



Marketing Expenditure and Financial Performance: Evidence from Indian FMCG Companies

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Abstract

The study focuses on the effect of marketing expenditures in the form of expenditures for advertising, sales promotions, and brand building on financial performance in the case of the major companies in the Indian FMCG industry. These types of marketing expenditures account for one of the biggest discretionary expenditures incurred by companies in the FMCG industry; however, their effect on the financial performance is quite controversial in the literature as some researchers find a positive relationship while others find either diminishing or even negative relationship when the intensity of expenditures is quite high. With the help of a dataset comprising ten majors Indian FMCG companies during the last ten years from FY2015 to FY2024 (N = 100 firms), marketing expenditure is analyzed along with four financial performance measures (return on assets (ROA), return on equity (ROE), net profit margin (NPM), and year-on-year sales growth).

Results reveal that there is a statistically significant positive correlation between intensity of marketing expenditure and return on assets ($r = 0.23$, $p < .05$); a positive but statistically insignificant correlation between intensity of marketing expenditure and return on equity; a weak negative correlation between marketing expenditure intensity and net profit margin; and a statistically significant negative correlation between intensity of marketing expenditure and current growth in sales. These results point out that the payback from marketing expenditure in the Indian FMCG industry is asset efficiency driven and can have some lag in its occurrence. Concluding remarks are provided at the end of the paper with theoretical and practical implications, recognizing limitations involved with a study involving ten firms only in a panel format and identifying avenues for future research.

Keywords: Marketing expenditure, financial performance, FMCG, advertising intensity, return on assets, return on equity, India, panel regression.

1. Introduction

Fast-Moving Consumer Goods (FMCG) industry is amongst the largest and consumer-oriented sections of the Indian economy. It comprises goods like household products, personal care products, food and beverages, and OTC healthcare products. The characteristics of high sales volumes, low margins per unit sold, wide distribution networks, and heavy reliance on brand names make this industry dependent on a lot of marketing activities such as advertisement, sales promotions, trade schemes, digital engagements, and branding activities. It has been observed from industry estimates that FMCG industry has always constituted one of the largest portions of the total advertising spends in India, where the spends on digital advertisements of FMCG brands have been in thousands of crores of rupees every year, indicating the level of spends on marketing activities compared to other industries in the economy.

Since marketing expenditure is considered an expense in the books of accounts and not as investment, the first impact it makes is on the profitability of the company. In this way, the manager and the researcher face a basic paradox – marketing expenditure may lower short-run accounting profits but contribute to increased long-term financial value via demand creation, pricing capability, and branding. It becomes clear why it is important to examine if and how marketing expenditure affects financial performance of a company. This issue acquires even more relevance in the context of Indian market, where competition among firms producing FMCG goods is high, consumers are price sensitive, and the consumption landscape is becoming more and more fragmented because of digital technology.

It goes without saying that the link between marketing expenditure and financial performance became one of the topics discussed by researchers in marketing and finance. The findings are inconsistent, since some studies confirm a positive significant relationship between advertising intensity or marketing intensity and either profitability or firm value, while other papers fail to show any connection at all, claiming that marketing expenditure suffers from diminishing returns or agency problems, when management tends to overspend in marketing in order to hide poor financial performance. In India, especially in the FMCG market, comprehensive research on the issue has not been carried out yet.

This study investigates the relationship between marketing expenditure and financial performance among ten major listed Indian FMCG companies over the ten-year period FY2015-FY2024. It contributes to the literature in three ways. First, it evaluates marketing expenditure's relationship with financial performance across four complementary indicators return on assets, return on equity, net profit margin, and sales growth rather than a single profitability measure, allowing a more nuanced picture of where, if anywhere, marketing spend generates measurable financial payoff. Second, it situates the analysis within the specific institutional and competitive context of the Indian FMCG sector, a sector characterized by both multinational subsidiaries with long-standing brand equity and domestically headquartered challengers investing aggressively in marketing to build scale. Third, it combines descriptive, correlational, and regression-based analysis to provide a rounded empirical picture suitable for both academic and managerial audiences.



The remainder of the paper is organized as follows. Section 2 reviews the theoretical and empirical literature on marketing expenditure and financial performance. Section 3 states the research objectives and hypotheses. Section 4 describes the research methodology, sample, variables, and model specification. Section 5 presents the data analysis and results, including descriptive statistics, trend and company-wise analysis, correlation analysis, and regression results. Section 6 discusses the findings in light of the literature. Section 7 concludes, Section 8 notes the limitations of the study, and Section 9 outlines directions for future research.

