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Impact of Sales and Marketing Cost on Firm's Performance

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Abstract

The main purpose of this study is to research the relationship between marketing expenses and sales growth on firm performance (ROA). This analysis is solely based on secondary data and therefore the sort of analysis is casual. During this study marketing expenses and sales growth are independent variables and firm performance (ROA) is dependent variable. The population of the study cement industry and therefore the sample of the study are five cement companies those are listed in Karachi Stock Exchange. Quantitative study has been conducted using the secondary data gathered from the audited annual reports of the organizations over the span of eleven years from 2008-2018. The data analyzed through SPSS statistical packaged software. The result of the study shows marketing expenses and sales growth has significant impact on firm performance (ROA).

1. Introduction

This paper makes many contributions. First, it builds on the growing literature within the marketing-finance interface that explores however marketing activities have an effect on financial performance.

Marketing expenses are the cost that is directly determines with the selling of associative item, service or brand(Nimer, Qasem, & Alaffo, 2015). In growth, a major relationship between marketing expense and firm performance was found by breaking down the ROE(Konak, 2015)

Sales growth could be a metric that determine the capability of sale income over a set timeframe. Once performance declines organization should review the sales growth and its causes. There's a significant relation between sales growth and firms performance. We are finding out its relation with performance indicator (ROA) Return on assets shows the proportion of however profitable a company's assets are in generating income.

Marketing expenses are the price that's directly connected with the advertising of a product, service or brand.(Nimer et al., 2015). As competition between organizations will increase, it gets diligently to survive and grow up in the business. In order to keep up a sustainable development, firms try and increase their profit, business worth, and monetary performance the maximum amount possible with their restricted resources(Nisel & Çağlar, 2017).

The traditional hypothesized relationship between market orientation (MO) and firm execution has been well established and approved within the area of advertising(Nguyen, 2018) During this context, highlighted that the objectives of companies is that the high value of firm, not merely gain or a lot of that has been accomplished through the sales income of firms. Business firm value represents the expected future worth that generally depends upon the marketing activities of the firm(Sermaye & Değeri, 2005).

The business network is a significant advance toward raising marketing's vitality within the firm and, a lot of necessary, toward raising the performance of the firm itself(Sullivan & Abela, 2007). Marketing scholastics have recently place a lot of stress on however totally different marketing activities and metrics have an effect on then bottom-line monetary performance of the firm. This may contain positive results like revenue growth, market share, or will increases in stock price (aksoy, Cooil, & Groening, 2008)

1.1 Theoretical Background

The establishments of contingency theory stem from the systems approach that set up itself as popular tools for finding out organizations within the 1950s. The central feature of the open frameworks approach is that it tries to review the activities of a company by indication to the context of a lot of extensive condition during which it's set. Whereas nearly all past add structure analysis had been universal in approach, looking for the single best organizational solution, a lot of the work conducted within the late 1950s and early 1960s noticed that specific forms of organization were best appropriate to particular environmental conditions. During this hypothesis it's found that every one indicators (profitability performance, growth performance, market value performance, customer satisfaction, employee satisfaction, environmental audit performance, corporate governance performance and social performance). It is discovered that these nine measurements or of firm include separately to its performance (Rejc & Adriana, 2004)

Performance measurement, though widely concentrated over the most recent twenty years, has been given comparatively very little thought in terms of the factors that persuade the plan of performance measurement systems. A short summary of the relevant existing literature can offer some insight into the subject it is important that performance measurement systems be dynamic, in order that performance measures stay relevant and continue to reflect the problems of importance to the business.(Rejc & Adriana, 2004).

Late advances during this worldview have set off the investigation of marketing activities' effect on firm's accounting and monetary market performance. Various researchers have tried to emphasize on the linkage among marketing and therefore the essential role it plays within the improvement of organizational performance(Hossain & Islam, 2019).

