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Methods for measuring the profitability of marketing operations: with an applied study on perfume market companies

طرق قياس ربحية العمليات التسويقية من خلال دراسة تطبيقية على شركات سوق العطور

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ملخص

يهدف البحث إلى التعرف على أهم الأساليب الكمية المستخدمة في قياس ربحية العمليات التسويقية كما يهدف إلى توضيح السبل والأساليب اللازمة التي تقود الشركة إلى دراسة ربحية عملياتها التسويقية والقيام بقياسها ثم تقييمها.

وقد توصلنا إلى أن العملية التسويقية تبدأ من اختيار الاستراتيجية المناسبة للتسويق وصولاً إلى وضع مزيج ترويجي ملائم يضمن وصول المنتجات إلى المستهلكين، كما توصلنا إلى العلاقة الموجودة ما بين الربح والربحية، وتمكنا من قياسها على شركة puig باستخدام أساليب كمية، وقد خلصت الدراسة إلى أن الشركة تعتمد فقط الأساليب الكمية المبَنيّة على أساس مؤشرات خاصة بالإيرادات، الطلبات، الاستثمارات والأرباح في فترات زمنية معينة.

الكلمات المفتاحية: تسويق؛ ربحية؛ ربحية العمليات التسويقية؛ سوق العطور؛ شركة puig.

Abstract

The research aims to identify the most important quantitative methods used in measuring the profitability of marketing operations as it aims to clarify the necessary ways and methods that lead the company to study the profitability of its marketing operations and to measure and then evaluate them.

We have come to the conclusion that the marketing process starts from choosing the appropriate marketing strategy to developing an appropriate promotional mix that guarantees the products reach consumers, and we have also found the relationship between profit and profitability, and we were able to measure it on puig using quantitative methods, and the study concluded that the company only quantitative methods based on indicators for revenues, orders, investments and profits are based on specific time periods.

Keywords : **Marketing; Profitability; Profitability of Marketing Operations; Perfume Market; Puig Company**

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1. INTRODUCTION

Companies work to provide the requests and desires of customers by offering products or services to them in the market in order to make profits through their sales, as the arrival of the product or service to the consumer requires them to carry out marketing operations, but the rapid economic changes directly affect the marketing operations, which affects the profits companies and their profitability.

Marketing is among the functions that the company must give utmost importance to, as winning permanent customers, selling products, earning profits and achieving high profitability can only be through marketing operations that directly affect the conditions of large companies or small institutions, as every defect in the conditions of The market will affect the process of marketing products, which predicts the increase or decrease in the profitability of companies, depending on the degree of their sensitivity to changes.

Among the active markets that are characterized by taste and quality, we find the perfume market, which is predominantly influenced by consumer tastes. It is also an active market in all seasons that takes into account production in appropriate quantities to target specific groups, while ensuring certain profitability ratios, maintaining the customer and making him a permanent customer.

- **The research problem:** Based on the above, the following main research problem becomes clear to us:

What methods does Puig use to measure the profitability of its marketing operations?

The main problem posed leads us to put the following sub-questions:

Are marketing and marketing process two terms for the same meaning? How is the marketing process?

What is the difference between profit and profitability?

How is the profitability of puig's marketing operations measured?

- **Research Hypotheses:**

To reach a solution to the problem at hand, we assume the following:

Marketing and the marketing process are two terms in one sense. The marketing process is done by working to deliver the product/service to the consumer.

Profitability is synonymous with profit, as there are no differences between them.

- The profitability of marketing operations in Puig company is measured in the same equation by which the profits achieved by the company are measured.

- **Research objectives:** We aim through this research to:
- Highlight the differences between profit and profitability.
- Defining the concept of the term profitability of marketing operations.
- Determine the quantitative methods used to measure the profitability of marketing operations.
- Applying the study to an international company with an attempt to develop an appropriate analysis of the statistical results that will be obtained.

- **Study methodology:** The descriptive method will be used to present the theoretical framework of the study, and the descriptive analytical method will be adopted in the company case study.

