Relationship between Marketing Strategies and Firms’ Financial Performance in Food Producers Sector of Pakistan

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Abstract
Study reflects the effect of marketing strategies on the firm’s financial performance. Marketing strategy is not just evaluating the external and internal factors, but it also needs to be financed efficiently to develop an attractive product and distribution channel, and to hire an effective sales team to generate business support for the firm. The study incorporates secondary data of 14 firms of Food Producers Sector for the period of five year from 2009 to 2013. The study compared low marketing cost firms and high marketing cost firms in the terms of their sales revenue and financial performance. The findings of this research paper contribute to marketing theories, by using the marketing expense as a variable to know the influence on financial performance of a firm. Overall descriptive and econometric results suggest that firms can achieve financial performance through appropriate marketing strategy. The study is a contribution in the field of marketing research and provides managers useful insight in their own strategic decisions.

Keywords: Financial Performance, Low and High Marketing Costs Firms, Sales Revenue, Selling and Marketing Expenses.

JEL Classification: M31, G39

1. Introduction
The research is attempted to know the importance of selling and marketing expense in the firms and its financial benefits. Marketing strategy is not just evaluating the external and internal factors, but it also needs to be financed efficiently to develop an attractive product and distribution channel, and to hire an effective sales team to generate business support for the firm. A firm with efficient marketing strategy could achieve its long term objectives, higher returns from financial aspect, and un-substitutable advantage in the market. There is a significant relationship between capabilities and performance (Barney, 1986; Peteraf, 1993; Makadok, 2001).

Cross functional relationships exist in different departments, therefore it also exist between marketing and operations. According to Porter (1985) marketing and operations are the two key functional areas that affix and create value to customers. According to Wind, 2005, it is broadly accepted even among business leaders that skill to incorporate cross-functional know-how is essential for continued enlargement and profitability. The concept of strategic marketing also defines that before developing a strategy the departments which are stake holders of the company should give opportunity to develop their own strategy, and then all those strategies to be analyzed as whole to develop an effective and long term beneficial strategy. In this context marketing department is financed on the basis of the strategy provided by them to develop and generate new business opportunities using marketing mix techniques. According to Hitt, Hoskisson and Kim (1997) argued that the ability of an organization to manage diversification depends on their cross-functional capabilities and coordination activities.

Evaluation of internal strength is necessary in order to establish distinctive capabilities in the market. Resource Based Value (RBV) is a concept which determines that company needs to evaluate their internal strength in order to achieve opportunities available in the market. According to Amit and Schoemaker (1993), they define resource as “stocks of available factors that are owned or controlled by the firm”. RBV theory proposes that every firm has a unique set of resources and potential, and some capabilities will have greater impact on financial performance than the others (Song, Benedetto & Nason, 2007).

Market oriented strategies gives firm an advantage to accept changing in the market and create new opportunities to achieve competitive advantages. Firm finds market gaps or demand which are not fulfilled and through their distinctive capabilities in order to achieve superior performance. Marketing capability creates a strong brand image that allows firms to produce superior performance (Ortega & Villaverde, 2008).

1.1. Objectives of Study
The work is done to describe the relationship between marketing strategies and firms’ financial performance and the importance of marketing strategies in Food Producers Sector of Pakistan. The study can be used in future for decision making by the experts and professionals in the sector of Food Producers. With the help of this work they can study the impact of marketing strategies on the firms’ financial performance. The study is for academic purposes therefore the scope is not too much broad. The basic aims and objectives of the study are as under:

1. Compare the high and low marketing costs firms on the basis of last five years data.
2. Compare the sales revenue between low and high marketing costs firms.
iii. Study the impact of marketing strategies on financial performance.
iv. Does financial performance creates the ways to increase marketing expenditures?

1.2. Hypotheses of Study

a. $H_{0a}: \mu_{low} = \mu_{high}$ (Sales revenue of both groups A and B is equal)
   $H_{1a}: \mu_{low} \neq \mu_{high}$ (Sales revenue of both groups A and B is unequal)

b. $H_{0b}: \rho \leq 0$ (Relationship between marketing costs and sales revenue may be negative)
   $H_{1b}: \rho > 0$ (Relationship between marketing costs and sales revenue is positive)

c. $H_{0c}: \vartheta_n = 0$ (Insignificant impact studies between sales revenue and marketing costs)
   $H_{1c}: \vartheta_n \neq 0$ (Significant impact studies between sales revenue and marketing costs)

d. $H_{0d}: \delta = 0$ (Selling and marketing expenses do not Granger cause sales revenue)
   $H_{1d}: \delta \neq 0$ (Selling and marketing expenses Granger cause sales revenue)

e. $H_{0e}: \varphi_n = 0$ (Marketing strategies insignificantly impact the financial performance)
   $H_{1e}: \varphi_n \neq 0$ (Marketing strategies significantly impact the financial performance)

