

Advertising and sales promotion spends in India

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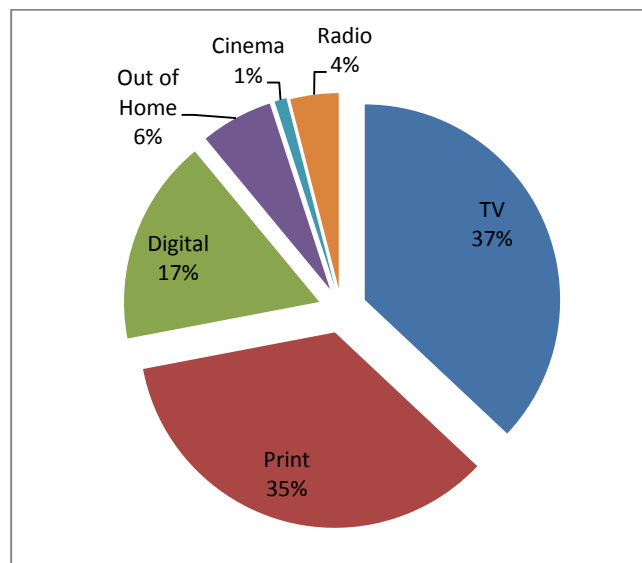
Advertising and sales promotion is a very important part of corporate activity as it is a mode for increasing sales. The quantum of such expense will depend on the nature of the industry as well as the state of business. Such expenditure is important as it also has strong backward linkages with other industries in the value chain. The purpose here is to get a sense of the trends in such expenditure of companies in the last few years as well as highlight the industries where such expenses are higher.

The analysis is based on data of a sample of 11,183 companies across 124 industries.

Introduction

In CY2017, total spending at the macro level on advertising across all media in India stood at ~Rs.72,200 crore. TV and print advertising were the largest segments, contributing Rs.26,700 crore and Rs.25,300 crore respectively in this year.

Chart 1: Advertising revenue share in CY17



Source: IBEF

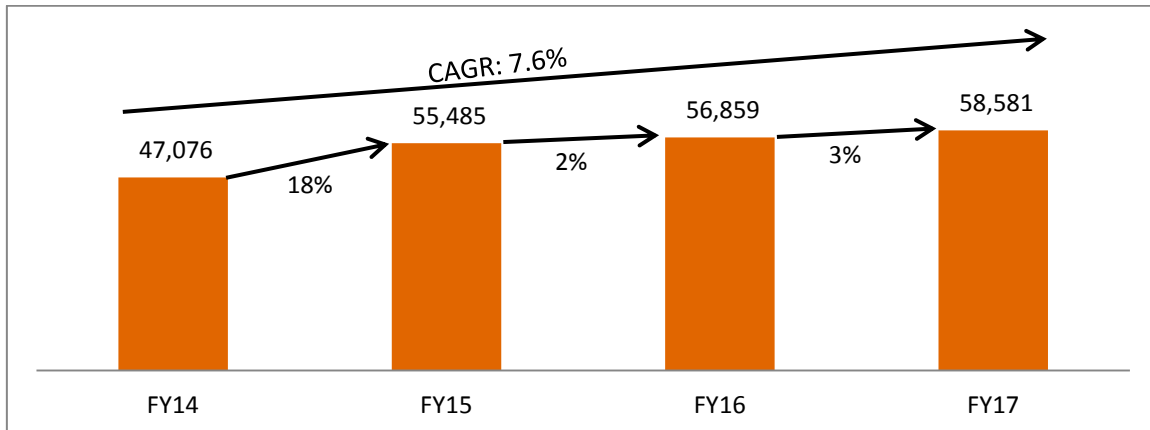
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With rapid penetration of internet in the country, digital advertising has seen the fastest growth in the past 3 years and will see greater growth in the years to come. The recent auction of radio frequencies will lead to an increase in advertising reach to consumers which remained untapped till now.

Aggregate advertisement and sales promotion spends in India (based on sample companies)

Chart 2 shows the advertisement and sales promotion spends by all industries in India from FY14-17, where a 7.6% CAGR was recorded in the period. After growing by 18% in FY15, there has been a slowdown in growth in the subsequent two years to 2% and 3% respectively in FY16 and FY17.

