

Impact of Inflation on Promotional Activities of FMCG Companies In Pakistan

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Abstract

The purpose of this study is to provide a glimpse on how inflation has affected the AdEx of FMCG companies in Pakistan in the recent past. The impact of inflation, branding and retail marketing on buying behavior and the shrinking of AdEx because of different economic and marketing factors have been studied in this paper. The FMCG industry of Pakistan is one of the top industries in the 2nd biggest emerging FMCG market in South Asian region. Despite of the adverse economic conditions, this industry has always contributed positively to the GDP of the country. To sustain and increase the firm's profitability, there are certain determinants which need to be maintained out of which promotional mix and advertising budget allocation are the most important. This study is predominantly focused on the impact of inflation on purchase basket downsizing/upsizing in FMCG sector as compared to the booming prices of FMCG products and inflation's impact on promotional mix. It is reasonable to conclude, on this evidence, that inflation has impacted the AdEx of FMCG sector, however, that effect is being tackled and neutralized by branding, retailing and point-of-purchase activities. The relationship investigated in this study deserves further research because the data collected is from one sector in one country, more studies are required before a wide conclusion can be drawn.

Keywords: AdEx, point-of-purchase, inflation, branding, advertising, FMCG, Pakistan.

Introduction

Pakistan is one of the biggest emerging Asian marketplace and has a substantial impact on the development of the fast-moving consumer goods (FMCG) segment. The region's FMCG clients pack a powerful punch and contribute around a third of Nestlé and Procter & Gamble's global sales growth between 2014-2016 and 17.86% of global revenue for the 15 largest MNC FMCG manufacturers. However, consumer spending in these markets is expected to grow about three times as quickly as that in established economies. By 2020, such spending will reach US\$6 trillion and account for nearly half of total consumer spending.

This research revolves around the shooting inflation rates and its impacts on the promotional activities of 2 of the biggest FMCG companies in Pakistan i.e. Nestle Pakistan Limited and Engro Foods. It's a common observation that clients shrink their promotional budgets whenever there is hike in dollar rate or any change in fiscal/monetary policy etc.

This research is based on the primary and secondary form of data, the secondary form of data is based on financial reports. Extractions were made out of the financial reports of 2 of the country's biggest FMCG companies:

- Nestle Pakistan Limited
- Engro Foods Pakistan (Friesland Campina Ltd.)

Primary source of data is Questionnaire filled by 250 respondents regarding their priorities while making purchase decision on and the questionnaire was based on impact of inflation on:

- (i) Indirect & Direct persuasion (advertising)
- (ii) Real Time Engagement (Point-Of-Purchase Activities)
- (iii) Branding.

After comparing the results of primary and secondary data and in the light of statistical inferences, we draw the conclusion of outcomes of the research and few valuable suggestions have been given, however, the topic is so vast that it requires further researches focused on each of the three discussed marketing factors individually and their impact on the growth and success of national and multinational organizations of FMCG Sectors.

Literature Reviews

Advertising inflation on the rise as TV viewing declines

A study conducted by David Benady in 2014 published in Campaign Live UK says that “recession has forced many people to stay in more often instead of going out. Therefore, the fall in viewing may be indicative of an improved employment outlook. Overall, TV is still good value, according to the Group M UK chief executive, Nick Theakston: "TV is fantastic value and it works. There has been a short-term trend of inflation against the long-term trend of deflation. We do, however, need to keep an eye on audiences as we wouldn't want them to be the driver of inflation across the coming months."

Economic Impact of Advertising in the United States

A study published by ANA in 2016 says that “the impact of advertising spending is assessed by quantifying the level of sales, employment, value-added, taxes, and labor income that are attributable to spending on advertising. Advertising increases sales, which then boosts production and helps create and maintain jobs across every industry, state and congressional district. IHS assessed the economic impact of advertising by first estimating the effect of advertising on sales. Using historical data for advertising expenditures collected from the IRS Statistics of Income database for each industry, an equation was estimated to identify how sensitive sales are to ad spending in each industry. As expected, some industries are more dependent on advertising to generate sales than others. These output (sales) estimates became inputs to our models for estimating the supply-chain and induced impacts in employment, sales, value added and labor income.”