1.2 Research Gap

This survey article endorses an overall subjective measuring model for performance of firms, supported indicators and uncovering of earlier research studies. The ultimate subjective model was developed with the determinants, profitability performance (ROE, ROI, and Net Income) with R&D expenses. Periodical research/survey may well be created to spot another independent indicator for each dimensions of firm performance to stay face with the changing industry conditions(Selvam, Gayathri, Vasanth, Lingaraja, & Marxiaoli, 2016)

1.3 Problem Statement

In this research it's aimed to analyze the impact of marketing, advertising and R&D expenditures on monetary performance of firm. During this research selected financial performance indicators is return on asset (ROA). The impact of marketing expenditures, sales and sales growth on the selected financial performance indicators will be examined on an individual basis.

1.4 Significance of the Study

The study importance arises from the importance of paying for marketing, and its result on increasing firms 'profitability (in short and long run). Wherever it's believed that the company's status is affected by the dimension of marketing expenses that successively have an effect on profit. Because of the increasing levels of competition, a firm's ability to generate a continuous stream of approaches that permits companies to develop and maintain competitive advantage could also be additional vital than ever.

1.5 Scope of the Study

The cognition behind the study is to calculate what quantity cost and sale influence any firm's financial performance as a result of in increasing compactions firms can serves to achieve profit and when the realization of these relations ether significant or not then it will be uncomplicated to judge its profitability against its assets and sales. Our target population is cement industry.

1.6 Objective of the study

- To investigate out the impact of marketing expenses of companies on their return on asset.
- To evaluate the relationship between sales and Firm's performance (ROA)
- To uncover the relationship between sales growths and firm's return on assets.

1.7 Research Hypothesis

H_1:There is significant relationship between marketing expenses and return on asset.

H_2: There is an insignificant relationship between sales and return on assets (ROA)

H_3: There is a positive relationship between sales growth and return on asset.

1.8 Research Questions

Q No 1:What is the impact of marketing expenses of companies on their return on asset?

Q No 2: What is the relationship between sales and Firm's performance (ROA)?

Q No 3: What is the relationship between sales growth and firm's return on assets (ROA)?

2. Literature Review

The research it's planned to analyze the impact of marketing and research and development (R&D) expenditures of firms on their financial performance in manufacturing industry. Data of forty one assembling organizations listed on Borsa İstanbul (BIST) was gathered for the phase of 2009-2015 from their monetary statements. Since, informational collection is board information; ways of panel regression analysis are performed. Test consequence suggest that marketing and R&D spending have positive offering to manufacturing corporations a number of the financial performance indicators. (Nisel & Çağlar, 2017)

This study focuses to inspect effect between Marketing and advertising expenses and profitability in industrial medicines public shareholding firms listed within the Amman Stock Exchange. The sample of the study integrated the industrial pharmaceutical organizations listed in the Amman Stock Exchange, throughout the period between 2009-2013. To accomplish the purposes of the study, and to research the information extracted from the annual statements, the analyst used simple line a regression technique. The results of the study showed significant impact of marketing and advertising expenses on the profitability of the pharmaceutical firms.(Nimer et al., 2015)

The association between marketing cost and firm performance of twenty-two firms that were listed on the BIST Textile, Leather Index from 2009 to 2013. The effect levels were dictated by cross sectional time arrangement analysis strategy. The coefficient was found statistically significant with dependent variable performance. Additionally, a concave relationship between marketing expense and firm performance was found by analyzing (Konak, 2015)

Marketing expenditures are viewed as intermediary assets between marketing activities and firm-level financial performance (Ramaswami, Srivastava , & Bhargava 2009) Marketing, advertising and R&D activities are vital functions for companies to continue to exist and grow inside the industry. Within the fierce competitive business surroundings it's inevitable to specialize in these functions. All the companies have to be compelled to concentrate on marketing activities to increase their market sensing capabilities which has understanding customers' wants, desires and demands, building long-term relationship with customers (Nisel & Çağlar, 2017)

Advertising expenditures and R&D expenditures were scaled by deals and market estimations of value and amortized more than five years. Their overall conclusion was that there was no immediate connection between advertising expenditures and R&D expenditures and future stock returns (although in bound instances high expenditures expressed relative to market price of equity were related to higher returns) (Connolly, Hirsch, & Hirschey, 1986)