2. Literature Review

In the light of Research Problems, this study represents the most appropriate literature on relationship between marketing strategies and firm’s financial performance. According to Porter (1985), he disagreed that all practical areas of business contribute towards goods delivery and services but marketing and operations are the two key functional areas that affix and create value to customers.

According to Ho and Tang (2004), difference between these two functions direct to production incompetence and customer dissatisfaction; whereas a proper fit lead to better competitive benefit and sustainable returns.

According to Wind (2005), it is broadly accepted even among business leaders that skill to incorporate such cross-functional know-how is essential for continued enlargement and profitability.

Resource Base View theory proposes that every firm has a unique set of resources and potential, and some capabilities will have greater impact on financial performance than the others (Song, Benedetto & Nason, 2007).

According to Liebermann & Dhawan, 2005, efficiency is described as the ratio of a firm’s return to that of its input is measured in terms of the most feasible output which can be acquired with a given set of inputs.

According to Ittner and Larcker (1996), senior executives distinguish the value of customers. They still believe heavily on financial measures because customer metrics are not clearly defined. Furthermore, techniques exist for evaluating the financial return from particular marketing expenditures (e.g. advertising, direct mailing and sales promotion) given a longitudinal history of expenditure.1

According to Schultz and Gronstedt (1997), the condition of an extensive record of longitudinal data has made the application of return on investment (ROI) models fairly unusual in marketing. As a result, Upper Management has too often viewed marketing expenditures as short term costs rather than long term investments and as financially inexcusable.

Strategic marketing literature has studied widely the costs and the benefits of diversification strategy and its impact on competitive advantage for an organization (see Chakrabarti, Singh & Mahmood, 2007; Palich, Cradinal & Miller, 2000; Ramanujam & Varadarajan, 1989).

Researchers have particularly focused on the effect of product/service diversification which is defined as the synergy in different lines of business (Berger & Ofcek, 1995; Bettis & Mahajan, 1985).

According to Hitt, Hoskisson and Kim (1997), they argued that the ability of an organization to manage such diversification depends on their cross-functional capabilities and coordination activities.

It is widely accepted that efficient linkage of various internal functions within an organization and interactions among them is crucial to manage the ‘curvilinear effects’ of diversification on performance (see Narasimhan & Kim, 2002; Palich et al., 2000).

According to Amit and Schoemaker (1993), they define resource as “stocks of available factors that are owned or controlled by the firm”. According to Barney, 1986; strategic marketing researchers have used RBV to understand the inter-firm difference in performance.

In addition, the result suggests that there is a significant relationship between capabilities and performance. Strategic management researchers have used Resource Base View to understand the inter-firm difference in performance. (see Barney, 1986; Peteraf, 1993; Makadok, 2001).

According to Resource Base View a coordinated effort by the firm to make these two capabilities as “immovable and inimitable” can bring the competitive edge (Dutta et al., 1999; Liebermann & Dhawan, 2005; Narsimhan, Rajiv, & Dutta, 2006).

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1 For a review, see article by Berger et al. 2002
The role of being “market driven” and its impact on firm performance has been an active area of research in marketing discipline (Song et al., 2008). The marketing capability creates a strong brand image that allows firms to produce superior performance (Ortega & Villaverde, 2008).

### 3. Data and Methodology

The study is all about the relationship between marketing strategies and firms’ financial performance. The study focuses on descriptive and explanatory research designs. The study incorporates secondary data of 14 firms of Food Producers Sector for the period of five years from 2009 to 2013. In starting 17 firms those are listed on Balance Sheet Analysis of State Bank of Pakistan were selected for the study but unavailability of complete data 3 firms had to be dropped. The study incorporates data from 2009 to 2013 because State Bank of Pakistan only published data up to 2013 and study avoided to collect the data from different sources to reduce the variation in observations. In this study the total 14 firms were qualified for further analysis and study distributes these firms in two groups (Group A and Group B). In Group A the seven firms are included on the basis of their selling and marketing expenses, the firms those average selling and marketing costs were less than 300 million are in Group A and the firms those spend more than 300 million on selling and marketing are in Group B. The details of both groups are given in table 1.

