

## **Examining the Relationship between Marketing Strategies and Financial Measures, An Applied Study on the Egyptian market**

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### **Abstract:**

The relevance of marketing to explain financial success has been seldom investigated. The main aim of this study is to examine the importance of investing in different marketing strategies from a financial prospective, showing if there is a linkage between adopted marketing strategies and improving financial results.

The objectives of the study are two folds; first to examine if listed companies in Egyptian index are investing more on marketing during the last nine years? Then to analyse whether the correlations between the examined marketing strategies and financial indicators/outputs increased with time?

Insights to answers of those questions can help to whether recommend or not to managers, the use of those marketing tools if they want to improve their financial success.

**Methodology** – To reach these objectives, secondary information about the largest 30 companies operating in the Egyptian Stock Market in terms of liquidity and market capitalization and comprising the EGX30 index were analysed. This information was derived primarily from Refinitiv Eikon database and from the companies published data. Data were collected for nine different periods of time (from year 2014 to year 2022). Multiple regression analysis and ANOVA tests were used.

**Findings** – First, one marketing investment strategy (communication) out of the two examined (Communication and pricing) has displayed a significant and incremental change over time. The other marketing investment decision (pricing strategy) has not increased its importance with time. Second, for the two investment decisions (communication and price), correlations found with financial measures have strengthened over time.

**Key words:** Marketing strategies, Financial indicators, Communication strategies, Pricing strategies.

## Introduction

Marketing is a critical function for any business as it plays a crucial role in creating awareness, generating interest and driving sales of products and services. AMA, (2013) defined marketing as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large”. It can be noted that the main objective of marketing is the same across different organizations, however, market dynamics have been changing the way companies communicate with their consumers, build their brands and assess their performance. Several researchers were interested in measuring how marketing activities could be measured by financial or nonfinancial metrics (Mintz *et al.*, 2021a; Morgan *et al.*, 2022). Furthermore, in recent years, it was clear that organizations were in need to show how marketing investments lead to increase in the value of firms (Markovitch *et al.*, 2020). In addition, as marketing decisions have a strategic influence on companies in general, performance measurement is a vital task to be considered (Da Gama, 2023). Kumar (2015), identified the importance of integration of marketing activities with the other business tasks. From this perspective, explaining marketing actions based on financial outcomes has been an increasing area of interest (Hilton and Lopez, 2019) with a line of research that tends to examine the

correlations between marketing strategies and financial measures (Madden, 2006; Ho, Keh, and Ong, 2005; Mizik and Nissim, 2011; Kosan, 2014; Stewart and Gugel, 2016) and this is the same direction this study intends to follow.

## **Literature review**

Rajapathirana and Hui (2018) argue that the increase of competition companies are facing in current business environments forced companies to create and sustain competitive advantages to be able to succeed , among them is investing in marketing strategies, causing an increase in marketing expenses which is assumed to have a positive impact on financial performance. So there is a need to evaluate the contribution of marketing on performance (Phillips and Halliday, 2008). Making effective investment decisions necessitates the evaluation of companies' performance (Mutunga and Owino, 2017). Consequently, marketing experts and academics acknowledged the importance of validating the marketing value by clear financial outcomes (Lehmann, 2004; Madden, Fehle, & Fournier, 2006). Additionally, many researchers linked marketing to finance by suggesting changing marketing metrics in financial reports, or discovering new indicators. However, identifying a clear link between accessible financial data and marketing is still questionable (Mizik and Nissim, 2011; Kosan, 2014; Stewart and Gugel, 2016). Da Gama, (2023) stated that marketing should be viewed as merely an

expense and financial indicators are crucial to complete the marketing measurement system. Kumar (2015) showed that companies struggle to cut costs, meet annual revenue targets, however less focus was considered to the importance of marketing strategies. Hilton and Lopez, (2019) noted that improved financial outcomes were related to increased marketing expenses. Hence, there it is crucial to analyse the relationship between marketing investments and financial measures.

