Advertising spend and its impact on FMCG profitability

(A case study of Unilever and Procter & Gamble)

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Abstract

This study examines the relationship between advertising expenditures and profitability and sales of Fast-Moving Consumer Goods FMCG companies in Pakistan. The impact of advertising on profitability can vary based on factors such as advertising effectiveness, product availability, and competition in the market. Companies should consider these factors when making advertising decisions to maximize impact on profitability and sales. The research analysed the annual reports of Unilever and Procter & Gamble to investigate the impact of advertising expenses on gross sales in the FMCG industry from 2012 to 2022. The study found that advertising and promotional expenses had a significant impact on sales growth, especially in the rural sector, and that celebrity endorsements could boost sales. Despite the economic downturn, FMCG products have remained resilient due to advertising and promotional strategies.

Keywords: advertising expenditures, celebrity endorsement, profitability, sales, multinational FMCGs.

An Overview of the Study

Multinational FMCG companies are profitable due to their global presence and strong brand recognition. The fast-moving consumer products industry in Pakistan is dominated by both domestic and multinational firms such as Nestle, Procter & Gamble, Colgate Palmolive, Unilever, National Foods, and Engro. These companies play a major role in the country's economy. (Arif, 2019).

Another factor is their ability to leverage economies of scale. Multinational FMCGs have large production and distribution networks, which allows them to produce and distribute their products at a lower cost per unit. Multinational FMCGs succeed by leveraging economies of scale with large production and distribution networks, which enables them to offer competitive prices while maintaining high profitability. Their success is driven by strong brand recognition, diverse product offerings, and efficient supply chain and distribution systems, giving them a competitive edge in global markets.

FMCG History in the World

FMCGs produce low-cost packaged products sold on a small scale in various markets. With a presence in supermarkets, hotels, and warehouses, this industry employs over 200,000 people in over 6000 countries worldwide, (MOSCHINI, n.d.). However, the sector faces challenges due to
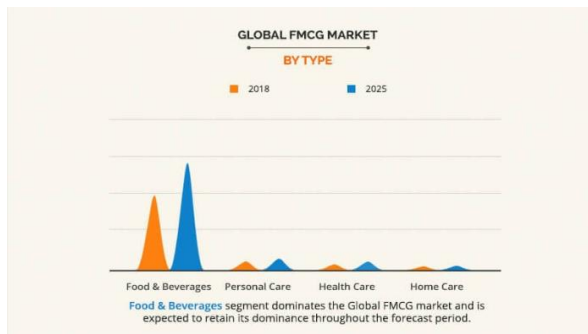
changing consumer behaviour and trends and shifts in channel landscapes, (Mckinsey and Company). (kiran, 2019). The FMCG sector is expected to grow to over $15 billion by 2025 with a focus on food and beverages. However, changes

in manufacturing and supply chain processes may impact delivery to customers, (Martinz, 2000). Pakistan's food technology sector is lagging behind and needs to work on its cost structure to increase productivity. Unilever and Nestle are the leading international players in the FMCG industry in Pakistan, followed by National, Shan, and Engro. (Hussai, Uzma Nisa, & Waseem Akram, 2020). Unilever and nestle are the top international players in the FMCG industry of Pakistan, followed by the local players National, Shan, and Engro (organization, 2017).

Research Methodology

This study collected data from 500 questionnaires through online and paper surveys to examine the relationship between advertisement programs and profitability in the fast-moving consumer goods industry. The research is descriptive and uses a quantitative approach to test hypotheses based on a literature review. The aim is to gain insights into the effectiveness of various advertisement programs in increasing profitability in this industry.

Problem Statement

In a volatile economy, maintaining steady product sales growth can be challenging. This study aims to investigate the impact of advertising on product sales volume and its effect on a company's survival. As a critical component of corporate communication, marketing issues, including advertising, should not be overlooked as they could have far-reaching consequences for an organization's future. (Giles, 1997)

Review Of Literature

In the paper, (Adamu, 2017), elaborates that marketers access the tools of advertisement to supply the message of their brands to reach at the target population in a simplified way. Research conducted by (Nitasha & Raman, 2013) in Punjab showed that investing in advertising programs

had a positive impact on the sales and profitability of the organization. Similarly, research conducted in the US manufacturing market by Domowitz (1986) demonstrated a positive relationship between advertising and sales, with increased profitability for organizations when products are sold. (Hosseini & Navaie, 2011). In the paper (AKWIBARBARA, 2010) Kottler explained that advertisement is a paid form of non-personal communication.