<table>
<thead>
<tr>
<th>Group A Firms</th>
<th>Group B Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Clover Pakistan Ltd.</td>
<td>1. Engro Food Ltd.</td>
</tr>
<tr>
<td>2. Mitchell's Fruit Farms Ltd.</td>
<td>2. Ismail Industries Ltd.</td>
</tr>
<tr>
<td>4. Noon Pakistan Ltd.</td>
<td>4. Nestle Pakistan Ltd.</td>
</tr>
<tr>
<td>5. Punjab Oil Mills Ltd.</td>
<td>5. Rafhan Maize Products Co. Ltd.</td>
</tr>
<tr>
<td>6. Quice Food Industries Ltd.</td>
<td>6. Shezan International Ltd.</td>
</tr>
<tr>
<td>7. S.S. Oil Mills Ltd.</td>
<td>7. Unilever Pakistan Ltd.</td>
</tr>
</tbody>
</table>

The study first describes the relationship between marketing and selling expenses and sales revenue. In section 4.1 the relationship in firms of ‘Group A’ was described and in section 4.2 the relationship in firms of ‘Group B’ was described with the help of bar charts. Furthermore, the section 4.3 describes the difference between low and high marketing costs firms with respect to their sales revenue. Study also compares the means of both groups to test the difference between sales revenue of low and high marketing costs firms. The study uses multi-stage regression first the simultaneous regression models were run to study the relationship between sales revenue and marketing and selling expenses respectively and secondly the study uses simple regression to study the impact of marketing costs on firms’ financial performance. Details relevant to the regression model and variables are as under:

**Flow Diagram 1: Theoretical Framework**

\[
\delta_{i,t} = \delta_0 + \delta_1 \beta_{i,t} + \delta_{i,t}\ 
\]

Where;
- \(\delta\) = Dependent variable performance
- \(\beta\) = Independent variable capital structure
- \(i,t\) = Script for the panel data
- \(\delta_0\) = Slope coefficient
- \(\delta_0\) = Intercept
- \(\delta_{i,t}\) = Stochastic disturbance term
Table 2

<table>
<thead>
<tr>
<th>Dependent Variables (ð)</th>
<th>Independent Variable (Ъ)</th>
<th>Proxy.</th>
<th>Proxy.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inventory Turnover</td>
<td>Log of Selling &amp; Marketing</td>
<td>INVT</td>
<td>LSME</td>
</tr>
<tr>
<td>2. Return on Assets</td>
<td></td>
<td>ROA</td>
<td></td>
</tr>
<tr>
<td>3. Return on Equity</td>
<td></td>
<td>ROE</td>
<td></td>
</tr>
<tr>
<td>4. Net Profit Margin</td>
<td></td>
<td>NPM</td>
<td></td>
</tr>
<tr>
<td>5. Earnings per Share</td>
<td></td>
<td>EPS</td>
<td></td>
</tr>
</tbody>
</table>

4. Empirical Results and Discussion

4.1. Descriptive Analysis of Low Marketing Costs Firms

In the first section of results the study emphasizes the sales performance of low marketing costs firms those are in ‘Group A’. According to figure A-1 given in appendix section, Clover Pakistan Limited had high sales revenue in 2009 and 2010 due to spending more on selling and marketing further thereafter from 2011 they reduced their selling and marketing costs due to which a measure decline studied in their sales revenue. Figure A-2 given in appendix represents the sales revenue and marketing trends of Mitchell’s Fruits Farms Limited which clearly describes the growth in sales revenue due to increase in selling and marketing expenses. In Appendix section, the bar diagrams relevant to all companies of ‘Group A’ are presented and all figures approximately explain the positive relationship between marketing costs and sales revenue.

4.2. Descriptive Analysis of High Marketing Costs Firms

In this section the firms those marketing expenditure is more than 300 million are included and described simultaneously with the help of descriptive bar charts (see figures given in appendix section). High marketing costs firms’ sales revenue has been gradually increasing since 2009. Engro Foods Limited which was recently entered into the market and now today a measure competitor of existent firms Nestle Pakistan Limited and Unilever Pakistan Limited just because of best marketing plans. Moreover, study focuses on the relationship between marketing costs and sales revenue in ‘Group B’ firms which is also positive and is discussed further in detail with help of correlation analysis in section 4.3.