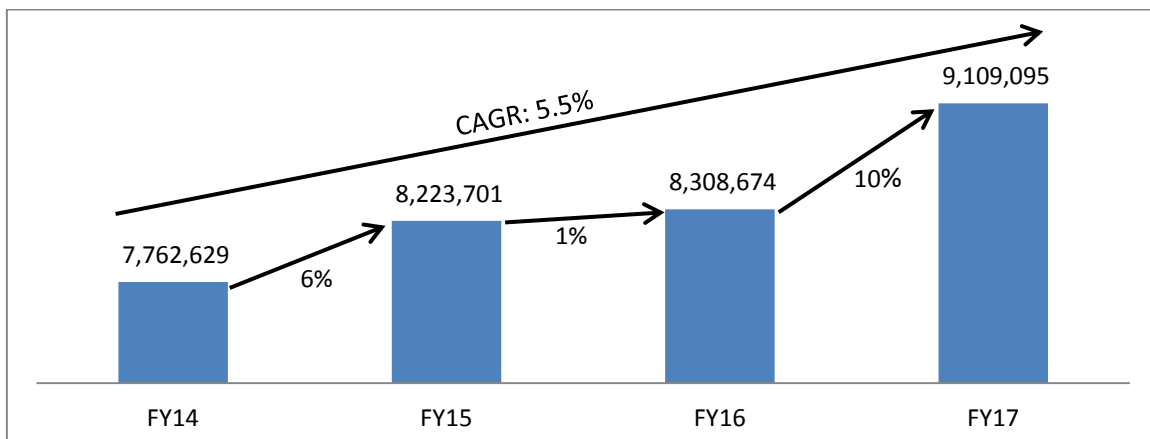
Chart 2: Advertising and sales promotion spends in India (Rs. Crore)



Source: Ace Equity

When juxtaposed with growth in sales in Chart 3, it may be observed that there is no clear relationship between the two variables. Therefore, based on these data points it is not possible to conclude whether or not companies spend more on such promotion when growth in sales is lower.

Chart 3: Net sales of all industries in India (Rs. Crore)



Source: Ace Equity

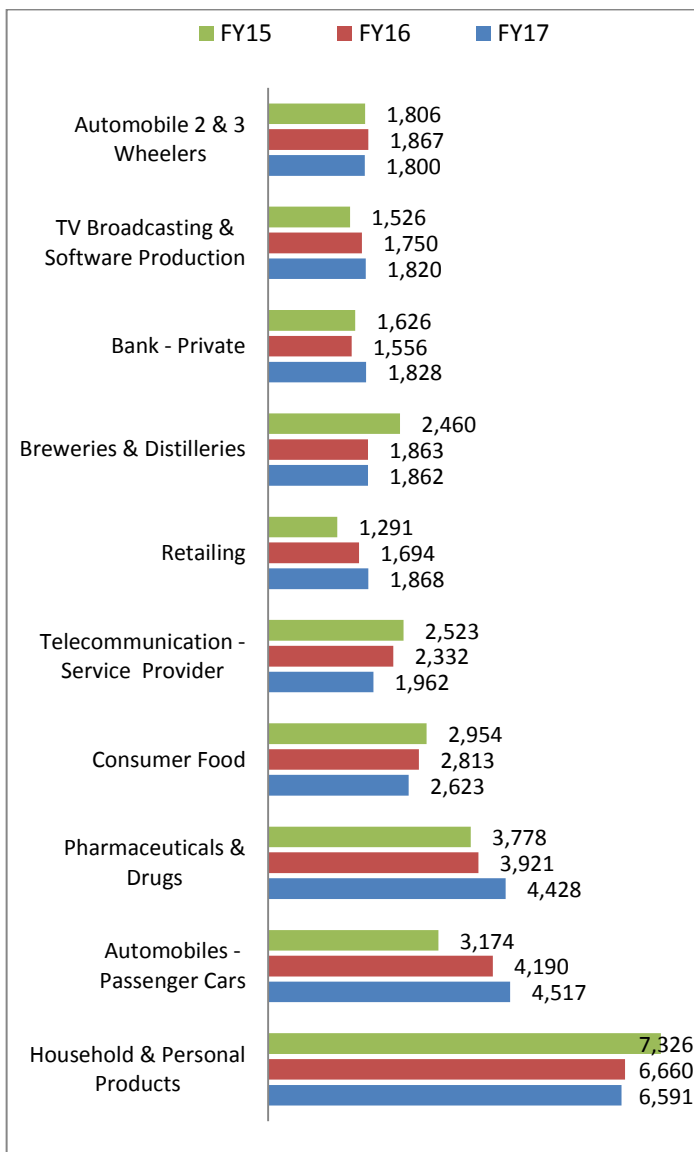
Industry wise advertisement and sales promotion spends in India