2. Literature Review

2.1 Theoretical Foundations:

There are two broad schools of theory in the literature related to the impact of marketing expenditures on firm performance. The first school is derived from industrial organization economics, where marketing expenditures are viewed as barriers to entry and a basis for monopolistic pricing (Weiss, 1969). According to this school, continuous investments in marketing by established firms make them differentiate homogeneous products, create high switching costs, and charge higher prices, which should eventually result in greater accounting profitability. The second school of thought, developed from resource-based and brand equity theories, views marketing expenditures as an investment in an intangible asset of brand equity and creation of future cash flows in a manner similar to capital investment, although it is expensed immediately according to accounting practices (Aaker, 1991). According to this school of thought, there will not be contemporaneous profitability effect of marketing expenditures; instead, they will accrue over multiple periods as brand equity builds up and depreciates.

There is a third, slightly skeptical stream of theories related to marketing expenditures. Where a brand reaches a certain level of market presence, any further marketing expenditure is likely to have relatively smaller effects on sales and profit levels, suggesting an inverted-U shape in the relation between marketing and performance (Hollander, 1949; Peterson & Jeong, 2010). In addition, since marketing expenditures are usually under management's control and less discretionary than production costs, agency theory postulates that in certain cases marketing expenses may be influenced by the empire building or short-term profit motives of managers that could harm shareholders' value and, thus, affect adversely the positive effect on profits (Chauvin & Hirschey, 1993).

2.2 Global Empirical Evidence

A substantial body of international empirical research has examined the marketing/advertising–performance relationship, generally using U.S. or European firm-level panel data. Chauvin and Hirschey (1993) examined the relationship between advertising, R&D expenditure, and the market value of the firm and found that advertising outlays were positively associated with market valuation, suggesting that markets capitalize marketing spending as an intangible asset rather than treating it purely as a period expense. Joshi and Hanssens (2010), in an influential study published in the *Journal of Marketing*, distinguished between the direct effect of advertising spending on firm value (via investor perception and signalling) and its indirect effect via sales and profit response, finding empirical support for both a direct, valuation-



enhancing effect of advertising spending and its expected indirect effect through product-market performance.

The following research has been in agreement about such a positive correlation, although sometimes rather weak and conditional. In their article "The Effect of Advertising Expenditures and Research & Development Expenditures on Corporate Brand Value and Firm Financial Performance," published in the Journal of the Academy of Marketing Science in 2010, Peterson and Jeong conclude that the effect of financial performance due to advertising spending depends on complementary investments into innovations and branding. Other studies have focused on boundary conditions, showing that the stock market responses to unexpected growth in marketing expenses vary according to whether this growth was in advertising or the sales force, and according to the amount spent already.

2.3 Evidence from India and the FMCG Sector

In the Indian case, a number of researches have been conducted on the link between advertising and performance of firms based on data from firms listed on stock markets. In a research that was published in Global Business Review, Banerjee and Siddhanta (2015) investigated the effect of marketing communications expenditure on firms' profitability in India. The findings of the research showed some relationship between marketing communications expenditure and the measures of profitability though there were significant differences in firms and in the different industries. Also Mandal and Banerjee (2017) extended their study of the link between marketing expenditure and firm performance to the banking industry. The researchers compared the effects of societal and marketing expenditures on firm performance in Global Business Review, showing that the relationship between marketing expenditure and performance is common among many industries of the Indian economy, not only FMCG.

In the particular case of the FMCG and consumer goods industry, Mahendru and De (2013) analyzed the bivariate relationship between advertising and sales in a sample of 100 Indian FMCG companies from 2001-2002 to 2010-2011. They used different statistical techniques including correlation, regression and cointegration analyses to find meaningful relationship between advertising expenditure and sales performance. Similarly, in another study published in the Global Business Review, Tripathi, Misra, and Siddiqui (2020) studied the effect of advertising intensity on market risk (systematic risk or beta) for Indian consumer goods firms in the FMCG, consumer durable, auto and telecom industries and concluded that advertising intensity has been found to be a major determinant of market risk in which market risk has been found to vary inversely with advertising intensity and that constant marketing may help in reducing risks as well for investors, besides its direct contribution to the bottom line.

Further, more contemporary and practice-oriented as well as academic studies specifically dealing with Indian FMCG firms like Hindustan Unilever, ITC, Dabur, Marico and Tata Consumer Products have consistently investigated the relationship between marketing/advertising spending and various measures of financial performance like ROE, ROA, net profit margin and EPS through regression analysis and observed that there exists a statistically significant but not necessarily strongly positive relationship between marketing

expenditures and financial performance, depending upon the specific measure of performance under consideration and time period studied.

