

Impact of Promotional Expenses on the Profitability of the Automotive

Industry: A Study of the Automobile Manufactures of Pakistan

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ABSTRACT

This thesis aims to examine the relationship between promotional expenses and profitability in the automotive sector. The hypothesis that there is a significant predictive relationship between these two variables was tested through both primary and secondary data collection and analysis. The primary data was collected through a questionnaire and interview of marketing heads from several automotive companies, which showed that promotional expenses are important but not the only factor affecting profitability. Secondary data analysis of the financials of automotive companies over the past 10 years revealed a complex relationship between promotional expenses and profitability, with no clear correlation between the two. The findings indicate that companies in the automotive sector should consider multiple factors, including market demand, brand image, and product quality, when making decisions to impact their profitability. The results reject the hypothesis of a significant predictive relationship between promotional expenses and profitability in the automotive sector.

Keywords: Promotional Expenses, Profitability, Automobile Industry of Pakistan

Introduction

Promotion is a management technique where an organization communicates with its various audiences. The goal of this process is to establish the organization's image and offerings in the minds of the target audience. Effective communication with customers is crucial for the success of any organization (CIM, 1999). Bovee et al (1994) define Sales Promotion as a direct incentive that offers extra benefits along the marketing journey to increase the movement of the product from producer to consumer. Sales promotion is mainly used to speed up the selling process.

The elements of this definition are important and include that sales promotion:

- Is designed to speed up the selling process.
- Involves a direct incentive (such as prizes, money, gifts, coupons, premiums, etc.) that is added to the basic product as a bonus to encourage customers to buy now rather than later.
- Helps to retain customers after the sales promotion.

According to Burnett (1999), sales promotion is a form of marketing activity that adds temporary value to the product or service and directly stimulates consumer purchasing. Sales promotion is not as significant as advertising and requires the same careful planning and strategy development as other marketing activities. There are three main groups who can be targeted by sales promotions: consumers, distributor members, and sales forces. Sales promotion acts as a competitive tool that provides extra incentives to encourage the target audience to purchase a brand. The marketing mix is the set of variables that a company uses to influence the target market. Sales promotion differs from other promotional mix tactics (such as advertising, personal selling, and public relations) and is mainly used to speed up sales.

History of the Automobile Industry

Global

The history of the automobile industry can be traced back to the late 18th century, when inventors began experimenting with self-propelled vehicles. The modern automobile industry began in 1885, when Karl Benz built the first gasoline-powered automobile. The early 20th century saw rapid growth in the industry, with companies such as Ford, General Motors, and Chrysler emerging as major players. This period saw significant changes, including the introduction of mass production techniques like the assembly line. The interwar period brought new technologies like diesel engines and hybrid vehicles, while World War II led to a shift towards military production. After the war, the industry experienced significant growth with the introduction of new models and technologies like the automatic transmission. The 1970s and 1980s saw a decline due to new regulations and competition from foreign manufacturers. However, the 1990s and 2000s saw the rise of new players like Toyota, Honda, and Nissan. The industry has also seen the development of new technologies such as electric vehicles and autonomous driving. Today, the automobile industry is a major contributor to the global economy, employing millions of people directly and indirectly, and producing vehicles used by billions around the world.

Pakistan

The automobile industry in Pakistan began in the 1950s with the assembly of imported CKD kits. The first locally assembled car was the Fiat in 1954, followed by cars from other manufacturers such as Toyota, Nissan, and Honda. In the 1960s and 1970s, the government established several automobile manufacturing units, but they closed down due to various reasons. In the 1980s, Suzuki and Hyundai entered the market and started assembling and manufacturing vehicles in Pakistan. In the 1990s, the government liberalized the industry, resulting in the establishment of new

assemblers. In the 2000s, the industry saw significant growth, but faced challenges like inadequate infrastructure, limited access to financing, and a shortage of skilled labor. Despite these challenges, new players like Kia, Renault, and DFSK have entered the market. The automobile industry is a major contributor to the country's economy, employing hundreds of thousands of people directly and indirectly.

