

Trends in advertising and sales promotion spends in India

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Advertising and sales promotion spends are an integral part of corporate activity as they act as a catalyst for driving sales. However, the quantum of such expenses will depend on the nature of the industry as well as the state of business. Such expenditure is essential as it has strong backward linkages with other industries in the value chain.

This report is an analysis of trends of advertising and sales promotion expenses by companies which draws a relation with sales of those companies.

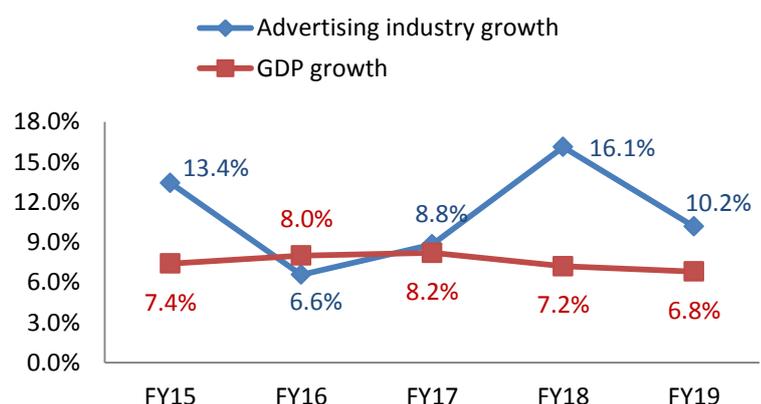
Industry size

While the Indian advertising industry is projected to be the second fastest growing advertising market in Asia, (after China), its size relative to Indian GDP is still very low at ~0.38%.

USA is the largest advertising market in the world valued at around over ~USD 100 bn every year, while India's advertising industry was estimated at USD 10.4 bn in FY19, with television and print being the largest mediums, contributing ~USD 3.8 bn and ~USD 3.6 bn respectively. Digital emerged as the third largest advertising medium in the country generating USD 1.9 bn.

Advertising is said to be directly dependent on the performance of the economy. However, chart 1 shows that GDP growth of India and advertising spends in corresponding years have minimal correlation. In FY19, while the Indian economy witnessed its lowest GDP growth of 6.8% in past five years, the Indian advertising industry grew 10.2% during the same period. Chart 1 shows that that the two do not seem to move in tandem.

Chart 1: Growth of advertising industry in relation to GDP



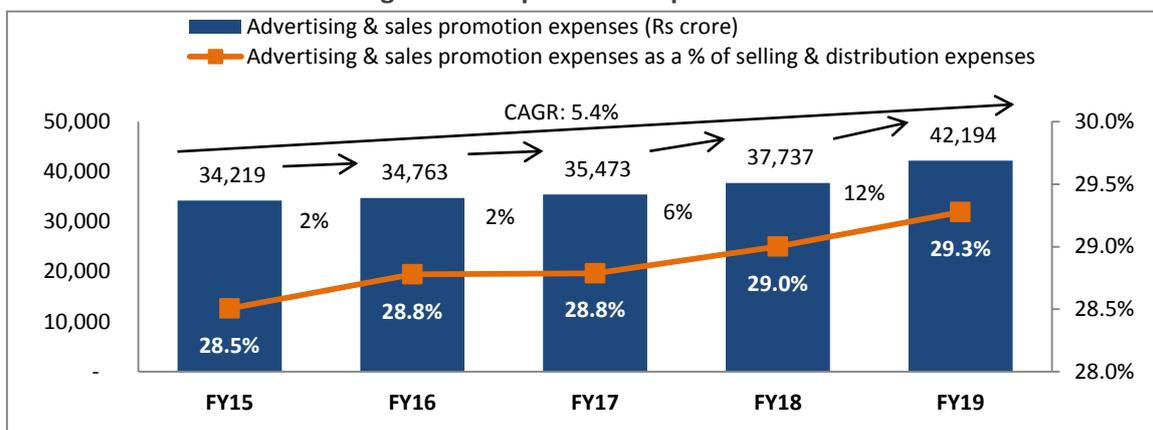
(The analysis hereafter is based on data of a sample size of 1,865 companies across 41 sectors. All data used for such analysis is sourced from Ace Equity, unless mentioned otherwise)

Advertisement and sales promotion spends in India over past five years

The aggregate advertisement and sales promotion spends grew to Rs. 42,194 cr in FY19, establishing CAGR of 5.4% over the past five years. Chart 2 shows that such expenses grew marginally at 2% each in FY16 and FY17, but picked momentum in FY18 and FY19 with growth of 6% and 12% respectively. Impact in FY17 and FY18 was apparent with the economy being affected by two prominent events – demonetisation and GST, resulting in lower spending by companies in latter half of FY17 and initial quarters of FY18. This was particularly prominent among small scale businesses which led to lower spends in local advertising. Any deterioration in advertising spends also directly impacts revenue of industries such as television, print, radio, Out of Home (OOH), cinema.