Marketing and research and development expenditures are two key inputs that ought to be efficiently managed to vie with success within the market(Andras & Srinivasan 2003). Within the literature there are contradictory outcomes regarding the rate of the marketing expenditures on the firm's financial performance (Nisel & Çağlar, 2017)

Marketing expenses has an indirect impact on the monetary performance of a company with the mediating factors being client satisfaction, loyalty and superior market performance(Hossain & Islam, 2019)

It is acknowledged that marketing expenditure includes a direct result on investors. Similarly, advocates of advertising, relate its activities to the chance of gaining competitive benefits. It's aimed to not simply contribute academically, however additionally give a chance for alternative organizations within the particular industries to understand the significance of marketing expenses & advertising expenses and R&D expenses and therefore the extent to that these will influence the revenue and profit of a corporation, because eventually this is often what the shareholders look to accomplish.(Hossain & Islam, 2019).

Marketing expenses additionally created to enhance monetary performance of corporations in addition to making brand equity, increasing product differentiation and brand awareness aspects one in all the measures of firm performance that is supposed to be affected by advertising spend is sales revenues (Acar & Temiz, 2017)

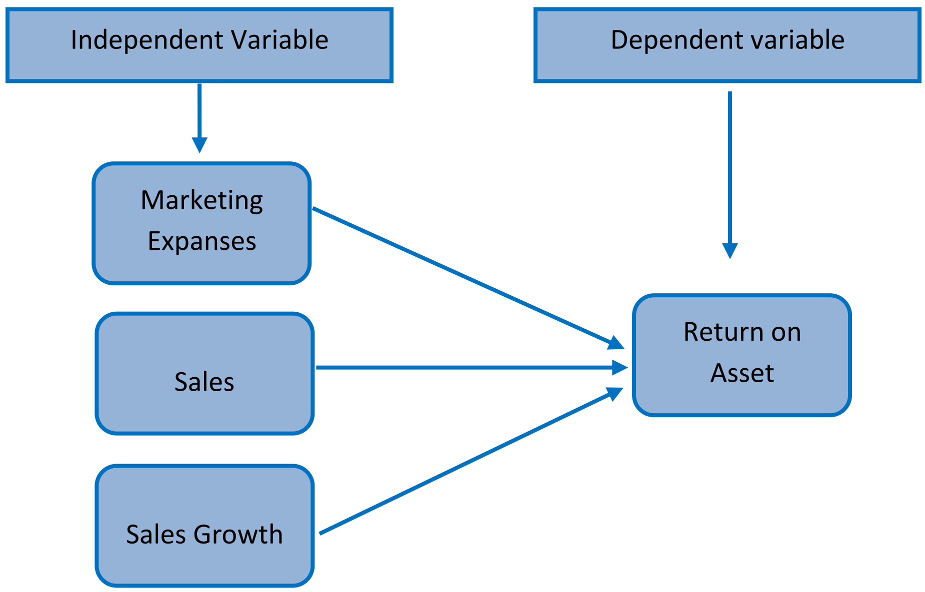
There is a positive relationship between advertising expenses and financial performance that get to that extends over time, thereby signifying that advertising expenses ought to be capitalized and so amortized rather than being incurred as an expense immediately (Acar & Temiz, 2017) Additionally to, it’s found that marketing expenditures were shown to possess an instant positive effect on sales(Sridhar, Narayanan, & Srinivasan, 2014).

The paper provides a helpful guide for the users of financial statements of Marketing and Advertising, since it provides information on possible impact on the company’s performance. Additionally, the paper fills an information gap by addressing a variety of valuation issues on Marketing and Advertising and offers relevant information supervision to the users of financial statement.

3. Research Methodology

Research methodology is that the specific procedures or techniques accustomed determine select, process, and analyze data a few topics. In a research paper, the methodology segment allows the reader to evaluate a study’s generally strength and reliability.(Hossain & Islam, 2019; Konak, 2015).

3.1 Theoretical Framework



Independent Variable: The independent variables of the study are marketing expenses sales and sales growth.