### **Marketing accountability**

The American Marketing Association defined marketing accountability as “The responsibility for the systematic management of marketing resources and processes to achieve measurable gains in return on marketing investment and increased marketing efficiency, while maintaining quality and increasing the value of the corporation” (Feng, Morgan, & Rego, 2015; Arslanagic-Kalajdzic et al., 2018). Despite the criticisms regarding the accountability of marketing activities, many researchers urged that marketing should be viewed as an investment rather than expense (Sheth & Sisodia, 2002; Rust *et al.*, 2004). Verhoef *et al.* (2011) argue that to be more accountable, companies should focus on one main market asset as the customer base and attempt to choose the relevant financial metric(s) to follow up with expenses. Stewart, and Gugel, (2016) added that the importance of relating return on marketing to

financial metric as companies are valued mainly on financial measures, and financial metrics provide accountability. They suggested that marketing activities should be associated with cash flow and should be in the shape of standard measures to allow marketers to predict future consequences, assess past activities, and make more optimum decisions.

Mintz *et al.*, (2021a), Morgan *et al.*, (2022) and O'Sullivan and Abela (2007) showed that the importance of quantifying the marketing activities through the use of financial and nonfinancial metrics and provided evidence that measuring marketing performance has a substantial positive effect on the company's financial performance. Mintz and Currim (2015) addressed the need to have marketing metrics and link them to financial performance and the process of decision-making. This will facilitate the process of taking corrective actions (Frösen *et al.*, 2016) and will lead to gather and share marketing insights and thus, offer a base for continuous financial progress (Petersen *et al.*, 2018). Mishra, (2011) discussed the need to rationalize the marketing expenses and interpret them into financial outcomes especially due to increase in competition and costs that means that budget allocation should be justified. Copulsky *et al.*, (2016) discussed how marketers are finding difficulties in measuring the financial outcome of their actions. Many researchers agreed on the fact that there are no mutual guidelines to measure the effect

that marketing activities have on firm financial performance (Hanssens and Pauwels, 2016). Additionally, Kotler (2006) noted that for marketing activities to be effective, financial calculations must be underlined. Hooley *et al.* (2005) found that using marketing resources affect financial outcomes in their research as they developed scales for measuring marketing resources.

Madhavaram *et al.* (2005) linked four marketing investment decisions to financial indicators; brand investment, communication investment, price investment; and service marketing investment and proposed a conceptual framework on possibility of relating the marketing investments to financial indicators. Denizci and Li (2009) in their research linked two marketing variables to financial indicators as they analysed the advertising expense, customer satisfaction score to measure marketing variables and the financial indicators; return on equity, return on assets, profit margin, stock return, and Tobin's Q, and only across the tourism and hospitality sectors. They concluded that advertising expense and consumer satisfaction score were significantly linked to Tobin's Q. Additionally, they found that customer satisfaction was significantly related to return on asset. They asserted that marketing decisions are linked to financial indicators. By focusing only on communication strategies, Dyhdalewicz and Widelska, (2017) showed that communication investments are considered expenditures that do not produce

economic benefits in the short term, therefore they are considered as company expenditures, and they indicated that the traditional accounting, based on tangible assets and historical costs, is unable to evaluate the marketing orientated companies. Furthermore, Ho, Keh, and Ong (2005) studied the influence of research and development and advertising expenses on share price performance and they found a positive relationship between R&D and advertising expenses.

From the financial perspective, different financial indicators were cited, for example Firer and William (2003) used indicators as return on equity; return on net assets; return on gross investments, price to book ratio; market capitalization; net income margin; and Tobin's Q and linked them to marketing strategies. Others used return on equity, return on assets, profit margin, stock return, and Tobin's Q (Denizci and Li ,2009) while Lehmann, (2004) used stock performance to measure marketing productivity. All those studies generally provided consistent results presenting evidence in relating marketing investment decisions to improving companies' financial performance.

Based on the previous literature, and following the work of Hilton and Lopez (2019), this study will be focusing only two marketing strategies (communication strategy and pricing strategy) and seven financial indicators (ROA, ROE, ROI, price to book ratio, market capitalization, NIM and Tobin's Q.



Marketing communication investment is essential in today's business landscape to build brand awareness, connect with customers, differentiate from competitors and support business growth. Golob *et al.* (2013), showed that investments in communications are linked to improved sales and greater profits. The proxy of market share in relation to the number of customers can be used to measure communications investments (Reinold, T. and Tropp, J. 2010). Communication could be measured by different approaches including media reach and impressions, brand awareness, message recall and understanding (De Gama, 2023), on the other side, researches tried to capture the investment in this strategy quantitatively by examining selling, general and advertising expenses and this is our direction as in Hilton and Lopez (2019).

