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Interrelation between advertising efficiency and corporate sales

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Companies find it more and more critical to keep up with competition, responding to the every day challenges , forming competitive prices, answering the quickly changing demands of consumers and optimally using the possibilities of the short shelf life products. Companies do not consider it a real solution to increase efficiency via the reduction of costs for they practically have no reserves in this sphere. The solution may be a more effective and well-thought-out use of financial means, thus yielding more results in the sphere of marketing.

Keywords: marketing, marketing-controlling, planning, advertisment efficiency

JEL Codes: M31, M37

1 Effect, efficiency, result

There are numerous researches presented in professional literature on marketing, dealing with marketing communication means, especially the effect and efficiency of applying marketing communication means. However, very few of them deal with the real result and effect of communication means. The effect and efficiency of advertising characterizes only the results on consumers and target groups just like brand awareness, brand loyalty, the ability of brand recognition, the size of target groups reached by the advertisement, the popularity of a particular advertisement within a particular target group, etc. Yet, few scientists deal with the real effect, the way a particular advertisement modifies the company's results, how it contributes to the profit of the company producing a particular product. Even if they do carry out such analyses, they only take into account the short-term effects, disregarding the influence of other factors on sales and the reverberations of previous discount campaigns. They regard marketing budget just a limiting factor to be taken into account to form a communication strategy as far as it limits the expenses to be spent on advertising. Rarely do researchers approach the subject from the aim they want to achieve allocating the necessary expenses for it.

It is not common even for advertising agencies to analyse and estimate the financial effects of the advertisements they create. Financial experts are only thought to serve to maintain the agency's profitability, to control expenses and profits and to provide for the company's profitable functioning (Incze – Pénzes, 2002).

Efficacy is often equalled to effectiveness. The former describes the correspondence to the requirements of those concerned. Efficiency, on the other hand, shows how economically the company uses its resources to achieve the satisfaction level of those concerned (Neely – Adams – Kennerley, 2004). Therefore, we can define benchmarking as the process of transforming the effectiveness and efficiency of past actions into numerical data.

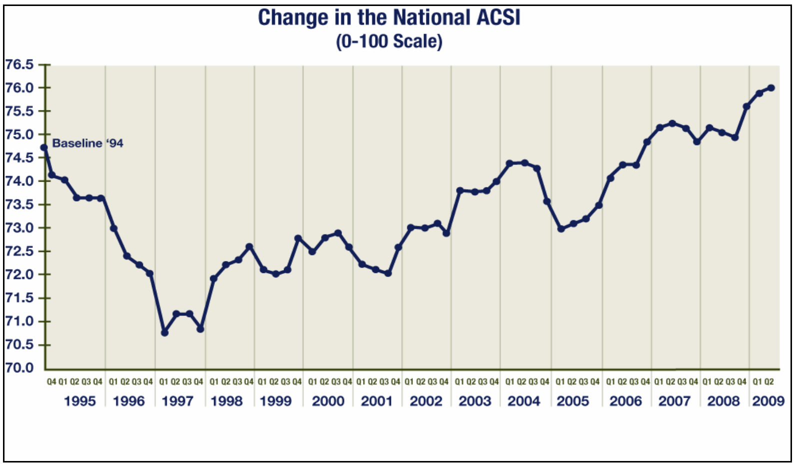
The above mentioned definition clearly shows that the notions of efficiency and economy are closely interconnected and are often used to substitute one another (Francsovics - Kadocsa, 2005). In this light the authors define economic efficiency as the level of efficiency of economic activity when the principle of economy is realized in such a way that activity is based on the maximum use of possibilities.

2 Relation between company effectiveness and company efficiency

As I have already pointed it out above, company effectiveness depends first and foremost on the satisfaction of those concerned, i.e. the company's consumers. We could quite naturally presuppose that the increasing satisfaction level of consumers would be directly reflected in the company's improved financial performance. However, as Neely, Adams and Kennerley (2004) note, practice does not necessarily prove it, which is further supported by numerous prior researches.

One of these researches is based on the American Customer Satisfaction Index formed by the National Quality Research Center established by Claes Fornell. Nowadays more than 200 organizations are estimated on the basis of this index. In 2000 the general customer satisfaction level was 72.8 out of the maximum 100 points. This information can only be relevant in comparison with the data of previous periods. However in comparison with the 1994 estimation, the index fell 1.4 points. Datas from 2001 also show a decrease (or rise), meaning that the level of customer satisfaction does not influence company profit, for in the period referred to, the Dow Jones index was tripled.

