STRATEGIC VIEW ON PERFORMANCE EVALUATION (FROM THE EYES OF ADVERTISEMENTS)

Written by:

Samuel PD Anantadjaya
Faculty of Business Administration & Humanities
Swiss German University, Serpong, Indonesia
Email: ethan.eryn@gmail.com

Irma M. Nawangwulan
School of Management Studies
Universitas Pembangunan Jaya, Bintaro, Tangerang, Indonesia
Email: inawangwulan@gmail.com

CHAPTER 1 – THE FACTS

1.1. OVERVIEW

Advertisements have been a part of people's live. From the moment we get up in the morning to the time we start closing our eyes at night, we cannot get away from advertisement. From the common food people eat everyday, to the most unique products/services, every single corner of the streets are basically filled with banners and billboards. It is wonder if we can live without advertisements at all. What would it be like if the routes we take everyday, are cleaned out of any banner and billboards. On one side, people may believe that without advertisements, they are unable to know any needs and wants. Also, without advertisements, though people may know what they need and want, but attempting to fulfill those needs and wants may become a life-long challenge. On the other side, people may believe that without advertisements, they may live happier since they may have to fulfill their needs and wants themselves by self-fulfilling or self-sufficiency. It is really true? It sounds like that we may go all the way back to the pre-historic era when there are no stores of any kinds are available. Centuries ago, advertising was done by verbal communication also known as word of mouth. These days, however, advertisement may commonly be referred to as messages that carry product/service offering to people via any media.

As consumers, people are all potential targets of advertisement. Today, advertisements are delivered in many different ways. Companies will place their ads in the newspaper, magazine or billboards. Some big companies even make their announcements of new products or services on the radio or even broadcast it on television. Every single waking hour, people always see many different commercials. Since advertising can be effective in influencing people to purchase goods or services, there are many companies competing with each other in making better advertisements.

Other than influencing people, advertisements can also have an influence on the economy. Companies can increase their sales by getting more customers and maintaining old customers. Advertising can help companies to complete this task. The economy will be stimulated because an advertisement can help a company to sell more products or services, which means more tax and possibly a higher GDP. Likewise, the economic condition of a particular country, may likely impact the use of advertisements, demands for advertisements, and total spending on advertisements. Generally speaking, the better the economy of a certain country, the higher the demands and total spending for advertisements. Hence, advertisements and economy portray themselves as a vicious circle that becomes so difficult to be separated due to their closely-knit ties.

Consumers are an important part of the economy. As consumer, advertisements offer choices. Through commercials, consumers will have more products/services to choose from. Advertising helps producers gaining interests and trust from consumers. Sellers can also portray themselves as bigger stores and more reliable firms. This lures people. Because of the numbers and frequencies of advertisements, people become aware. The awareness may increase to remembrance, which may lead to the position in people's top of the mind.

Well, that's the general fact on advertisements that people may have known so far. What about looking from the perspective of entrepreneurship? The global rush of people trying to realize their dreams of owning their own businesses has become a common trend. Though the total percentages of entrepreneurs may seem relatively small, nonetheless, those entrepreneurs, including small/medium business owners have become the backbone of the country's economy. This was actually proven to be true during the economic turmoil that hit Indonesia and the Asian region in mid-1997. The second significant wave of economic slowdown was also experienced in the region following the property market crash in the US. The rise of entrepreneurs and the study of entrepreneurship fuel the overall demand toward advertisements as well. As businesses try to lure people into buying their products/services, advertisements will definitely be used to spread the news faster.