The 10 industries highlighted in chart 4, cumulatively account for ~50% of the total advertising and sales promotion spends by all industries in India. Some observations from chart 4 and 4(a) are:

- Most of the industries which head the list operate in a B2C model format. There is a direct connection with the consumer, which makes them spend relatively larger amounts on advertising and sales promotion.

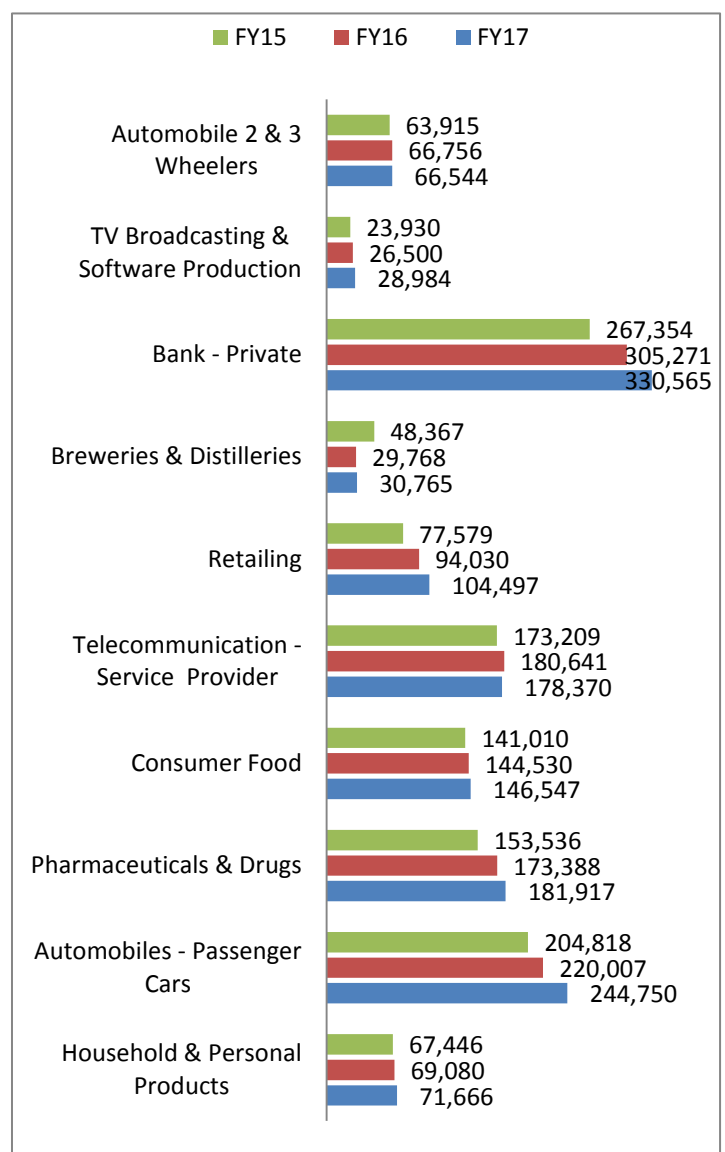
- Households and personal products, automobile-passenger cars and pharmaceuticals and drugs are the top 3 industries that have seen the highest advertising and sales promotion expenses from FY15-17.
- All industries have increased their advertising and sales promotion spends with an increase in net sales, except for 3 industries namely, telecom, consumer foods, and household and personal products that reduced their advertising and sales promotion spends in the period, by 22%, 11% and 10% respectively, over an increase in turnover of 3%, 4% and 6% respectively.
- Industries such as retailing, automobile- passenger cars, TV broadcasting, pharma and drugs and banks-private have witnessed an increase in advertisement and sales promotion spends from FY15-17, by 45%, 42%, 19%, 17% and 12% respectively, over an increase in sales of 34%, 19%, 21%, 18% and 24% respectively.