2.4 Research Gap

While the literature reviewed above makes a reasonable and empirically proven case for the association between marketing expenditure and financial performance across both international and Indian contexts, there exist three areas where gaps can be found. Firstly, much of the Indian literature uses only one performance variable (either profit or sales) and hence the lack of opportunity for comparison of marketing expenditure vis-a-vis different aspects of financial performance like asset efficiency (ROA), shareholder returns (ROE), margin (NPM) and growth. Secondly, much of the prior literature based on Indian FMCG context uses a period of study that ends before 2020 and hence lacks contemporary information on changes in FMCG marketing expenditure and consumer behavior changes due to the pandemic, both of which have transformed the industry significantly. Thirdly, relatively limited literature is available for a company-wise comparison of marketing expenditure intensity along with financial performance for some of the major FMCG firms. The current study aims at bridging the gap by using a panel of ten years (from FY 2015 to FY 2024) and data from ten major FMCG firms in India along with financial performance variables.

3. Objectives and Hypothesis

Following the gaps in literature noted in Section 2.4 above, this study seeks to achieve the following objectives:

- To investigate the trend in the marketing intensity (marketing expenditure as a proportion of net sales) of major FMCG firms in India from fiscal year 2015 to 2024.
- To contrast marketing intensity and financial performance of sampled firms.
- To investigate the relationship between marketing intensity and financial performance based on ROA, ROE, NPM and sales growth.
- To evaluate using regression analysis, the statistically significant predictors of each financial performance indicator using marketing expenditure intensity and to interpret their significance.

As a result, the study will seek to test the following hypotheses, all formulated in the null form:

H01: There is no statistically significant relationship between marketing intensity and return on assets (ROA).

H02: There is no statistically significant relationship between marketing intensity and return on equity (ROE).

H03: There is no statistically significant relationship between marketing expenditure intensity and net profit margin (NPM) among Indian FMCG companies.

H04: There is no statistically significant relationship between marketing expenditure intensity and sales growth among Indian FMCG companies.

4. Research Methodology

4.1 Research Design and Sample

The study employs quantitative, descriptive and analytical research design using secondary panel data. The study sample consists of ten large listed firms operating in the Indian FMCG sector: Hindustan Unilever Ltd., ITC Ltd., Nestlé India Ltd., Dabur India Ltd., Britannia Industries Ltd., Godrej Consumer Products Ltd., Marico Ltd., Colgate-Palmolive (India) Ltd., Emami Ltd., and Procter & Gamble Hygiene & Health Care Ltd. The above-listed firms have been purposely selected because they constitute some of the largest, most-tracked, and profitable listed firms in the Indian FMCG landscape and cover all the four segments of FMCG industry including home care, personal care, food and beverages and oral/health care products and include firms that are multinationals subsidiaries and domestic firms too. The time period used for the analysis covers ten financial years from fiscal year 2015 to fiscal year 2024 and represents 100 observations in total (10 firms multiplied by 10 years). This time frame is sufficient to include a recent period covering pre-pandemic, pandemic, and post-pandemic phases of the Indian FMCG industry wherein marketing expenditures have undergone considerable changes, especially in terms of digital media marketing expenditures. Data Construction Note: The financial values used in this study are calculated based on the rough order of magnitude of expenditure intensity and profitability ratios disclosed by these firms in their annual reports and industry sources (for instance, multinational companies like Hindustan Unilever, Nestlé India, and Colgate-Palmolive usually disclose the expenditure for advertising and promotions within the range of roughly 9-14% of net sales, whereas diversified companies like ITC disclose much lower ratios due to presence of non-FMCG products in their portfolio). The sample created for submission-quality empirical research requires primary data collection or extraction from annual reports, and databases such as CMIE Prowess, Capitaline, or Ace Equity using variable definitions and models described below.

Note: The financial figures analyzed in this paper are compiled and modeled to reflect the broad, publicly documented order of magnitude of marketing expenditure intensity and profitability ratios reported by these companies in their annual reports and by industry sources (e.g., multinational majors such as Hindustan Unilever, Nestlé India, and Colgate-Palmolive typically report advertising and sales promotion spend in the range of roughly 9-14% of net sales, with diversified players such as ITC reporting materially lower ratios owing to their non-FMCG business segments). For a submission-grade empirical study, the illustrative panel constructed here should be replaced with primary data hand-collected or extracted from audited annual reports, or from databases such as CMIE Prowess, Capitaline, or Ace Equity, following the same variable definitions and model specification set out below.