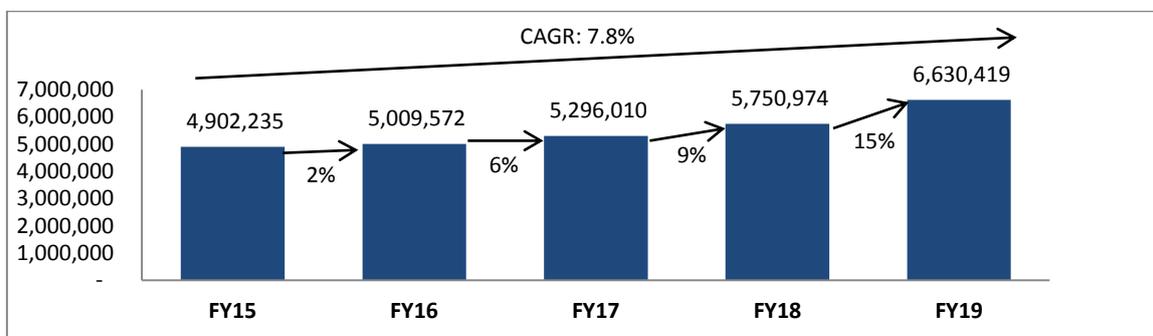
From Chart 2, it is clear that advertising and sales promotion expenses as a proportion of selling and distribution expenses has risen marginally over the past five years from 28.5% in FY15 to 29.3% in FY19.

Chart 2: Advertising and sales promotion spends across sectors in India



Through chart 3, we try to understand whether there stands any relation with growth in net sales of companies and their expenses on advertising and sales promotion. On analysing chart 3 in conjunction with chart 2, it is evident that in FY16, advertising and sales promotion expenses grew in tandem with net sales of 2% each, however in the successive years, growth in net sales was much higher compared with the growth projected by advertising and sales promotion spends by companies in India.

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



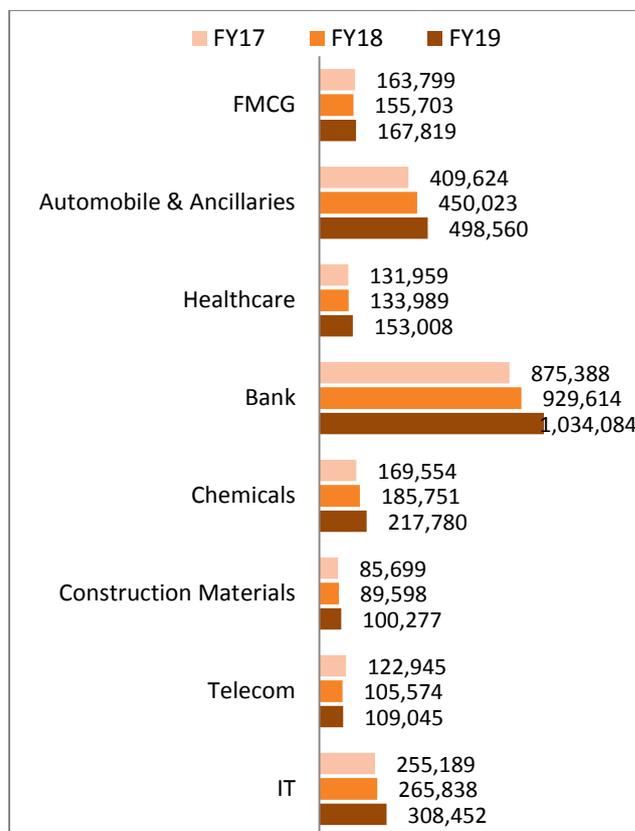
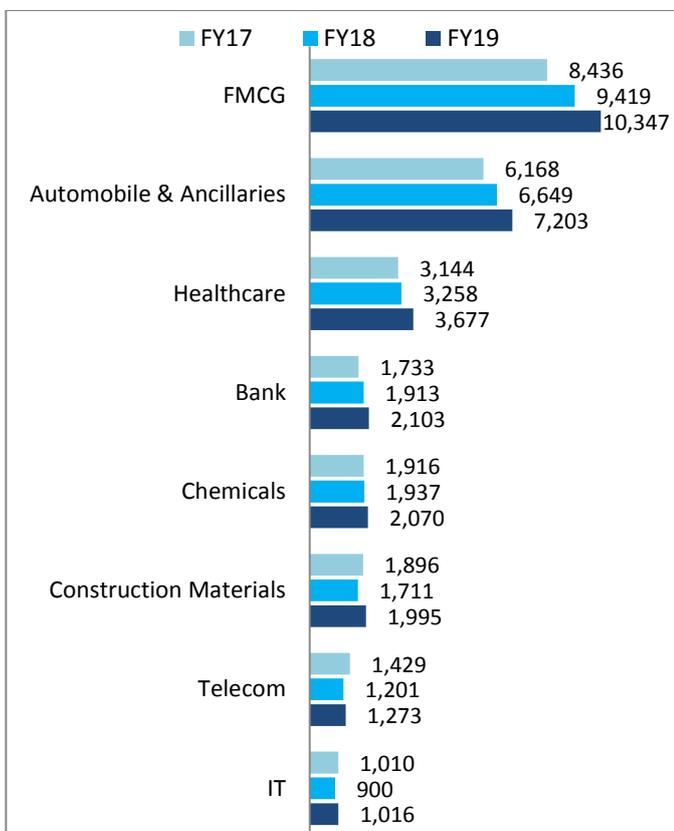
Sector wise advertisement and sales promotion spends in India