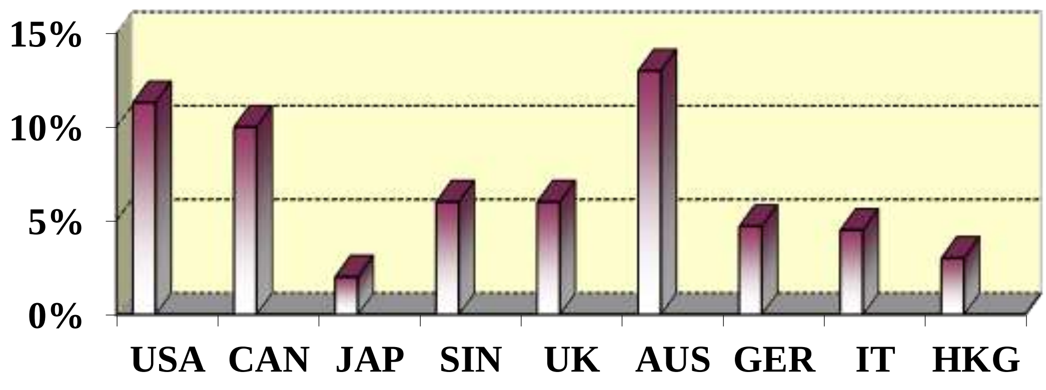

Figure 1.1: Entrepreneurial Activities in Selected Countries

Source: Zimmerer, Scarborough, and Wilson (2008)

The graphical illustration above shows the entrepreneurial activity in selected countries; USA, Canada, Japan, Singapore, United Kingdom, Australia, Germany, Italy, and Hong Kong. This study was comprehensively conducted by the Global Entrepreneurship Monitor (GEM). Australia appears to be leading. USA is averaging at 11%, which means that about 11% of the adult population in the

US is working to start a business. As representatives of Asian countries, Japan, Singapore, and Hong Kong show only relatively small percentages in comparison to their counterparts. This means that the average adult population in Asia, who work toward setting up their own businesses, appears minimal. Aside from the noting the percentages of entrepreneurial activity, the study by GEM is also concluded that such rates may influence for economic growth in those countries. In other words, the higher the percentages of entrepreneurial activity in one country, the higher the economic growth in that country.

This is the vicious circle we mentioned before. To start growing the business, entrepreneurs may have to rely on advertisements, of course, aside from relying on their network of family, friends, and colleagues. As advertisement requests increase, people become aware of products/services. As they start consuming products and experiencing services, the economy expands. On the other side, consumptions of products/services may not be feasible if the economy is stagnant or even heading for a downhill trend.

The study on macroeconomics, which refers to the understanding and improvement of the economy as a whole (Schiller, 2006), should also be perceived as the major source of advertising ups and downs. Macroeconomists pay close attention to indicators such as; GDP, unemployment rates and price indexes, for instance, to better understand how the economy operates and functions, including the possible interactions with other countries. The business cycle in the economy, by emphasizing on the aggregate output, is also another indicator to note whether the country's economy expands or contracts. An increase in aggregate output means that the country's economy is growing. This means that output grows faster than the population. For people, the increase in aggregate output can be seen through higher output per capita, and more products/services become available for people. When this occurs, the general standard of living increases, which leads to higher purchasing power.

Separately, people pay attention to those macroeconomic indicators. But, monitoring organizational performances appears to be relatively detached from the general stage of the economy. Studies indicated that there have to be significant influences and correlations between country's economic indicators and organizational performance, not only for advertising agencies, but also many different organizations.

The following table shows market value and government spending on education industry in some countries. These tables illustrate the condition and development of a country depends on its people, via educational budget. Indonesian GDP declined during the period of 2008-2011. Since the educational budget is calculated based on the country's GDP, the allocation for education budget was also cut from 3.6% to 2.8%. However, the market value of Indonesian stock market had increased dramatically from US$99 billion to US$390 billion, during the same period of 2008-2011. This may signal that the aggregate output has increased over the same period surpassing the growth of the population. This may push for a higher standard of living and purchasing power. Hence, continuing the story on advertising, the higher standard of living and purchasing power fuel higher demands toward advertisements.