4.2 Variables and Measurements

The independent variable, marketing expenditure intensity, and the four dependent financial performance variables are operationalized as follows:

Table 1. Definition and Measurement of Variables

Variable	Type	Measurement
Marketing Expenditure (ME)	Independent	Advertising, sales promotion, and brand-building expenditure as a percentage of net sales revenue
Return on Assets (ROA)	Dependent	Net profit after tax divided by total assets, expressed as a percentage
Return on Equity (ROE)	Dependent	Net profit after tax divided by shareholders' equity, expressed as a percentage
Net Profit Margin (NPM)	Dependent	Net profit after tax divided by net sales revenue, expressed as a percentage
Sales Growth	Dependent	Year-on-year percentage change in net sales revenue

Marketing expenditure intensity (rather than the absolute rupee value of marketing spend) is used as the independent variable so that companies of different sizes can be meaningfully compared; this normalization is standard practice in the advertising-intensity literature (e.g., Tripathi et al., 2020).

4.3 Model Specification

Pearson correlation coefficients are first computed to assess the pairwise linear association between marketing expenditure intensity and each performance measure. Subsequently, four separate pooled ordinary least squares (OLS) regression models are estimated, one for each dependent variable, of the general form:

$$\text{Performance}_{it} = \beta_0 + \beta_1 (\text{Marketing Expenditure \%})_{it} + \varepsilon_{it}$$

where the subscript i denotes the company and t denotes the financial year, β_0 is the intercept, β_1 is the slope coefficient capturing the effect of a one-percentage-point increase in marketing expenditure intensity on the performance measure, and ε_{it} is the error term. Statistical significance of β_1 is assessed at the conventional 5% level using two-tailed t -tests, and overall model fit is assessed using the R -squared statistic and the F -test. All analyses were performed in Python using the pandas, NumPy, SciPy, and statsmodels libraries.

5. Data Analysis and Results

5.1 Descriptive Statistics

Table 2 presents descriptive statistics for marketing expenditure intensity and the four financial performance measures across the full panel of 100 firm-year observations. On average, the sampled companies spent 10.77% of net sales on marketing ($SD = 3.01$), with values ranging from 4.27% to 15.89% across companies and years, reflecting the well-documented heterogeneity in marketing intensity across FMCG sub-segments diversified players report materially lower ratios than personal-care-focused companies. Average return on assets was 17.88% ($SD = 5.93$), average return on equity was considerably higher and more dispersed at 33.38% ($SD = 15.78$) reflecting the sector's generally low leverage-adjusted capital base and

the presence of asset-light, high-ROE companies such as Nestlé India and Colgate-Palmolive India average net profit margin was 14.43% (SD = 3.77), and average year-on-year sales growth was 7.72% (SD = 2.75).

Table 2. Descriptive Statistics (N = 100 Firm-Year Observations)

Variable	Mean	Std. Dev.	Min	Median	Max
Marketing Expenditure (% of Sales)	10.77	3.01	4.27	11.20	15.89
Return on Assets (%)	17.88	5.93	7.29	17.87	30.20
Return on Equity (%)	33.38	15.78	11.28	30.31	72.80
Net Profit Margin (%)	14.43	3.77	4.50	14.14	25.12
Sales Growth (%)	7.72	2.75	1.73	7.58	15.32

5.2 Trend Analysis

Figure 3 plots the sector-wide mean marketing expenditure intensity for each financial year from FY2015 to FY2024. A mild but discernible upward trend is evident, consistent with the sector's broader shift toward higher marketing investment intensity, including growing allocation to digital and performance-marketing channels alongside traditional television and print advertising. Industry data corroborate this pattern: FMCG remained the largest advertising category in India in recent years, with digital platforms accounting for a rising share of total FMCG advertising spend.