Chart 4: Industries with highest advertisement and sales promotion expenses (Rs. crore)



Source: Ace Equity

Chart 4(a): Net sales of industries highlighted in chart 4 in Rs. crore



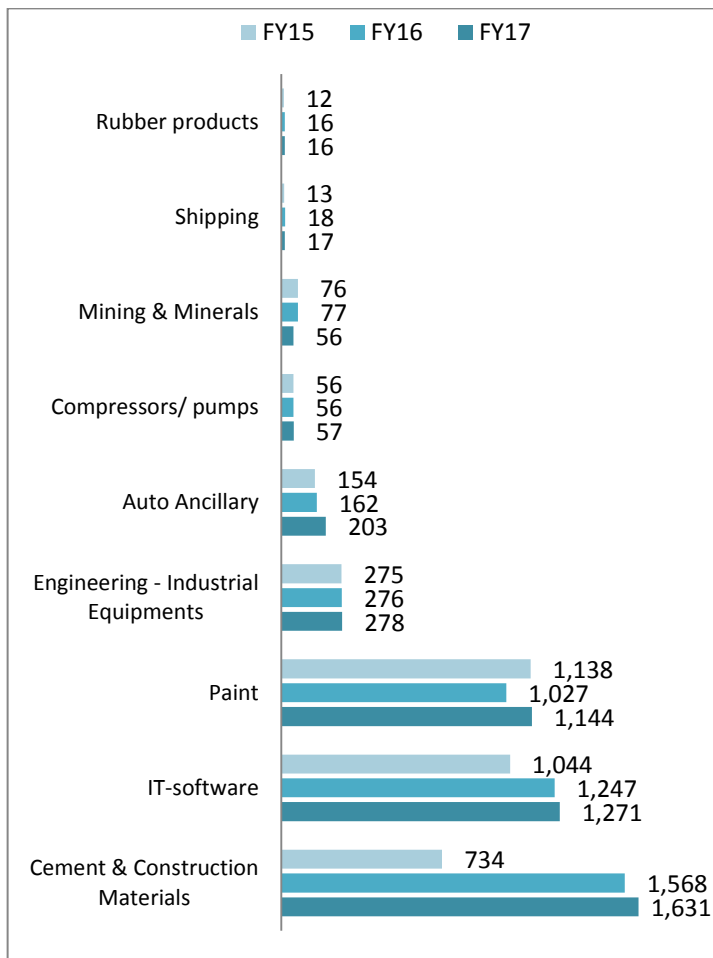
Source: Ace Equity

Advertising and sales promotion expenditure of industries with a B2B model

Chart 5 depicts advertising and sales promotion spends by industries which majorly broadly operate in a B2B model format. The insights drawn from chart 5 and 5(a) are:

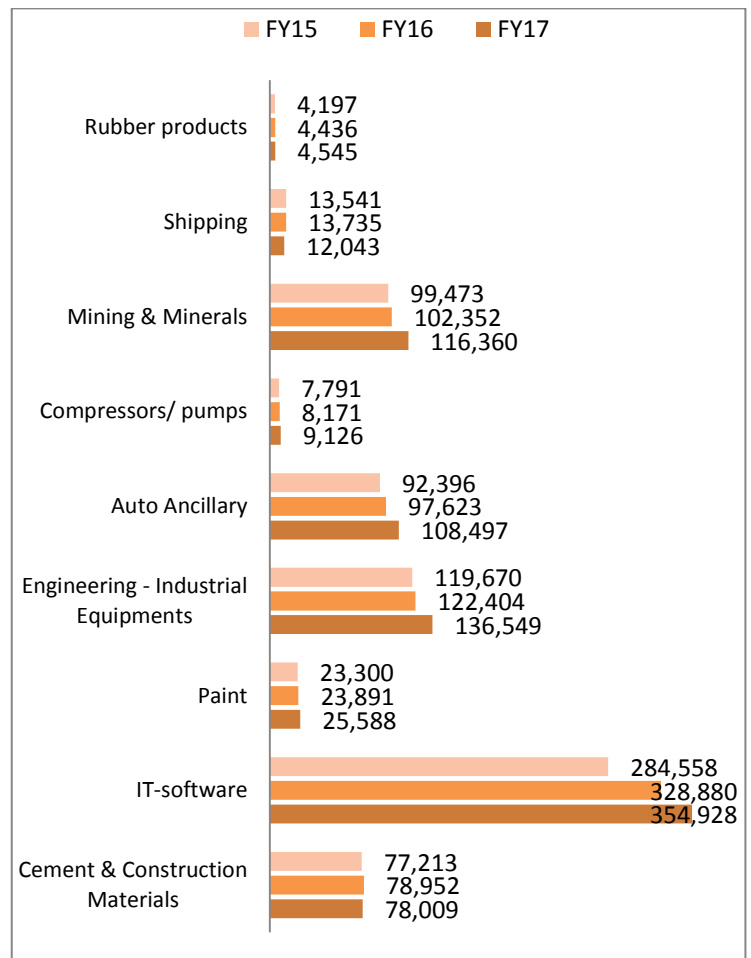
- All the industries have increased/ decreased their advertising and sales promotion expenses, with an increase/ decrease in net sales, except for mining and minerals industry which has shown a reverse trend by decreasing its spends in FY17 over an increase in sales in the year.
- Cement and construction materials industry has increased its advertising and sales promotion spends by 122% over an increase in sales of 1% from FY15-17.
- Auto ancillary industry has increased its advertising and sales promotion expense by 31% over an increase in turnover of 17% from FY15-17.
- IT software industry has increased its advertising and sales promotion expense by 22% over an increase in turnover of 25% from FY15-17.

Chart 5: Advertising and sales promotion expenditure of few industries with a B2B model (Rs. crore)



Source: Ace Equity

Chart 5(a): Net sales of industries highlighted in chart 5 in Rs. crore

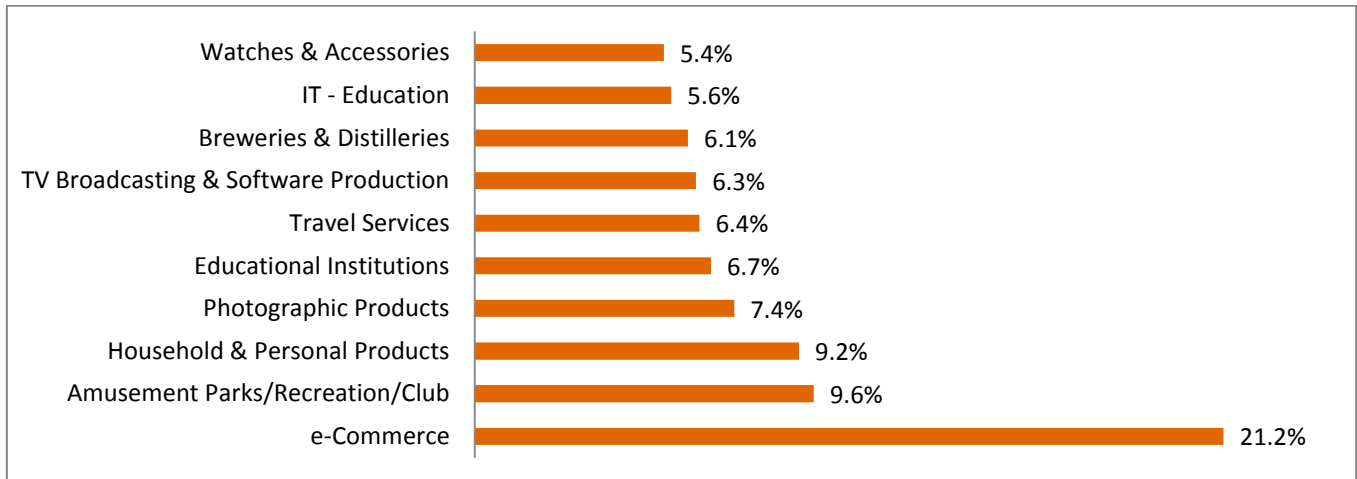


Source: Ace Equity

Industries with highest proportion of advertisement and sales promotion spends as a % of net sales

Chart 6 depicts the industries which have the highest proportion of advertising and sales promotion spends as a percentage of net sales. E-commerce, amusement parks/recreation/clubs and, household and personal products are the 3 top industries with 21%, 10% and 9% spends respectively. Quite expectedly all of them are in the B2C segment.