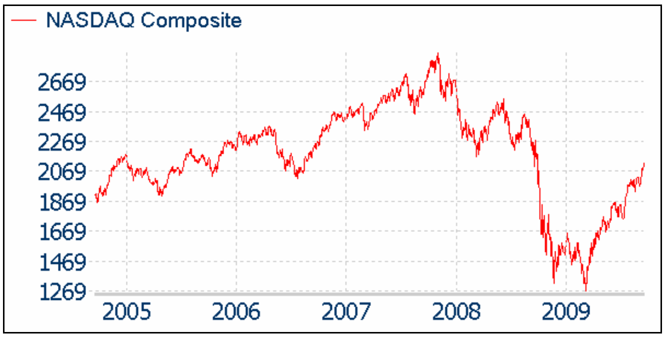
Figure 1.
The American Customer Satisfaction Index between 1995 and 2009.



Source: www.theacsi.org

Observing the last five-year-period we will find, that the customer satisfaction index and the companies' exchange rate [1] fluctuation of securities stock rate formation show a rather weak connection. We can also observe that ACSI only reached its starting rate, i.e. 1994 level, in 2007. At the same time NASDAQ was almost doubled between 2003 and 2007. True enough, that since the second half of 2007 the world's stock exchanges did not show a favourable picture due to the American mortgage market crisis.

Figure 2.
NASDAQ between 2005 and 2009.



Source: euroland.com

1 I did not have the opportunity to collect and analyze the exchange rate of the companies included in the ACSI index, therefore I used the aggregate index of securities distributed on NASDAQ, which includes the rates of all traded securities, thus presenting with high degree of probability relevant information on the general tendencies of American company rate changes.

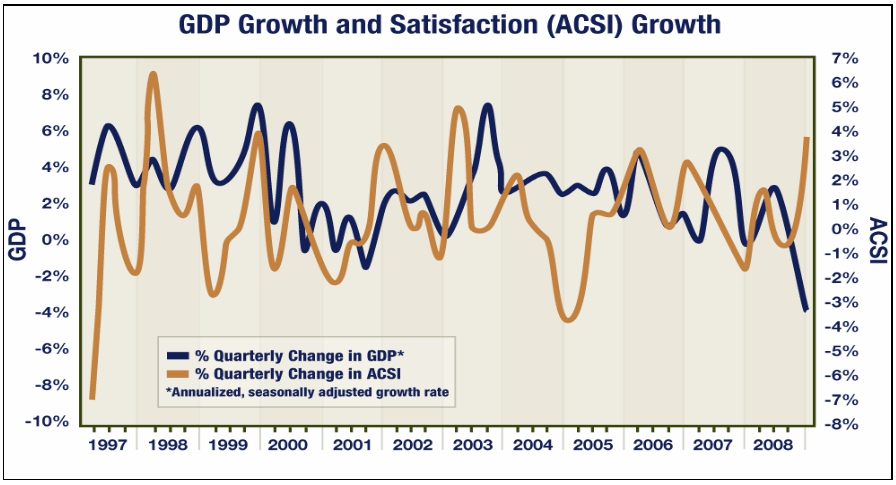
When examining the changes within the ACSI index, in relation with S&P 500, we will find similar alteration both in their direction and in their degree (especially regarding the 1995-1996 and the 2005-2007 years), however the strength of relation may be qualified as rather weak.

Figure 3.
S&P 500 and ACSI score between 1995 and 2009.

Source: www.theacsi.org

At the same time we shall find relation between the changes of the two indexes, GDP and ACSI, in statistic sense, a strong correlated relation. More appreciable deviations occurred in the 1997-1999 and in the 2004-2005 periods. It is rather interesting that the conformations of the Gross Domestic Product mostly follow the directions of fluctuations perceptible in the Consumer Satisfaction Index, and moreover, the degree of changes are alike as well. It would let us conclude, that consumer satisfaction greatly influenced the extent of demand and therefore the volume of economic performance. Yet, in lack of any deeper examination we should not draw any far-reaching conclusion.

Figure 4.
GDP growth and ACSI growth *between 1997 and 2008.*



Source: www.theacsi.org

Neely, Adams and Kennerley (2004) state that the discrepancy between consumer satisfaction and company performance can be explained by the fact that the former years show different understanding of what is to be expected. Consumer expectations regarding the level of goods and services have considerably increased. Moreover, consumers show better willingness to complain.

A 1997 survey conducted by the National Consumer Council in the UK shows that in 1992 only 25% of the respondents complained about the level of service, while by 1996 this rate rose to 43%. Quite often even making it easier for the consumer to complain may help. The results of the research carried out by Chapman University of California testify, that that client satisfaction may be risen even by encouraging them to share their complaints.

