Communication Budget Allocation in the Greek Food Industry

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Abstract: *This study provides an analysis of the communication budget allocation in the Greek food industry. The purpose of this article focuses first on improving our understanding of whether the paradigm shift in budget allocation from advertising to sales promotion exists or not in case of Greek food industry, and second how communication expenses affect firms' performance in regards to sales volume and profitability. The results show that the advertising expenses is a very small part of total communication expenses and the trend for the advertising expenses has shown a remarkable decrease while the trend for the sales promotion budgets has shown an increase that time. For the second hypothesis the results show that total communication budget would have a twofold effect on financial performance: communication intensity, as expected, is positively related to sales growth and negatively related to profitability.*
Keywords: *advertising, promotional expenses, communication budget*

1. INTRODUCTION

Traditionally, it is believed that the budget allocation decision concerning the communication mix is heavily influenced by whether the firm chooses the philosophy behind the pull strategy or behind the push strategy (Achenbaum and Mitchel, 1987; Olver and Farris, 1989; Kotler and Keller, 2007). In the case of a pull strategy, both advertising and sales promotion such as mass media advertising, point-of-purchase materials, and packaging primarily help the manufacturers build, maintain, and reinforce consumer franchise for by true brand loyalty pulls the product through the distribution channels (i.e. retailers and wholesalers). In contrast, under a push strategy, manufacturers push the product through the distribution channels toward the final consumer. Thus, the manufacturers' marketing efforts are directed toward channel members to induce them to carry the product and promote it with in-store attractiveness to the final consumers. The manufacturers' concern is whether their budgets are being allocated and implemented in an effective way.

Undoubtedly, we can capture the thinking of manufacturers based on their budget allocations in relation to pull and push strategies. In general, we can trace the historical data pertaining to communicating expenditures by analyzing advertising, trade promotion, and consumer promotion, which are the way most companies announce their communicating expenditures. However, whether the expenditures of the two strategies could be empirically estimated correctly is still an open question. The question which arises is how to classify consumer promotion in this context. Consumer promotion (like point-of-materials) can be a part of a pull strategy and consumer promotion (like discount coupons, for example) can be used as a push strategy at the same time. In short, determining a pull-versus-push strategy to identify the trend of relative budget allocations is almost impossible. Advertising for long-term brand-building activities is designed for increasing price by means of strong brand franchise while sales promotion is planned for increasing sales volumes, usually through price-off (discount) promotions. Kotler and Keller (2007, pp.278-330) describe six major modes of communication mix. They include advertising, sales promotion, direct marketing, personal selling, public relations and publicity, events and experiences. However, there are some criticisms of this classification system. For example, personal selling and direct marketing could be considered as marketing activity forms, but not marketing function like advertising and sales promotion (Otsuki, 2005). Apparently, direct marketing is often used as a part of advertising or sales promotion, and personal selling seems to be closely related to sales promotion. As for the latter two modes in six major modes, these would be roughly classified into advertising in this way.

Advertising is often considered as a relatively indirect form of persuasion with regard to information or emotional appeals about product benefits, which is intended to create favorable mental impressions (brand loyalty) that turn the mind toward purchase. On the other hand, sales promotion is often considered as a more direct form of persuasion with its frequent external incentives (rather than the focus on inherent product values or benefits) which is intended to stimulate more immediate purchases than would otherwise occur. To put it differently, whereas advertising offers a reason to buy, sales promotion offers an incentive to buy (Kotler and Keller, 2007, p.302).The similarity between them is that they both are a form of marketing communication. Yet, they can be used in different ways to achieve the same communication objectives for the brand

The latter shows that most of the forms of marketing communication strategies are considered by the managers as complementary and it is important for the researchers who investigate the indicators of firm's performance, to take into account the supplementary effect of advertising, trade promotion, and consumer promotion, on firm's performance.
This study provides an exploratory analysis of the marketing communication budget allocation in the Greek food industry. The purpose of this article focuses on improving our understanding of whether the paradigm shift in budget allocation from advertising to sales promotion exists or not in case of Greek food industry, and if this is the case, how total communication expenses affect firms' performance in regards to sales volume and profitability. The specific aims of this article therefore are first, to review briefly the current status in Greek food industry and the many different ways of the marketing communication budget allocation. Second, to develop and test a model that evaluates the relative importance of total communication expenses (and not only advertising expenses) in explaining profit rates and growth across Greek food firms.

