

## Trends In Advertising and Sales Promotion Spends FY16 - 20

June 14, 2021 | Industry Research

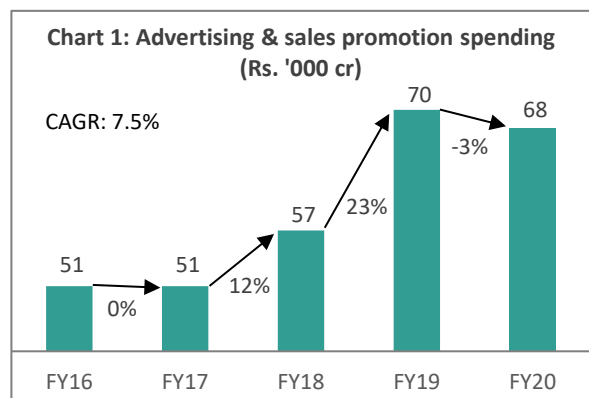
Advertising and sales promotion spends are an integral part of corporate activity as incurring such expenses contribute to the sales growth of corporates. Such spends are made with an aim of building brand loyalty, product awareness and customer retention. Hence, spends tend to be higher in consumer facing industries such as FMCG, automobiles, telecom, E-commerce, consumer durables, etc. While, these expenses are discretionary in nature, the quantum of such spends vary across industries, and linked to the state of economy. In a booming economy, such expenses are generally high, while in times of downturns, they may fall.

This report analyzes the growth in advertising and sales promotion spending in India in FY20 and highlights the sectors that contributed the most to overall spending. Data used for analysis is based on a sample size of 5,685 companies across 45 sectors, sourced from Ace Equity.

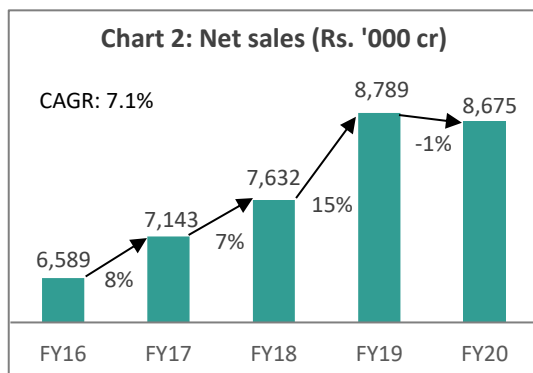
H1-FY20 hosted various large sports events like Cricket IPL, ICC Cricket World Cup, Football World Cups, etc. During such events, viewership generally tends to rise and hence attracted large number of advertisers. Additionally, the National Elections held in May 2019 boosted government advertising, which sharply contracted after the polls. As the year progressed, economic activity across major sectors showed increasing signs of contraction. Consumer spending was subdued, when compared with previous year and hence broader corporate appetite for large marketing activities reduced.

### Advertising and sales promotion spending FY16 - FY20

The overall advertising and sales promotion spending across 45 sectors during FY20 stood at Rs. 0.68 lakh crore, which reflects a decline of 3% over FY19. Such fall in spends came in the backdrop of a strong 23% YoY rise in FY19. Prior year of FY18 witnessed healthy growth of 12% YoY, while advertising and sales promotion spends in FY17 remained at same levels as previous year of FY16. FY17 and FY18 were exceptional years as the Indian economy was impacted by two prominent events – demonetisation and GST, resulting in reduced spends by companies in second half of FY17 and initial quarters of FY18. This decline in advertising spending directly impacted revenues of players operating in industries such as television, print, radio, Out of Home (OOH), cinema, etc.



### Association between net sales and advertising and sales promotion spending



Corporates incur advertising and sales promotion spending to lure customers and promote selling of their products / services. Analysing chart 2 in association with chart 1, elucidates that in FY17 and FY18, when advertising and sales promotion spending grew by 0% and 12% YoY respectively, net sales growth was 8% and 7% YoY respectively. In the successive year of FY19, advertising and sales promotion spending grew by strong 23%, while net sales growth was 15%. In the following year of FY20, the advertising and sales promotion spending declined in India, which was directionally same for net sales growth.