The sectors with the highest advertising and sales promotion spends in India are depicted in chart 4. To provide a perspective on whether the increase in advertising spends is in proportion with their income, chart 4(a) highlights the net sales of the same industries. Some observations from chart 4 and 4(a) are as below:

- FMCG (Rs. 10,347 cr), automobiles and ancillaries (Rs. 7,203 cr), healthcare (Rs. 3,677 cr), banks (Rs. 2,103 cr) and chemicals (Rs. 2,070 cr) are the top five sectors that have seen the highest advertising and sales promotion expenses in FY19.
- Most of the sectors in chart 4 operate in a B2C model format. In such a business model, there is a direct connection with the consumer, which makes them spend relatively larger amounts on advertising and sales promotion.
- Though household and personal products industry has witnessed the highest advertising and sales promotion spends in value terms, it constitutes just 6% of its net sales.
- In FY19, highest yearly growth in advertising and sales promotion spends was witnessed in construction materials sector of 17%, after a de-growth of 10% in previous year.
- All industries have increased their advertising and sales promotion expenses with an increase in net sales, although not in the same proportion. In FY19, top line of chemicals sector grew 17%, but advertising and sales promotion spends grew at a much lower pace of 7%. Similarly, construction materials sales grew by 12%, however, advertising and sales promotion spends grew by 17%.

Chart 4: Sectors with highest advertising and sales promotion expenses (Rs. crore)

Chart 4(a): Net sales of sectors with highest advertising and sales promotion expenses (Rs. crore)