2. LITERATURE REVIEW

A significant number of studies devoted to explain the fundamental changes in the advertising-to-sales-promotion ratio (Johnson, 1988; Buzzell, Quelch, Salmon, 1990; Messinger and Narasimhan, 1995; Ailawadi, 2001). The growing buying power of retailers with resulting short-term viewpoints on the part of manufacturers managers, had as a result reductions in advertising and the rapid change in the relative proportion of trade promotion compared to total sales promotion. Also, considerable attention has been paid by researchers to build up models to capture the relationships between sales and different marketing efforts to allocate budget (Christen et al., 1997; Dube and Manchanda, 2005; Elberse and Eliashbery, 2003; Jofre-Bonet, 2000; Klapper, 2005; Krider et al., 2008; Mazzeo, 2006; Peter et al., 1996; Rossi et al., 1996; Rutkowski, 2006; Seetharaman et al., 2005; Vilcassim et al., 1999; Wind, 2008; Zhang et al., 2000). On the other hand, the short- and long-term effects of various marketing efforts on sales has been viewed with growing concern by both practitioners and academics (Lara and Ponzoa, 2008; Luo, 2009; Mesak and Callaway, 1995; Praxmarer and Gierl, 2009; Richardson, 2004; Susan, 2008; Uzelac and Sudarevic, 2006; Villanueva et al., 2007; Weber, 2002).

There are some studies in Japan focused on the changes in the relative proportion of advertising versus sales promotion, compared to other countries, especially America. Otsuki (1998) emphasized the shift of focal points in manufacturer promotion strategy from a mass media advertising-oriented one to an in-store marketing-oriented one in consumer packaged goods. In the building of indicators, he considered advertisement expense as the index of mass media advertising allocation whereas sales commission and promotional expenses and others were regarded as the index of budget allocation of in-store marketing. Kim's study (2010), dealt with all the companies which were willing to open their communication expenditures from 1967 to 2007 to the Nikkei Need-FinancialQUEST. Based on his study, sales promotion has been sharply increased on account of the rapid growth of promotional expenses and others.

Most of the Industrial Organization empirical research on determinants of firm's performance refers only to advertising and especially media advertising (Notta and Oustapassidis,2001;Martin,2001). There is a rich literature on the effect of advertising on profitability but little has been written for the effects of non advertising sales efforts. In case of Greece the study of Vlachvei et al (2009) tried to identify the main categories of promotional expenses and their contribution to the total promotional expenditures using data of 43 Greek wine firms over the period 1993-2000. The other than advertising promotional expenses found to be the major part of promotional expenses. For the Greek wine firms promotional expenses include promotion through the development of new informational labeling referred to origin and specific wine attributes, coupons, free samples, catalogues, new market channels through "wine routes". These ways of promotion seems to be more effective to create goodwill for the company and to increase consumer loyalty than advertising. The results show that total promotional expenses along with market share affect profitability.

3. COMMUNICATION BUDGET ALLOCATION

The relative allocation issue is critical for many brand managers today whose budgets are flat or declining, and who must make trade-offs in deciding how to best allocate scarce marketing communications resources. According to Figure 1, the European advertising market recorded a slight increase (0.3 percent) in 2011versus 2010 in spite of the worsening economic crisis in the eurozone, propped up by stable spending in France (+4.1%), Germany (+0.6%), and the UK (1.1%). Conversely, large markets Italy and Spain posted negative advertising spending for the year, at -0.9 percent and -9.0 percent respectively, while in Greece there was a -5.9 percent decrease in advertising spending(www.Nielsen.com).

The food sector was a main contributor to the slowdown in the market, with a -4.9 percent decline in spending. Representing a 25.9 percent share of spend, decreases in food advertising spending highly impact the market, especially in countries like Greece, where the decrease in food advertising spending reached -16 percent (Media Services, 2012).