Research Methodology

This study aims to uncover the cause-and-effect relationship between variables by using a methodology which is a system of guidelines that includes phases, tasks, methods, techniques, and tools. The research design employed in this study is empirical and exploratory and it uses the promotional expenditure and profit data of 05 manufacturing/assembling companies listed on the Pakistan Stock Exchange for the period 2012 to 2021. The data for this study is sourced from Pakistan Stock Exchange and is a secondary source, along with that a questionnaire is designed and filled by 100 employees of marketing department. The study will analyze the statistics of Profit and promotional expenses.

Problem Statement

The automotive industry in Pakistan is expected to experience a significant decline in the coming year due to a variety of factors such as the depreciation of the rupee, higher taxes, and rising fuel prices. Despite a record high in sales of over 360,000 units, the worsening economic situation and government policies will likely result in reduced demand for passenger cars, light commercial vehicles, and other vehicles. Production may also be halted due to difficulties in securing letters of credit because of declining foreign exchange reserves. The negative impact of these economic factors is felt not only by large corporations and distribution businesses but also by small and medium enterprises and local investors, who suffer from a lack of technological advancements in

the industry. Moreover, the absence of technology and its implementation in the automobile sector of Pakistan has made it easier for end consumers to be exploited, in addition to the shortage of supply and speculative market behavior leading to excessive prices of cars and spare parts.

Literature Review

Studies have found that effective advertising can increase consumer awareness and positively influence purchase decisions (Aaker, 1991; Javalgi and White, 2002). Advertisements featuring new car models and technological advancements have also been shown to increase consumer interest and drive sales (Kumar and Shah, 2003). Additionally, the way a car is advertised can have a significant impact on consumer behavior. Emotional appeals in advertisements were found to be more effective in driving sales compared to advertisements using rational appeals (Till and Busler, 2000). However, it is important to consider that the effectiveness of advertising may vary depending on the target audience and cultural factors (Liu and Leckenby, 2002).

The article "The Competitive Effects of Advertising in the US Automobile Industry 1970-94" analyzed the impact of advertising on the US automobile industry during the period 1970 to 1994. The study used econometric techniques to examine the relationship between advertising expenditures and sales for each car brand in the market. The results showed that advertising had a positive impact on sales for all car brands in the industry, and that advertising had a stronger impact on sales for luxury car brands compared to non-luxury brands. The study also found that advertising expenditures were positively related to market share and had a positive effect on brand recognition. Furthermore, the study found that advertising had a positive impact on price and profit margins, indicating that advertising could increase consumer willingness to pay for a car brand. The findings also revealed that advertising had a positive effect on the overall market, leading to an increase in industry sales and market growth

In light of the above discussion, our study aims to investigate the impact of promotional expenses on the profitability of automotive industries of Pakistan and proposes the following hypothesis.

H1: There is a significant predictive relationship of promotional expense spends and profitability in automotive sector.

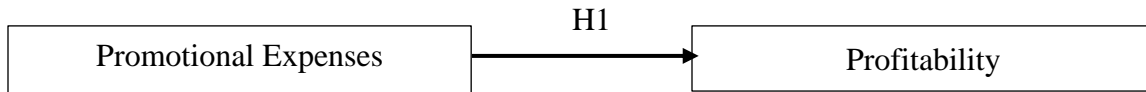


Figure 1 Research Model

Sources of Data

The research in question will employ both primary and secondary sources of data collection. The first source of primary data will be obtained from employees working in the automotive sector of Pakistan. A 12-question online questionnaire, designed to uncover the relationship between promotional expenses and profitability, will be utilized to gather data from the employees. All of the questions are rated on a Five-point Likert scale (-2=Strongly Disagree, -1=Disagree, 0=Neutral, 1=Agree, 2=Strongly Agree). With the help of convenience sampling, 100 responses will be analyzed in the study. Another primary source of data will be gathered through an interview with the Marketing Head, in which a set of direct and unstructured questions will be asked to gain insights on the relationship between promotional expenses and profitability. In addition, the research will also gather secondary data from financial reports of Gandhara Nissan, Pak Suzuki, Honda Cars, Deewan Motors, and Indus Motors from 2012 to 2021. This data will be analyzed to complement the primary sources and support the findings of the research.