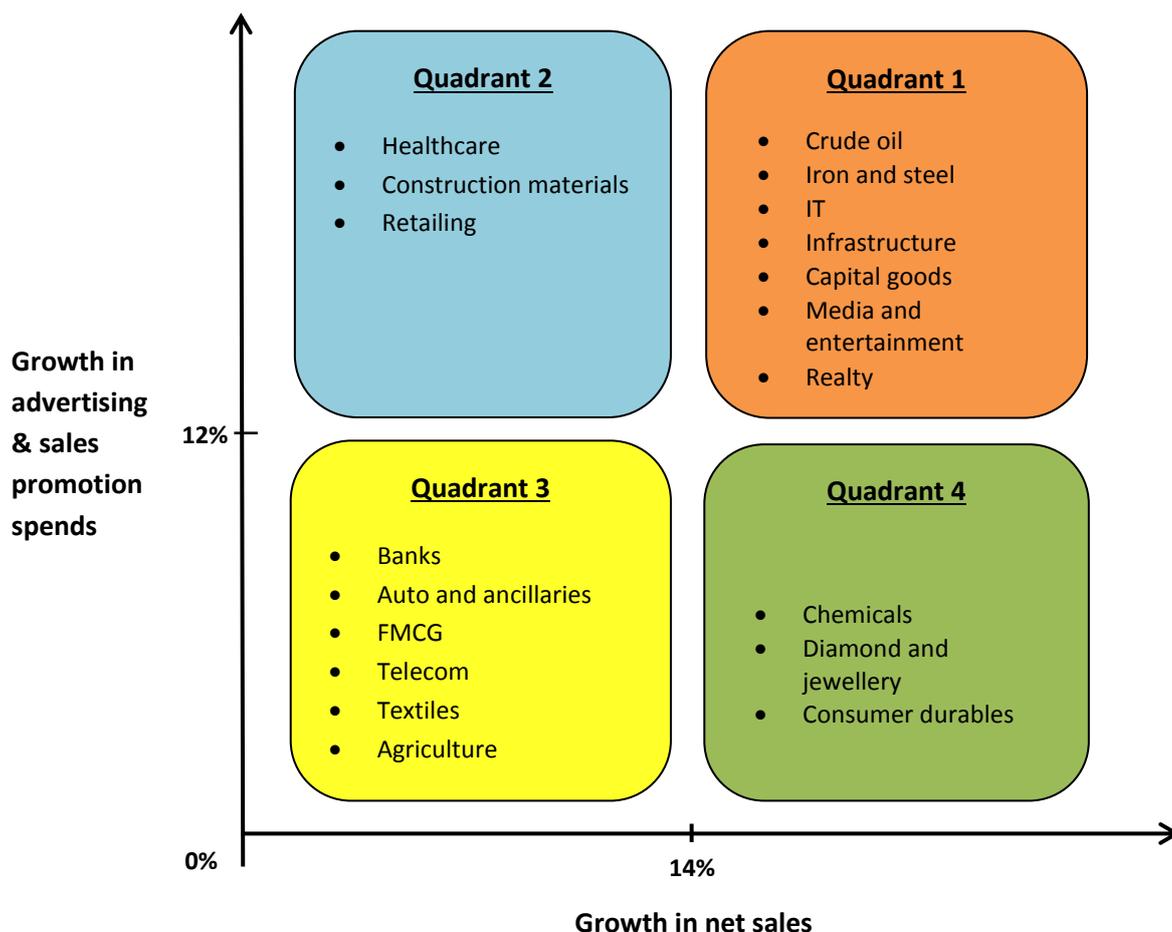
Sectors with above average growth in advertising and sales promotion spends in FY19

Chart 5 is a matrix that maps the sectors which have witnessed above average growth in advertising and sales promotion spends, in relation to above average growth in its net sales. The average growth in advertising and sales promotion spends for all sectors during the year was 12%, while net sales grew at an average rate of 14%.

In chart 5, X-axis refers to growth in advertising and sales promotion spends in FY19 (%), while Y-axis denotes growth in net sales (%). Insights from chart 5 are as follows:

- **Quadrant 1:** Sectors which witnessed advertising and sales promotion spends of over 12%, on a net sales rise of more than 14% are crude oil, iron and steel, IT, infrastructure, capital goods, media and entertainment and realty.
- **Quadrant 2:** Sectors which witnessed advertising and sales promotion spends of over 12%, on a net sales rise of less than 14% are healthcare, construction materials and retailing.
- **Quadrant 3:** Sectors which witnessed advertising and sales promotion spends of less than 12%, over net sales rise of less than 14% are banks, automobiles and ancillaries, FMCG, telecom, textiles and agriculture.
- **Quadrant 4:** Sectors which witnessed advertising and sales promotion spends of less than 12% over a net sales rise of more than 14% are chemicals, consumer durables and diamond and jewellery.

Chart 5: Growth in advertising and sales promotion spends over a growth in net sales in FY19