FY20 was a subdued year as it witnessed slowdown across most sectors, especially those that have discretionary demand such as automobiles, jewellery, hospitality, consumer durables, etc. According to data from CMIE, unemployment levels gradually rose in every successive quarter of FY20 (Q1:7.4%, Q2:7.6%, Q3:7.7%, Q4:7.8%) and with this, the growth in per capita net national income (at current prices) came in at 18 years-low of 6.1% YoY (compared with 9.7% in FY19). With lower growth in an individual's personal income, consumption relatively reduced and hence net sales growth of corporates in India was also muted. Hence, companies tried to control their discretionary spends by lowering advertising and sales promotion spending.

### Proportion of advertising & sales promotions spending to corporates' expenses

Table on right side, shows that though advertising and sales promotion spending are significant in absolute terms, they comprise less than 1% of net sales and total expenditure.

However, it accounts for at least a quarter of the total selling and distribution expenses incurred by companies. This ratio has risen over the past 5 years to 31.84% in FY20.

	A&SP spends as a proportion of net sales	A&SP spends as a proportion of S&D exp.	A&SP spends as a proportion of total exp.
FY16	0.77%	29.11%	0.89%
FY17	0.71%	26.03%	0.82%
FY18	0.75%	29.46%	0.85%
FY19	0.80%	31.25%	0.91%
FY20	0.79%	31.84%	0.90%

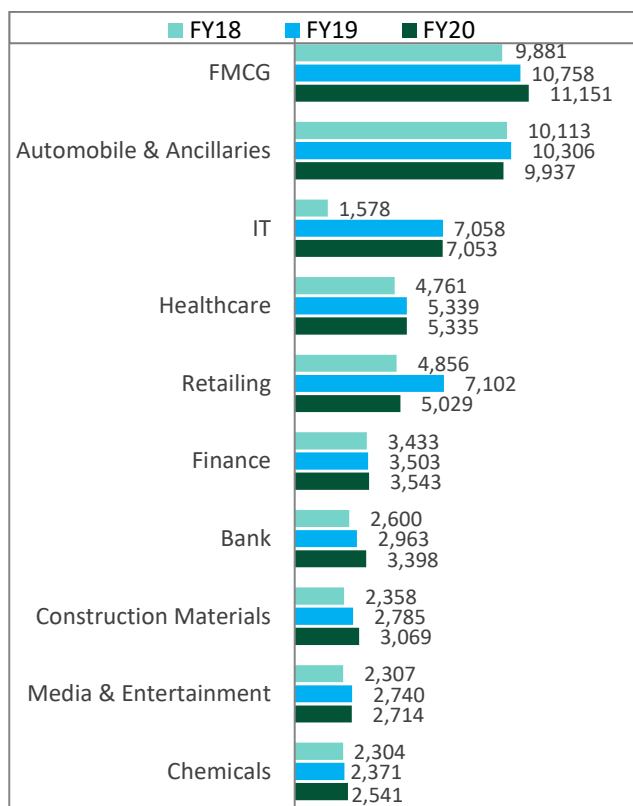
Note: A & SP – Advertising & Sales Promotion, S & D – Selling & Distribution

