

Impact of Advertising and Promotional Expenses on Profitability of Automobile Industry of Pakistan

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Abstract

The Automobile Industry of Pakistan is one of the fastest growing sectors even in the adverse economic conditions. Over the years it has been observed that this sector has been contributing even the economic conditions were not favourable. The auto industry is involved in assembling vehicles in Pakistan. As vehicle purchasing involves a huge amount this industry needs to reach its customers effectively through advertising and promotion which impacts the profitability of the industry. This study is conducted to evaluate the impact of high advertising and promotional expenses impact on sector's profitability. For this purpose extensive study was conducted from the annual reports of automobile organizations and insights from customer and corporate were obtained through the questionnaire and interview. This paper assesses the impact of advertising and promotional expenses on profitability of automobile industry of Pakistan. The hypothesis was tested and the findings suggest that there is a positive relationship between advertising and promotion expenses and profitability of automobile sector as the expenditure on advertising promotion reaped profit for the industry.

Keywords: advertising, promotion, automobile, profitability, market

Introduction

The Automobile sector of Pakistan mainly involves assembling of passenger cars, light commercial vehicles, trucks, buses, tractors and motorbikes. The contribution of this sector in the GDP is 4% providing employment to almost 3.5 million people of the country. The market is dominated by three Japanese brands: Toyota, Suzuki and Honda. The total number of organizations registered with the Karachi Stock Exchange that are operating in the country are 12 automobile assembling firms. The profitability of the organization highly depends upon the investment in advertising and promotion heads. Being a huge manufacturing industry the profitability of the automobile industry is always important and investors from all over the world have a close eye on the performance of the industry. This study is aimed at assessing the profitability of the automobile industry in relation to different variables that determines the efficient performance of the industry. The area of research is selected for this study after extensively studying the previous studies conducted and the annual reports of the different organizations of the automobile industry. It was found that the advertising and promotion of the automobile sector plays an important role in the profitability of the industry since the purchases of this sector involves huge cash amounts as the products are the comfort and luxury products which are not purchased frequently. Advertising is the most effective tool to reach your geographically dispersed target market and future prospects in order to educate them and also influence their buying behaviour. In this sector the other tools are also used extensively for the purpose of advertising and promotion that are trade shows, sponsorships, word of mouth etc. The issue was found here after studying the annual reports where the profitability declined in certain years, and since the advertising and promotion is only found effective for necessity goods it was assumed that the high advertising and promotional expenses might be declining the profitability of the industry.

Literature Review

(Previsic, 2004) Defines promotion as which involves informing, persuading the masses about the product, ideas, images or services. In the same study the author classified the promotional activities as one which he referred to costs of promotion that in its actual sense is advertising which is a paid and impersonal communication through various mediums by an organization. Secondly the author referred to the material of promotion which includes, brochures, leaflets catalogues and similar types of pieces which are distributed among prospects free of costs, thirdly author defines sales promotion which refers to giving incentives to the intermediaries and customers to purchase the brand. Lastly sponsorships was defined where any show can be financially sponsored or donations given the company asks for a favour in return to market the company name, logo any character in any form. According to (Galbraith, 1976) any firm invests in advertising because this is capable of increasing the sales revenue and profits of the company. This has empowered the marketers as they get a billion dollars return on advertising and promotion. Following this trend the researchers and analysts have directed their interest and attention towards connecting the marketing with finance strategies as to how these marketing activities will create an impact on firm's value. As per (Kotler, 1998) in order to enhance the potential buyer's response to the organization and its product offering advertising needs to be the key choice. (Lambin, 1970) and (Peles, 1971) concluded that promotion by an organization has been observed and it tends to have long term impact on the sales of the firm which denotes that it has a role to play in the efficiency of business. (k., 2003) in his study found that the companies which refrained from cutting down their promotional budget due to recession their profitability didn't reduced. In fact the profitability increased after recession too but those companies which lowered their promotional budget due to recession their profitability decreased significantly. (Okyere, 2011) conducted studies on