In 1996 and 1997 at the request of the American PNC bank a research was carried out, which proved that satisfied clients proved to be economically more advantageous for the bank than those, less satisfied. 1500 clients took part in the 1996 experiment, the connection between the clients' satisfaction level and their real behaviour was estimated by the means of their account balance and past transactions. Researchers found that the account balance of highly satisfied clients was about 20% higher than the account balance of fairly satisfied clients. Curiously, the account balance of just fairly satisfied clients was not higher than that of the dissatisfied. The investigation of differences between the variant branch banks enabled the scientists to elucidate the fact, that in those branches where the highly satisfied clients formed the majority, the branch bank's profitability was about 23% higher than that of others. In those branch banks where the fairly satisfied clients formed the majority, profitability was below average.

The research group also analysed what happened if the client satisfaction level changes. For this reason they compared the satisfaction level and account balance of the members included in the 1996 survey, with the satisfaction level and account balance of the same people 15 months later. The results of the comparison showed that the account balance of the clients who were highly satisfied in both periods, grew by 4800$. Those who moved from fairly satisfied level to the highly satisfied one, increased their account balance by 4500$. In case of transfer from the highly satisfied level to the fairly satisfied one, the account balance generally decreased by 1000$. The step back from the fairly satisfied status to the dissatisfied one resulted in a 1400$ decrease in their bank account.

3 Studying the influence of advertising

The influence of advertising is studied by various answer-hierarchy-models, which emphasize and then focus on a certain period of the customer response reaction.

One of the oldest models of feedback process was elaborated by Strong in 1925 – the AIDA model. In the AIDA model the consumer passes through the stages of attention, interest, desire, and action. The strength of the initial advertising impulse and the consumer's current state determines how far he will reach in the model. In the AIDA model the presupposed advertising influence is strong enough to inform people, to change their attitude and to transform them into buyers. The model is not applicable to those goods and services we would buy without intensive emotional ties to them. Moreover, it does not model either, how advertising influence works with people who are not first, but repeated buyers of the product, while the greater part of advertisements is directed at those who have already bought the brand at least once (Baker, 1984; Kiss, 2003).

According to Ehrenberg's ATR-model (1974) advertisements exercise much less influence on people's decisions than stated in the answer-hierarchy models. The ATR model levels include awareness, trial, and reinforcement. A typical consumer tries the product first and only then, in case of a positive experience, will he form ties to the brand. In case of a negative experience the consumer will reject the product. An important stage in the buying process (deciding) is trial, for only after the first purchasement can the advertisement render encouragement and reinforcement.

Binet (2003) rejects those methods, which are based on assumptions, related to the functioning mechanism of advertisements; he names them old-fashioned and outdated. He counts them among the so-called "tracking procedures" for they take it for granted that each advertisement functions in the same way. He exemplifies it by stating that the majority of methods claim recognition and awareness, i.e. verbal evocation to be indispensable conditions for the efficiency of the advertisement. However, in accordance with the latest investigations advertisements function differently and in many cases there is no need for verbal evocation. Health (2001) says, there is no need for traditional tracking investigations in case of some advertisements for they are based on subconscious or non-verbal habituations. Binet sees the role of tracking methods in explaining the way advertisements work, though they do not help in judging whether an advertisement is successful or not.

4 Advertising efficiency

All efforts of marketing are aimed at increasing revenue and profit. If all the other departments of the company perform well; produce good products at low cost, with proper marketing methods and market them at a favourable price, then the effectiveness of advertisement may be measured via the increasing turnover or revenue. The term of advertisement effecticiency means the compensation gained from the increase of profit due to the expenses spent on advertising (Bauer–Berács, 1998).

Binet (2003) believes to be efficient, which shows result, respecting the determined or aspired result. Thus, efficiency in his understanding means that we achieve the aspired aim; consequently efficiency measurement and valuation mean the comparison of results and aims determined by the client.

Advertising costs for are relatively easily measured factors, however, the resulting turnover is hardly, if ever. One of the reasons for this, is the fact, that consumer decisions are influenced not only by marketing communication factors, but by many others as well. The second reason is that the "all the factors are unchangeable" principle rarely happens in reality, if ever. Despite this, the concerned try to prove the correctness of their decisions by comparing expenditures to profit changes.

Binet (2003) joins those who believe that it is much more effective to consider what customers do, rather then what they say. Relevant datas of customer attitude like incidence, frequency, customer crowd, etc. tell much more about financial return. The only possibility is, to examine real business data, especially in connection with sales analysis.