Table 1.1 (a): Data Comparison Among Countries

Data per 2008	**Indonesia**	**Singapore**	**Malaysia**	**India**
GDP	US$916.7 billion	US$237.9 billion	US$385.2 billion	US$3,304 billion
GDP per Capita	US$3,900	US$52,600	US$15,200	US$2,900
Market share value	**US$98.76 billion**	**US$268.6 billion**	**US$187.1 billion**	**US$645.5 billion**
Inflation	9.9%	6.5%	5.4%	3.5%
Education budget	**3.6% of GDP (US$33 billion)**	**3.7% of GDP (US$8.8 billion)**	**6.2% of GDP (US$23.8 billion**	**3.2% of GDP (US$105 trilion)**
Source: www.cia.gov, 2010				

Table 1.1 (b): Data comparison among countries

Data per 2011	**Indonesia**	**Singapore**	**Malaysia**	**India**
GDP	US$845.7 billion	US$259.8 billion	US$278.7 billion	US$1,676 trilion
GDP per Capita	US$4,700	US$60,500	US$15,800	US$3,700
Market Share value	**US$390.1 billion**	**US$569.4 billion**	**US$414 billion**	**US$1,015 trilion**
Inflation	5.4%	5.2%	3.2%	8.9%
Education budget	**2.8% of GDP (US$23.7 billion)**	**3% of GDP (US$7.8 billion)**	**4.1% of GDP (US$11.4 billion)**	**3.1% of GDP (US$51.7 trillion)**
Source: www.cia.gov, 2012				

From the table, it is also apparent that GDP per capita for Malaysia was significantly higher Indonesia's GDP per capita. Hence, since the total population of Indonesia may have been a lot dense than Malaysian, though the overall GDP for Indonesia was about 3 times higher than Malaysian GDP, Indonesian GDP per capita was substantially lower. With a much higher GDP per capita, Malaysians appeared to have been better-off than the Indonesian counterparts. This provided a domino effect toward increasingly vital role of human resources as leverage toward country's prosperity.

1.2. INDONESIAN MACROECONOMY

The economic condition of a country may substantially impact advertisements. Likewise, advertisement can have an influence on the country's economy. However, in unfavorable economic condition, advertisement might be slightly influenced. An unfavorable economic condition may refer to a situation where a country's economy experiences a decline. During this period, demand of money is higher than the supply of money. This may lead to unstable condition. According to Ebert and Griffin (2005), an economy is relatively stable when the growth rate between available money and quantity of products/services is similar. When a country's economy is unstable, banks are sometimes obligated to sell their investments in order cover potential losses. These losses may come from withdrawals on their savings. Due to the large amount of withdrawals, banks may have difficulty in supplying money because customers, who may have borrowed from the banks, cannot repay the loans on time. The end result may force some banks to close or merge with other banks to maintain survivability into years to come.

A country facing an unstable economy will most likely experience a decrease in their total market value of all finished goods and services produced in that particular country in a given year. This will equal to the total investments, consumers and government spending, plus the total value of exports minus the total value of imports (Ebert and Griffin, 2005). This is commonly known as a decrease in the country's GDP.

2.1.1. GROSS DOMESTIC PRODUCT

GDP of a country represents the total market value of all final goods and services within that country during a given year. According to Ebert and Griffin (2005), GDP is commonly used to measure the overall performance of an economy. A high value of GDP means that the economy within the country is very good. The GDP is estimated as the total of Gross Value Added ("GVA"), or value of final goods and services produced by all economic units during a certain period, usually one year. Figure 2.1 displays the changes in Indonesia's GDP during the period of 2004 to 2008. It shows a steady growth every year. This implies that the economy in Indonesia is doing fairly well.

Figure 1.2: Indonesian GDP (2004 – 2008)

Source: http://indexmundi.com/indonesia/gdp_per_capita_(ppp).html, accessed May 2009

2.1.2. INFLATION

The overall upward price movement of goods and services in an economy, usually measured by the Consumer Price Index ("CPI") and the Producer Price Index ("PPI"). Over time, as the cost of goods and services increase, the value of US dollar is going to fall because people will not be able to purchase as much with US dollar as they previously could. The following graph shows the changes in inflation during 2004 – 2008.