The relationship between marketing strategies and performance in an economic crisis

A survey conducted by Mehmet Haluk Köksal and Engin Özgül in 2007 from 172 Turkish companies highlights that “results are reported for each of the elements of the promotional mix. Companies that modify their strategies appropriately can maintain or improve their performance in times of crisis. Conclusions and recommendations identify the strategic changes most likely to achieve that outcome, measured mainly in terms of sales, market share and profitability. Subjective measures of performance were used because of practical obstacles to obtain objective financial data from the sample, which would have severely reduced the response rate. Future studies should

include such data in the analysis. They might also cross-index findings by company size, industry sector and market scope, and take account of company resources and skills. The findings provide valuable insights for decision makers and promotional planners in times of economic crisis, specifically in the Turkish context but potentially in general. Adds a specific focus on promotional strategies to existing studies of general measures taken by companies during economic crisis.”

How Marketers Can Manage Price Inflation

A study conducted by Matt Donovan published in HBR in 2008 indicates that “consumers everywhere are more price aware. People who’ve been indifferent to price increases for years are suddenly amazed at what things now cost. Following are the 7 factors to be considered while managing price inflation and their effect on promotional strategies.

Understand Your Customers, Invest in Market Research, Redefine Values, Use Promotions, Unbundle, Monitor Trade Terms, Increase Relevance.”

Research Methodology

The study is conducted to judge and evaluate “the impact of inflation on promotional activities of FMCG companies in Pakistan”

Hypotheses # 1

Inflation has impacted the promotional expenses of big FMCG companies in the last 10 years.

Hypotheses # 2

Profitability of the FMCG sector has been declining due to high inflation rate for the past 10 years.

Sampling technique

After determining corporate sector as the source of this study, the sample size was determined by applying 10% on total size of the population of FMCG companies. The sample size used for consumers is 250 individuals and the instruments used are questionnaires and interviews to gain the market insights. Simple random sampling was applied for the questionnaire inputs to be obtained as the organizations were reached through emails so there was an equal chance of any organization to be selected as the email was sent to every possible FMCG company.

Sample Size

The target population of this research are the general FMCG consumers and customers of Pakistan. According to the last census, the population of Pakistan is 207 Million out of which 101 Million are male and 106 Million are females. The study was conducted on a sample size of 250 people including Males/Females and aged between 18-65 years old from SEC ABCD and Urban Pakistan.

Data collection

The total population of FMCG companies all over Pakistan is 18 as per KSE. These are the Public Limited Countries. Questionnaire and interview were the instruments used to obtain input for the study the promotional expenses of the FMCG industry.

Data analysis

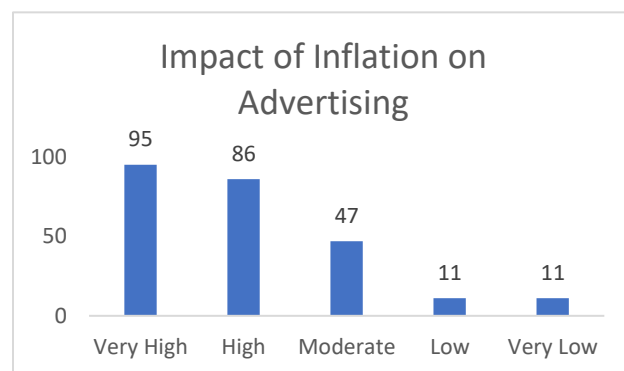
The inputs obtained from corporate sector through questionnaire were analyzed by applying the central tendency test of arithmetic mean where the average value of each factor of the questionnaire is determined and analyzed. The central tendency test refined the inputs obtained from questionnaire. The information from the published financials of FMCG companies is analyzed and interpreted according to its relevancy to the dependent and independent variables. The interview analysis of each factor is also incorporated.