With respect to pricing strategy, Agwu and Carter (2014) argue that price is the only income generator among the four Ps and at the same time it is the most flexible element as it could be implemented and changed quickly. It is the total amount which customers pay in order to attain the benefits of having a product or service (Kotler and Armstrong, 2008). Faith and Edwin, (2014) discussed how pricing decisions could be affected by competitors' pricing and how it could have a direct impact on company sales and overall performance. Rosa and Rodan (2011) examined the effect of pricing strategies on consumers' purchase

decision as well as financial results. Pricing strategies could be viewed as a long term decision as it has an impact on performance and competitive advantages (Indounas, 2015) and (Kotler and Keller, 2008). With respect to measuring the pricing strategies, several studies cited the use of goodwill and intangible assets as a proxy for the pricing decisions (Caruso, 2017; Hilton and Lopez, 2019). and with respect to linking it to financial indicators, some studies used ROI as a measure to the financial impact of the marketing productivity (Rust *et al.* 2004), others used ROA, Net income margin, Tobin's Q, market capitalization. (Denizci and Li, 2009; Kosan, 2014; Stewart and Gugel, 2016). In general, the return on equity measures the return for each dollar of shareholder investment (Brigham and Daves, 2007). Tobin's Q, is defined as the ratio of the total market value of the company at the end of year to the estimated replacement costs of assets. Return on assets is calculated by dividing net earnings by book value of total assets and return on investment is the ratio between net income and investments (Denizci and Li, 2009). Price to book ratio displays how much more the market values a firm in comparison to the sum of the company's assets minus intangible assets and liabilities and net income margin measures the percentage of profit earned by the company in relation to its revenues. (Hilton and Lopez, 2019). Market capitalization shows whether the public thinks the company is of value or not, and

represents the sum of the company's outstanding shares (Hanssens and Pauwels, 2016).

Unlike previous literature, the current research adopted a longitudinal perception to analyse the marketing investment over time and its effect on financial outcomes. Denizci and Li (2016) suggested that pursuing a longitudinal perception will enable team work between marketing and accounting to support successful companies. Hence, highlighting how marketing investments can be used to improve financial outcomes. Accordingly, the following hypothesis are postulated:

H1: the average investment on marketing has been increasing over time.

H1<sub>a</sub>: the average investment on communication strategy has been increasing over time.

H1<sub>b</sub>: the average investment on pricing strategy has been increasing over time.

And following the several studies cited affirming the relation between marketing accountability and the created link between companies' marketing strategies to financial performance, the below hypothesis is also suggested:

H2: Correlation between marketing investment and financial measures is greater over time.

Following the work of Hilton and Lopez (2019) we approximated our inputs of marketing investments as key performance indicators (KPI's) to represent the costs that companies made to apply the chosen marketing strategy. Using marketing KPI's to measure the strength of marketing allows us to place marketing investments as an independent variable, while having our selected seven financial ratios/ indicators as the dependent variable. Results from our tests should help in determining which financial factors are considered important for marketing efforts and if changes over time have increased or not.

## **RESEARCH METHODOLOGY**

Regarding the inputs, two marketing investment decisions are examined based on Madhavaram *et al.* (2005) proposal: communication investment and price investment. These two marketing decisions were chosen due to their significant importance within the marketing area, since they are among those in which the expenditures could generate the greatest impact (Kumar, 2015). Regarding the outputs, following the work of Firer and William (2003), seven financial measures are considered: return on equity; return on net assets; return on gross investments; price to book ratio; market capitalization; net income margin; and Tobin's Q.

## **Sample and Data Collection**

To reach our objectives, we used the constituents' companies of (EGX30) to ensure the availability and reliability of posted data. In addition, to do a longitudinal analysis, data were collected for nine different periods of time – from year 2014 to year 2022.

## **Data analysis techniques and discussion**

In this study, multiple regression and one-way ANOVA are used to determine the relationship between marketing investments and financial indicators, as well as the impact of time on the marketing costs.