The importance of the study: This study comes to express the most important quantitative methods used in measuring the profitability of shopping operations, with a presentation of a case study for a company and an analysis of the results obtained

2. An overview of marketing and the marketing process:

2.1 Theoretical framework of marketing and the marketing process:

- **Marketing Concept and Objectives:**

There are those who define marketing as “the planning, implementation, creation, pricing, promotion and distribution of ideas or goods and services necessary to complete exchanges, which lead to satisfying the needs of individuals and achieving the goals of organizations” (Abu Qahaf, 2001, p. 46) , as he defines it Philip Kotler as "a human activity directed to the satisfaction of needs and desires through exchanges" (Hassouna, Sheikh, & Azzam, 2009, p. 29)

On the other hand, there are those who consider marketing as “the process of predicting the structure of demand for goods and services and trying to satisfy them through the processes of exchange and physical distribution of goods and services” (Nevin, 2010, p. 07) , and in the same sense there is another definition that “marketing in general is carrying out a set of activities and works that keep pace with the flow of goods and services from the producer to the consumer in a particular region, city or country under the local conditions that prevail” (FODIL, 2018, p. 19)

Similarly, “Marketing is the implementation of various project activities aimed at directing the flow of goods and services from producer to consumer” (Al-Alaq, Sumaida'i, & Al-Ta'i, 2007, p. 10)

Accordingly, the previous definitions can be summarized as follows: Marketing is all activities resulting from the exchange of goods or services with the aim of satisfying the needs and desires of the consumer and achieving profits for the company.

- **Marketing Process:**

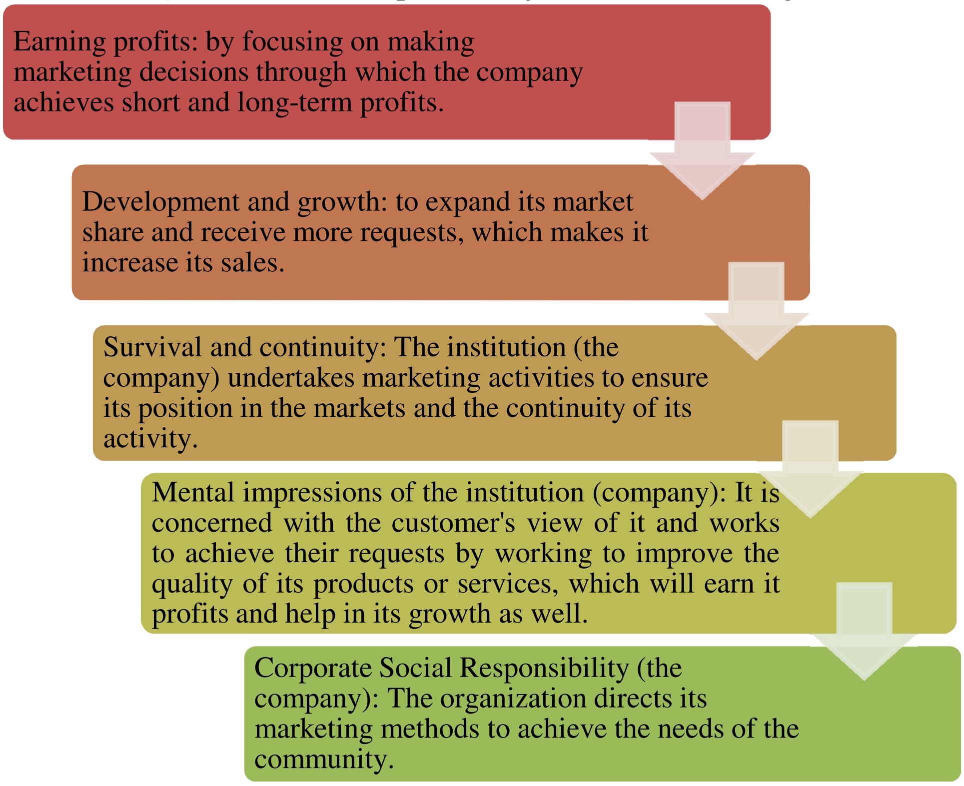
The marketing process can be defined as “the process of understanding the market and buyers’ needs and desires through marketing research for buyers and the market, and through managing marketing information and data about buyers in the market” (Hassan, 2020)

Based on this definition and comparing it with previous definitions, we conclude that the term marketing process is the same as the term marketing.

- **Marketing Objectives:**

Marketing seeks to achieve a coherent set of goals, which are summarized in the following:

Fig 01: The most important objectives of marketing:



Source: prepared by the author

The previous figure indicates that the most important goal of doing marketing is to earn profits, as the institution or company, after obtaining profits, will be able to grow and develop, which ensures its survival and continuity in the markets, so that it is then concerned with creating mental impressions among its customers about the quality of its products and its keenness to provide the best services to them. Through its adoption of marketing methods to achieve the needs of society, which gives an idea that it is a socially responsible institution.