Outcomes of the Research

Data was collected from 250 respondents and questionnaire was divided into 3 groups as below:

Advertising:

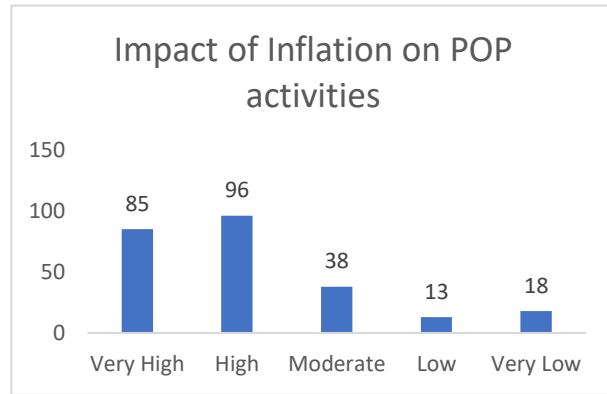
Out of 250 respondents, 95 suggest the impact of inflation on advertising as very high and 86 rate the impact of inflation as high. To validate the stats obtained a central tendency test of arithmetic mean was applied which showed the average value of each factor so that the industry trend from those inputs can be interpreted. Arithmetic mean of 250 respondents was calculated and statistical



inference reflected the impact of inflation on promotional activities as very high which is also indicated by the mean value -1.009.

Point of Purchase Activities:

Most consumers shopping their local stores don't really consider retailing as a global industry and the modern techniques of retailing and influence and alter the purchase decision very quickly. It is a decision-making time so if a products message conveyed to the shopper the purchase decision will be made within few seconds. 85 respondents rate the impact of inflation as very high, whereas, 96 respondents rated the impact as high and 38 as moderate which indicated the average on a higher side of impact.



Branding:

Factors	Mean	Percentage of Mean
Brand Profile	0.911017	14.546681 %
Company profile	0.978814	15.629233 %
Previous experience	1.228814	19.621113 %
Quality of the Brand	1.135593	18.132608 %
Brand Loyalty	1.072034	17.117725 %
Packaging	0.936441	14.952641 %
Total	6.262713	100 %
Average mean	1.0438	

Based on the above chart, it is recommended that allocation of retailing budget must be designed according to the percentage of influence a factor may create. brand good will plays a crucial role in convincing more than 14% of the sample size, company profile convinces 15.62% of the sample size, previous experience successfully convince highest number of respondents which more than 19% followed by quality of brand with 18% brand loyalty with 17% and packaging by 15%.

Conclusion

It is very important to allocate the marketing budget wisely and it must be very calculated to achieve the greater success generally our organizations allocate most of their budget in advertising where as other marketing area left with very less amount. In this research I worked on three main areas of marketing

- Advertising
- Point of Purchase Activities
- Branding

Our research suggests that all three of the factor have certain importance but mean of respondent's responses suggest that the average mean of advertising factor is -1.009 which is negative suggesting that the impact of inflation is very high on the advertising sector of the company.

Retailing/Point of Purchase activities is also a very crucial marketing technique of modern day and it covers category management, channel management and Shopper marketing. When we asked our respondents about the role of retailing in their decision making, their responses suggest that inflation has significant importance on POP activities and the mean of retail-based questions is 1.017 which is higher than advertising mean. Hence, it must get more importance and more budget than of advertising.

Like advertising and retailing, the third and most important marketing tool we discussed in this research is branding. While advertising and retailing give short term benefits to the organization, branding gives long term benefits to the organization and this might be the reason that the mean of branding from the responses of questionnaire is higher than both advertising and retailing which is 1.047 which is the clear indication that branding must get higher attention in order to get long term benefits instead of getting sudden buzz and then the early downfall.

References

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