### Sector-wise advertising and sales promotion spending

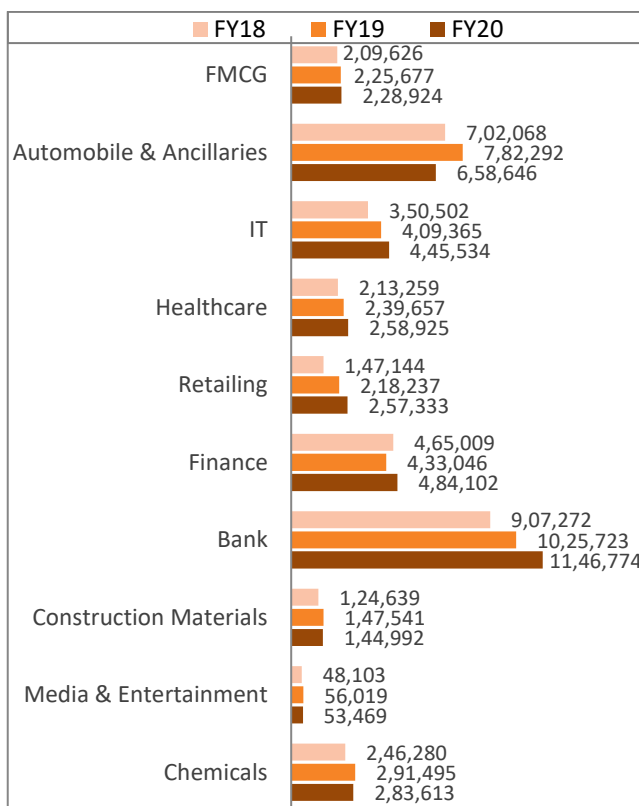
The sectors with the highest advertising and sales promotion spending in FY20 are depicted in chart 3. To provide a perspective on whether the increase in such spending is in proportion with their revenues growth, chart 4 shows the net sales of the same sectors. Some observations from charts 3 and 4 are as below:

- FMCG (Rs. 11,151 cr), automobiles and ancillaries (Rs. 9,937 cr), Information Technology (Rs. 7,053 cr), healthcare (Rs. 5,335 cr) and retailing (Rs. 5,029 cr) were the top five sectors with highest advertising and sales promotion spending in FY20. At least four of these sectors operate in B2C model.
- Though FMCG sector incurred the highest amount on advertising and sales promotion activities, such expenses formed just 4.9% of this sector’s net sales in FY20.
- In FY20, the highest yearly growth in advertising and sales promotion spending was witnessed in banking sector of 15%, while highest decline was witnessed in retail0 sector of -29%.
- Of the ten sectors in chart 3, five sectors reduced their advertising and sales promotion spending in FY20, which were automobiles and ancillaries, media and entertainment, IT, healthcare and retailing. However, of these five sectors, net sales declined for just two sectors – automobile and ancillaries and media and entertainment.
- Of the ten sectors in chart 3, five sectors improved their advertising and sales promotion spending in FY20. These were FMCG, finance, banks, construction materials and chemicals. Three of these sectors witnessed a rise in net sales – FMCG, finance and banks.