Our tests are done as follows;

First, one-way ANOVA test was performed to determine if communication expenditures and price expenditures, improved their average relevance over time. The results displayed in table 1 show the higher importance of communication expenditures as a marketing investment decision in which the average communication expense has increased from -596 million EGP in 2014 to- 1939 million EGP in 2022. This means that communication investments displayed through general, selling and advertising expenses do exhibit a significant and incremental

variation from years 2014 to 2022 ( $p < 0.02$ ), showing that communication strategy relevance has changed over time and thus, there is a significant change in money being spent on advertising, general and selling expenses as a KPI for communication decisions. Accordingly,  $H1_a$ : the average investment on communication strategy has been increasing over time, can be accepted.

**Table 1: Means of Marketing Strategies /Investments over 9 periods**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	p-value
<b>Evolution of communication Strategy over time</b>										
<b>Selling, General and Advertising</b>	-59,553	-78,765	-98786	-107332	-114657	-125665	-149059	-170228	-193993	0.02
<b>Evolution of Price Strategy over time</b>										
<b>Goodwill and Intangible assets</b>	59286	56027	54841	54129	51788	49541	49219	46874	46177	0.99
Note: All values are in 0000S EGP and are average values of each marketing strategy across the 9 years' period.										

In regards to pricing strategies, the results in table 1, show that Price investments displayed through goodwill and intangible assets do not exhibit a significant and incremental variation from years 2014 to 2022 and no differences exist among the periods of time ( $F = 0.009$ ;  $p < 0.99$ ). This means that the EGX30 companies do not show a significant increase in either purchasing or valuing marketing assets that allows corporations to employ more competitive price strategies and thus  $H1_b$  is rejected. To conclude  $H1$  is partially accepted. One marketing decision out of

the two examined (Communication spending) has displayed a significant and incremental change over time. The other marketing decision (Pricing) has not increased its importance with time.

While H1 allows us to determine if the market strategies examined vary based on time period, H2 will enables us to examine if the correlations found between marketing strategies and financial measures are higher with time.

To do so, two analyses are used; a one-way ANOVA for each of the two marketing strategies for the 9-year period (whether the communication or the pricing strategy for years 2014 to 2022) in which the marketing strategy is the independent variable and the 7 financial indicators over the 9 years are the explanatory variables. This first step of the one-way ANOVA test will provide the dependent variables that will be used in the second stage. Only the significant financial indicators from the first step will then be used in a regression analysis as the dependent variable and the year will be used as the independent variable, in which 1= 2014, 2= 2015,.....9=2022. The purpose of this step is to examine the growth of each financial indicator over time.

**Table 2: Impact of Communication Strategy on Financial Indicators overtime**

ANOVA Financial Indicator/ Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
ROA	0.697	0.698 <sup>*</sup>	0.845 <sup>**</sup>	0.112	0.112	0.787	0.978	0.914 <sup>*</sup>	0.996 <sup>*</sup>
ROE	0.337 <sup>*</sup>	0.367	0.412 <sup>*</sup>	0.434 <sup>*</sup>	0.516	0.718	0.711	0.0.742	0.811 <sup>*</sup>
ROI	0.321	0.298	0.189	0.143	0.541	0.432	0.639	0.315	0.334
Price to Book Ratio	0.752	0.841	0.681	0.739	0.521	0.762	0.538	0.216	0.439
Market Capitalization	0.001	0	0	0.0008	0.005	0	0	0	0
Net Income Margin	0.62 <sup>*</sup>	0.71 <sup>*</sup>	0.743	0.823	0.857 <sup>*</sup>	0.921	0.832	0.917 <sup>*</sup>	0.973
Tobin's Q	0.003	0.0036	0.004 <sup>*</sup>	0.007 <sup>*</sup>	0.0065	0.0084	0.0079	0.009 <sup>*</sup>	0.01 <sup>*</sup>
Regression Analysis	Independent Variable		Dependent Variable				F - statistic	P-value	
ROA	S,G&A		ROA				27.897	0.001	
ROA over time	Time		Unstandardized Predicted value				19.367	0.07	
ROE	S,G&A		ROE				48.432	0	
ROE over time	Time		Unstandardized Predicted value				3.45	0.54	
Net income Margin	S,G&A		Net income Margin				47.678	0	
Net income Margin Over time	Time		Unstandardized Predicted value				36.84	0.06	
Tobin's Q	S,G&A		Tobin's Q				40.48	0.05	
Tobin's Q over time	Time		Unstandardized Predicted value				3.64	0.16	