Celebrity Endorsement:

As elaborated by (Mantchichi & Mr Eric Mtemang'ombe, 2017), n recent years, the use of celebrities in ad campaigns has increased to influence the target audience of both public and private sectors. Drawing attention and arousing interest in the product or service is the most significant factor. (Goffman, 1974) said, celebrity endorsements have positively increased stock returns, but there is no rule of thumb for what works and when.

TV Advertisement:

Advertising plays a significant role in enhancing the profitability and intangible value of a firm, as stated by (Ullah, 2019). The effectiveness of an advertisement campaign depends on the medium used, according to (Devi1, Rajesh Vemula2, & Sabbineni Poojitha, 2022). Effective advertising campaigns can lead to increased demand, differentiation from competitors, and establish brand loyalty, contributing to higher sales, (Manala- & Ringgold P. Atienza, 2020) P&G has invested heavily in advertising, resulting in growth in sales and intangible equity, as reported by (Nielson, 2019). According to (Shah S. Z., Hammad Hassan Mirza, & Qaisar Abbas), (n.d)). Effective advertising campaigns can lead to increased demand for a product, which can in turn lead to higher sales. (Humayoon Arshad Warraich, 2020).

Statement Of Hypothesis

Financial records were used as a secondary data source to examine the relationship between advertisement costs and profits for Unilever Pakistan and Proctor and Gamble over 10 years. Findings and suggestions were drawn after comparing primary and secondary data. Conclusion drawn regarding the research's findings and provided few insightful suggestions after contrasting the results of primary and secondary data in the context of statistical methods.

H: The advertising programme of the company has a positive impact on the sales volume and profitability of FMCG.

Structural Model:

IV [Advertisement] ⟶ [Profit] DV

Population, Sampling size, and Research Instruments:

This research targets general FMCG consumers in Pakistan, with a sample size of 500 respondents using convenience sampling. Data was collected in Karachi, Sindh, Pakistan in 2022 and the study is quantitative in nature. Financial records and previous studies were used as secondary sources of data for analysis. For additional analysis these forms were entered in SPSS software for analysis.

Advertisement Expenditures

This may involve identifying the target audience, determining the appropriate messaging and creative approach, and selecting the appropriate media channels to reach the target audience. (Mahendru, 2014) Advertising expenditure, or the amount of money spent on advertising, has a long history that can be traced back to ancient civilizations (Rehman, Farwida Javed, Rosman Md Yusoff 3, & Amran Harun , 2019). In ancient Egypt, for example, merchants would advertise their

goods on papyrus scrolls. In ancient Rome, merchants would advertise their wares on billboards and in marketplaces. Overall, advertising expenditure has grown significantly over time, as new technologies and forms of media have emerged and businesses have sought to reach larger audiences. (Daymette, october 2017)

Profitability and its relationship with Advertisement

Multinational FMCG companies prioritize profitability and sales as crucial metrics for their success, enabling them to maintain market position and achieve growth. (Rahman, . Ángeles Rodríguez-Serran, & , Mary Lambkinc, 2020). Advertising can boost a business's profitability by

Indicator	2012	2013	2014	2015	2016	2017
Average real GDP growth (%)	2.6%	3.5%	3.6%	4.1%	4.3%	4.2%
Retail sales growth (% real change pa)	2.9%	5.2%	3.9%	4.4%	2.8%	6.7%
Real private consumption growth (%)	4.0%	4.6%	4.9%	5.0%	4.5%	4.6%
Source: Economist Intelligence Unit, Planet Retail, Industry Briefing						