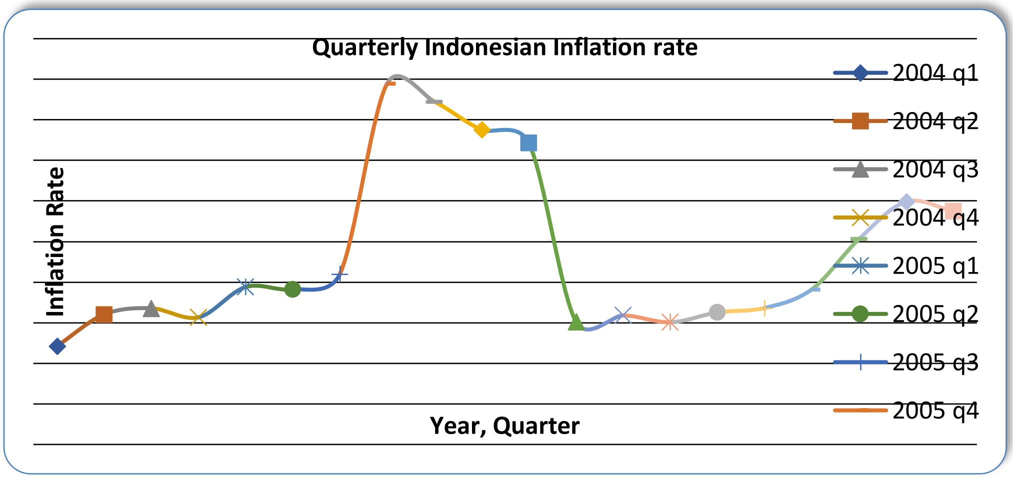

Figure 1.3: Indonesian Inflation Rate (2004 – 2008)

Source: http://indexmundi.com/indonesia/inflation_rate_(consumer_prices).html, accessed May 2009

By referring to figure 2.2, it can be seen that the inflation rate in Indonesia shows a lot of variation in value. It can be concluded that during 2006 – 2008, the prices of goods and services in Indonesia was rather unstable.

2.1.3. CURRENCY VALUE CHANGE

As described in the figure below, the value of Rupiah has also changed during the last five years. As a country's economic condition falls or recovers, their currency value also feels the effect. As an instance, when a country's economy is growing, their currency value also strengthens. Vice versa, if a country's economic condition is poor, then their currency value is weakened. Fluctuations in currency value can affect many parts of a business. For instance, an international company has a branch in Indonesia, they choose to advertise with a particular agency and pay the services with US dollar. In the advertisement agency's perspective, if the US dollar would strengthen then the advertisement agency would pay less compared to if the US dollar were to weaken.

