Goods | 4 | 91.27 | 19558 | 0.46 | 89.39 | 22842 | 0.38 | (-)0.08 |
| Agri-inputs. | 55 | 1443.97 | 196977 | 0.73 | 1525.99 | 230692 | 0.66 | (-)0.07 |

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**TABLE 5: METHODS OF DETERMINING
Advertising Budget**

| S. No. | Method | No. of companies |
|--|---------------------------|------------------|
| 1. | Percent of sales | 9 |
| 2. | Competitive parity | — |
| 3. | Fixed sum per unit | 1 |
| 4. | Objective and Task method | 15 |
| 5. | Affordable funds | 24 |
| <u>A mix of the above methods</u> | | |
| | 1 and 3 | 1 |
| | 1 and 4 | 8 |
| | 1 and 5 | 2 |
| | 3 and 4 | 2 |
| | 4 and 5 | 24 |
| | 1, 4 and 5 | 4 |
| | No reply | 3 |
| Total | | 93 |