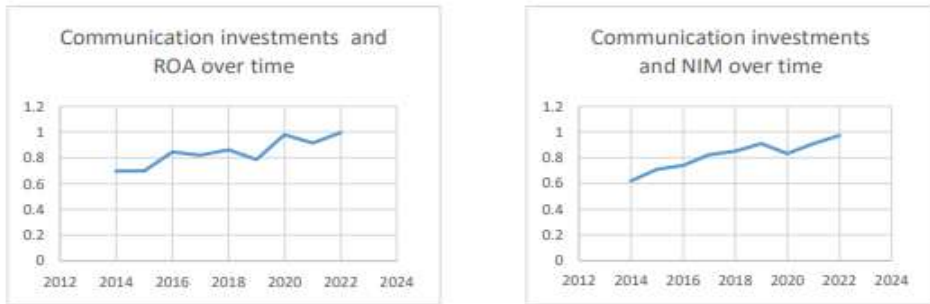
**Note:** P values for the multiple regression analysis; \*\*  $p < 0.05$ , \*  $P < 0.1$

Table 2 shows the impact of communication strategy on financial indicators overtime. First by focusing only on the ANOVA test results, regarding the communication investment, ROA, ROE, Net income margin and Tobin's Q are the four financial indicators significantly affected by this marketing decision. And by looking at the regression analysis done to explain the evolutions of these indicators with time, only ROA and net income margin displayed a significant correlation between the two indicators and communication expenditures, implying that there is a significant difference/ change over time



at an increasing pace as displayed in figure 1. Alternatively, the ROE and Tobin's Q, in which their insignificant correlations suggest that the latter two financial indicators' relationship with communication expenditures were consistent all the years.

**Figure 1: The relationships between Communication investments and Four Financial Indicators over 9 years**

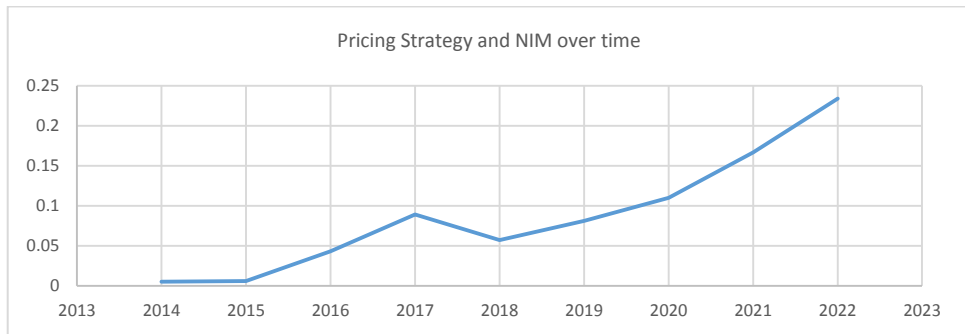


**Table 3: Impact of the Price Strategy on Financial Indicators overtime**

ANOVA Financial Indicator/ Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
ROA	0.064	0.098	0.085	0.061	0.046	0.079	0.094	0.0891	0.0667
ROE	0.003	0.032	0.0421	0.0334	0.037	0.096	0.189	0.202	0.251
ROI	0.421	0.398	0.184	0.156	0.547	0.437	0.839	0.915	0.934
Price to Book Ratio	0.814	0.786	0.861	0.786	0.523	0.645	0.638	0.416	0.439
Market Capitalization	0.001	0	0	0.0006	0	0.007	0	0	0
Net Income Margin	0.005 <sup>*</sup>	0.006 <sup>*</sup>	0.043	0.089	0.057 <sup>*</sup>	0.081	0.110	0.167 <sup>*</sup>	0.234
Tobin's Q	0.034	0.032	0.036	0.004	0.002	0.048	0.246	0.054	0.032
Regression Analysis	Independent Variable		Dependent Variable				F - statistic	P- value	
Net income Margin	Goodwill and intangibles		NIM				47.678	0	
Net income Margin Over time	Time		Unstandardized Predicted value				36.84	0.06	

**Note: P values for the multiple regression analysis; \*\*  $p < 0.05$ , \*  $P < 0.1$**

**Figure 2: The Relationships between Pricing Strategy and NIM over 9 years**



The ANOVA test for price investment presented in table 3 shows a significant correlation with only one financial indicator: the net income margin. The regression of pricing against NIM shows that the average NIM values predicted from price decisions (goodwill and intangibles) are increasing over time ( $F = 47.7$ ;  $p = .00$ ). Figure 3 shows the incremental tendency of the correlations found between the NIM as the only financial indicator that showed a significant correlation with price investment (goodwill and intangible assets).