**Chart 3: Top 10 sectors with highest advertising and sales promotion spends in FY20 (Rs. crore)**



**Chart 4: Net sales of sectors in chart 3 (Rs. crore)**

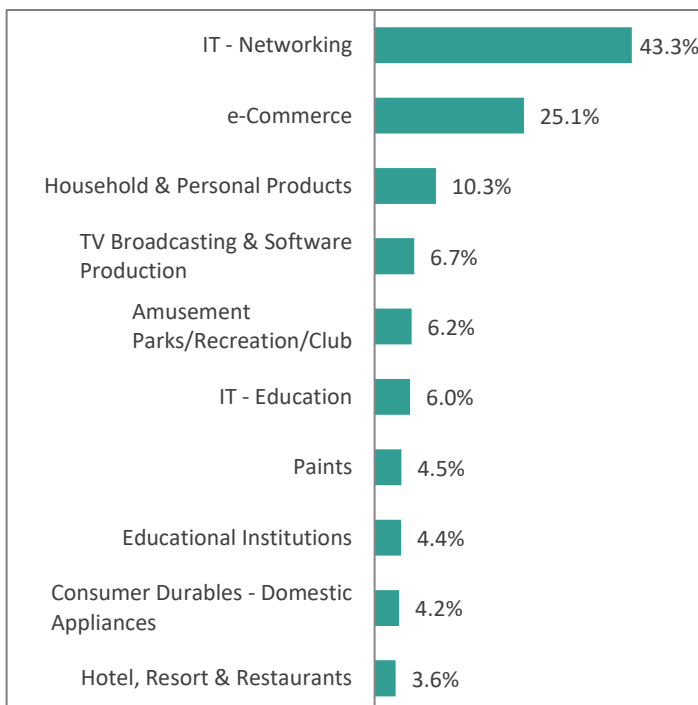


### Industry-wise advertising and sales promotion spends in FY20

Chart on right side depicts the industries which incurred the highest proportion of advertising and sales promotion spending to its net sales in FY20. This ratio was highest for the IT-networking industry of 43.3%. This industry includes a large company named Zomato Ltd. which is an established food delivery technology application in India. The IT-Networking industry also includes other companies which sell Wi-Fi routers, modems, etc. Second top-most industry in this list were E-commerce, which includes players like Flipkart Internet Pvt Ltd and One97 Communications Ltd.

Other leading industries with high proportion of advertising and sales promotion spends to their net sales were household and personal products, TV broadcasting and software production, amusement parks/recreation/club, etc.

Interestingly, out of the ten industries, just four industries namely household & personal products, TV



broadcasting and software production, paints and consumer durables - domestic appliances had notably high sales exceeding Rs. 20,000 cr in FY20. Alongside, industries like amusement parks/recreation/clubs and IT-education had a turnover of less than Rs. 1,000 cr, but yet they made heavy spends on advertising and sale promotion as a proportion of their net sales. This reflects the higher requirement to incur advertising expenses, which has become a large component of their cost structure.

**Concluding remarks:**

- Aggregate advertising and sales promotion spends (for 5,685 companies operating across 45 sectors) stood at Rs. 0.68 lakh crore in FY20, declining 3% over FY19. Such fall in spends comes over a strong 23% rise in FY19.
- FMCG sector continues to be the highest spender (Rs. 11,151 cr) on advertising and sales promotion activities in FY20. Automobiles and ancillaries (Rs. 9,937 cr) is the second largest contributor for such spending, even after witnessing a major slowdown in consumer demand in FY20.
- A direct association between growth in sales and advertising and sales promotion spending by corporates may not be established. For some sectors like retailing where such spending fell by 29%, sales witnessed healthy growth of 18% in FY20, while for some sectors like chemicals where advertising and sales promotion spending grew 7% but net sales declined 3% in FY20.
- Companies which are consumer facing, tend to have higher allocations for such spending. Examples: FMCG, automobiles, banks, etc. Such sectors offer homogenous products and include large number of players, hence, facing tough competition for survival and growth.
- The ratio of advertising and sales promotion expenses to sales is higher for service-oriented industries such as E-Commerce, IT-education, amusement parks, hotels and restaurants, etc.

**Outlook:**

FY21 is expected to have witnessed ~15-20% decline in advertising and sales promotion spending, over FY20. The ongoing Covid-19 pandemic led to a complete washout of the first quarter earnings of most players, with minimal growth in selective sectors during second quarter. Hence, nearly all companies undertook cost cutting measures and advertising expenses being a discretionary spend, were first to cut down.

Additionally, most mediums of advertising such as out of home media, cinema, and live events are still not operating at full capacity. In other mediums like print, advertising revenues dropped sharply in Q1-FY21 as the industry faced distribution challenges during the lockdown. Hence, Television was the only medium for advertisers to resort to, but with weak economic activity and gradual revival only in H2-FY21, advertising spending was muted until the festive season began in Q3-FY21. The impact of this black swan event of Covid-19, on the advertising - driven media and entertainment sector is unmatched. However, it would be safe to surmise that FY22 will be better off in terms of advertising spends as the year includes some major events like state elections and sports events like ICC World Test Championship, the summer Olympics, UEFA Football, etc.

**Contact:**

**Madan Sabnavis**  
**Vahishta Unwalla**  
**Mradul Mishra**

Chief Economist  
 Lead Analyst  
 Media Relations

madan.sabnavis@careratings.com  
 vahishta.unwalla@careratings.com  
 mradul.mishra@careratings.com

+91-22-6837 4433  
 +91-22-6837 4408  
 +91-22-6754 3573

*Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report*

**CARE Ratings Limited**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,  
 Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