Independent Variable: The dependent variable of the study is firm performance. It will be measured through the ratio of Return on Assets (ROA).

3.2 Research Design

A research design may be a basic plan that guides the information collection and analysis phases of the research. It provides the framework that specifies the sort of data to be collected, its sources and collection procedure(Acar & Temiz, 2017).

The data utilized in this study is of secondary nature and our research type is casual as a result of the study focuses on the cause and effects of the research variable. Marketing Expenses, sales and sales growth are representing the independent variables. This research is exclusively based on secondary data and follows the process to check causality among the dependent and independent variables.

3.2.1 Population

Population is that list of all members or entities about which the researcher studies and concludes. The population ought to be recognized before selecting the sample size(ghaffar & Khan, 2014). The population of the present study consists of the cement companies that are listed in Karachi stock exchange (KSE).

3.2.2 Sample

Sample is the element of population from which the data is composed in actuality(ghaffar & Khan, 2014). The sample is select on the basis of Cement Companies which are listed on the KSE (Karachi Stock Exchange)are DG Cement Limited, Lucky Cement Limited, Maple leaf Limited, Pioneer Cement Limited and Attock Cement Limited.

3.2.3 Data Collection and Tools

Data collection within the field is necessary to retreat of management accounting research.(Wang, 2011)

Research based on the tools or instruments used for gathering data. So it's collected from the annual reports of the companies. To test the hypotheses, a quantitative investigate has been conducted via the secondary data gathered from the audited annual reports of the organizations over the span of eleven years from 2008-2018. Since, these five organizations are market leaders in their respective industries; they are selected to provide an overall view of the contribution that marketing expenses create to their financial returns. The Statistical Package for Social Sciences (SPSS), have been used to investigate the hypothesized causal relationship through conducting a correlation, followed by regression analysis, in both the cases.

4. Data Analysis

Data analyzed by using the statistical tool of SPSS. The statistical procedure used for analysis is correlation and regression. During this analysis, we see the relationship between independent variables and dependent variable. In this model used three independent variables marketing expenses, sales and sales growth and return on asset is a dependent variable. In correlation analysis model, results are moderate but not strong. Marketing expenses and return on assets results are insignificant (Appelbaum, Kogan, Vasarhelyi, & Yan, 2017). But relationship sales, sale growth

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results are moderate. In regression, analyzed the R-squared, adjusted R-squared and explain of model with alpha. Lastly, explained the coefficient analysis and Durbin-Watson statistic. Regression result is significant.

4.1 Correlation Analysis

The Correlation Analysis is the numerical tool used to learn the nearness of the link between two or more variables. The variables are said to be correlated when the change of one variable is go along with the change of another variable.

	ROA	Marketing Expenses	Sales	Sales Growth
ROA	1.00	(0.06)	0.30	(0.28)
Marketing Expenses	(0.06)	1.00	0.72	(0.32)
Sales	0.30	0.72	1.00	(0.39)
Sales Growth	(0.28)	(0.32)	(0.39)	1.00

- Marketing expense and ROA are insignificant
- Moderate relationship between ROA and Sale (Positive)
- Moderate relationship between ROA and Sale growth (Negative)
- It's not strong relationship but moderate or week

The correlation between all the variables derived for the case of Cement Industry. Although, marketing expenses is believed to have an insignificant impact ROA because its value is in negative. Market expanses and ROA have week relationship because its values in negative. Due to negative correlation independent variable will be increase and dependent variable will be decrease. Marketing expense and ROA are insignificant.

Relationship between sale and ROA is positive and moderate relationship. Sale and ROA values are positive. Sale and ROA values are close to zero so, it is week correlation. In positive correlation independent and dependent variable flow will be parallel direction.

Relationship between sale growth and ROA is negative and moderate relationship. Sale growth and ROA are negative. Sale growth and ROA values are close to zero so, it is week correlation. In negative correlation independent and dependent variable flow will be opposite direction.

Correlation analysis is not strong but moderate and week.