Promotional Expense and Profitability

Promotional expenses play a significant role in the automobile industry in Pakistan. They help companies create brand awareness and increase sales. This can be done through advertising, sales promotions, and other marketing activities. By investing in promotions, companies aim to differentiate themselves from their competitors and create a strong image in the minds of

consumers. Promotional expenses refer to the money a company spends on advertising, sales promotions, public relations, and other marketing activities to generate demand for its products or services.

Findings and Analysis

Insights from Primary data

The assessment of the insights gathered from the primary data collected through questionnaires filled by 100 employees of the marketing department of 5 major automobile companies of Pakistan and an interview conducted from the marketing manager provides a comprehensive understanding of the current state of the automobile industry in Pakistan. The responses from the employees reveal their opinions and experiences in the industry, including challenges faced by the companies and their marketing strategies. The interview with the marketing manager provides valuable insights into the challenges faced by the industry and the measures taken by the companies to overcome them. The combined analysis of the data provides a clear picture of the current trends and future prospects of the automobile industry in Pakistan, offering valuable insights for industry stakeholders, including policy-makers, investors, and manufacturers. This data can also be used to identify opportunities for improvement and inform future decision-making in the industry.

Questionnaire

A survey questionnaire consisting of 12 questions was conducted among 100 employees of the marketing departments of five major automotive companies in Pakistan, Gandhara Nissan, Pak Suzuki, Honda Cars, Deewan Motors, and Indus Motors. The purpose of this survey was to gain insight into the employees' views on the relationship between promotional expenses and the profitability of their

Age division of Respondents

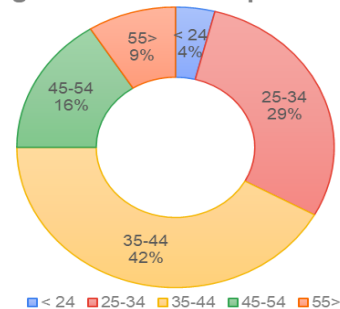


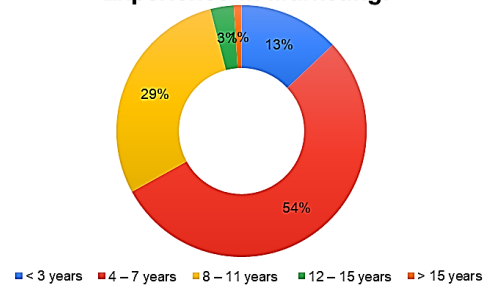
Figure 2: Age of Respondents

respective organizations. The responses gathered from this survey provide valuable information on the perceptions and opinions of those within the marketing departments of these leading automotive companies.

The graphical data in Figure 2 shows the age group distribution of the respondents in the marketing department of the automobile industry. The largest group of respondents falls in the age group of 35-44, with 42 people. The age group of 25-34 has 29 respondents, while the age group of 45-54 has 16 respondents. The smallest age group is 55 and above, with only 9 respondents. The age group of less than 24 has the least number of respondents with only 4 people. These findings suggest that the majority of the respondents in the marketing department are in the age range of 35-44 and 25-34.

In terms of experience, the majority of the respondents have 4-7 years of experience in marketing with 54 respondents, while a small number of respondents have less than 3 years or over 15 years of experience as shown in Figure 3. This data suggests that

Experience in Marketing:



the marketing department consists of relatively young and mid-career individuals with moderate to extensive experience in marketing.

Figure 3: Work Experience of Respondents

Beneath are the some of the questions asked from the respondents and insights of their views

The best medium of marketing in auto industry is event sponsorship.

The results shown in Table 1 suggest that a significant number of respondents in the automobile industry's marketing department

Option	(x)	Frequency	fx
Strongly Agree	2	64	128
Agree	1	28	28
Neutral	0	1	0
Disagree	-1	4	-4
Strongly Disagree	-2	3	-6
Mean	1.46	Σ fx	146

believe that event sponsorship is the best medium of

Table 1

marketing in terms of promotional expense. Out of 100 respondents, 64 strongly agreed and 28

agreed, giving a total of 92 respondents who agreed with the statement, with a mean score of 1.46. This suggests that event sponsorship is considered to be an effective and efficient way to promote products or services in the automobile industry.