increasing brand awareness and sales (Devi, 2020) .To optimize their return on investment, businesses must track the effectiveness of their advertising efforts and make necessary adjustments. (Pakistan: FMCGs provide an economic bright spot, 2013). Maximizing profitability through advertising requires targeted planning and execution for effective messaging to the right audience, while also keeping in mind the potential cost.
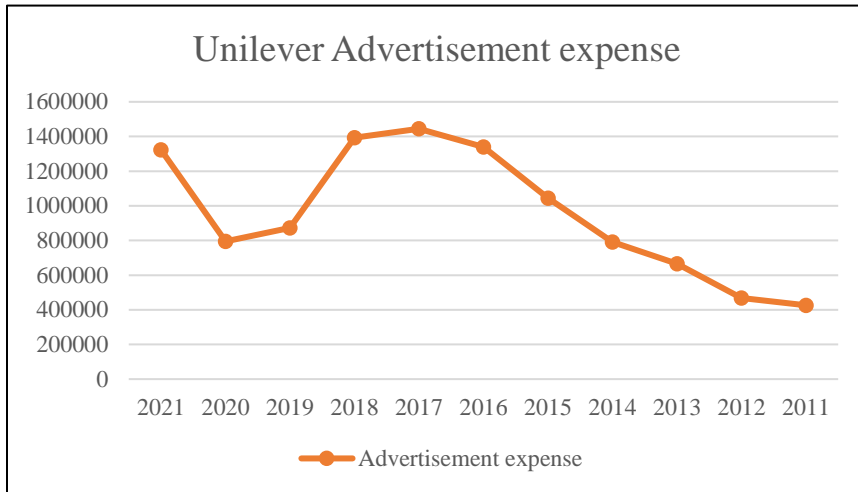
Findings

For this study Unilever Pakistan Limited and Proctor and Gamble, multinational FMCGs with number of brands having well known recall value have been selected. Last 10 years' sales and advertising expenses data has been extracted to do analysis.

An Overview of The Selected Multinational FMCG Companies

Unilever Pakistan Limited

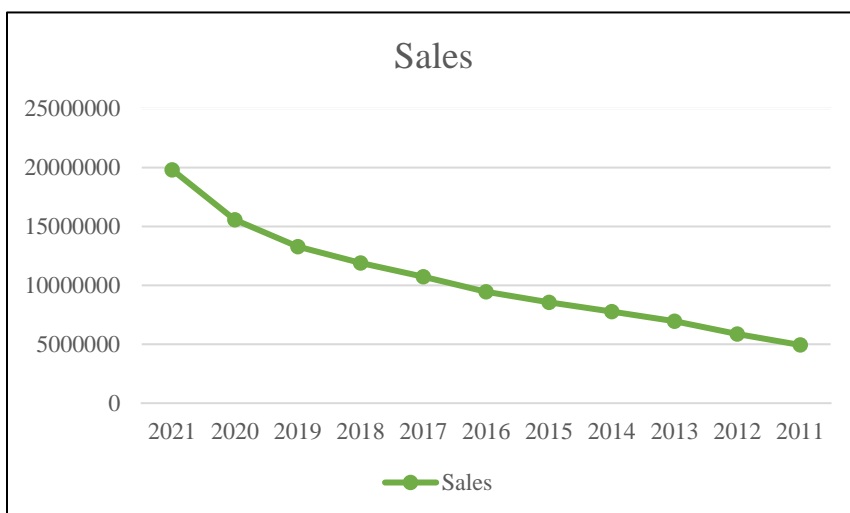**<u>Analysis of past 10 years investment on advertisement program and its impact on sales:</u>**

Sources: Annual Reports, Unilever has shown strong sales and advertising performance over the last decade due to its focus on expanding into emerging markets, diversifying its product portfolio, and increasing its digital marketing efforts. The company has also invested

heavily in advertising and promotional expenses, spending €7.7 billion in 2020, a 4.6% increase from the previous year.

Unilever has focused on expanding into emerging markets, diversifying its product portfolio, and increasing its digital marketing efforts to achieve strong sales and advertising performance over the past decade. The company has also placed a growing emphasis on sustainability and social responsibility in

its advertising strategy. Unilever's sales have increased by approximately 34% from €39.1 billion in 2010 to €52.7 billion in 2020, and its advertising spending has grown by approximately 37% from €5.4 billion in 2010 to €7.4 billion in 2020.