advertising budget, sponsorship impact on sales and concluded that there exists a positive relationship between sales promotions with advertising budget with total sales. After analysing the data further it was also found that there is a negative relationship between sponsorships and total sales. (Gautam, 2013) conducted a research and as per the data collected found that the most significant determinant of profitability and market success of any organization is its promotional budget. Although the relationship between the promotional budget of the company and success of business is notable but the relationship among the two concludes to be negative in the study. (Oloko, 2014) found in their study that in order to explore the new markets and retain the old ones marketing plays a key role as it is also crucial for the growth and performance. (Kumar, 2012) in his paper investigated about the changing trends of marketing communications and emphasized the significance of social media and its addition as special ingredient in advertising methods. The study was conducted on the “Ford India” use of social media as successful promotional tool for Indian market.

Research Methodology

Research methodology is the direction of any research which state the methods and techniques of conducting this research along with the data collection methods. It gives detail about the participants in the study. The main aim of this research is to investigate about the promotional tools impacts on profitability which will in future helps the industry identify and tap the mediums they are not working on yet. The insights obtained are very useful for the automobile sector as it will direct the industry towards how the market behaves.

Problem Statement

The profitability of an organization depends on various factors. Promotional expenses are one of the determinants of profitability in automobile sector. Industry spends huge amounts of promotional budget to influence customer that erodes the profitability. This study is conducted to examine that high promotional expenses are resulting into decline in profitability as customers are not influenced through the promotional tools due to high cash involvement in the purchase decision.

The problem statement discussed the issue of the research study, in order to conduct further research; hypothesis is developed accordingly to help gather the results easily.

Hypothesis

H: Profitability of the automobile sector has been declining due to high advertising and promotional expenses for the past ten years.

The hypothesis is developed after the extensive study of previous literature and automobile industry's financials as it is the base of this research study where further continuation of the study will be according to this hypothesis. It is assumed that the advertising and promotion expenses of automobile sector are very high and they are not giving the desired output instead, due to the heavy expenditures the industry's profitability is declining. Profitability is the dependent variable whereas advertising and promotional expenses are the dependent variables of the hypothesis.

Data Collection

In order to explore the market behaviour for the study the sources for this research are customers and corporate sector of automobile industry. The customers of automobile industry participated in

the study through questionnaire and corporate information regarding the study was gathered from Pak Suzuki in an interview because as per the KSE index there are 12 automobile organizations registered out of which interview was conducted with one of the major players of the industry. The customers who were approached were the students of colleges and universities and working class of the country. As far as the interview is concerned it was conducted with the territory manager of Pak Suzuki. The interview was conducted at the head office of the organization after setting up the meeting time where the manager provided the organization's point of view.

Sampling

Since the customers' population is unknown therefore convenience sampling is applied where sample size of 360 customers was taken who were able to provide inputs through the questionnaire. As far as the corporate is concerned there are 12 car manufacturers of automobile sector so simple random sampling was applied, since this kind of sampling is applied when there is equal chance of selection of any organization to be selected was present.

Data Analysis

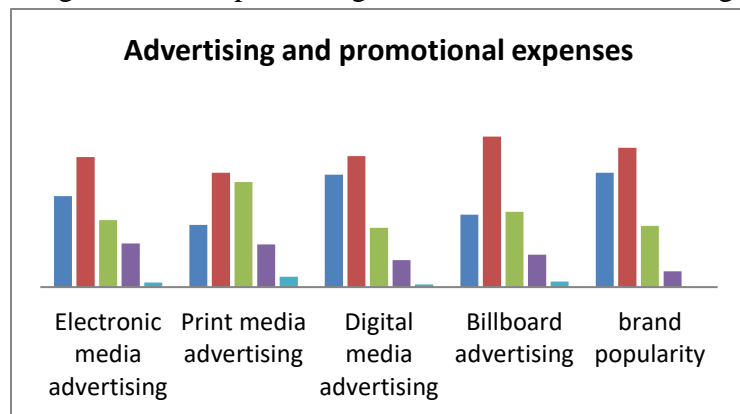
The market insights gathered through the questionnaire were analysed by applying the central tendency test of arithmetic mean where the average value of the data gathered is computed and interpreted accordingly. The arithmetic mean is also applied to each factor of the questionnaire to interpret the analysis in upcoming chapters that will help in determining the acceptance or rejection of the hypothesis. Furthermore the data from annual reports of the players in automobile industry is analysed and interpreted to provide more weightage to the study.