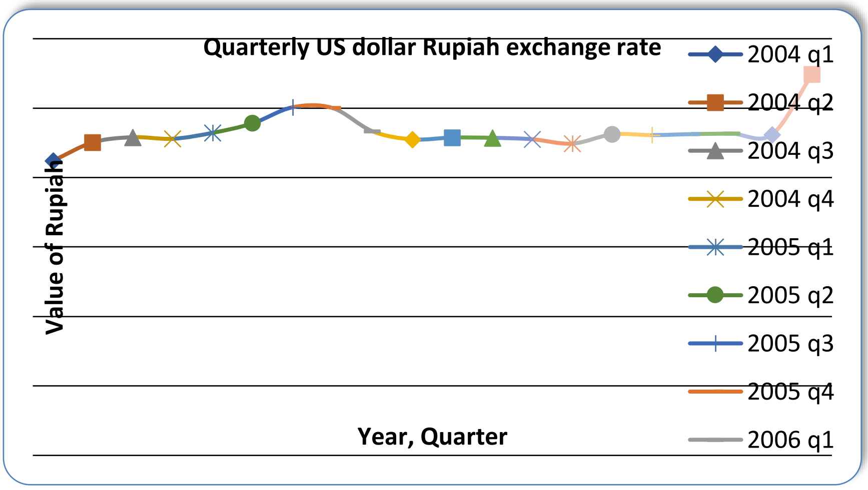

Figure 1.4: Value of Indonesian Rupiah

Source: http://www.oanda.com, accessed May 2009

2.1.4. CENTRAL BANK OF INDONESIA INTEREST RATE

When a country experiences a poor economic condition, the government will attempt to take actions based on their monetary policy (Ebert and Griffin, 2005). In some cases, the central bank will be involved in controlling a country's supply of money.

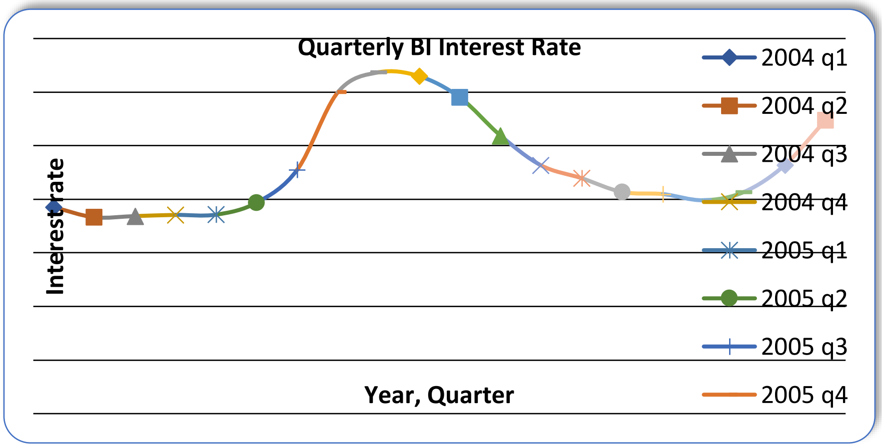

Figure 1.5: Indonesian Interest Rate

Source: http://www.bi.go.id, accessed May 2009

In a case where the supply of money is low, a country's central bank will most likely raise the interest rates to encourage people to save their money in the bank. This will increase the central bank's supply of money which could be used for many things. On the other hand, if a country's supply of money is in surplus, the central bank could lower the interest rates to encourage people to invest rather than deposit (Ebert and Griffin, 2005). By doing so, the central bank plays an important role in stimulating the economy. The following figure will show the movement in interest rates set by the Central Bank of Indonesia between the years of 2004 to 2008.

CHAPTER 2 – MARKETING MANAGEMENT

2.1. MARKETING MANAGEMENT

2.2. ADVERTISEMENT

Based on Duncan (2005), advertisement is defined as a message that a person, group of people or company sends to the general public in order to persuade, inform, promote, or influence the public's behaviors towards buying, supporting or approving a particular product or service. There are many types of advertising that companies use depending on the product or message they are trying to express.

2.2.1. ROLE OF ADVERTISING

Philip Kotler (2005), author of the book Principles of Marketing described advertising as "*any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor*". Advertising can be delivered through many types of media including magazines, newspapers, television, direct mail, radio and internet. By summarizing the theory of advertising by Kotler (2005), advertising itself has 5 main functions, which include:

1. To grab awareness
2. To build up attraction
3. To create perception
4. To generate action
5. To amaze the power of the mind to remember things

2.2.2. ADVERTISING PURPOSE

According to Philip Kotler (2005), advertising has three main purposes, which are to inform, persuade, and remind.

1. Informative advertising

   Basically, informative advertising is used to introduce a new product or service to the public. Its main objective is to build a primary demand for the product or service. The advertisement may inform the public about the new product, suggest new uses of a product, informs the market about any price changes, explains how the product is used or even available services that come with the product.