Proctor and Gamble

According to their 2020 annual report, P&G achieved net sales of $65.3 billion, with a net income of $12.5 billion. This represents a 5% increase in net sales and a 1% increase in net income. In
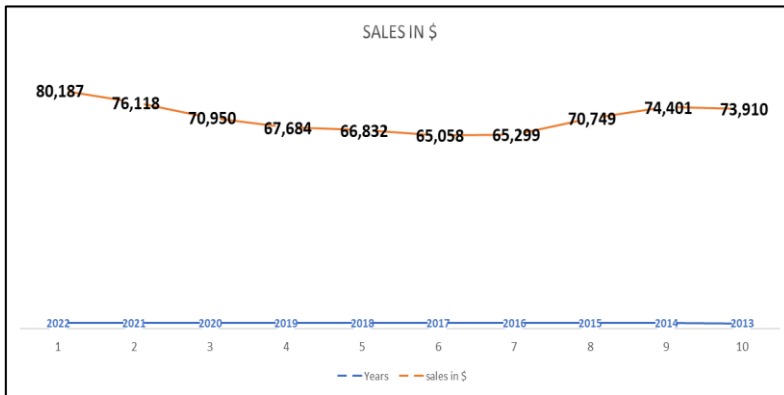
addition, the company has returned $13.5 billion to shareholders through share repurchases and dividends in 2020. P&G has also consistently invested in research and development, with $2.2 billion spent on R&D in 2020. This investment has allowed the company to introduce new products and expand into new markets, contributing to its overall financial performance.
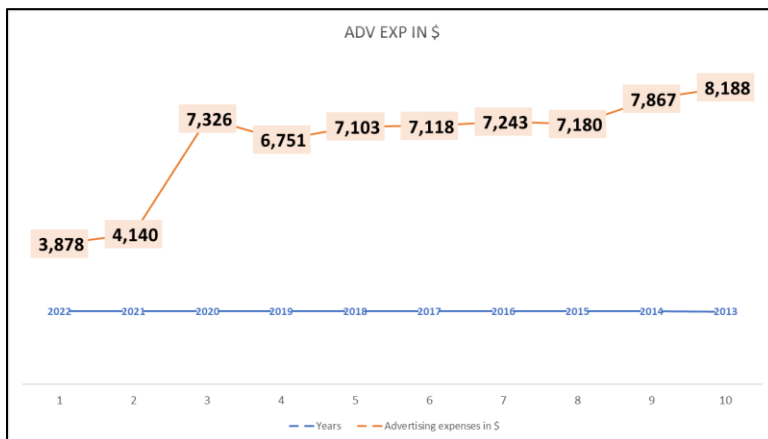
In terms of sustainability, P&G has made efforts to reduce its environmental impact and improve social responsibility. The company has set goals to reduce its carbon emissions, water usage, and waste, and has also launched initiatives to support underrepresented and marginalized communities.

Overall, P&G has demonstrated strong financial performance and a commitment to sustainability and social responsibility, which has likely contributed to its success in the consumer goods industry.

Results and Discussion

Distributed questionnaire was structured and filled from the total of 500 respondents from Karachi, Sindh Pakistan via online google form. SPSS software version 2020 has been used to perform analysis on the data collected from online google docs. The approach that is

Statistics

		age	gender	education
N	Valid	500	500	500
	Missing	0	0	0

used to conduct research is descriptive since it is based on current scenario. No missing values were found in the data collected for the research as all 500 respondents answered all mandatory questions in the structured questionnaire.

Analyze the demographics

Age: 40% of the respondents were between 18-25 years, 46.8% between 25-35 years, 10% between 35-45 years, and 3% above 45 years out of 500 responses.

age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	201	40.2	40.2	40.2
	25-35	223	44.6	44.6	84.8
	26-35	11	2.2	2.2	87.0
	35-45	43	8.6	8.6	95.6
	36-45	7	1.4	1.4	97.0
	45 & above	12	2.4	2.4	99.4
	46 & above	3	.6	.6	100.0
	Total	500	100.0	100.0	

Gender: 52.2% respondents are female, and 47.8& respondents are male. There are no missing values in the gender column.

gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	261	52.2	52.2	52.2
	Male	239	47.8	47.8	100.0
	Total	500	100.0	100.0	

Education: Data collected for qualification section shows that 44.2% respondents are bachelors, 17.2% secured high certification, 32.4% are

education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bachelors	221	44.2	44.2	44.2
	High Certification	86	17.2	17.2	61.4
	Masters	162	32.4	32.4	93.8
	MPhil/PhD	31	6.2	6.2	100.0
	Total	500	100.0	100.0	

masters and remaining 6.2% are in MPhil or PHD. Results show that the hypothesis has been moderately accepted as most respondents marked neutral to agree, indicating a positive relationship between advertising expenses and profitability in FMCGs. The average mean of