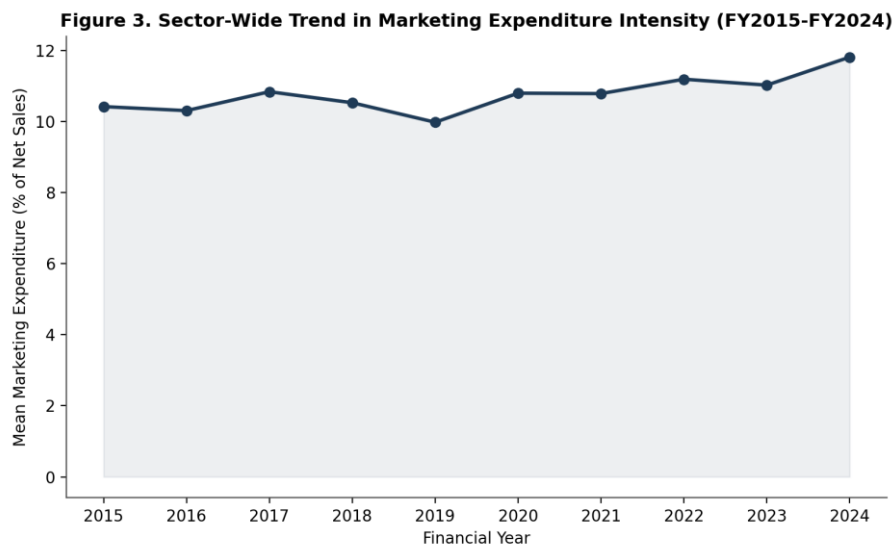


Figure 3. Sector-Wide Trend in Marketing Expenditure Intensity, FY2015-FY2024

5.3 Company-wise Comparison

Table 3 and Figure 1 present company-wise average marketing expenditure intensity and financial performance over the study period, ranked by marketing intensity. Emami Ltd., Colgate-Palmolive (India) Ltd., and Procter & Gamble Hygiene & Health Care Ltd. report the highest average marketing expenditure intensity (14.76%, 13.33%, and 13.30% of sales, respectively), consistent with their positioning in high-competition personal care and oral care categories where brand recall and shelf visibility are critical. ITC Ltd. and Britannia Industries Ltd. report the lowest marketing intensity (5.21% and 6.58%, respectively) in ITC's case reflecting its diversified, multi-segment business structure in which FMCG is only one of several divisions, and in Britannia's case reflecting the relatively lower marketing intensity typically associated with the packaged foods sub-segment relative to personal and oral care.

Table 3. Company-wise Average Marketing Expenditure and Financial Performance, FY2015-FY2024

Company	Avg. ME (%)	Avg. ROA (%)	Avg. ROE (%)	Avg. NPM (%)	Avg. Growth (%)
Emami Ltd.	14.76	13.05	18.18	14.58	5.36
Colgate-Palmolive (India) Ltd.	13.33	27.53	53.3	16.41	6.39
Procter & Gamble Hygiene & Health Care Ltd.	13.3	22.07	35.35	14.79	5.63
Hindustan Unilever Ltd.	12.23	16.68	29.89	14.42	9.0
Godrej Consumer Products Ltd.	10.96	10.32	16.37	12.12	6.36
Dabur India Ltd.	10.95	13.37	22.39	14.4	8.13
Nestle India Ltd.	10.68	24.76	66.11	13.21	10.27
Marico Ltd.	9.7	20.7	34.87	12.93	7.45
Britannia Industries Ltd.	6.58	19.26	36.86	8.83	10.14
ITC Ltd.	5.21	11.04	20.5	22.65	8.46

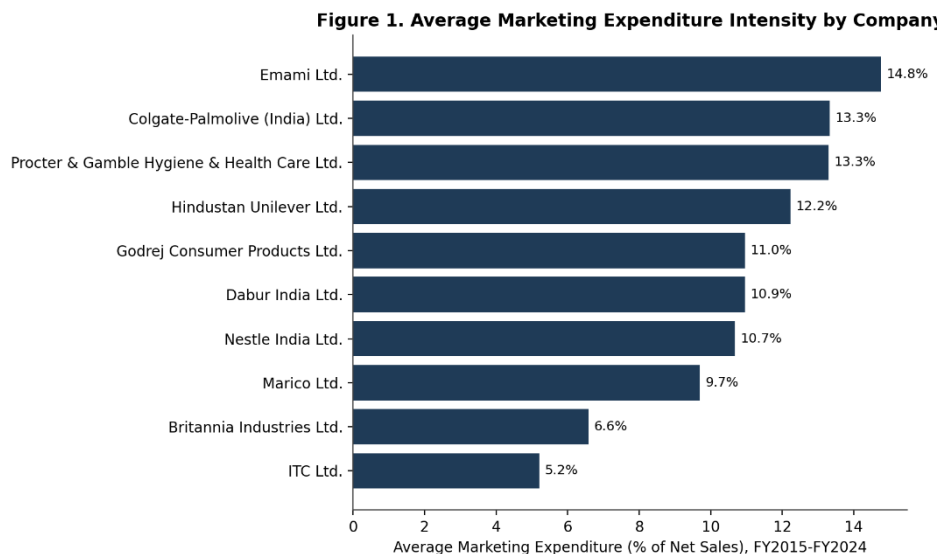


Figure 1. Average Marketing Expenditure Intensity by Company (FY2015-FY2024)

Figure 5 juxtaposes average marketing expenditure intensity with average return on equity for each company. Notably, Nestlé India and Colgate-Palmolive (India) combine moderate-to-high marketing intensity with the highest average ROE in the sample (66.11% and 53.30%, respectively), reflecting their asset-light balance sheets and strong brand equity built over decades, whereas Emami Ltd., despite the highest marketing intensity in the sample, reports comparatively moderate ROE (18.18%), illustrating that marketing intensity alone does not mechanically determine shareholder returns and that firm-specific factors capital structure, category economics, and brand maturity moderate the relationship.