Findings and Analysis

(Kotler, 1998) defined that the need for promotional costs is significant when it comes to the globalization and technological trends; the organizations had to engage the customers to buy their product. Now if we relate this theory to our hypothesis the auto sector products needs huge amounts for its purchases so it requires to a very well planned promotional strategy to reach its market and stay in touch with them to build trust of the customer. The result and analysis of both, the questionnaire and interview is interpreted. The mean of each factor was calculated. The questionnaire was designed keeping in mind the ease of customers and they were asked about the factors impact on purchase decision. Figure 1 is representing the data collected through

questionnaire from 360 customers regarding the impact of factors on their purchase decision.

First and the most common tool to reach a large number of audiences at



once is electronic media advertising. This medium is extensively used in automobile sector when there is launch of a new vehicle; it is used for informing and persuading the potential buyers to reach the organization for more information. Since it is a widely used medium we hereby discuss its statistics we gathered from the customers through questionnaire where the customers were asked about the impact of different factors on their purchase decision in automobile industry. The arithmetic mean was calculated showing the value -0.77 which can be interpreted that the impact of electronic media advertising on purchase decision is between high and neutral. As per the interview the electronic media advertising is mainly used when there is introduction of the new product it is only used for informing the masses. When asked about the reason behind not using

the medium as rigorously as other sectors use it the answer was because Suzuki enjoys monopoly in the locally manufactured cars there is not much competition either so they don't find a need to use it and its expensive too. This medium is only used when there is introduction of a new product in the market.

After electronic media advertising another medium often used by industries is print media advertising, but it is not as extensively used as electronic media because of the reach of this medium. Similarly in automobile sector it can be derived from the previous researches that print media may only be used when the organization wants to announce some new arrival of its product line or some electronic media campaign is integrated with the print media. The numeric shows a mixed trend of the customers input as the high and neutral value statistics are close to each other. The customers who participated in the survey were of all age groups so the statistics obtained are not leaning towards a specific mind set. To find the average value, we applied arithmetic mean to the figures obtained from the survey and -0.525 was found to be the average value which can be interpreted that the impact of print media advertising on purchase decision of automobile sector lies between high and neutral. The interviewee disclosed that their firm does not use this medium much its usage is very less as the other mediums of advertising have much reach than this medium.

In this era of digitization every industry is striving to retain its customers since the world is a global village and everything is just a click away. The previous studies findings revealed that a very large number of customers go for digital media when purchasing a car. Our questionnaire statistics revealed similar inferences that with the increasing digitization customers are moving largely towards social media even for making the purchases decision like automobile which involves huge investments. To evaluate these statistics, arithmetic mean was applied which showed -0.9 as the mean that is interpreted as the average value of impact of digital media advertising on purchase

decision lies near to high and the customers says that there is a high impact of digital media advertising on their purchase decision of cars. To further rectify the findings the corporate point of view of automobile sector says that the company uses digital media advertising as its main tool for the promotion as the company relies upon the two way communication where it can interact with its customers and can gain more insights about them. The budget in annual report under the advertising expense head is also majorly allocated for the digital media advertising. Company invests huge amounts in digital media advertising to reach the large number of customers effectively.