Promotional activities create product differentiation

From the collected data as shown in Table 2, it can be seen that the majority of the respondents (57%) strongly agree that promotional activities create product differentiation in the automobile industry.

Option	(x)	Frequency	fx
Strongly Agree	2	57	114
Agree	1	32	32
Neutral	0	2	0
Disagree	-1	6	-6
Strongly Disagree	-2	3	-6
Mean	1.34	Σ fx	134

Table 2

Another 32% agree with the statement. Only a small percentage (6%) of the respondents disagree or strongly disagree that promotional activities create product differentiation. The mean score of the options is 1.34, which is a positive value, indicating that on average, the respondents believe that promotional activities help create product differentiation. The analysis shows that a significant number of the respondents in the automobile industry believe that promotional activities play a crucial role in creating product differentiation for their products.

To be in competition intensive promotion is needed.

The mean score of the respondents' opinions on the statement "To be in competition intensive promotion is needed" is 1.46 as shown in Table 3. This suggests that a majority of the respondents (66 out of 96) either strongly agree

Option	(x)	Frequency	fx
Strongly Agree	2	66	132
Agree	1	23	23
Neutral	0	3	0
Disagree	-1	7	-7
Strongly Disagree	-2	1	-2
Mean	1.46	Σ fx	146

Table 3

or agree with the statement. This indicates that they believe that intensive promotion is necessary in order to remain competitive in the market. The mean score is a good indicator of the overall sentiment of the respondents towards the statement. It is also worth mentioning that only 1 out of 96 respondents strongly disagreed with the statement, which further confirms the belief in the importance of intensive promotion for competitiveness.

Table 4 shows that the survey questions from employees of automobile companies aim to gauge their opinions on the importance and effectiveness of promotional activities in the automobile industry. The employees have a more nuanced view on the effectiveness of promotions. While

S.No	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total	Mean
		2	1	0	-1	-2		
1	To be in competition intensive promotion is needed.	66	23	3	7	1	100	1.46
2	Promotion creates product differentiation	57	32	2	6	3	100	1.34
3	Promotions can motivate only but can't change customer mind.	19	27	36	17	1	100	0.46
4	Non-directional promotional activities result in low productivity.	42	22	16	12	8	100	0.78
5	Consumer's loyalty can be guaranteed through promotion.	39	27	9	8	17	100	0.63
6	Misleading and false marketing can also increase sales revenue.	15	28	4	44	9	100	-0.04
7	Advertisement is a tool for product forecast.	12	27	33	17	11	100	0.12
8	Selection of promotional activities is of primary concern to our organization	47	27	11	7	8	100	0.98
9	Ineffective advertising results in low productivity.	51	29	17	3	0	100	1.28
10	Adventure appeal-based ad brings more conversion than slice of life.	42	33	12	11	2	100	1.02
11	The effect/impact of promotional activities shorten as market grow older.	23	32	13	23	8	99	0.3939
12	The best medium of promotion in auto industry is event sponsorship.	64	28	1	4	3	100	1.46

Table 4

they believe that promotions can motivate customers, they don't think they can change their minds (mean score of 0.46). In conclusion, the survey results provide a valuable insight into the opinions of the employees of the automobile companies in Pakistan on the role and effectiveness of promotional activities in the industry. The results suggest that the employees believe that promotion is necessary for competitiveness, but also acknowledge the limitations of promotions in changing customer behavior and their impact on productivity. The results also suggest a preference for event sponsorship as the best medium of promotion in the industry. These findings can inform future decision-making and help the companies better understand their target audience and optimize their promotional strategies.

