

Advertising & Sales Promotion Spending in FY20

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Advertising and sales promotion spending is an integral part of corporate activity as they act as a catalyst for driving sales. Such expenditure is quintessential as it has strong backward linkages with other industries in the value chain. However, the quantum of such expense varies depending on the nature of the industry as well as the state of the economy.

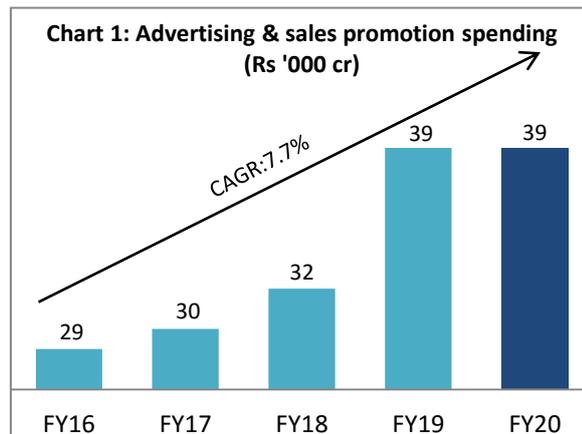
This report is an analysis of the advertising and sales promotion spending by corporates in FY20.

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.

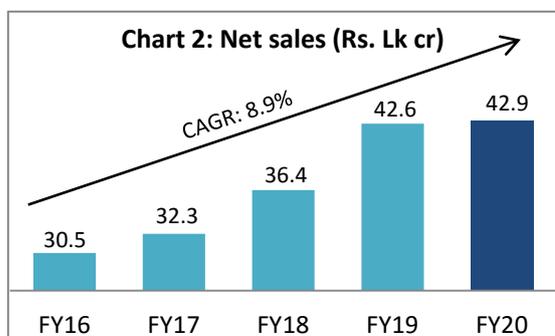
This report analyses the growth in advertising and sales promotion spending in India in FY20 and throws light on which sectors contributed the most and what we expect for FY21. Data used for analysis is based on a sample size of 833 companies across 38 sectors, sourced from Ace Equity.

Growth in advertising and sales promotion spending

The aggregate advertising and sales promotion spending across all sectors in India during FY20 stood at Rs. 39,000 cr, which reflects nil growth during the year. Such negligible growth comes against the backdrop of a strong 22% rise in FY19. Prior years of FY17 and FY18 witnessed modest rise in advertising and sales promotion spending as the 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 deterioration 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 & sales promotion spending



Corporates incur advertising and sales promotion spending to lure customers and promote selling. Analysing chart 2 in conjunction with chart 1 elucidates that in FY17 and FY18, when advertising and sales promotion spending grew by 3% and 7% YoY respectively, net sales grew by 6% and 13% YoY respectively. In the following year of FY19, advertising and sales promotion spending grew by strong 22%, while net sales in the same year grew by 17%. In the past recent year of FY20, the advertising and sales promotion spending was muted in India, which was in line with the negligible 1% net sales growth during the same period.

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 cost structures 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 form less than 1% of net sales and less than 2% of total expenditure.

However, it accounts for nearly 1/3rd of the total selling and distribution expenses incurred by companies. This ratio has risen in past 5 years from 30.84% in FY16 to 34.1% 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	0.94%	30.84%	1.07%
FY17	0.92%	30.39%	1.04%
FY18	0.88%	30.88%	0.97%
FY19	0.93%	33.12%	1.04%
FY20	0.92%	34.10%	1.03%