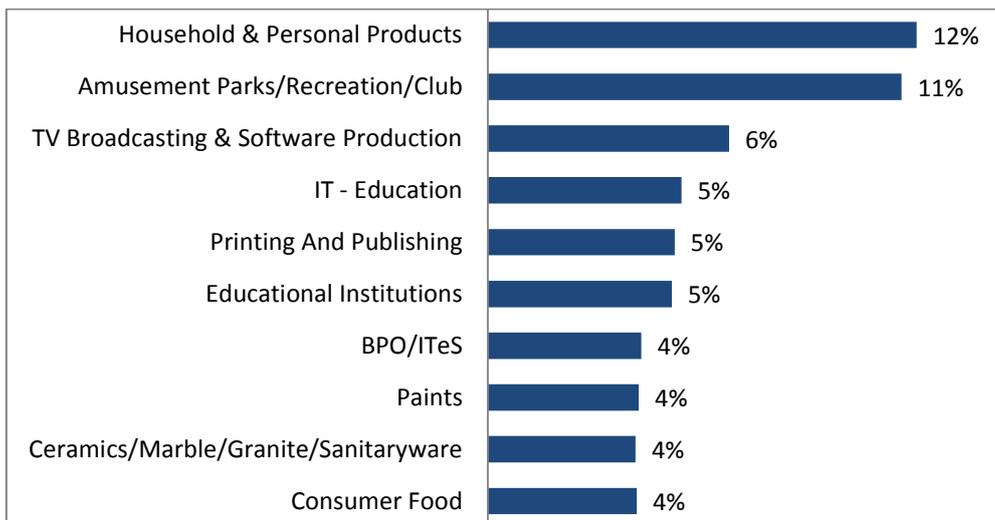


Source: CARE Ratings

Industries with highest proportion of advertisement and sales promotion spends to their net sales

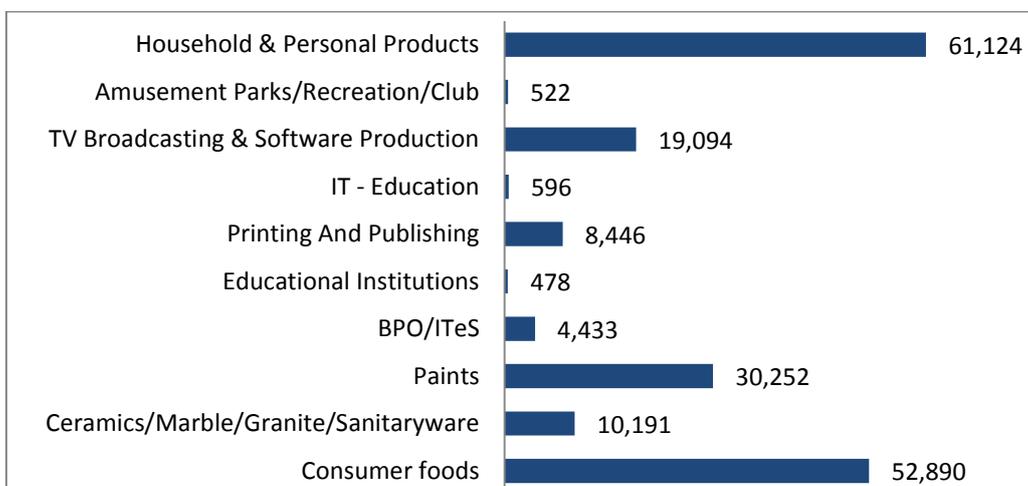
Chart 6 depicts the industries which incurred the highest proportion of advertising and sales promotion spends to its net sales. Household and personal products, amusement parks/recreation/clubs, TV broadcasting and software production are the top three industries with highest proportion of advertising and sales promotion spends as a proportion of net sales in FY19.

Chart 6: Industries with highest proportion of advertising and sales promotion spends as a proportion of net sales in FY19



On analysing chart 6(a), we understand that out of the ten industries, only two industries namely household & personal products and consumer foods have notably high sales of Rs.61,124 cr and Rs. 52,890 cr respectively, whereas, some industries like amusement parks/recreation/clubs, IT-education and educational institutions had a much lower turnover of Rs.522 cr, Rs. 596 cr and Rs.478 cr respectively, 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 them.

Chart 6(a): Net sales of the industries highlighted in chart 6 in FY19 (Rs. crore)



Concluding remarks:

- TV and print advertising are the largest segments, contributing to advertising industry's revenues. Digital has evolved as the third largest segment owing to increasing number of smart phone users and low cost data.
- From the analysis, we are unable to draw a clear relation between advertisement and sales promotion expenses incurred by a company and their net sales. While some industries increased their advertising spends with an increase in net sales, some did not.
- FMCG (Rs. 10,347 cr), automobiles and ancillaries (Rs. 7,203 cr), healthcare (Rs. 3,677 cr), banks (Rs. 2,103 cr) and chemicals (Rs. 2,070 cr) are the top five sectors that have seen the highest advertising and sales promotion expenses in FY19.
- Household and personal products, amusement parks/recreation/clubs, TV broadcasting and software production are the top three industries with highest proportion of advertising and sales promotion spends as a proportion of net sales in FY19.

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