4.3. Comparison between Low and High Marketing Costs Firms

The study divided the firms in two categories with respect to a benchmark of 300 million Rupees expenditure on selling and marketing. The firms those spend less than the benchmark have been placed in ‘Group A’ and firms those spend more than benchmark have been placed in ‘Group B’.

Figure 1

Multiple-bar diagram (in Figure 1) is based on the average selling and marketing expenses and sales revenue of ‘Group A’ and ‘Group B’ firms. Firms those spend less on selling and marketing would avail low sales revenue instead of firms those selling and marketing expenses are high. In Figure 1, the amount sales revenue of the firms of ‘Group B’ is very large than ‘Group A’ firms. The comparison in the form of percentage
is covered in Figure 2 and 3.

### Selling & Marketing Expenses

<table>
<thead>
<tr>
<th>Group A Firms</th>
<th>Group B Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>95%</td>
</tr>
</tbody>
</table>

**Figure 2**

The comparison between low and high selling and marketing expenses firms in the terms of percentage is covered in Figure 2. The figure 2 explains that the portion of ‘Group A’ firms is very small with respect to total expenditure on selling and marketing. The Group ‘A’ firms’ portion is just 5% and remaining 95% is taken by Group ‘B’ firms.

### Sales Revenue

<table>
<thead>
<tr>
<th>Group A Firms</th>
<th>Group B Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>89%</td>
</tr>
</tbody>
</table>

**Figure 3**

The firms (in Group A) spend less cost on selling and marketing therefore according to the Figure 3 the sales revenue for these firms is also low, up to 11% only but the firms with high selling marketing costs have high sales revenue which is approximately equal to 89%. Moreover, the study used compare mean test to justify the difference between sales revenue of both groups. Results are given in table 3.
Selling & Marketing Expenses
Correlation Matrix

because t-statistics is 29.34 with very small near to zero p-value therefore, no evidence studied to accept H₀
Null Hypothesis

were regressed under ordinary least square method with Panel EGLS (Cross-section weights).
The 4th model explains the impact of sales revenue on selling and marketing expenses. The F-statistic of 4th model is 860.8 with R-square 98.88% which means that the marketing costs strongly impact the sales revenue, ᵯ represents the selling and marketing expenses, φ used for intercept and slope coefficient, and ε is error term in above two models. The models were regressed with the help of E-views simultaneously and results are as under:

The 3rd model explains the impact of selling and marketing expenses on sales revenue. The 3rd model is highly significant with F-statistic 860.8 and R-square 98.88% which means that the marketing costs strongly impact the sales revenue because t-statistic of selling and marketing expenses is 29.34 with p-value near to zero. The 4th model explains the impact of sales revenue on selling and marketing expenses. The F-statistic of 4th model is also 860.8 with R-square 98.88% and sales revenue highly impact selling and marketing expenses because t-statistics is 29.34 with very small near to zero p-value therefore, no evidence studied to accept H₀. Both regression and correlation clearly explained that the relationship between sales and marketing expenses and sales revenue is significant in Food Producers sector of Pakistan. With the help of regression and correlation the impact between both variables is studied but for causal relationship between both variables the study used Granger Causality Test and results are given in Table 5.

Table 3: Comparison between average sales revenue of Group A and Group B firms;

<table>
<thead>
<tr>
<th>t-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.269</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

There was no evidence studied to accept H₀, so it can be concluded from this evidence that the selling and marketing expenses create differences in the sales revenue and it was also explained by descriptive analysis. Furthermore, to test the relationship between selling and marketing expenses and sales revenue, the study uses Pearson’s correlation the results are given in table 4.

Table 4: Results of Pearson’s correlation:

<table>
<thead>
<tr>
<th>Correlation Matrix</th>
<th>Sales Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling &amp; Marketing Expenses</td>
<td>0.963736</td>
</tr>
</tbody>
</table>

The results explained the strongly positive correlation between selling and marketing expenses and sales revenue. It means that due to increase in marketing cost the sales revenue would also increase. Therefore, the study has no evidence to accept H₀. Furthermore to confirm this relationship the study uses two simultaneous regression models.

