

IMPACT OF PROMOTIONAL EXPENDITURE ON SALES AND PROFITABILITY: AN INDIAN PERSPECTIVE

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Abstract

This paper investigates how promotional expenditures—including advertising and marketing expenses—affect sales revenue and profitability of firms in the Indian context. Promotional expenditures are crucial strategic investments in competitive markets, and their effectiveness varies across industries, time, and firm-specific contexts. We review empirical studies on Indian FMCG (Fast-Moving Consumer Goods), pharmaceutical, and telecommunications sectors and integrate econometric findings, industry advertising trends, and practical implications for managerial decision-making. Evidence suggests that while promotional expenditure generally improves sales and profits, the magnitude of impact is influenced by industry, medium, and execution strategies.

Keyword: Promotional expenditure; Sales; Profitability

1. Introduction

Promotional activities—advertising, marketing campaigns, public relations, and sales promotions—are essential tools that firms deploy to create product awareness, stimulate demand, and enhance brand image. In India, rapid digitization, a large consumer base, and competitive markets have intensified the role of promotional expenditure in corporate strategy. However, the relationship between promotional expenditure and financial outcomes (sales and profits) is not always straightforward. This paper synthesizes research findings about this relationship to provide a comprehensive understanding tailored to Indian firms.

2. Literature Review

2.1 Theoretical Framework

Economic theory posits that promotional expenditure drives sales by influencing consumer awareness and preferences. The advertising–sales response model suggests a positive, though diminishing, return from advertising investments; at optimal levels, promotional spending maximizes incremental sales and profits (Sujata et al., 2016).

2.2 Empirical Evidence from Indian Studies

2.2.1 FMCG Sector

A key study analyzing 100 Indian FMCG companies between 2001–02 and 2010–11 finds a statistically significant dependency of sales revenue and profit after tax on advertising expenditure. Using econometric models (VAR, cointegration, Granger causality), it demonstrates that advertising affects both sales and profits, with sales acting as a mediator to profits (Mahendru & De, 2014).

Further empirical evidence from FMCG firms indicates that advertisement expenditure may explain large portions of revenue ($\approx 84.4\%$) and profits ($\approx 64.9\%$), although other factors (product quality, pricing) also contribute to financial performance (Preetham & Takalkar, 2025).

2.2.2 Pharmaceutical Industry

A study on major Indian pharmaceutical companies (2019–2024) finds a significant positive association between marketing expenditure and sales performance, with regression models showing varying strength depending on the firm. The results suggest that promotional expenditure can drive sales, but efficiency depends on strategic alignment and implementation quality (Sharma, S., & Kapur, D., 2014).

2.2.3 Telecom Sector

Research on Indian telecommunications firms also reveals that advertising and sales promotion expenses significantly affect sales performance, using ten-year financial data, indicating that promotional spend plays a key role in stimulating demand in competitive service markets (Sujata et al., 2016).

2.2.4 Service Sector Analysis

Studies focusing on the Indian service sector (e.g., banking, IT services) conclude that long-run relationships exist between advertising expenditure and sales, but the strength of impact varies across company sizes. Techniques like the VECM show that promotional spend and sales are cointegrated for many service companies (Mahendru & De, 2014).

3. Methodologies Used in Reviewed Research

Reviewing empirical research reveals that common methods include:

- Correlation & Regression Analysis: To measure direct relationships (e.g., between advertising and sales).
- Vector Auto Regression (VAR) & VECM: For analyzing dynamic interrelationships and long-run equilibrium.
- Cointegration and Granger Causality Tests: To assess whether changes in promotional expenditures lead to changes in sales and profits over time.

These methods help identify not just correlations but causal linkages and long-term effects.

4. Aggregate Advertising Trends in India

While specific firm-level studies show positive relationships, broad market trends also matter:

- Digital Advertising Growth: Digital promotional expenditure in India has grown consistently, forming a significant and rising share of total ad spend.
- Marketing Expenditures During Market Downturns: Firms increase promotional spending to attract customers in sluggish markets, indicating promotion is viewed as a tool to sustain sales volumes.

These macro trends complement firm-level research, suggesting that promotional expenditure continues to be a priority for companies aiming to maintain competitive positioning.

5. Discussion

5.1 Positive Impact on Sales

Across sectors, evidence suggests that increased promotional expenditure is generally associated with higher sales. Whether in FMCG, pharmaceutical, or telecom sectors, firms that invest in advertising and promotion often record stronger sales growth.

5.2 Profit Implications

The impact on profits is nuanced. While sales growth often translates into higher profit levels, costs associated with promotional spending can dampen net profitability if not strategically aligned. Efficient use of promotional budgets—especially digital and targeted campaigns—can improve ROI.

5.3 Variable Effects across Industries

The magnitude of effects varies by industry:

- FMCG: Strong links between ad expenditure, sales, and profits.
- Pharma: Positive impact, but influenced by firm strategy and market dynamics.

- Telecom & Services: Promotional expenditure is important but influenced by services pricing and competition.

6. Managerial Implications

- Optimize Promotional Budgets: Firms should balance promotional spending with expected returns, using data-driven strategies.
- Media Mix Matters: Digital channels are gaining traction and can deliver targeted ROI.
- Long-Term Strategy: Consistent promotional efforts build brand equity, leading to sustainable sales and profit improvements.

7. Limitations and Future Research

Most studies are historical and industry specific. Future research could:

- Extend analysis to digital vs. traditional promotion media.
- Examine firm size and region-specific variations.
- Use panel data from 2015 onward to capture the effects of digital transformation.

8. Conclusion

Research consistently indicates that promotional expenditures have a positive impact on sales and, often indirectly, on profits in the Indian business context. While the strength of relationships varies across industries and firm strategies, promotional spending remains a key strategic lever for firms aiming to enhance market performance. Managers should tailor promotional investments to firm objectives and market conditions to maximize financial outcomes.

9. References

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Use for Citation: Naresh Saini, Dr. Ashish Kumar Saxena. (2026). IMPACT OF PROMOTIONAL EXPENDITURE ON SALES AND PROFITABILITY: AN INDIAN PERSPECTIVE. International Journal of Multidisciplinary Research and Technology, 7(3), 21–23. <https://doi.org/10.5281/zenodo.18898402>