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

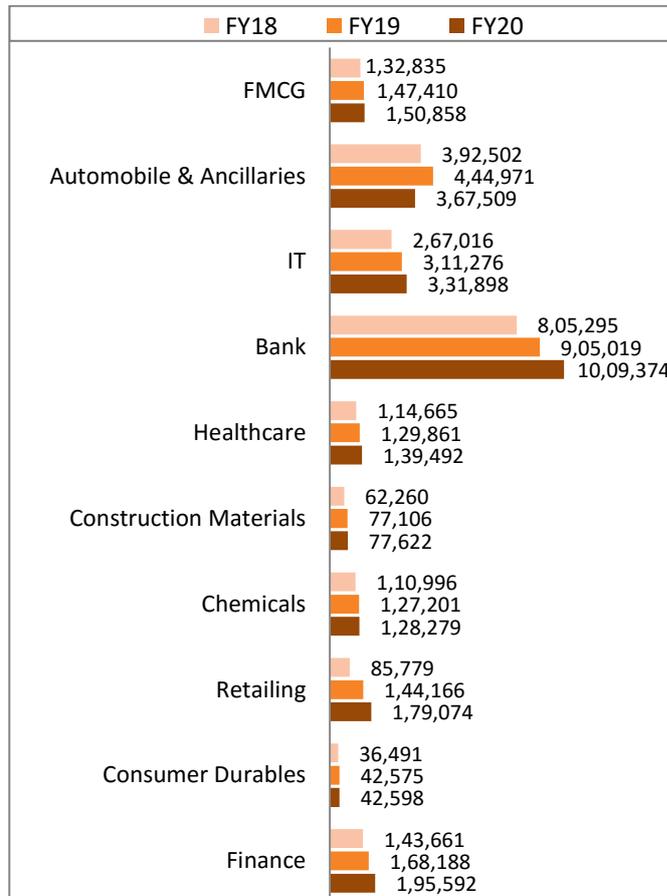
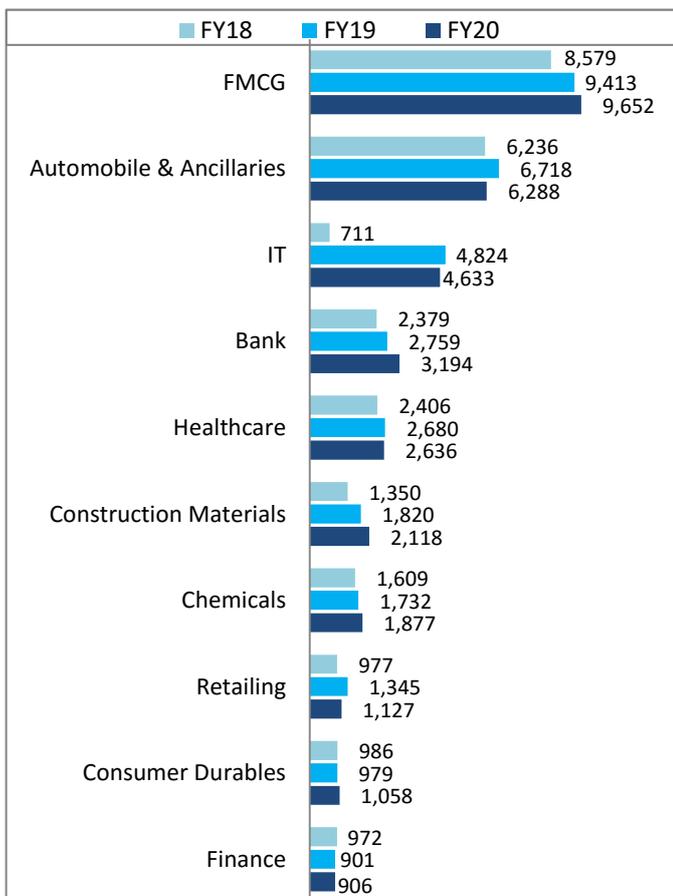
Sector-wise advertising and sales promotion spending

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 3(a) highlights the net sales of the same sectors. Some observations from chart 3 and 3(a) are as below:

- FMCG, automobiles and ancillaries, IT, banks and healthcare are the top five sectors that have witnessed the highest advertising and sales promotion spending in FY20 (in absolute terms).
- Though FMCG sector incurs the highest amount on advertising and sales promotion activities, such expenses form just 6% of this sector’s net sales.
- In FY20, the highest YoY growth in advertising and sales promotion spending was witnessed in construction materials and banking sector of ~16% each.
- Of the ten sectors in chart 3, four sectors reduced their advertising and sales promotion spending in FY20. These include automobiles and ancillaries, IT, healthcare and retailing. Except for automobiles and ancillaries, net sales of all these four sectors rose during the year.
- Of the ten sectors in chart 3, six sectors improved their advertising and sales promotion spending in FY20. These include FMCG, banks, construction materials, chemicals, consumer durable and finance. Net sales of all these sectors rose during the year.