The simultaneous models were used to study the impact between marketing and sales both. s represents the sales revenue, m represents the selling and marketing expenses, φ used for intercept and slope coefficient, and ε is error term in above two models. The models were regressed with the help of E-views simultaneously and results are as under:

The 3rd model explains the impact of selling and marketing expenses on sales revenue. The 3rd model is highly significant with F-statistic 860.8 and R-square 98.88% which means that the marketing costs strongly impact the sales revenue because t-statistic of selling and marketing expenses is 29.34 with p-value near to zero. The 4th model explains the impact of sales revenue on selling and marketing expenses. The F-statistic of 4th model is also 860.8 with R-square 98.88% and sales revenue highly impact selling and marketing expenses because t-statistics is 29.34 with very small near to zero p-value therefore, no evidence studied to accept H₀. Both regression and correlation clearly explained that the relationship between sales and marketing expenses and sales revenue is significant in Food Producers sector of Pakistan. With the help of regression and correlation the impact between both variables is studied but for causal relationship between both variables the study used Granger Causality Test and results are given in Table 5.

Table 5:

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>Obs.</th>
<th>F-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling &amp; marketing expenses do not Granger cause sales revenue</td>
<td>35</td>
<td>16.4078</td>
<td>0.000000</td>
</tr>
</tbody>
</table>

There were highly significant causal impact of selling and marketing expenses studied on sales revenue, therefore, the study also explains positive relationship between both variables and study cannot accept H₀. It the also a fact that the sales revenue can be maximized by improving marketing strategies but the study rises another question related to the impact of selling and marketing expenses on performance indicators.

4.4. Significance of Relationship between Marketing Strategies and Firms’ Financial Performance
The study uses simple regression model which is given in equation 1. For testing the impact of selling and marketing expenses on performance indicators the study run five models with respect to change in dependent variables.

First model regressed with dependent variable inventory turnover and independent variable log of selling and marketing expenses in equation 6. The model regressed under ordinary least square method with cross-section weights and results explained that selling and marketing expenses significantly impact the inventory turnover with t-statistic 2.52 and p-value 0.015. Therefore, the marketing costs positively impact the inventory turnover at level of significance 0.05. The F-statistic of model is 21.17 with p-value 0.0000 and weighted R-square is 84.83% and un-weighted R-square is 38.07%. Note that all models from equation 6 to 10 were regressed under ordinary least square method with Panel EGLS (Cross-section weights).

In equation 7, the dependent variable is return on asset and independent variable is log of selling and marketing expenses. The log of selling and marketing expenses significantly impact the return on assets with t-statistic 2.54 and p-value 0.0142. Furthermore, the impact is positive. F-statistic of model is 17.45 with p-value 0.0000 means that the model is highly significant and goodness of fit of model on the basis of weighted R-square is 82.17% and un-weighted is 56.63%.
The relationship between marketing strategy and firm’s financial performance has been a topic of major discussion for scholars. In this research paper we focused to know the use of marketing strategy and its impact on firm’s financial performance, and overall descriptive and econometric results suggest that firms can achieve financial performance through appropriate marketing strategy. The findings of this research paper contribute to marketing theories, by using the marketing expense as a variable to know the influence on financial performance of a firm. Our study contributes in the field of marketing research and provides managers useful decision tools to guide their own strategic decisions.

References


**Appendix**

*Group ‘A’ Firms: Firms those selling and marketing expenses are less than 300 million Rupees:*

![Graph](image-url)

**Clover Pakistan Ltd**

<table>
<thead>
<tr>
<th>Year</th>
<th>Selling &amp; Marketing Expenses</th>
<th>Sales Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>200000</td>
<td>1200000</td>
</tr>
<tr>
<td>2010</td>
<td>800000</td>
<td>1200000</td>
</tr>
<tr>
<td>2011</td>
<td>1000000</td>
<td>1400000</td>
</tr>
<tr>
<td>2012</td>
<td>1200000</td>
<td>1600000</td>
</tr>
<tr>
<td>2013</td>
<td>1400000</td>
<td>1800000</td>
</tr>
</tbody>
</table>

**Figure A-1**
Figure A-2

Mitchell's Fruit Farms Ltd

Figure A-3

Murree Brewery Co. Ltd
Figure A-4

Noon Pakistan Ltd

Figure A-5

Punjab Oil Mills Ltd
Group ‘B’ Firms: Firms those selling and marketing expenses are more than 300 million Rupees.
Figure B-3

National Foods Ltd

![Bar chart showing selling and marketing expenses and sales revenue for National Foods Ltd from 2009 to 2013.]

Figure B-4

Nestle Pakistan Ltd

![Bar chart showing selling and marketing expenses and sales revenue for Nestle Pakistan Ltd from 2009 to 2013.]

Figure B-7