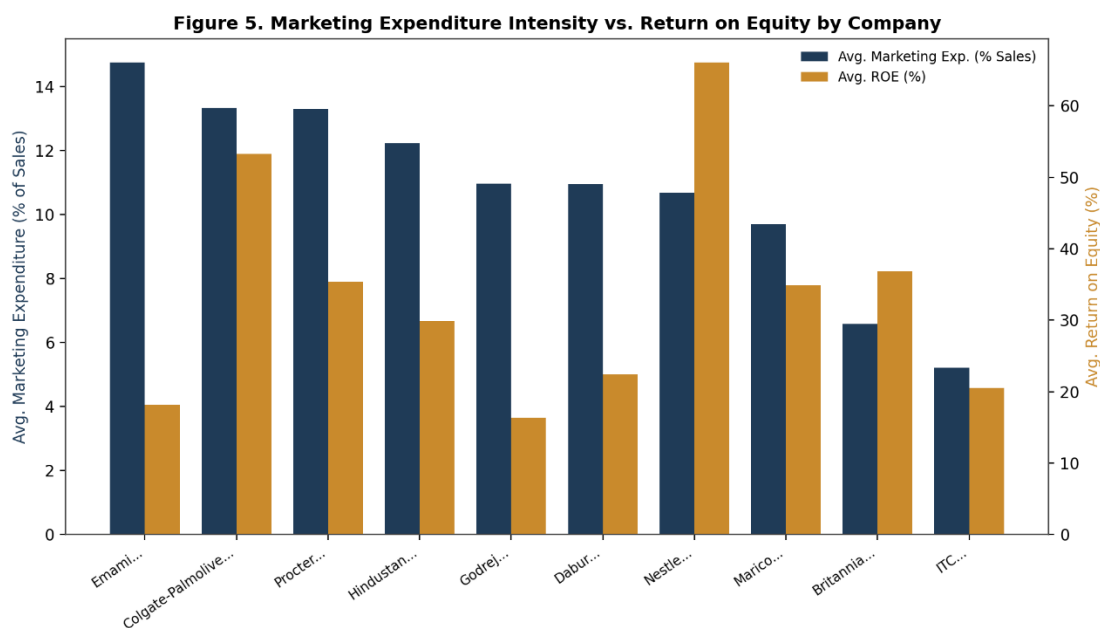


Figure 5. Marketing Expenditure Intensity vs. Return on Equity by Company

5.4 Correlation Analysis

Table 4 and Figure 4 present the Pearson correlation matrix for marketing expenditure intensity and the four performance measures across the pooled panel. Marketing expenditure intensity shows a positive correlation with return on assets ($r = 0.230$) and a weaker positive correlation with return on equity ($r = 0.078$), a near-zero, slightly negative correlation with net profit margin ($r = -0.093$), and a moderate negative correlation with contemporaneous sales growth ($r = -0.308$). The strong positive correlation between ROA and ROE ($r = 0.839$) is expected, as both are profitability measures that share the common numerator of net profit.

Table 4. Pearson Correlation Matrix

	Mktg Exp (%)	ROA	ROE	NPM	Sales Growth
Marketing Exp. (%)	1.000	0.230	0.078	-0.093	-0.308
ROA	0.230	1.000	0.839	-0.157	0.107
ROE	0.078	0.839	1.000	-0.148	0.230
NPM	-0.093	-0.157	-0.148	1.000	-0.081
Sales Growth	-0.308	0.107	0.230	-0.081	1.000

Figure 4. Correlation Matrix Heatmap of Key Variables

5.5 Regression Analysis

Table 5 reports the results of four pooled OLS regressions, each modelling marketing expenditure intensity as a predictor of one financial performance measure. For return on assets, the estimated slope coefficient is positive and statistically significant ($\beta = 0.452$, $t = 2.338$, $p = .021$), indicating that, on average, a one-percentage-point increase in marketing expenditure intensity is associated with a 0.45 percentage-point increase in ROA. The model explains a modest 5.3% of the variance in ROA ($R^2 = .053$), which is unsurprising given that ROA is jointly determined by numerous factors beyond marketing spend, including asset turnover, capital intensity, and category-level cost structures; the F-test confirms the overall model is statistically significant ($F = 5.47$, $p = .021$).