- **How does the marketing process work:**

The marketing process begins with the company's selection of the appropriate marketing strategy to meet the consumers' desires, then moves towards offering products with a strong competitive advantage to ensure its excellence in the market and acquire permanent customers. It fits the requirements of the consumer, so it turns to choosing distribution channels to ensure that the products reach the customers, and in the end it works on designing an appropriate promotional mix to introduce its products and highlight its advantages.

After all of the above, the organization is ready to work on winning customers while building strong, continuous and profitable relationships with them. Its implementation of the previous sequential stages will return profits and guarantee it a share in the market in which it is active, as well as make it gain permanent customers.

The second axis: the differences between profit and profitability:

To remove the confusion about these two terms, we must point out here that there is a vast difference between (profit, profitability) in the economy, and the following is an explanation of that:

2.2 the concept of profit & the concept of profitability:

There are two concepts of profit, and the difference between these two concepts will be explained below (Blog, 2021)

Table 01: Conceptual differences between profit and profit:

profit	profitability
• **Economic concept:** which means the amount of change in the net value of an economic unit during a certain period of time.	It is the relationship between the profits achieved by the institution (company) and the investments that contributed to achieving these profits. Profitability is considered a goal for the institution (company) and a measure for judging its adequacy at the level of the total unit or
• **Accounting concept:** It means the difference between	

the income achieved by the economic unit during a certain period of time and the expenses incurred by this unit during this period to achieve this income.	partial units, and profitability is measured either through the relationship between profits and sales, or through The relationship between profits and investments that contributed to their achievement.

Source: prepared by the author

Based on this, it becomes clear to us the difference between the economic and accounting concepts of profit, as the economic concept takes the net value only to calculate the profit, while the accounting concept depends on income with the deletion of expenses to reach this profit on the one hand, and on the other hand we find that profitability is calculated as a percentage based on Taking the realized profits and the investments that led to it.

Although the two terms are used interchangeably, profit and profitability are not the same, both can be used as accounting metrics in analyzing a company's financial success, but there are clear differences between the two. To determine whether a company is financially sound or adequately prepared to grow, investors must first understand what distinguishes a company's profit from its profitability (financial magazine, 2021)

- **Defining the company's profits:**

Profit is an absolute number determined by the amount of income or revenue, and beyond the costs or expenses incurred by the company, it is calculated as total revenue minus total expenses, and appears on the company's income statement. No matter the size or scope of the business or the industry in which you operate, the company's goal is always to make a profit (financial magazine, 2021).

- **Increasing the company's profitability:**

To determine the value of investing in a company, investors cannot rely on profit calculation alone, instead, it is necessary to analyze the company's profitability to understand whether the company is using its resources and initial investment efficiently.

There are a number of tools that can be used to increase profitability and overall company growth as the company can quickly falter and be at the bottom with failed projects which directly leads to significant costs. To reduce the occurrence of project failure, companies can explore the profitability index to determine if the project is worth Follow-up This measure provides company management with insight into the costs versus benefits of the project, and is calculated by dividing the present value of future cash flows through the initial investment of the project.

A company can also increase profitability through the marginal return theory. One of the first steps a company takes to increase profitability is to increase sales, which requires an increase in production. The marginal return, also known as the marginal product, is a theory that states that adding workers up to a certain point increases the use of capital in an efficient manner, so exceeding this number of workers leads to diminishing returns and ultimately lower profitability.

In order for the company to have high profitability, it is necessary to apply this theory to its own needs in the field of business and production to experience growth in an efficient and cost-effective manner. (financial magazine, 2021)