The common aim of advertisements is to make profit by maintaining or increasing marketing volume, thus, sales data are most appropriate in estimating the efficiency of advertising. Binet furthermore adds that value-estimated sales is most efficient, in contrary to quantity-based sales, for the estimation method applies to changes caused by prices, thus standing closer to financial return.

Binet (2003) considers that in the majority of cases not advertisement is not the most influential factor in sales. Instead, they are direct marketing, sales incitement, other marketing activity, price formation, environmental factors, competitive activity, seasonality, economic situation, etc. Thus, to determine the efficiency of advertising we have to filter out the effect of advertising. In some cases it is easy, but in the majority of cases it is nearly impossible to exclude other influential factors, especially in cases of a complex marketing campaign. According to the author, econometric modelling may be the solution, which enables one to analyze sales profit.

When determining marketing efficiency we search for the answer how popular the company's goods are and how profitable their markets are.

5 Determining marketing performance

The move towards marketing performance was due to the fact that company managers did not get the necessary information from the traditional benchmarking indices on how the application of marketing means influenced company performance (Clark, 1999). Among company functions marketing plays a major role, also in connecting the company to its milieu, so therefore it has to be the basis for benchmarking as well. It testifies to the necessity of measuring marketing performance, building an index scale, and approving the corresponding subjective indices by the top management. The application of such a system, while bearing in mind the effects of marketing activities, can contribute to the development of the long-term company strategy, to the refinement of benchmarking system and to the return of money invested into marketing (Sajtos – Berács, 2004).

However, measuring marketing performance can only be carried out with the help of a developed controlling system; the latter's task is to provide the managera with decision-facilitating information. What the decision-facilitating information means for a company, depends on the inner and outer challenges the company faces, and, consequently, at what stage of development the company is (Kiss, 2001). The task of the controlling system is to provide the managers with proper information to make proper communication decisions, at the same time it is to render trustworthy data on the effects, efficiency of certain marketing actions, and after their realization it is to measure relevant results, consequences, thus confirming the efficiency of communication.

6 Lack of information as a factor limiting the judgement of effectiveness

The measurement and analysis of resulting effects caused by advertisements is quite an information-consuming activity. To obtain this information one needs financial resources as well. Sometimes information security can be increased quantitatively. In general the expenses for obtaining information are commensurate with its amount. In some cases it is irrational, in others it is impossible to increase the amount of information beyond some limit. It might happen that the allotted time prevents one from obtaining the necessary amount of information, or the limited financial resources might do so (Pálinkás, 1999).

In most cases it impugns the measurement of marketing performance effectiveness for small companies. If it is really so, then what makes it reasonable and rational to spend money on advertising and marketing at a small company? What is the information on the basis of which the company decides whether the expenses were reasonable or not? Why spend money on something whose effects we know nothing about?

7 Conclusions

Marketing activity typically forms the non-manufacturing part of a company. Marketing processes merging one into another are mostly incomprehensible, hardly manageable. The cost-intensive expenses for the application of particular marketing means are known, while determining their resulting effects is much harder. However, it often happens that the company specialists in the process of analysis can easily – but erroneously – determine the revenue and the profit resulting from their expenditures.

We are mistaken even if we think that we can see clearly in the sphere of expenditures: a certain advertising campaign and the necessary expenses for its realization. Mostly the corresponding expenses encumber the object of the advertising campaign, for instance a detergent brand. It is a mistake, for we do not consider the fact that the expenses allotted for a particular advertising campaign can exercise influence not only on the particular detergent brand, but furthermore on the producer, thus improving or spoiling its reputation and image. An advertisement can also influence the producer's other goods, thus we have to take into account not only the effect on the advertised product, but also other related products as well; we have to analyze proportionally the influence exercised on each particular product, and then divide the expenses accordingly. It would be worth to take into account the negative effects as well, for it may happen that the advertisement does not improve the market position of a product of the advertiser, but quite contrary, it worsens it. The situation is very similar from the results point of view and it significantly exceeds the fact that specialists analyse the effectiveness of an advertising campaign by comparing the turnover before and after the campaign and they call the result the profit of the advertising campaign. However, similarly to the above-mentioned statements in the analysis of advertisement efficiency one has to consider again all the other goods, and the positive influences exercised on the company. And still there are more difficult issues: one has to determine the amount of resulting effect. One has to be aware of how long the campaign influences the changes. A great challenge is to transform the effects of a marketing communication campaign into numbers, to make it financially measurable. This is, however, extremely important, for they will influence the future revenue of the company.

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