Descriptive Statistics

	N	Mean
averagemean	10	.8650
Valid N (listwise)	10	

0.86 supports this relationship, suggesting that an increase in advertising activities can lead to an increase in financial performance of the firm.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Advertisement helps you recalling brand at purchasing point	500	-2	2	1.27	.707
" You have been influenced by ad to buy a product"	500	-2	2	1.00	.823
You have purchased the product after viewing its advertisement	500	-2	2	.94	.845
Celebrity (Stars) endorsements influence your purchase decision	500	-2	2	.43	1.088
" Advertising increase's your reliability / trust on product"	500	-2	2	.83	.947
" You have purchased FMCG/daily use products products after watching advertisement"	500	-2	2	.67	1.009
" You have purchased food products after watching its advertisement "	500	-2	2	.79	.977
" Advertisement helps you to get useful information about that product"	500	-2	2	1.06	.814
" You find product in shop that was shown in advertisement "	500	-2	2	.94	.840
" You try new product that has been advertised"	500	-2	2	.72	.992
Valid N (listwise)	500				

Advertisement helps you recalling brand at purchasing point

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	.6	.6	.6
	Disagree	6	1.2	1.2	1.8
	Neutral	40	8.0	8.0	9.8
	Agree	257	51.4	51.4	61.2
	Strongly Agree	194	38.8	38.8	100.0
	Total	500	100.0	100.0	

Respondents mostly agreed on the impact of advertisement on recallability at the point of purchase, with a mean of 1.27 and a standard deviation of 0.707.

This shows that most of the respondents has marked between neutral to agree on ad influenced them to buy the product means there is a significant impact of advertisement on purchase of product.   Advertisement views have a low impact on purchasing, as most respondents marked between neutral to agree with a mean of 0.94 and standard deviation of 0.845.

Most respondents marked near neutral on purchasing products after viewing celebrity endorsements in ads, indicating a low impact on purchase decisions.

Most respondents marked between neutral to agree on the impact of ads increasing reliability or trust on the product, with a mean of 0.83 and a standard deviation of 0.945. This indicates a significantly low impact of advertisements in increasing reliability and trust.

"You have been influenced by ad to buy a product"

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	.6	.6	.6
	Disagree	23	4.6	4.6	5.2
	Neutral	83	16.6	16.6	21.8
	Agree	255	51.0	51.0	72.8
	Strongly Agree	136	27.2	27.2	100.0
	Total	500	100.0	100.0	

You have purchased the product after viewing its advertisement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	.8	.8	.8
	Disagree	26	5.2	5.2	6.0
	Neutral	92	18.4	18.4	24.4
	Agree	252	50.4	50.4	74.8
	Strongly Agree	126	25.2	25.2	100.0
	Total	500	100.0	100.0	

Celebrity (Stars) endorsements influence your purchase decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	20	4.0	4.0	4.0
	Disagree	85	17.0	17.0	21.0
	Neutral	145	29.0	29.0	50.0
	Agree	161	32.2	32.2	82.2
	Strongly Agree	89	17.8	17.8	100.0
	Total	500	100.0	100.0	

"Advertising increase's your reliability / trust on product"

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	1.8	1.8	1.8
	Disagree	42	8.4	8.4	10.2
	Neutral	93	18.6	18.6	28.8
	Agree	236	47.2	47.2	76.0
	Strongly Agree	120	24.0	24.0	100.0
	Total	500	100.0	100.0	

Most respondents marked between neutral to agree on ads influencing them to buy FMCG products, mean of 0.67 and a standard deviation of 1.009, indicating a significant impact of advertising on FMCG purchase decisions. Most respondents marked between neutral to agree on the impact of advertisement in influencing them to purchase food products, with a

"You have purchased FMCG/daily use products products after watching advertisement"

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	13	2.6	2.6	2.6
	Disagree	61	12.2	12.2	14.8
	Neutral	102	20.4	20.4	35.2
	Agree	225	45.0	45.0	80.2
	Strongly Agree	99	19.8	19.8	100.0
	Total	500	100.0	100.0	

"You have purchased food products after watching its advertisement "

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	2.0	2.0	2.0
	Disagree	48	9.6	9.6	11.6
	Neutral	97	19.4	19.4	31.0
	Agree	226	45.2	45.2	76.2
	Strongly Agree	119	23.8	23.8	100.0
	Total	500	100.0	100.0	

mean of 0.79 and a standard deviation of 0.977. This indicates a significantly low impact of advertisement on purchasing food products.