- **the profitability of marketing operations and its measurement:**

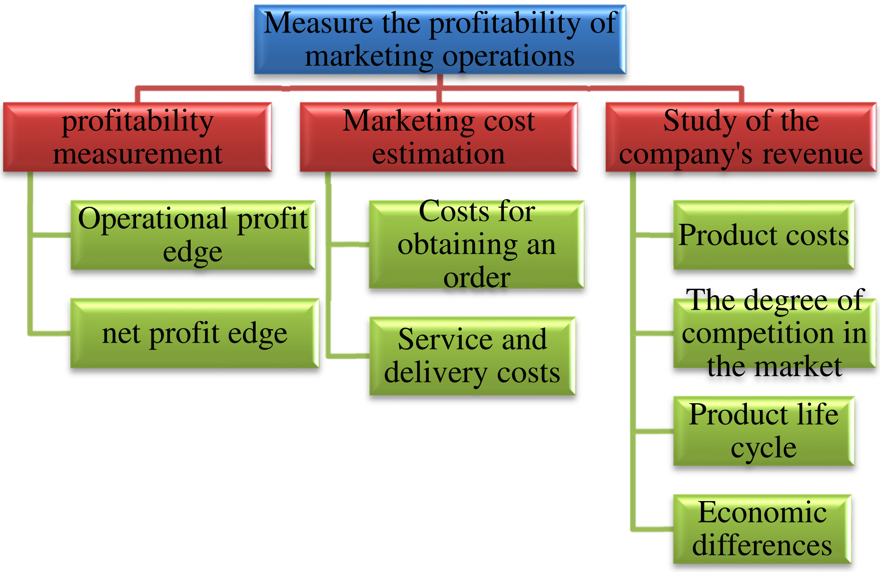
- **What is the profitability of marketing operations:**

In general, criteria are set to measure the profitability of the product, regions, dealers and distribution channels, as the profitability analysis of companies seeks to achieve high profitability despite their shortcomings in some activities that can achieve some losses, and through the analysis of the profitability of marketing operations, an analysis of costs is done, sales, as well as sales and revenue of the company.

- **How to measure the profitability of marketing operations:**

Measuring the profitability of marketing operations requires the following steps:

Fig 02: Quantitative methods for measuring the profitability of marketing operations:



Source: prepared by the author

The above figure shows the most important quantitative methods used by companies (institutions) to measure the profitability of their marketing operations, according to what was reported by Abdul Shakour Al-Farra (2013), which can be mentioned in the following points:

a- Revenue Study:

The study of the company's revenues is done by defining the pricing policy that the company follows and then analyzing it with defining each of the product life cycle and its production costs, and identifying the most important economic conditions that are going through in the studied period and this with calculating everything related to the revenues of this company.

b. Marketing Costing Estimation:

The continuous changes taking place in the markets, with the increase in the pace of sales, and the increasing companies' assumption of great responsibilities and duties, is likely to increase their bearing of marketing costs.

It is worth noting that it is not possible to set the optimal amount of costs on marketing operations, as evidenced by the presence of several factors that make it difficult to measure and assign results to them, and some of them include competitors and their behavior, which makes it difficult to obtain results in time.

Marketing costs can be determined by determining the costs of obtaining the order, and the costs of servicing and delivering the order; While the efficiency of marketing costs are calculated according to the following equation: (Benamara, 2022, p. 33)

Marketing cost efficiency = firm's market share ÷ firm's marketing-cost ratio to industry

This is assuming that:

The ratio of the company's marketing costs = the company's marketing costs ÷ the industry's marketing costs

If the efficiency of marketing costs is equal to or more than one, we consider that the company has costs less than the industry, but if it is less than one, we consider that the company has more costs than the industry.

c- Profitability Measurement:

Companies mainly aim to earn profits while being keen on setting other economic and social goals that they seek to achieve, in light of their work on targeting the consumer and working to provide his needs of the necessary products and services, and this is within the scope of a guarantee to determine the best price for the best service and in the best conditions.

The calculation of the profitability of any company depends on the net profit of its operations that it achieved during a specific financial period, which is as follows: (Benamara, 2022, p. 33)

Operating Profit Edge = Net Operating Profit / Net Sales

The equation indicates the possibility of determining the company's efficiency in dealing with the costs resulting from the various operations it performs, as determining the company's profitability is inferred by taking the total sales in a certain period and dividing it by the costs incurred by this company during the same period.

On the other hand, it is necessary to identify the fixed costs in the company, which are the costs related to management, selling, financing and marketing, and the variable costs, which are the production costs, and from it it becomes clear to us that marketing costs are the likely factor for the rise or fall in the profitability of the company as it affects the sales This company directly, especially in terms of obtaining orders and their costs, this is what prompts us to search for the company’s marketing performance and how to measure it. The following is an explanation of this relationship: (Benamara, 2022, p. 34)

Net Profit Edge = Net Profit ÷ Net Sales

The result of this equation is a percentage by which we find the decrease in the selling price of one unit of the company's products before it is exposed to any actual losses, and from it we find the percentage of profits resulting from the company's sales.

On the contrary, and considering the previous equation does not include any investments despite their importance, we can link the company's sales to its investments to calculate the rate of return on investment as follows: (Benamara, 2022, p. 34)

rate of return on investment = (total investment income - total investment costs)/total investment costs = Net Profit / Total Investment Costs

We point out here that the rate of return on investment is among the most important standards and methods known and circulated, as it can be used to measure the profitability of the company as well as its marketing efficiency, given that it is not affected by the size of the company, but only by its operations.