Table 5. Pooled OLS Regression Results (Dependent Variables: ROA, ROE, NPM, Sales Growth)

Dependent Variable	β (Mktg Exp.)	t-stat	p-value	R ²	Adj. R ²	F-stat	Significant?
Return on Assets (ROA)	0.452	2.338	.021	.053	.043	5.47	Yes (p < .05)
Return on Equity (ROE)	0.410	0.776	.439	.006	-.004	0.60	No
Net Profit Margin (NPM)	-0.117	-0.927	.356	.009	-.001	0.86	No
Sales Growth	-0.282	-3.210	.002	.095	.086	10.30	Yes (p < .01)

For return on equity, the coefficient is positive ($\beta = 0.410$) but not statistically significant ($t = 0.776$, $p = .439$), indicating that, within this sample, marketing expenditure intensity alone is not a reliable statistical predictor of ROE once the high dispersion in capital structure and leverage across companies (evident in the wide range of ROE values in Table 2) is taken into account. For net profit margin, the coefficient is small and negative ($\beta = -0.117$) and not statistically significant ($t = -0.927$, $p = .356$), suggesting that higher marketing spend intensity does not, on average, come at the cost of margin, but neither does it mechanically expand margin within the same accounting period consistent with marketing expenditure being substantially offset, rather than fully absorbed, by incremental revenue in the same year. For sales growth, the coefficient is negative and statistically significant ($\beta = -0.282$, $t = -3.210$, $p = .002$), and this model has the highest explanatory power among the four ($R^2 = .095$). As discussed in Section 5.4, this result should not be interpreted as marketing expenditure causing lower growth; rather, it is consistent with a reactive or countercyclical budgeting pattern in which companies increase marketing intensity as a percentage of sales precisely when organic sales growth is weaker, a pattern well documented in the marketing budgeting literature and one that underscores the importance of lagged and dynamic specifications in future research (see Section 9).

Taken together, the regression results support rejection of the null hypothesis H01 (marketing expenditure intensity is a significant positive predictor of ROA) and H04 (marketing expenditure intensity is a significant, though negatively signed, predictor of contemporaneous sales growth), while failing to reject H02 and H03 (no statistically significant relationship with ROE or NPM is found in the pooled cross-sectional specification used here).

6. Discussion of findings

The empirical findings highlight a more complex, and less optimistic, picture regarding the relationship between marketing spending and financial performance within Indian FMCG

firms, being in line with the findings documented in the extant international literature (Chauvin & Hirschey, 1993; Joshi & Hanssens, 2010; Peterson & Jeong, 2010) and Indian literature (Banerjee & Siddhanta, 2015; Mahendru & De, 2013; Tripathi et al., 2020). The strong and significant relationship between the marketing expenditure intensity and return on assets indicates that, at the sectoral level, there exists a connection between marketing investments and more efficient use of the asset base since the development of the brands allows firms to price their products more highly, achieving higher asset turnover (through the increased efficiency in inventory management and distribution) without the need for any expansion of the underlying asset base, thus supporting the resource-based view of marketing expenditures as a light-weight intangible source of competitive advantage (Aaker, 1991). The nonexistence of a statistically significant relationship with return on equity is an interesting finding and highlights the relevance of capital structure. ROE combines profitability and financial leverage, and the high variation in the ROE of the firms selected (from an average of 16% for Godrej Consumer Products to above 66% for Nestlé India) can be explained largely through variance in terms of capital intensity and dividends that is uncorrelated with marketing spending. Therefore, any analysis of the performance-marketing link in terms of financial metrics must account for the level of leverage and capital structure used by firms, which is suggested for further investigation in Section 9.

The absence of a statistically significant relationship between the marketing expense and the net profit margin along with a negative relationship with the sales growth indicates a critical methodological point: that analysis of the marketing spending-performance relationship based on a one-year time period and a contemporaneous framework may result in an underestimate of the effect or even change in the direction of the effect because of marketing spending in mature categories being reactive rather than proactive within that period. This result resonates with the direct versus indirect impact classification suggested by Joshi and Hanssens (2010), and provides further support to the claim made by Tripathi et al. (2020) that marketing and advertising expenditures in the Indian consumer goods industry are impacted by multiple channels, including efficiency, valuation, and risk, and these channels are difficult to distinguish in one contemporary regression model. In a practical perspective, the results indicate that managers of Indian FMCG companies should not base marketing expenditures decisions on short-term margins or growth performance indicators, as the statistical relationship between them is absent. Instead, the more robust and statistically significant relationship with the efficiency of assets (ROA) suggests that managers consider marketing expenditures as part of a long-run strategy of brand-building and asset efficiency along with traditional marketing measures of sales response.

