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## The Influence of Marketing Communication on Financial Situation of the Company – A Case from Automobile Industry

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### Abstract

Marketing communication is a way how to provide selected information to customers, ideally with the fastest and in the most efficient form. Well set marketing communication of the company can presume the increment in the number of its customers which is often the significant factor of increase in sales. However, costs are linked with transforming marketing idea (using selected marketing communication channel and tool) into the final form which address customers. The goal of this paper is to use knowledge from the marketing communication of automobile company Tesla Motors, Inc. in order to gain information about efficient communication channels and tools which are currently used. We observe the relation of marketing strategy compared to financial situation, respectively financial characteristics. of selected communication channels and tools. Using real case of Tesla Motors authors suggest recommendations of efficient marketing communication in current environment as: a) effective from financial perspective b) beneficial in terms of building relationships with customer.

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## 1. Introduction

In this research, we examine and analyze some financial indicators to evaluate the major effects of marketing communication on financial situation of selected companies. The effects that we consider are based on existing theories of the role of financial indicators.

The goal of this article is point out connection between marketing tools of selected company and their financial indicators. This can show a importance of marketing communication in current global market. Problem of these days is way how companies use marketing tools in order to make more profit, draw attention of customers and attract them, maintain and increase their market share and other company's selected intention to be able to compete.

We assume that if marketing communication of company is correctly transposed than is noticeable the growth of its financial indicators. Other argument is that marketing communication is one of many element which influence on financial growth of company.

The paper is divided into 5 sections. In section 2 theoretical approaches of marketing communication are discussed. Section 3 presents the methodology for evaluating the direct financial efficiency of marketing communication. Section 4 investigate the financial situation and marketing communication in Tesla Motors company. Finally, section 5 concludes the paper.

**Methodology.** Our main focus is to investigate the effect of marketing on the financial situation, growth and wealth of the company. Following the arguments stated above, important for us in front of financial indicators are following indicators: profits, revenues, ratios and stock-price. For measuring profits, we took into account gross profits of the company. We also investigated revenues and quarterly revenue growth as well as 52-week change in stock price and total assets of the company.

In this research, we use data to examine the evolution of the major effects of marketing communication on financial situation of the company. The effects that we consider are based on existing theories of the role of financial indicators. We conduct our empirical analysis on financial data from a category of automobile industry. In the automobile industry, marketing communication is vital part of this environment. As mentioned earlier, our aim is to distinguish between the two existing effects of marketing communication – indirect and direct.

We take into account direct effects of marketing communication. In our definition, the direct effects refer to marketing communication that influences consumers to buy products of the company and influences the financial situation of the company via financial indicators. In contrast, the indirect effect refers to marketing communication that allows consumers to update their prior beliefs and reduce uncertainty about the true quality of the new product via a Bayesian learning process.

## 2. Theoretical Aspects

### 2.1. Marketing communication

The main goal of marketing communication is transfer of the message between the sender and the receiver (Vodak et al., 2016). The contribution of a successful transferred message can be demonstrated by the number of real customers who are willing to pay money for provided value (e.g. a product or a service). By quantifying profits paid for products the firm is able to assess the success rate of particular marketing communication, i.e. messages transferred from the company to customers.

Marketing learns from business results [3]. Therefore it is necessary to understand financial indicators, i.e. economic aspects and results of marketing communication in context of company operation. Marketing is part of a management process. The result of this management process is knowledge, anticipation and influencing customers in an efficient way ensuring meeting goals of the company [4].

The most common forms of marketing communication are advertisement, sales support, public relations, personal sale, direct marketing and event marketing [5] [6] [7]. All of these forms of marketing communication of a company create the company marketing. Moreover, they investigate the market a specify its demands and character, investigate and test the market reactions, focus on defined segments of customers and communicate with them. The task of marketing in the market environment (where competitors provide similar or the same products) is to provide product

(or service) in an efficient way than competitors. Marketing of the company has to manage the market in a way to be able to create and sustain a relationship with customer which is beneficial for both sides.

The strong influence of marketing is an inseparable part of sales and distribution for today's companies. Using marketing companies secure their needs. In sales actions it is necessary to assure demanded quality of shipment in demanded time. In these actions one can identify marketing strategy, i.e. dominant activities in creating strategy of company development [5]. Therefore, it is not surprising to claim that observing financial indicators is necessary for creating efficient marketing strategy.

Consumer behavior and preferences are influenced significantly by product experience. However, in addition to product experience, marketing communication plays a major role in consumer adoption of new product. Many of these new categories involve repeated purchases i.e., repeated decision-making on part of the consumer. In addition, some of these categories involve experience goods. In these cases, most of the product characteristics are intangibles about which consumers are not well informed before adoption and use. There is little research that documents the exact role(s) of marketing communication in the evolution of preferences of consumers in categories that are new to these consumers [1].