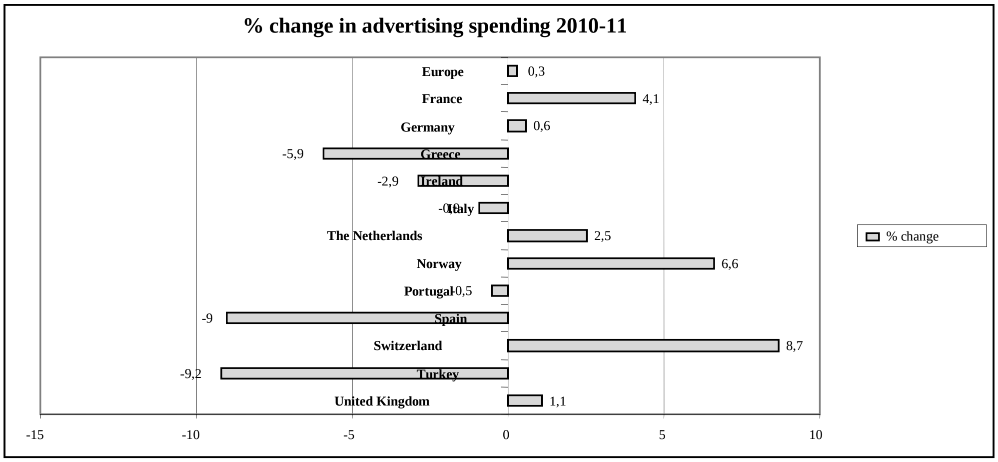

Figure 1: % change in advertising spending 2010-2011
Source: www.Nielsen.com

Unfortunately there are no available data for other than advertising expenses as sales promotion, direct marketing, personal selling, public relations and publicity, events and experiences per firm in case of Greece. The only way to collect data for communication allocation budget is from personal conduct with the companies and from the detailed Annual Financial Reports that some large firms use to publish. Up to now we collected data for 17 large food manufacturing firms over the period 2007-2010. Of course, there might be some criticism regarding using the small sample size in generalizing the results to the whole food industry. However, this is an ongoing research and we believe that is representative of the distribution of the communication expenditures. Based on data collected for the Greek food manufacturing firms for the period 2007-2010, we tried to investigate whether the paradigm shift in budget allocation from advertising to sales promotion exists or not. The profile of communication expenditure is presented in Table 1. It includes four major categories: promotional expenses, advertising expenses, sales commission and transportation cost.

Table 1: The profile of communication expenditure for Greek food manufacturing firms

Item name	**Data definition**
Promotional expenses and others	Payment for collection agency services, display costs, decoration costs, sample costs, expenses for market research on sales, coupons, cash refund offers, discounts, premiums, prizes, patronage rewards, warranties, point-of-purchase displays, demonstrations etc
Advertising expenses	Newspapers, television, direct mail, radio, magazine, yellow pages, newsletter, brochures, telephone and internet
Sales commission	Sales commissions and sales incentive paid to wholesalers, sales agencies, and special agencies Sales rebates
Transportation cost	Transportation cost

The trend of the budget allocation for advertising expenses, sales commissions, transportation cost and sales promotion budgets for 2007-2010 is shown in Figure 2. There are two main remarks: First, the largest part of communication expenses goes to transporting products, while the advertising expenses is a very small part of total communication expenses and second, the trend for the advertising expenses has shown a remarkable decrease while the trend for the sales promotion budgets has shown an increase that time. Hence, we can interpret these trend changes as the shift of budgeting allocation in manufacturers' communication strategy from being advertising-oriented to being sales promotion-oriented.

5. EMPIRICAL MODEL AND RESULTS

Most of the empirical research on advertising and promotional strategies refers to expenditures on advertising and especially media advertising. There is a rich literature on the effect of advertising on profitability but little has been written for the effects of non advertising sales efforts. Since there are no available data for communication budget allocation and sales per month or per week, or according to strategies used by each firm, we follow the hypothesis that advertising and promotion serve distinct but complementary roles in achieving the objectives and goals of a marketing program, and we develop and test a model that evaluates the relative importance of total communication expenses in explaining profit rates and growth across Greek food firms.

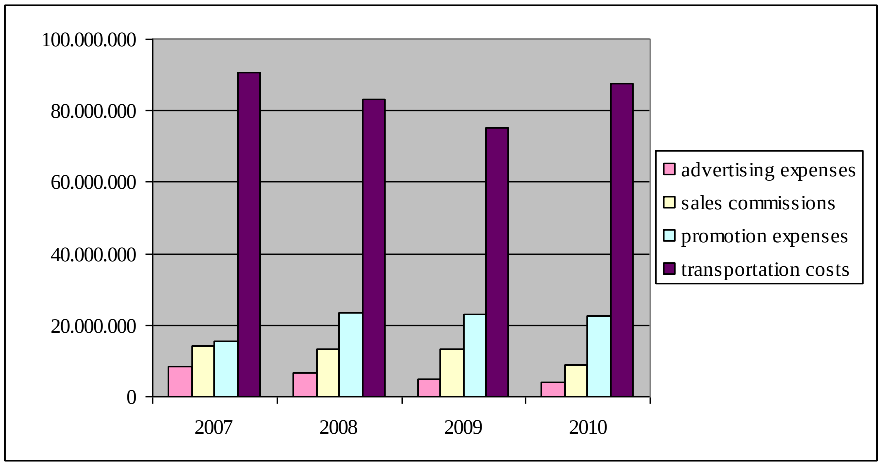

Figure 2: The budget allocation for advertising, sales commissions, transportation cost and promotion expenses.
Source: authors' calculations