To conclude and based on the results displayed in tables 2 and 3, it can be concluded that  $H_2$  can be partially accepted, in which the two investment decisions (communication and price) correlations found with financial measures have strengthened over time. On one side, regarding to communication investments, two financial indicators (ROA and net income) are significantly

related to this marketing decision at an increasing rate. On the other hand, only the relationship between price decisions and net income increases over time. As for the rest of the financial indicators, none proved to have a significant correlation with pricing investments or communications investments over time.

There is a partial consistency among our findings regarding the evolution of marketing costs over time. Only one of the two marketing investment decisions tested (communication strategy) has shown a significant higher means by time as stipulated in  $H_1$ . The other marketing investment decision (pricing) did not increase its importance with time, implying that the firms' spending decisions on this strategy have remained stable and haven't increased significantly with time.

Alternatively, our results showed evidence that correlations between marketing expenditures and financial measures are significant and incremental for different periods of time in the two marketing investments strategies examined (communication and price) as stated in  $H_2$ .

Our results are partially in accordance with the findings of (William ,2003; Denizci and Li ,2009; Hilton &Lopez, 2019; Abu Farha and Elbanna, 2018). Additionally, our findings showed the importance of validating the marketing value by clear financial outcomes which are aligned with (Lehmann, 2004 and Madden, Fehle, & Fournier, 2006).

The study adds to the existing literature as of the early attempts to empirically examine the relationship between marketing investments and financial measures in the emerging market of Egypt. As there is an essential need to form a mutual language and keep association within strategic and operational activities through linking the marketing actions to financial measures, this study adds to the debate by documenting an evidence on the link between communication and pricing investments on financial measures. The results provide support to the perception that marketing actions will contribute to companies' financial performance and aid in estimating the marketing investments which may lead to an overall enhanced financial performance.

### **The Implications of the Study**

This research will contribute to the debate of linking marketing investments to firm's performance through a longitudinal perspective and to document the findings in a market that is rarely studied, the Egyptian Market, despite its potential and opportunities for growth.

This study will also add to the line of research investigating how marketing and financial indicators could be successfully linked through what is called the marketing-accounting interface (Ambler *et al.*, 2001; Madden, 2006; Mizik and Nissim, 2011; Kosan, 2014; Stewart and Gugel, 2016).

Despite that these studies in general, highlight the gravity of this problem, and concluding with the importance of alternatives as changing accounting measures, including marketing metrics in financial reports, or finding new indicators that address the problem, rarely do these studies suggest identifying the link between the easily accessible financial data and the marketing strategies/ investments. From a practical approach, our results can help managers in both disciplines to focus on the importance of investing in diverse marketing tools and assess their value from an accounting or financial approach, thus identifying how these tools can be used to improve financial results.

The results achieved in this research propose a number of implications for managers and investors, it sheds light on novel insights into the relationship between marketing investments and financial measures, and ensures that they should be accountable for their marketing actions. We recommend companies to establish the use of financial measures to improve their ability to anticipate and detect market changes, given that marketing investments could be linked to different financial measures. This could enable managers to have better feedback on their marketing actions and enhanced response to marketing changes and thus improve the marketing decision process. It also could lead to rearrange how marketing can be measured through the use of financial measures. Additionally, our results highlight the

importance of enhancing the analytical skills of marketing employees to be able to evaluate marketing actions and understand their competitors'. However, managers should be careful when implementing marketing decisions as it could not all lead to the same financial results.

### **Limitations and Directions for Future Research**

This study has some limitations, which may lead to possible future research. The study was conducted on EGX30, future researches could explore the relationship by applying the analysis on other indices and on longer sample periods, and to expand the sample to include companies from other emerging markets which could lead to different findings. A replication of this study to other markets in the region, and comparing the results, could increase the validity of the findings and permit for greater comprehensions. The study also included two marketing investments; communication and pricing, so future researches could test other marketing variables such as brand and service investments which could provide additional insights. Furthermore, given the importance of relating marketing actions to financial measures, it might be useful to study the relation in different industrial sectors. So, future research could show the degree to which the relationship presented in this study can be applied regardless of context.

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