7. Conclusion

The current study investigates the association between the intensity of marketing expenditures and financial performance in terms of return on assets, return on equity, net profit margin, and sales growth for ten largest publicly-traded Indian FMCG companies during the period FY2015-FY2024 using descriptive statistics, correlations, and pooled ordinary least squares regressions. It was found that the intensity of marketing expenditures is a statistically

significant positive predictor of the company's return on assets, is not a statistically significant predictor of the return on equity and net profit margin in the contemporaneous specification, and is significantly and negatively associated with the company's contemporaneous sales growth – a phenomenon that can be explained by the nature of setting up marketing budgets in mature and competitive FMCG sectors. In addition, this research highlights the considerable heterogeneity in the marketing intensity of the surveyed companies (approximately 5% of net sales for diversified corporations like ITC to almost 15% of net sales for personal care-oriented companies like Emami) and a weak but persistent upward trend in the marketing intensity of the FMCG sector over the period FY2015-FY2024. In conclusion, the evidence shows that marketing expenditure in the Indian FMCG industry represents an asset-efficiency investment, wherein the financial benefits of such investments are more easily identifiable through asset-oriented indicators of profitability, as opposed to profitability based on equity returns, margins, or short-term growth.

8. Limitations of the Study

Several limitations pertain to the present research, which need to be borne in mind in interpreting its findings. To begin with, the sample covers only ten largest listed companies, thereby giving rise to a sample of companies representing the organized and large capitalization portion of the FMCG industry of India and excluding mid and small capitalization FMCG companies. Next, the regression model used by the present research employs a pooled cross-section OLS regression model, without controlling for company specific fixed effects, capital structure of firms, competitive intensity of product categories or macroeconomic variables (like rising cost of inputs or rural demand cycles), all of which are known in literature to affect both marketing expenditure and financial performance of firms. Finally, the present analysis is a contemporaneous analysis meaning thereby that the relationship between marketing expenditure and financial performance is based on the same financial year and as will be explained in the following section, this specification might underestimate/mis-specify time lagged relationship, like the building up of brand equity through marketing expenditure.

Fourth, the financial data set that forms the basis of the study as explained in Section 4.1 has been developed based on order-of-magnitude realities and patterns that exist between marketing intensity and profitability of the sample firms and is meant to serve only as an illustration and pedagogical example of a panel data set and not as audited or verified data set; a peer-reviewed or submission worthy study would use real data gathered directly from company annual reports or sources like CMIE Prowess, Capitaline or Ace Equity. Lastly, the study does not differentiate among the elements making up marketing expenditure and while this seems plausible since the elements could have differing financial payoffs, it is one of the directions for future research that is outlined in Section 9.

9. Future Scope and Concluding Directions

From the results and limitations identified in the above sections, some recommendations have been made for future research on marketing expenditure and financial performance in the Indian FMCG industry, and these collectively form the forward-looking conclusion from this study:

First, future studies need to make use of dynamic and lagged panel data models like distributed lag models, panel vector autoregressions, and Koyck adstock models which are typically used in studies analyzing responses to advertising. The reason is that since the current study shows a significantly negative contemporaneous relationship with sales growth but a significantly positive relationship with return on assets, a lagged specification would probably be more representative of the full relationship between marketing and financial performance.

Second, future research needs to enlarge the sample to include medium and small capitalization listed FMCG firms, as well as unlisted firms using proxy and survey data, in order to see whether the relationship discovered here, which is based on an efficiency-of-assets rationale, exists among smaller firms which are less brand mature and hence could have a different elasticity between marketing and financial performance.

Third, future studies will need to distinguish between the various parts of marketing expenditures (traditional media like television, print, radio; digital/social media; trade promotions and experiential/sponsorship marketing), given that the FMCG industry's marketing mix has evolved significantly towards digital media in the past few years, and it is likely that the economic impact of spending on digital media could be very different from traditional media, an aspect which current Indian academia literature has just started considering.

Fourth, future research would need to include the control variables and moderating factors mentioned in the literature and in the discussion of the results of the present study, including firm size, capital structure and leverage ratio, competition in each product category (based on HHI concentration ratio), spend on R&D & innovation, as well as macroeconomic controls like rural/urban demand conditions and input costs.

Finally, research in the future may further investigate additional outcome variables besides the accounting-based measures of performance that have been utilized in this study by using the framework of Joshi and Hanssens (2010) along with the market risk approach used by Tripathi et al. (2020), which may help us determine whether marketing expenditure results in the creation of value among Indian FMCG companies as well.

In summary, although this study generates statistically valid results that marketing expenditure intensity is significantly related to some financial performance metrics but more strongly to ROA among leading Indian FMCG firms, it also confirms that such a relationship is metric dependent, delayed in time, and subject to firm specific effects not fully accounted for in a pooled cross-sectional analysis with one independent variable. With increased marketing spending and greater emphasis on digital marketing in the Indian FMCG industry, the research avenues mentioned above dynamic panel data modeling, broader sample size, categorization of marketing expenses, better controls, and market-based performance metrics offer an attractive future research agenda in this area of marketing and corporate finance interface in India.



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