2. Persuasive advertising

   This type of advertising is used when new competitors enter the market. The company's main focus will be to persuade the customers to stick to their products and services rather than changing to a different brand or vice versa. This advertisement will try to show information or images that will give the market a feeling that they are getting more value on the product or service they purchased.

3. Reminder advertising

   This kind of advertising is more commonly used on older products that have been on the market for a long time. Its primary objective is to maintain the customer's awareness of the product or service. Basically, its purpose is to remind customers that the product is still there for purchase. Examples of reminder advertising is reminding customers that the product might be needed in the future and reminding customers where the products are available.

2.2.3. TYPES OF ADVERTISING

Wells in his book Advertising Principles and Practice states that "*Advertising is complex because so many different advertisers try to reach so many different types of audiences*". Considering all these different advertising situations, advertising can be identified into seven major types;

1. Brand advertising

   Nike is a good example of brand advertising because Nike focuses on the development of their brand name and its image. Some of their commercials do not even promote new products; Nike only wants to promote the name of the brand.

Figure 2.5 Nike brand advertising

Source: http://www.xroads.virginia.edu/projects.html, accessed June 2009

2. Retail or local advertising

   Many advertising practices focus their efforts on retailers or manufacturers that sell their products in a certain area. Most of these advertisements focus on showing where to buy the products so that more people visit the retailers or manufacturers.

3. Direct response advertising

   This type of advertising can use any type of medium; however, its purpose is different compared to retail advertising. Direct response means that they are trying to motivate the sale directly rather than increase visitors. A good example of direct response advertising is infomercials. Trying to motivate customers to buy online can also be considered direct response marketing. For example, bath and body works, a retail store in America advertises a big semi-annual sale on the internet; this will motivate customers to also buy online as soon as they see the advertisement since the sale is only for a limited time.

Figure 2.6 Bath and Body Works direct response advertising

Source: http://www.bathandbodyworks.com, accessed June 2009

4. Business to business advertising

   This particular type of advertising is sent from one business to another. Business to business advertising is not directed at the public.

5. Institutional advertising

   The messages sent are focused more on creating a corporate identity or influencing the general public to understand the company's point of view. For example, in 2007 PTFI supported the Global Warming Conference in Bali by producing and placing print ads and posters. This is intended to show the public that PTFI cares about the global warming situation.

6. Nonprofit advertising

Not for profit organizations such as charities, associations, hospitals, orchestras, museums and religious institutions advertise for many reasons. For example, *Palang Merah Indonesia* ("PMI") a health organization advertises to attract more blood donors.

Figure 2.7 Palang Merah Indonesia non-profit advertising

Source: http://www.palangmerah.com, accessed June 2009

7. Public service advertising

   Public service announcements send a message to the public for good reasons. For example, an advertisement stating that the public should stay away from drugs or alcohol.

Figure 2.8 US Department of Health and Human Rights public advertising

Source:http://www.samhsa.gov, accessed June 2009

Outside of the seven types of advertising described by the Advertising Principles and Practice book, there is also another type of advertising that has been more and more popular lately. Recent events have shown that other media, especially the internet are overtaking television because of a forward shift towards consumer's usage of the internet. Recent trends have further increased the shift towards internet usage. Even though there are a lot of previous cell phones with internet connection, newer cell phones like Blackberry and Iphone have more internet capabilities. Indonesia has also shown an increase in internet usage. According to Internetworldstats.com, the number of internet users in

Indonesia has increased nine times since 2000. With more than 20 million users on the internet, this opens up a new field for advertisers to send their message to the public. Advertising on the World Wide Web is the latest development in the advertisement industry. Prices of such advertisements dependent on the content of the website as well as the number of visitors the site receives. Also, advertising through email has been increasing. People tend to call this kind of advertising as spam. The figure on the following page will show Indonesia's position regarding internet use compared to other Asian countries. This shows that there is potential in online advertising in Indonesia.