One way how to measure the success rate of marketing strategy is via financial situation of the company. Profit and growth of the company are reliable signs of successful marketing communication. Therefore, one can state that financial indicators which are characteristics of financial situation of the company are important in assessing the marketing communication. "Also, financial indicators are important for choosing the right business partner. Today, in the mass number of cooperation relations, it is beneficial to predict these indicators into the future. Acquiring this information, a company of cooperation is able to better evaluate its current position within the cooperation and it is also able to make good strategic steps in managing these relations." [2]

## 2.2. Financial indicators

Using financial indicators in business performance measurement allows us to compare different businesses. We can also define operating objectives for your company, but such objectives differ for companies in different markets or industries. If we want to compare our company's performance with a wide other companies, financial indicators are a neutral tool for evaluating performance [8]. One of the main goals of financial indicators is to assess the wealth of the company. The objective function of wealth maximization can be expanded into three sub-objectives [8]: to make a profit; to continue in existence; to maintain growth and development. Growth can be identified in a number of ways both financial and non-financial (market share, number of employees, number of products) [9].

Basic financial indicators used in business are liquidity, activity, liability, rentability and indicators of market value. Liquidity is commonly divided into three types: quick ratio (first order), cash ratio (second order) and total or current ratio (third order). The efficient liquidity, also called as quick ratio, defines the ability to pay for short-term liabilities with the most liquid part of the equity. Current ratio has the numerator expanded by the sum of inventories. This is due to the structure of balance sheet which is comparable with the balance sheet of companies of market economics. Basic assets ratios are as follows: inventory turnover, debtor's statements turnover, time for liabilities pay off, turnover of stable and total assets. In every of these indicators incomes and costs are an important information.

Indicators of rentability (profitability ratios) express rentability of analyzed subject. These indicators are also used for evaluation of how imposed capital was used. Basic profitability ratios are: total assets rentability, total capital rentability, rentability of own capital, rentability of basic iminium, rentability of wages, equity or rentability of revenues or profits.

## 3. Tesla Motors, Inc. – case study

Tesla Motors is an American company which produces electric cars. Their cars are in favor of millions of people over the world. Therefore, it is no surprise that after initial presentation of their new model Tesla 3 in March 2016, Tesla registered more than 250 000 preorders in just three days.

According to the Income Statement of Tesla Motors, Inc. (see Table 1 and Table 2) and based on financial indicators we presented above financial situation is as follows: a) The gross profit is rising every year; b) The total revenue is

rising every year; c) Quarterly revenue growth is +145,40 percent; d) Total assets are rising every year; e) 52-week change in stock price is +18.56 percent.

Table 1. Income Statement of Tesla Motors, Inc. (all numbers in thousands) [10]

	12/31/2015	12/31/2014	12/31/2013
<b>Total Revenue</b>	4,046,025	3,198,356	2,013,496
<b>Gross Profit</b>	<b>923,503</b>	<b>881,671</b>	<b>456,262</b>
<b>Operating Expenses</b>			
Research Development	717,9	464,7	231,976
Selling General and Administrative	922,232	603,66	285,569
Operating Income or Loss	-716,629	-186,689	-61,283
Net Income from Continuing Ops	-888,663	-294,04	-74,014
Net Income	<b>-888,663</b>	<b>-294,04</b>	<b>-74,014</b>
Net Income Applicable to Common Shares	<b>-888,663</b>	<b>-294,04</b>	<b>-74,014</b>

Table 2. Balance Sheet – current assets (all numbers in thousands) [10]

Period Ending	12/31/2015	12/31/2014	12/31/2013
<b>Total Current Assets</b>	<b>2,791,568</b>	<b>3,180,073</b>	<b>1,265,939</b>
<b>Total Assets</b>	<b>8,092,460</b>	<b>5,830,667</b>	<b>2,416,930</b>

Even though there are some weaknesses in income statement of Tesla Motors, we do not consider it to be very serious. The most significant drawback of good financial situation of Tesla is the net income statistics. However, we believe that this is mainly caused due to the growth of the company. Tesla invests large amount of their finances into plan expansion and in research and development. Although these factors cause negative numbers in financial statements, they are not considered to be negative from a longer point of view. Revenues and gross profits are rising every year and therefore we believe that Tesla is in very good financial condition and is a successful company.

### 3.1. Marketing communication of Tesla Motors

Tesla maximizes its competitive advantages from the point of view of external factors, i.e. tools of marketing communication. Tesla realizes that the way of communicating with customers is very important for them. They try to be as close as possible to their potential customers. For this, they use different ways of marketing communication for different potential segments in order to maximize the efficiency of the marketing communication for every segment of customers. The total summary of different forms of marketing communication of Tesla Motors, Inc. in last three years are stated in Table 3. It is, however, important to view these data from point of view of supply as well as price of competitors, trends and customs in consumers' behavior.

Starting point of successful marketing communication of Tesla Motors is based on two questions: 1) Where is oriented customer interest? and 2) How customers see marketing communication of Tesla Motors in these days?