Most respondents strongly agreed that advertisement helps them gain product awareness, usages, and benefits with a mean

"Advertisement helps you to get useful information about that product"

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	.4	.4	.4
	Disagree	20	4.0	4.0	4.4
	Neutral	80	16.0	16.0	20.4
	Agree	244	48.8	48.8	69.2
	Strongly Agree	154	30.8	30.8	100.0
	Total	500	100.0	100.0	

of 1.06 and a standard deviation of 0.814, indicating a significantly high relationship between advertisement and product awareness, usages and benefits demonstration.

The mean of the question is 0.94 with a standard deviation of 0.84, indicating that customers are less likely to find advertised products in the market. This suggests that products advertised on various platforms are often not readily available.

"You find product in shop that was shown in advertisement "

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	.4	.4	.4
	Disagree	31	6.2	6.2	6.6
	Neutral	88	17.6	17.6	24.2
	Agree	255	51.0	51.0	75.2
	Strongly Agree	124	24.8	24.8	100.0
	Total	500	100.0	100.0	

"You try new product that has been advertised"

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	1.0	1.0	1.0
	Disagree	64	12.8	12.8	13.8
	Neutral	114	22.8	22.8	36.6
	Agree	201	40.2	40.2	76.8
	Strongly Agree	116	23.2	23.2	100.0
	Total	500	100.0	100.0	

Advertisement has a significant impact on influencing customers to try newly launched products, with a mean of 0.72 and a standard deviation of 0.992.

Interview

Marketing directors from P&G and Unilever Pakistan Limited, Mr. Arsalan Siddiqui and Mr. Adil Muhammad Hussain shared their views on advertising expenses and its impact on profitability. They believe that investing in advertising campaigns can increase profitability if the cost structure is correct and customers are aware of the benefits of the product. They also shared their views on celebrity endorsement, stating that it is not affordable for all brands. Furthermore, they agreed that advertising can affect a brand's reputation and contribute to business growth. Positive advertising can build a strong brand reputation and increase customer trust and loyalty, while negative or misleading advertising can harm a brand's reputation and hinder growth. In conclusion, well-planned and executed advertising campaigns can play a key role in driving business growth.

Conclusion

The research analysed the annual reports of Unilever and Procter & Gamble to investigate the impact of advertising expenses on gross sales in the FMCG industry from 2012 to 2022. The study found that advertising and promotional expenses had a significant impact on sales growth, especially in the rural sector, and that celebrity endorsements could boost sales. Despite the economic downturn, FMCG products have remained resilient due to advertising and promotional strategies. A sample study conducted on 500 customers from Karachi showed a positive relationship between advertising expenses and profitability of FMCGs.

Recommendation

Invest in localization by using local languages and cultural references to resonate with the target audience and invest in outdoor advertising like bus shelters and transit advertising. **Unilever** should use PR to build relationships with key stakeholders to increase brand awareness and credibility. **P&G** can partner with influencers to increase brand awareness and credibility, invest in product demonstrations, and use data analytics to identify trends and insights in consumer behaviour.

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Appendix A (Questionnaire)

Source: Customer

Dear Respondent,

"I am a student of MS program at KUBS – University of Karachi. I am conducting research on impact of advertisement on the profitability of FMCG for which I have developed the following questionnaire. You are requested to fill out this questionnaire. I assure you that the information you provide will be used only for academic purpose. Thank you for your co-operation".

Question: How do you rate the impact below characteristics on purchase decision?

Your Age: -	Your Gender: -	Your qualification: -
• 18-25 • 25-35 • 35-45 • 45 & above	• Male • Female	• High Certification • Bachelors • Masters • MPhil/PhD

Characteristics	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Advertisement helps you recalling brand at purchasing point					
You have been influenced by ad to buy a product					
You have purchased the product after viewing its advertisement					
Celebrity endorsements (Stars) influence your purchase decision					
Advertising increase's your reliability / trust on product					
You have purchased FMCG products after watching advertisement					
You have purchased food products after watching its advertisement					
Advertisement helps you to get useful information about that product					
You find product in shop that was shown in advertisement					

You always try new product that has been advertised					