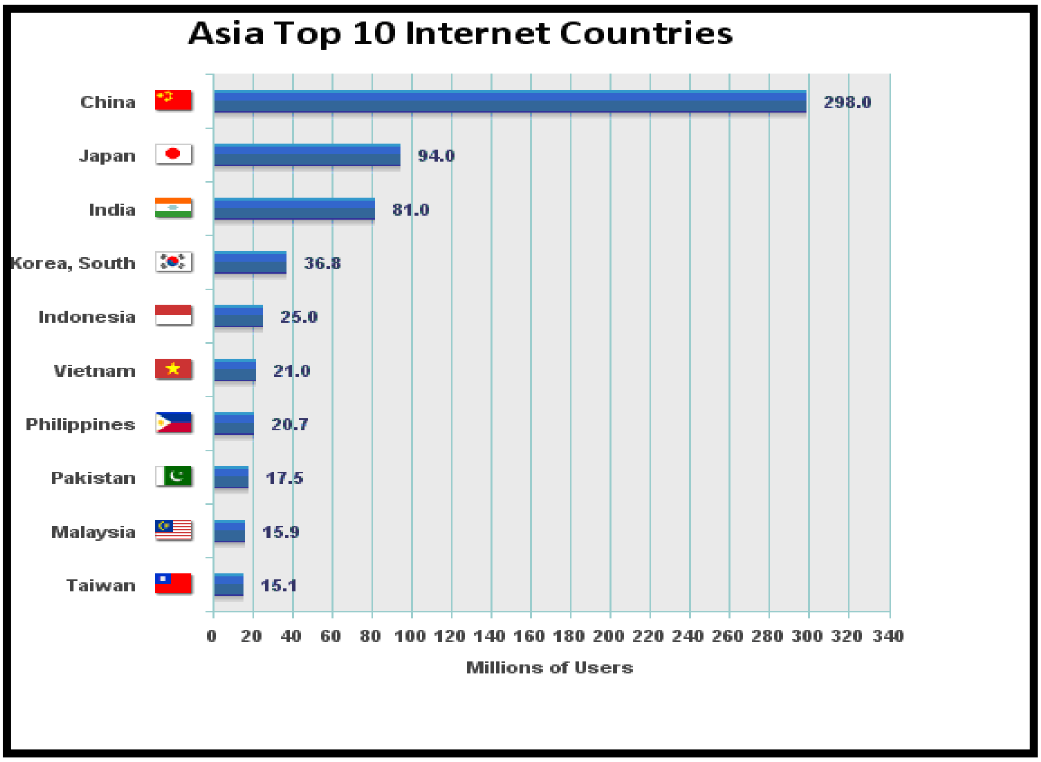

Figure 2.9 Asia Top 10 Internet Countries

Source: www.internetworldstats.com/stats3.htm, accessed June 2009

2.3. ADVERTISERS

The advertiser is the core agency in the management system of advertising. Advertising begins with the advertiser, the person or organization that uses advertising to send out a message about its products (Wells, 2006). The expenditures by advertisers generally could be used as a basis for measuring of the advertising agency's size as the industrial agency. As an example, *Persatuan Perusahaan Periklanan Indonesia* ("PPPI") reported that the Indonesian cosmetics & toiletries industry spent more than Rp. 11 trillion in advertising back in 2007. This data can be used to measure the advertising industry's size and performance.