- **Is the Gross Profit Ratio the Net Profit Ratio:**

We often use one of these two terms. Is the gross profit ratio the same as the net profit ratio, or is there a difference between them, and below we will learn about each of them:

• Gross Profit Ratio:

In this ratio, the percentage of profit from sales is calculated, taking into account the cost of goods sold, and this is done mathematically according to the following equation:

Gross Profit Ratio = (Total Sales - Cost of Goods Sold) / Total Sales

Through this ratio, it is possible to know what is available from sales after sales operations in order to cover administrative costs, sales costs and achieve profits. (al-Salem, 2021)

• Net Profit Ratio:

In this ratio, the percentage of profit from sales is calculated, taking into account the total expenses, and this is done mathematically according to the following equation: (al-Salem, 2021)

Net Profit Ratio = (Total Sales - Total Expenses) / Total Sales

This percentage is important in determining the net profit from the tax in the period in which the financial reports are prepared by the organizations' specialists.

3. Method and Tools:

3.1 Population, sample and study tools:

- The companies active in the field of perfumes focus on making their products unique in addition to their distinctiveness with special specifications, and that their products have rare ingredients in order to ensure their distinction in the market, and they are also interested in developing a design for perfume bottles and packages in line with the composition of the perfume. It ensures ease of use without losing sight of the uniqueness of this design and that it highlights the quality of the product.

- **Study Population:**

In this field (perfume market) Puig stands out as a family company in the European markets that keeps pace with most of the developments in perfumes, which made it active within a sharp competitive range. 2029 million euros in 2019, thanks to the quality of the products and its keenness to market its products in more than 140 countries.

- **Study sample:**

The sample of the study is represented in all the company's branches, as it has several distinctive brands (for more information see Appendix No. 01, which highlights all the company's brands) that created experience for it thanks to its dealings and communication with various customers and its focus on people's emotions. (puig company, 2021)

- **Study tools:**

Providing all the necessary information and data that must be included in order to achieve the desired goals of the study requires relying on financial reports and considering them as a major tool in research.

3.2 View the results:

Through the published financial statements of the company (puig company, 2021), we will make the necessary calculations to measure the profitability of Puig's marketing operations, as the estimation and analysis of Puig's marketing costs and expenses is done through: (Marc Puig & Chairman CEO, 2018)

a. Total costs for orders:

The company's orders amounted to more than 340,000 requests in 2018 from 3,300 customers, which were directed to 13,000 points of sale and the following operations were carried out:

- Direct distribution of orders (perfume packages) amounted to 56,70% of the total orders.

- Requests that were directed to storage 27% of the total requests.

Distribution of orders by distribution agents is 17% of the total orders.

Distributed in 140 countries at a total cost (costs of obtaining the order + costs of servicing and delivering the order) estimated at 50 million euros.

b. Company's market share (market share):

As we know, increasing the market share of the company can be achieved by increasing the percentage of sales or increasing the number of units that are produced, and the company's seizing of opportunities affects its market share, and in this context, Puig Company has a market share of

07,60% of the perfume trade in the world In 2018, this is after its share was 03.40% in 2015, without neglecting the significant impact of the market share on profits and on the profitability of the company's marketing operations.

The company's production reached 166 million units (perfume package) in 2018, while the ratio of marketing costs to manufacturing was between 10% and 15%, and accordingly we will take the average value, which is equivalent to 12.50%.

Based on the above, the equation is as follows:

Marketing cost efficiency = 07,60% ÷ 12,50% = 0.608 = 60,80%

Analysis: The company's marketing costs in 2018 amounted to 60.80%, and since the percentage exceeds 50%, we conclude from it that the company has a high efficiency in controlling the costs of its marketing operations.

c. Measuring and analyzing the profitability of marketing operations:

To measure the profitability of marketing operations, it is necessary to calculate the operating profit margin, the net profit margin and the rate of return on investment, and the following is an explanation of this:

1. Calculating the operating profit margin, which is obtained by dividing the net operating profit by the net sales, we get the following:

Operating profit margin = 242 million euros ÷ 1933 million euros = 0.1252 = 12.52%

Analysis: It becomes clear to us from the above equation that the higher the sales by one unit, the higher the operating profit margin by 0.1252, that is, the change in the operating profit margin by one unit accompanied by a 12.52% increase in net sales.