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

Chart 3(a): Net sales of top 10 sectors with highest advertising and sales promotion expenses (Rs. crore)



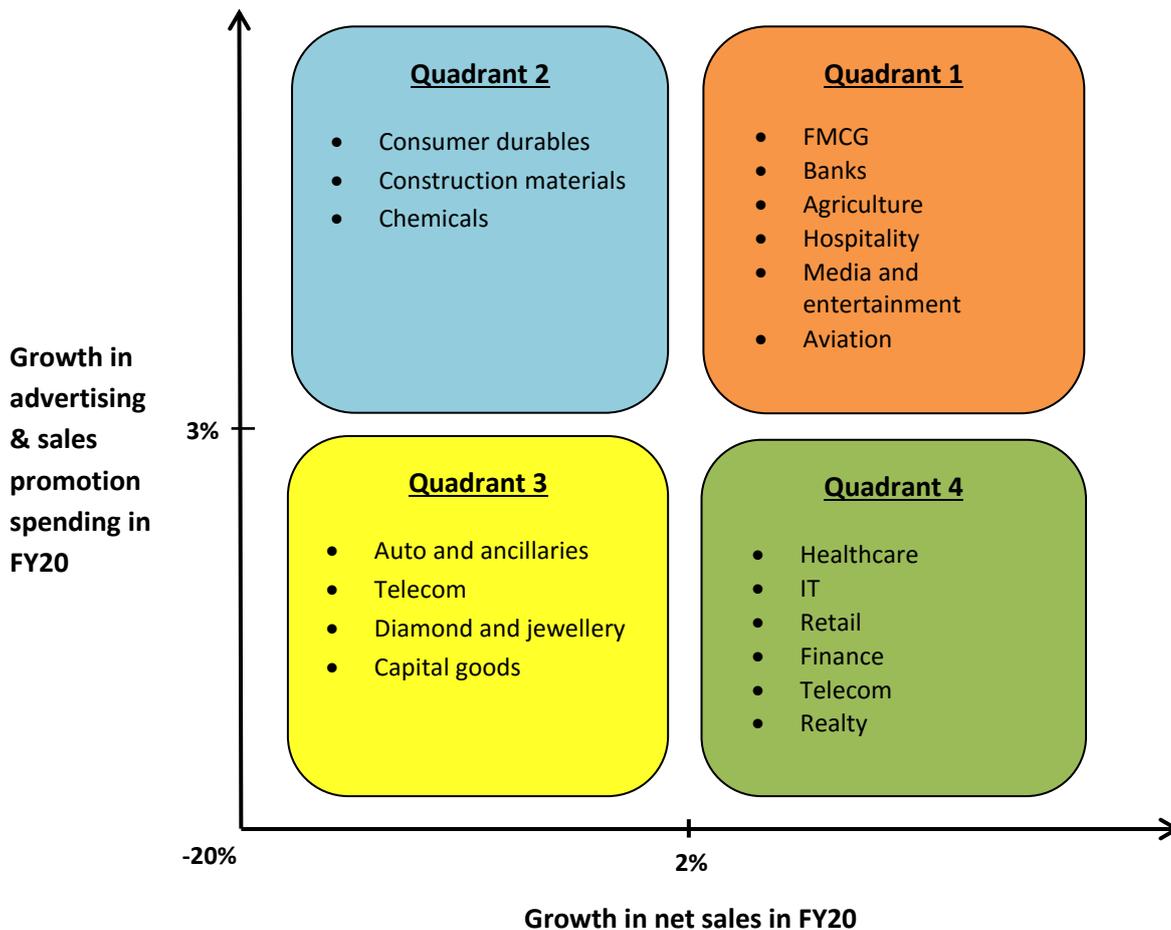
Sector-wise average growth in advertising and sales promotion spending in FY20

The below chart is a matrix that maps the sectors which witnessed above average growth in advertising and sales promotion spending in FY20, in relation to above average growth in net sales. The average growth in advertising and sales promotion spending for all sectors during FY20 was 3%, while average growth rate in net sales was 2%.

(To draw a comparison with FY19, the average growth in advertising and sales promotion spending was 21%, while average net sales growth was 17%. This throws lights on the sharp drop in advertising and sales promotion spending as well as net sales in FY20).

In the below chart, X-axis refers to growth in net sales in FY20 (%), while Y-axis denotes growth in advertising and sales promotion spending during same year (in %). Insights from the chart are as follows:

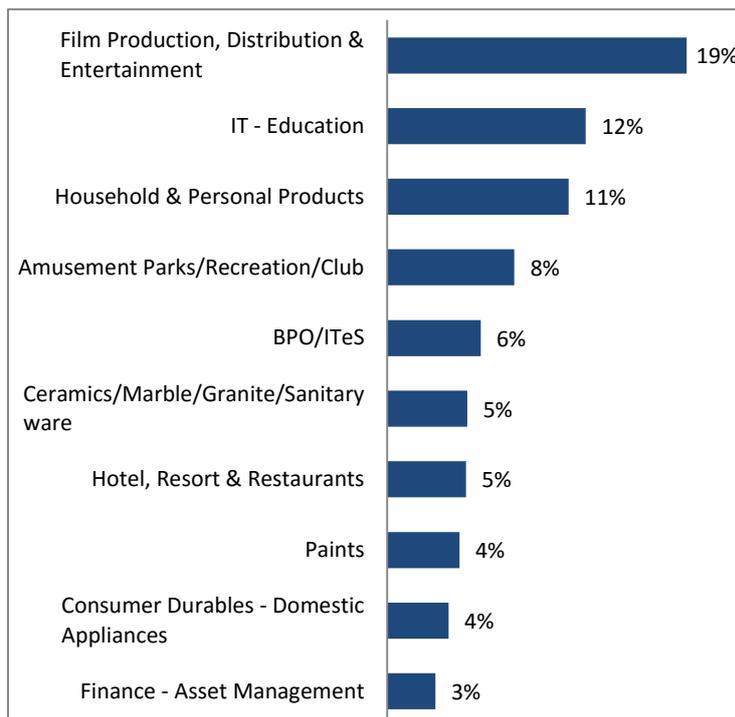
- **Quadrant 1:** Sectors whose advertising and sales promotions spending grew 3% & above and net sales rose 2% & above in FY20 are FMCG, banks, agriculture, hospitality, media and entertainment and aviation.
- **Quadrant 2:** Sectors whose advertising and sales promotions spending grew 3% and above, but net sales rose less than 2% in FY20 are consumer durables, construction materials and chemicals.
- **Quadrant 3:** Sectors where advertising and sales promotions spending grew less than 3% and net sales rose less than 2% in FY20 are automobiles and ancillaries, telecom, diamond and jewellery and capital goods.
- **Quadrant 4:** Sectors where advertising and sales promotions spending grew less than 3% and net sales rose 2% and above in FY20 are healthcare, IT, retail, finance, telecom and realty.



Industries with highest proportion of advertising and sales promotion spending to their net sales

Chart on right side depicts the industries which incurred the highest proportion of advertising and sales promotion spending to its net sales. This ratio was highest for the film production, distribution and entertainment industry of 19%. The other leading industries were IT-education, household and personal products, amusement parks/recreation/club, etc.

However, it is noteworthy that out of the ten industries, only three industries namely household & personal products, 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 we see big spends on advertising and sale promotion as a proportion of their net sales. This reflects the higher requirement to spend more on advertising, which in a way becomes a raw material like expense for these industries.



Concluding remarks:

- Aggregate advertising and sales promotion expenses (for 833 companies operating across 38 sectors) stood at Rs. 39,000 cr in FY20, which is similar to FY19. Such negligible growth in FY20 comes after a strong 22% rise in FY19.
- There is no clear linkage between growth in sales and advertising and sales promotion spending by corporates. For some sectors like consumer durables where such spending grew by 8%, sales witnessed trivial growth of 0% in FY20, while for some sectors like retailing where advertising and sales promotion spending fell by 16% but net sales grew 24% in FY20.
- Companies which are consumer facing, tend to have higher allocations for such spending. Examples: FMCG, automobiles, banks, etc. Such sectors have large number of players operating in the same sector and hence face tough competition for survival and growth.
- The ratio of advertising and sales promotion expenses to sales is higher for service-oriented industries such as IT-education, amusement parks, hotels, BPO/ITeS, etc.
- FMCG sector continues to be the highest spender (Rs. 9,652 cr) on advertising and sales promotion activities in FY20. Automobile is still the second largest contributor for such spending, even after witnessing a major slowdown in consumer demand in the past year.

Outlook for FY21:

FY21 is expected to witness nearly 20-30% decline in advertising and sales promotion spending. The Covid-19 pandemic led to a complete washout of the 1st quarter earnings of most players operating in India, with minimal growth in selective sectors during 2nd quarter. Hence, nearly all companies are undertaking cost cutting measures and advertising spends being a discretionary spend, are being sharply reduced.

Additionally, most mediums of advertising such as out of home media, cinema, and live events are not operating since over 5 months now. In other mediums like print, advertising revenues dropped sharply in Q1-FY20 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 revival expected to be quite distant, advertising spending may stay muted until Q3-FY22. The impact of this black swan event of Covid-19, on the advertising - driven media and entertainment sector shall be far reaching.

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