The role of billboard advertising in automobile sector reveals that the industry needs to engage the customers on all levels and out of home advertising is also one of the useful medium as there is a whole process of buying a car where the customer investigates on all mediums to make a decision so it's very important to engage the target audience on every level. From the questionnaire insights it can be inferred that there are large number of customers who have a greater impact of bill board advertising on their purchase decision. . The arithmetic mean was applied to find the average value which quantifies -0.748 as the mean, interpreting the impact of billboard advertising on purchase decision as neutral to high. According to the interview conducted billboard advertising is the tool used by their dealers because the dealerships are used as the medium of promotion in automobile sector and Suzuki use it as its second major tool. Pak Suzuki has established 132 dealership networks all over Pakistan out of which 121 have been inaugurated. Every dealer should carry 3 promotional activities in 6 months period as the organization's policy to engage with customers. That activity can be of any kind they can sponsor any event, sales contests etc. The out of home is also carried out outside the dealership stores. The analysis clearly depicts the organization's efforts in enhancing profitability through different advertising mediums and in the same way from the

customer's input it is evident how the organization's promotional tools are influencing the purchase decision in order to increase profitability.

Another factor that might drive the buying decision of the customers is brand popularity which can be interpreted as word of mouth in simple words. It is one of the strongest drivers especially in automobile purchases as people prefer listening to the personal experiences of their friends, mentors as they are influencers in many cases when purchasing some product that involves relatively larger amounts of cash. Brand popularity is something that can lift or shake down the whole brand image with just few bad experiences of people and in case of automobile the customer is always hesitant if he is the first time purchaser, he always looks for other's experiences and advices. The customers insights from survey revealed that that there is a large number of customers who believe there is high and very high impact but to find the average value, arithmetic mean was applied that quantified -1.06 interpreting that the average value of impact of brand popularity lies between very high and high. The customer inputs clearly depict how strongly the brand popularity drives the behavior in purchase decision, since it involves huge finances to purchase a car. To get the other side view that is corporate, it was elaborated in the interview the brand popularity plays a vital role in lifting up sales revenue of the organization. As Suzuki enjoys the monopoly in the small car segment customers prefer Suzuki when it comes to choosing a budget friendly car as it is known for producing fuel efficient and low priced cars. This makes the literature and statistics more valid that the industry works on brand popularity as it drives sales revenue for them directly increasing the profitability of the sector.

Conclusion and Recommendations

The Automobile sector of Pakistan plays an important role in the economy of the country. The profitability of any sector highly depends on the promotional tools it uses to reach the geographically dispersed customers. The research paper investigated about the relationship of high advertising and promotional expenses on the profitability of the automobile sector. It was found that the customer as well as the industry looks closely at the promotional activities. From the customer point of view every promotional medium is important when looking for purchasing a vehicle but some of them are highly important. Similarly, the industry makes sure the presence is there on every medium to remain on top of mind of the customer that will eventually increase profitability if rightly used. In relation to the impact of all these factors discussed, it can be concluded that the profitability of the industry highly depends on it. The findings from this paper concludes that the hypothesis is moving towards rejection as the high advertising and promotion expenses are not declining the profitability as customer makes a decision based on how many times he is exposed to that stimuli and organization is investing at the right place to drive the customer's decision.

The study has further scope to be researched on a large scale and the sample size can be extended to more areas as it may help to get more concrete and in-depth results of the research. Further research can be conducted on studying the other factors determining the promotional expenses of the industry. Researchers can extend this research by extending this study to other industries as both the independent variables are the determinants of profitability in every industry. This research can also be further extended to researching on other factors that impacts the profitability of the industry. Additionally this research can be extended to other geographical boundaries other than Pakistan and the Pakistani automobile industry's determinants of profitability can be compared to

other country or countries' automobile sectors. It is suggested that further research is conducted using these recommendations to get more in depth information regarding this industry and how it functions.

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