4.2 Regression

Regression is statistical method used in economics, investing, and other regulation that attempts to discover the strength and character of the connection between one dependent variable (usually denoted by Y) and a sequence of other variables (known as independent variables.

First, we discuss relationship between independent and dependent variable in R (regression). R shows the relationship between variables of correlation. If the R is close by the zero its mean correlation is not existing in variables. And if the R is close by one it's meant correlation will be exist in variables. But R of regression shows the full model that how the relationship is strong between variables.

Dependent Variable: ROA
Method: Panel Least Squares
Date: 07/27/20 Time: 23:43
Sample: 2008 2018
Periods included: 11
Cross-sections included: 5
Total panel (balanced) observations: 55

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.921864	0.454027	-2.030419	0.0375
MARK_EXP	-0.037161	0.019810	-1.875843	0.1464
SALE	0.127763	0.051731	2.469768	0.0069

-

SALES_GROWTH	-0.033120	0.022250	1.488566	0.0428

R-squared	0.676958	Mean dependent var	0.094927
Adjusted R-squared	0.628544	S.D. dependent var	0.076985
S.E. of regression	0.071867	Akaike info criterion	-2.358045
Sum squared resid`		Schwarz criterion	-2.212058
Log likelihood	68.84625	Hannan-Quinn criter.	-2.301591
F-statistic	3.655080	Durbin-Watson stat	1.541977
Prob(F-statistic)	0.018337		

After R, discuss about R-squared and adjusted R-squared. R-squared tell about regression model explanation in percentage. If model R-squared and adjusted R-squared value is above 40% to 50% it is acceptable. If the R-squared and adjusted R-squared value above 90% in state term it is called multicollinearity. But in regression model R-squared and adjusted R-squared values between is 60% to 70%. R-squared and adjusted R-squared are significant. If regression value close to the zero in this situation we cannot explain regression model. So, in this situation we are not trust on variable relation and regression model.

Next, select the value of alpha 0.05. Alpha value is select before the applied of regression analysis. If the significant result appears low of 0.05 than we can say that correlation relationship exists between variables. If the significant result appears above of 0.05 than we can say that correlation relationship is not exist between variables. In this situation, correlation will be rejected. If correlation come by the 0.05 when we accept alternative and reject null hypothesis. If correlation above to the 0.05 when we reject alternative and accept null hypothesis.

In regression model, marketing expenses is (0.037) its mean strong relationship between variable and alternative hypothesis is significant. Sales is 0.127 its means weak relationship between variable and alternative hypothesis is insignificant. Sales growth is (0.033) it means strong relationship between variable and alternative hypothesis is significant.

4.3 Coefficient

If the relationship exists less than 0.05 then we see coefficient value. Coefficient value tells about the change of variable that one variable change to how change another variable. Independent variable changes will be changes on dependent variable. If the coefficient value appears 0.57 its mean will be change in one unit. In regression, model one value is Durbin-Watson statistic. Its perfect acceptance is 2. In regression model, Durbin-Watson statistic is 1.54 its mean it is significant. Our model is significant.

5. Conclusion & Future Scope of Research

5.1 Conclusion

In this study we examine the impact of sales and marketing cost on firm performance. As financial performance indicators marketing expenses, sales and Seles growth we are selected. All indicators examine separately to examine we use regression analysis and correlation methods. A final aim of the firm is to maximizing the firm’s profitability by minimizing its expenses so in our study there is a significant relationship between marketing expenses and ROA it is positive and moderate relationship. And there is significant relationship between sales growth and ROA.

5.2 Limitations

The study results a statistical impact between Marketing Expenses and performance of firm (ROA) in cement Industrial Companies Listed in Karachi Stock Exchange.

5.3 Future Scope of Research

This research is not freed from limitations although. Taking under consideration few a lot of firms from each industry or a number of industries could have provided a bigger picture about the impact marketing expenses has on financial performance. Therefore, the findings of this specific study have revealed few gaps, which may be analyzed further. In further studies could also be examined in another industry except cement industry and examine with other indicators (ROI, ROE) their performance.

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