2. Calculating the edge of the net profit, which is obtained by dividing the net sales by the net profit, and we get the following:

Net profit margin = 326 million euros ÷ 1933 million euros = 0.1686 = 16.86%

Analysis: We find from the equation that the increase in net sales by one unit raises the net profit margin by 0.1686, meaning that the increase in the net profit margin by one unit is accompanied by an increase of 16.86% of net sales.

3. Calculating the rate of return on investment so that it is calculated in two ways. If we have a net profit, we get this return by dividing the net profit by the total costs, and if we do not have the net profit, we calculate it by subtracting the total investment costs from the total investment income. The company's investment in the following:

Return on investment = 386 million euros ÷ 317 million euros
= 1,21767 = 121.77%

Analysis: From the equation, we find that the return on investment has increased by an estimated 121.77%, which is a very high percentage as it is approximately equal to 1.22, which is greater than one, which means that the company obtained a return that exceeds the value of what it invested.

4. The results and their discussion:

The most important results obtained by measuring the profitability of marketing operations in Puig Company can be summarized in the following points:

- Studying the company's revenues enables us to know the pricing policy that the company follows when presenting its products in the market, and the analysis of this policy makes us look at the successive stages that the product goes through, as well as calculating the production costs for the same period.

- As the company is active in more than 140 countries, it has a share equivalent to 07,60% in the global perfume market.

The margin of operating net profit, which is estimated at 12.52%, is considered high.

- The net profit margin is estimated at 16.86%, which means that a higher increase in the operating net profit margin has a direct impact on the net profit margin, which explains its high percentage (net profit margin).

- The rate of return on investment is estimated at 121.77%, which means its value is higher than one, which can be explained by the fact that the company bears lower costs in this industry.

Through the relationship that exists between each of the revenues and demands, and through the close relationship between production costs and the costs of marketing operations, the percentages of each of the profitability of operations, the edge of the net profit and the rate of return on investment have shown that the correlation between them is quantitative and not qualitative as it requires statistics. The profitability of marketing operations is measured by quantitative methods only and is analyzed in order to take marketing decisions in order to achieve the company's objectives.

5. Conclusion:

In conclusion, and by referring to the case study of puig company through measuring the profitability of its marketing operations, we note that it adopts only quantitative methods based on indicators related to revenues, orders, investments and profits in specific periods of time, as we concluded from it the following:

The marketing process takes place starting with choosing a marketing strategy and working on marketing programs, then resorting to developing and developing products and setting appropriate pricing for them, then moving towards choosing the appropriate distribution channels and designing the appropriate promotional mix. Therefore, we conclude that the first hypothesis is relatively correct.

Profitability is measured based on the relationship between the company's profits and its investments. Accordingly, the second hypothesis is rejected.

- According to the aforementioned point, we indicated that profitability is measured by the relationship between the company's profits and its investments, that is, profit is one of the indicators by which profitability is measured, and by applying to Puig Company, we find that profit is included in the variables in calculating the profitability of its marketing operations. Therefore, the third hypothesis is wrong.

- **Suggestions and recommendations:**

According to what we concluded and the results of the study, we suggest some recommendations as follows:

- Working on setting multiple laws and equations to measure the profitability of marketing operations, as some companies and institutions in a particular sector need indicators different from institutions in another sector.

- Making companies and institutions adopt a clear law or equation that includes all the variables so that it is easy to compare and analyze them.

Seeking to include the profitability of marketing operations within the financial statements of companies and institutions.

- **Research prospects:**

By touching on a topic on which all companies and institutions of different types and branches depend, we can suggest some titles as follows:

The effects of the profitability of marketing operations on the institution's position in the market: a field study of a number of institutions.

- The role of pricing policy in maximizing the profitability of marketing operations: a case study of an institution in a certain period of time.

Annex:

Appendix No. 01: Puig Trademarks:

CAROLINA HERRERA	**JEAN PAUL GAULTIER**	**NINA RICCI**
DRIES VAN NOTEN	ERIC BUTERBAUGH	

	LOS ANGELES	
CHRISTIAN LOUBOUTIÑ	COMME DES GARÇONS PARFUMS	**PRADA PARFUMS**
ANTONIO BANDERAS	UNITED COLORS OF BENETTON	**SHAKIRA**
ADOLFO DOMINGUEZ	BRANDS PORTFOLIO	**PENHALIGON'S**
PACO RABANNE	**L'ARTISAN PARFUMEUR**	

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