For publicity mainly uses the internet as a communication channel, and as a means of communication, in particular its website [12], which publishes not only about the products but also a variety of news. Tesla favors the offbeat and buzz-worthy tools of marketing. Tesla Motors achieve reinvention of automotive retail, that bring something new in customer eyes. [20] Elon Musk create a new icon of technology invention. He's selling a vision of the future in which everyone wants to be. This create popular need of today. [15]

Table 3. Marketing strategy of Tesla Motors

Tool of marketing communication	Form of presentation
Advertisement	<ul style="list-style-type: none"> <li>– process designed around online information, commerce, and community [11]</li> <li>– web page (unusually clear, clean, and effective site) [12]</li> <li>– Tesla as a high-end disruptive force in a car industry [13]</li> </ul>
Sales promotions (Sales support)	<ul style="list-style-type: none"> <li>– viral videos through social media [14]</li> <li>– company's customer referral program [15]</li> <li>– online sales model coupled with company-owned stores [16] [17]</li> <li>– print: The company's #1 message is that they are trying to build the best car ever made</li> </ul>

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	and not just the best electric car [11]
Public relations	<ul style="list-style-type: none"> <li>– launching a kids' version of the electric Model S [18]</li> <li>– promote the electric vehicle concept as well as its own brand [16]</li> <li>– unique Tesla buying and ownership experience and encourages owners to interact with the company and each other in full public view on the Tesla site [11]</li> <li>– reputation: word of mouth driving company's growth [15]</li> </ul>
Personal sale	<ul style="list-style-type: none"> <li>– Sales personnel at company-owned stores and galleries [19]</li> </ul>
Direct marketing	<ul style="list-style-type: none"> <li>– Tesla sells directly to consumers through its showrooms—generally in downtown locations—and online (customer-centric approach) [20]</li> </ul>
Event marketing	<ul style="list-style-type: none"> <li>– pre-order Tesla Model 3: “I won't tell you the final price of the item, nor will you see the finished product until later on.” [21]</li> <li>– presentation of products at car show in many places</li> </ul>

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Current customer expects something new, with value and meets the requirement of current trends. In automotive industry, in front of examined Tesla, most of customer agree that this is: technological solution is sustainable and innovative, popular brand, new way of transport and challenge for future. These create world of mouth marketing, that their audience does the marketing for them and create strong brand.

#### 4. Conclusion

In addition to product experience, marketing communication plays a major role in consumer adoption of new product. Well set marketing communication of the company can presume the increment in the number of its customers which is often the significant factor of increase in sales. The research problem was the relationship between financial indicators and marketing communication company. Our goal has been looked at the data and define a hypothesis. The relationship between marketing communications and financial situation of the company is to implement the proposed methodology to real cases that demonstrate the importance and significance of the relationship in terms of building an effective marketing strategy.

The most proven successful marketing communication tool in this case is **public relations** for following reason:

- High-end disruptive force presented in public
- Clear message: trying to build the best car ever made
- Encourages owners to interact with the company and fulfill their common goals
- Build strong reputation through word of mouth

We believe that there is significant effect of marketing on the financial situation, growth and wealth of the company. In this paper we investigated marketing communication of an automobile company. The goal of this paper was to evaluate the marketing communication. We took into account direct effects of marketing communication. Our aim was to identify any sort of relationship between the type of marketing communication and financial situation of the company.

We used Tesla Motors, Inc. for our case study. Their cars are in favor of millions of people over the world, therefore we decided to investigate their marketing strategy and financial situation. We investigated their income statement and balance sheet of Tesla Motors. On base of our empirical analysis we can say following statement. We believe that one of the reasons Tesla is such a popular and successful company is due to its marketing strategy. Tesla uses a marketing mix that stands out in the automotive industry. The marketing mix or 4Ps (Product, Place, Promotion & Price) is the set of strategies that a company uses for its marketing plan. Tesla maintains significant control in all components of its marketing mix. Such level of control maximizes the company's effectiveness in reaching its target customers and optimizing profits. We point out these background findings of Tesla's model marketing communication strategy:

- The results of marketing communication are reflected in the growth and financial stability, i.e. financial indicators, e.g. number of ordered and sold products or services.

- The more the marketing communication is able to use elements which customers find credible, trendy, and worthwhile, the more the company is able to build up a good reference which is also reflected in growth and financial stability
- Financial indicators are beneficial in terms of building relationships with customer.
- Viral advertisement on the internet will cause significantly higher interest in their products and will cause higher revenues even in large companies
- Possibility to buy their products exclusively in one place (own stores) will increase number of sold products
- The luxury for everyone is an effective concept today
- Changing the public opinion by promoting the sense and idea of their products will increase gross profits of the company.

Tesla show very important result in front of used marketing communication is result in total 2016 production of 83 922 vehicles, from which was 76 230 delivered to customers. Increase of production from 2015 to 2016 is 64%. [22] This represent how effective Tesla has set marketing communication strategy, especially public relations.

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