Interview of the Marketing Head of Suzuki Pakistan

The Marketing Head of Suzuki Pakistan was interviewed to gain insights into the company's promotional activities and their impact on profitability. The interview covered several key areas, including:

- **Promotional Activities:** The Marketing Head described the various promotional activities that the company has undertaken in the past year, including product launches, brand-sponsored events, social media promotions, email marketing campaigns, and test-drive events.
- **Impact on Brand Awareness and Customer Engagement:** The Marketing Head reported that the company's promotional activities have effectively increased brand awareness and customer engagement by providing a dynamic and interactive brand experience for customers. This has resulted in a significant increase in social media engagement, website traffic, and lead generation.
- **Budget Allocation:** The Marketing Head explained that the budget for promotional activities is allocated based on market research, historical data, and business goals. The budget for each campaign is determined based on the scope and objective of the campaign, as well as the target audience and budget allocation for each marketing channel.
- **Return on Investment:** The company assesses the return on investment for its promotional activities by comparing the cost of each campaign to the return generated, using metrics such as sales, revenue, and lead generation.
- **Competitiveness and Innovation:** The Marketing Head emphasized that the company stays competitive and innovative in its promotional strategies by continuously researching and analyzing industry trends, customer preferences, and market demands. Customer feedback and surveys are used to better understand customer needs and preferences.
- **Integration with Other Marketing Efforts:** The company integrates its promotional activities with other marketing efforts, such as digital marketing and events, to ensure a consistent and cohesive brand experience for customers.

Overall, the answers provided by the Marketing Head offer valuable insights into the company's approach to marketing and its efforts to increase brand awareness, drive sales, and improve profitability. The information gathered from the interview will be used to inform future marketing initiatives and drive business growth for Suzuki Pakistan.

Insights from Secondary data

The study of promotional expenses and profitability of five major automotive companies in Pakistan, Gandhara Nissan, Pak Suzuki, Honda Cars, Deewan Motors, and Indus Motors, from 2012 to 2021 was conducted to understand the impact of promotion on their financial performance.

The line graph in Figure 4 shows the profit and promotion cost of Indus Motors from 2012 to 2021.

The profit and promotion cost are given in millions of rupees. The data shows the trend of the

company's financial performance and its

spending on promotion over the years.

From the data, it can be observed that

there is no clear correlation between the

promotion cost and the profit of the

company. For example, in 2018 and 2019,

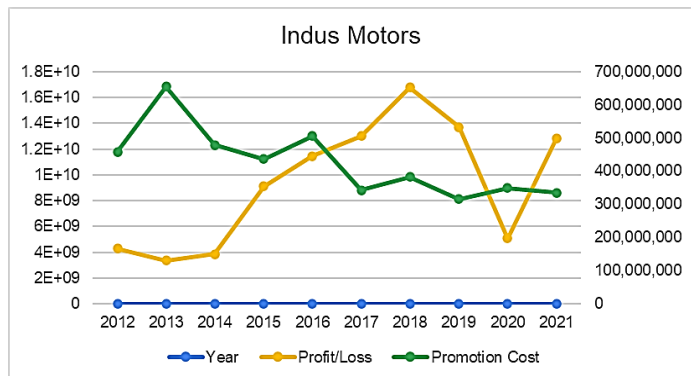


Figure 4: Promotion Cost of Indus Motors

Indus Motors had relatively higher profits despite having a lower promotion cost compared to

other years. On the other hand, in

2020, the promotion cost was higher,

but the profit was lower compared to

the previous year. Similarly, in 2013

and 2014, the promotion cost was

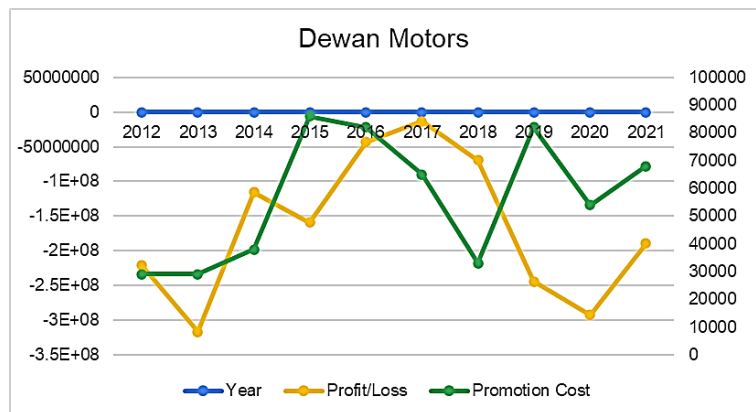


Figure 5: Promotion Cost of Dewan Motors

relatively high, but the profit was low.