The empirical work is based on financial data obtained from the balance sheets and income statements published by two proprietary companies ICAP HELLAS, HELLASTAT. A time series cross sections analysis for the period 2003-2010 carried out, in order to investigate how marketing firms' performances are affected by the communication budget in regards to sales volume and profitability. With regard to the variables used, Profitability (PR) is measured as the ratio of gross profits over total assets while Growth (GR), is measured by the sales growth rate, as the ratio of firm's sales of year t minus the sales of year t-1, over sales of year t-1,$(S_{i(t)}-S_{i(t-1)})/S_{i(t-1)}$. Following much of the recent literature, communication intensity (COMS) is measured as the ratio of the total amount of advertising, sales commission, transportation and promotional expenses over sales. We adopt as a measure of firm age (AGE) the number of years a firm is operating in an industry. As financial variables we include also leverage (LEV) which is the ratio of short liabilities over total assets and LIQ which is the ratio of current assets over liabilities.

Following other empirical studies (Spanos et all, 2004; Barbosa and Louri, 2005; Cowling, 2004) we test the relationship between a firm's profitability and growth with the explanatory variables as follows:

$$PR=a_0 +a_1COMS +a_2COMS^2 +a_3 LEV+a_4LIQ+a_5AGE \qquad (1)$$

$$GR=a_0 +a_1COMS +a_2COMS^2 +a_3 LEV+a_4LIQ+a_5AGE \qquad (2)$$

Following other empirical studies (Chintagunta and Vilcassim 1992; Piga 1998; Oustapassidis, 1998; Notta and Oustapassidis, 2001, Vlachvei et al, 2009) we test the nonlinear relationship between profitability and growth on the one hand and sales promotion intensity on the other by introducing the squared value of the variables ($PROMS^2$) in the equation.

Table 2 shows the estimated results of regression analysis. In profitability equation model the results of Hausman-test for orthogonality suggested that individual effects were correlated with other repressors; thus we used fixed effects regression to produce unbiased regression coefficient (H=25.42, d.f. =5, p=0.00). In growth equation model the results of Hausman-test for orthogonality suggested that random effects regression is the appropriate estimation method for the model (H=10.54, d.f. =5, p=0.06). Firstly, the relationship between sales communication intensity and profitability is linear since the coefficient of communication intensity is negative and significant while the coefficient of its square value is positive but not statistical significant. The latter shows that the effect of communication expenses is negatively related to firm's profitability mostly due to limited advertising and growing use of discount promotional activities. It is interesting to note that the results are consistent with previous studies (Kim, 2011)

Secondly, it is found that there is a U-shaped relationship between communication intensity and growth which implies that communication intensity affect growth positively only when firm reaches a certain level of communication intensity. More specific the coefficient of communication intensity is negative and significant while the coefficient of the square of communication intensity is positive and significant. These results indicate that communication intensity can lead to higher growth only after reaching and passing a critical value of communication expenses. This critical point is when coms= 30.7% (1.112/2*0.5515). When firms spend more than 30.7% of their sales on promoting their products can increase growth. However taking into consideration that the mean value of communication expenses is about 33.6%, this shows that the majority of firms use intensively the strategy of communication expenses to increase their growth. This result shows that, in practice, growth increases as communication intensity rise when firms spend at least a minimum level of communication expenses.

6. CONCLUSIONS

Based on data collected from both secondary and primary sources for 17 Greek food manufacturing firms we tried to investigate the following two hypotheses: first, whether the paradigm shift in budget allocation from advertising to sales promotion exists or not, and second, how firm's performance is affected by the total communication budget (and not only advertising) in regards to growth and profitability.

For the first hypothesis the results show that the advertising expenses is a very small part of total communication expenses and the trend for the advertising expenses has shown a remarkable decrease while the trend for the sales promotion budgets has shown an increase that time. Hence, we can interpret these trend changes as the shift of budgeting allocation in manufacturers' communication strategy from being advertising-oriented to being sales promotion-oriented. For the second hypothesis the results show that total communication budget would have a twofold effect on financial performance: communication intensity is positively related to sales growth and negatively related to profitability.

Table 2:Communication expenses and firm performance indicators

	PR	GR
COMS	-1.68 (-2.36)*	-1.11 (-2.68)*
$COMS^2$	0.71 (1.76)	0.55 (2.02)*
LEV	0.185 (0.51)	-0.268 (-1.17)
LIQ	0.48 (0.65)	0.48 (1.91)
AGE	0.015 (0.03)	0.007 (0.11)
Constant		4.64 (15.27)
R^2	0.97	0.67
Adj. R^2	0.95	0.39
Number of observations	51	44
Hausman Test	25.42 (5df, 0.00)	10.54 (5df, 0.06)

t-values in parentheses
* denotes statistical significance at 5% level of significance

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