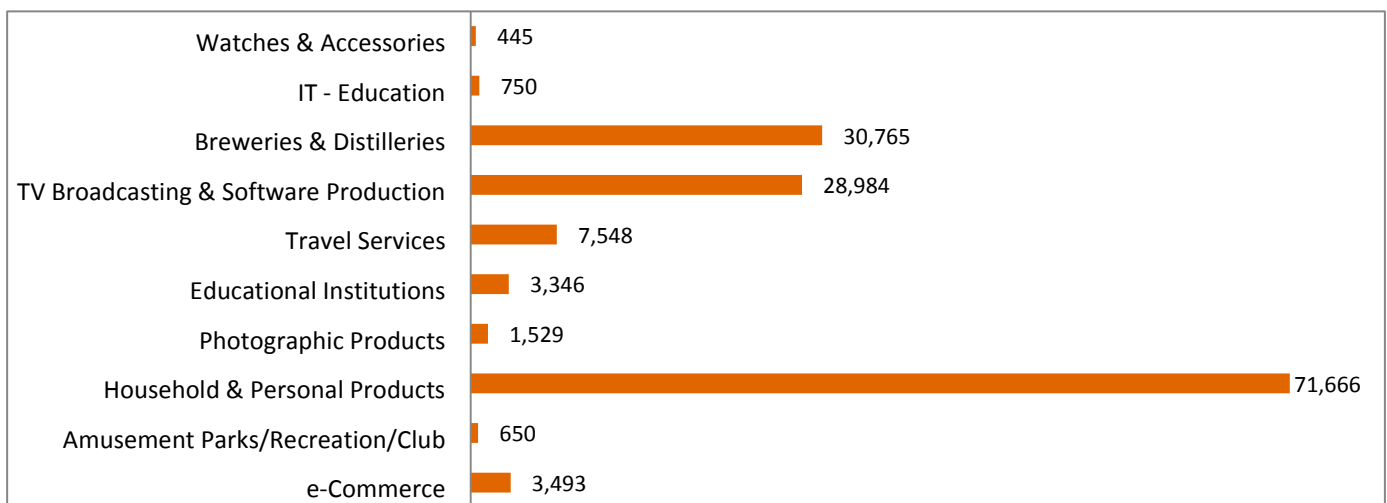
Chart 6: Industries with highest proportion of advertising and sales promotion spends as a % of net sales in FY17



Source: Ace Equity

On analysing chart 6(a), we understand that out of the top 3 industries highlighted in chart 6, only 1 industry, namely household & personal products has notably high sales of Rs.71,666 crore, whereas, the remaining 2 industries: e-commerce and amusement parks/recreation/clubs has a much lower turnover of Rs.3,493 and Rs.650 crore respectively, but yet we see big spends on advertising and sale promotion, as a % 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 them.

Chart 6(a): Net sales of the industries highlighted in chart 6 in FY17 (Rs. crore)



Source: Ace Equity

Advertising and sales promotion spends in FY18

(Analysis in this section is using data of a smaller sample of 1,438 companies across 113 industries; source: Ace Equity)

In FY18, the top 3 industries with highest proportion of advertising and sales promotion spends to net sales were: amusement parks/recreation/club (12%), household & personal products (11%) and educational institutions (10%).

Concluding remarks:

- TV and print advertising were the largest segments, contributing to total advertising revenue in CY17.
- There is no clear relationship between net sales and advertising and sales promotion expenses, as we see low growth in advertising and sales promotion expenses of just 3% in FY17, over a healthy net sales growth of 10% during the year.
- The top 3 industries with the highest proportion of net sales to advertising and sales expenses in India were E-commerce (21.2%), amusement parks/recreation/clubs (9.6%) and household and personal products (9.2%), which coincidentally, all operated in a B2C model format.

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