The graph in Figure 5 shows the profit/loss and promotional cost of Dewan Motors from 2012 to 2021. From the data, it can be observed that there is no clear correlation between the promotion

cost and the profit of the company. The promotional cost as a percentage of the total spend ranges from 0.008% to 2.485% over the years, indicating that promotion costs are a relatively small part of the overall expenses

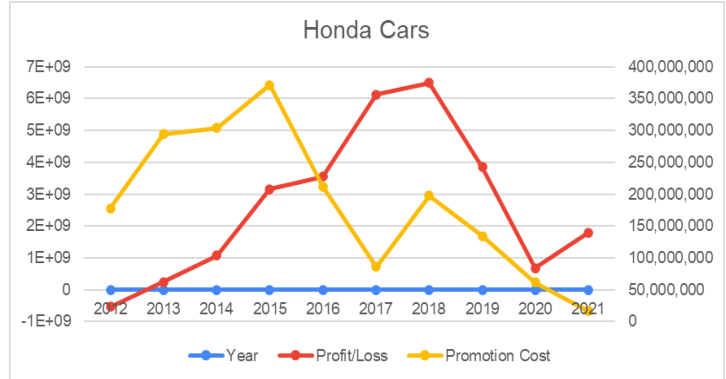


Figure 6: Promotion Cost of Honda Cars

of the company. Despite this, there seems to be no clear pattern in the relationship between the promotional cost and profit. For example, in 2020, the promotional cost was higher compared to other years, but the profit was lower. Similarly, in 2018 and 2019, the promotion cost was relatively lower, but the profit was also lower. This suggests that there are other factors that may have a more significant impact on the company's profitability. The data revealed that all five companies had varying levels of profitability, with Honda Cars consistently reporting the highest profits (shown in Figure 6) followed by Gandhara Nissan and Indus Motors (shown in Figure 4)

Meanwhile, Pak Suzuki and Deewan Motors reported relatively lower profits. In terms of promotion cost, Pak Suzuki had the highest spending, while Honda Cars had the lowest.

However, there was no clear correlation between promotion cost and profitability, as some companies with high promotion costs still reported high profits, while others with lower promotion costs reported lower profits. The study highlights the need for companies to carefully consider their promotional strategies and allocate resources in a way that maximizes their return on investment.

CONCLUSION

In conclusion, the results of the primary and secondary data assessments conducted for this thesis did not support the hypothesis that there is a significant predictive relationship between promotional expense spends and profitability in the automotive sector. The findings from the questionnaire and interview of marketing heads showed that other factors such as market demand, brand image, and product quality also play a significant role in determining profitability. The analysis of the past 10 years' financials revealed a complex relationship between promotional spends and profitability, with no clear correlation. The results of this research indicate that while promotional spends are an important aspect of a company's marketing strategy, they should not be relied upon as the sole predictor of profitability in the automotive sector. It is essential for companies to consider a range of factors, including promotional spends, when making decisions to ensure long-term success.

RECOMMENDATION

Holistic Approach: Companies in the automotive sector should take a holistic approach when making decisions that impact profitability and consider a range of factors such as market demand, brand image, product quality, and promotional expenses.

Balance: Companies should strive to strike a balance between promotional expenses and other aspects of their marketing strategy to ensure long-term success.

Evidence-Based Decisions: Companies should make decisions based on evidence, such as data analysis and market research, to ensure that they are making informed choices that will positively impact their profitability.

Monitor and Evaluate: Companies should continuously monitor and evaluate their marketing strategy, including promotional expenses, to ensure that they are staying on track and making the best decisions for their business.

Flexibility: Companies should be flexible and open to adjusting their marketing strategy as market conditions change to ensure that they remain profitable over the long-term.

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