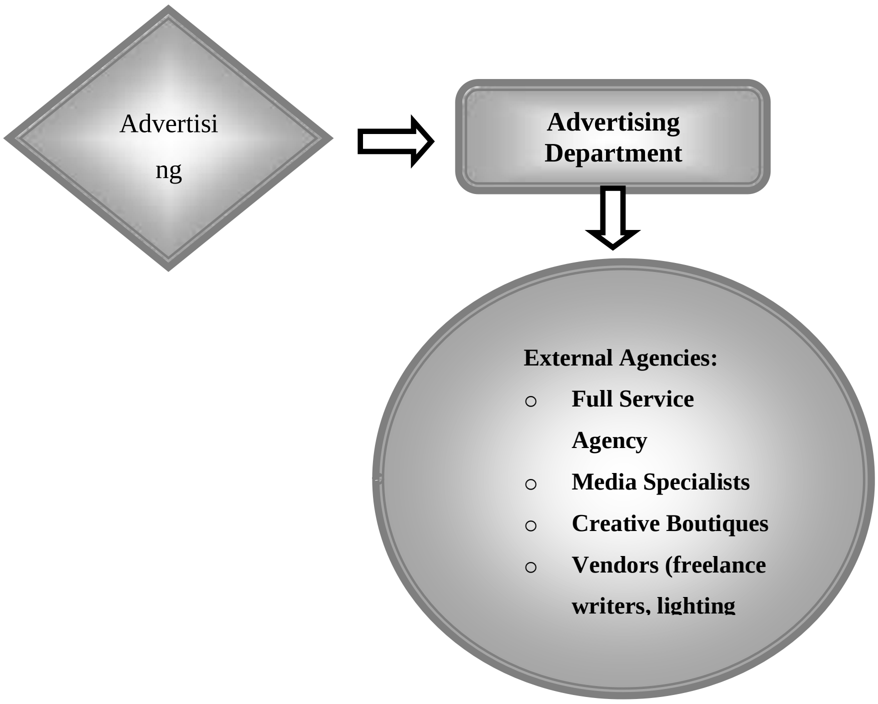

Figure 2.10 When the advertiser does not have an in-house agency

Source: Wells, 2006

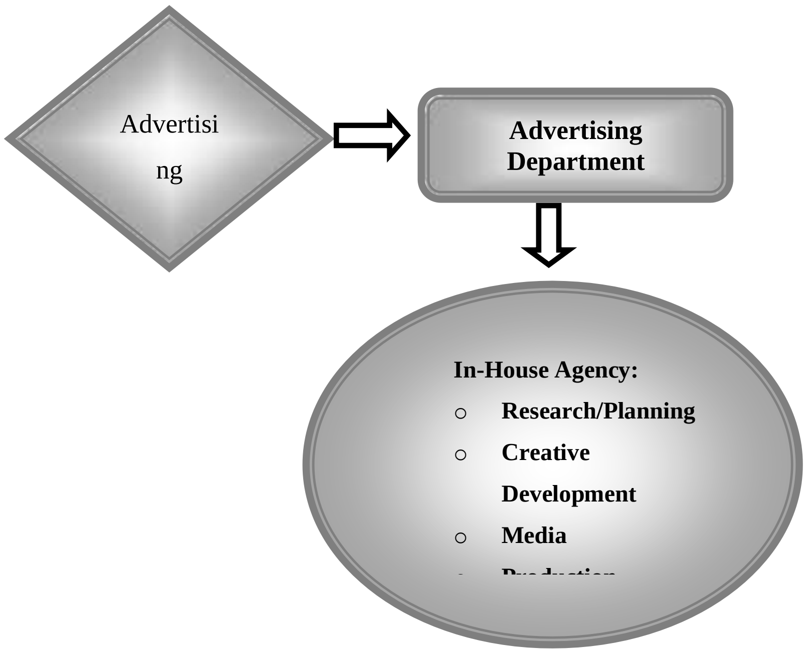

Figure 2.11 When the advertiser has an in-house agency

Source: Wells, 2006

William Wells (2006), in his book states that the advertiser also approves the advertising plan which contains media strategies and details outlining the message. The advertiser has two options whether to hire an outside agency or to use their in-house agency. When creating a successful advertising campaign, some advertisers believe that an outside agency can be more effective and efficient compared to them.

The main difference between advertising manager and advertisement manager:

1. Advertising Managers works for the interests of the advertiser or the producer and functions as the advertisement buyer.
2. Advertisement Managers works for the interests of the media's side and functions as the seller of the page of the advertisement or the broadcast time that was offered to the advertising agency or the advertiser.

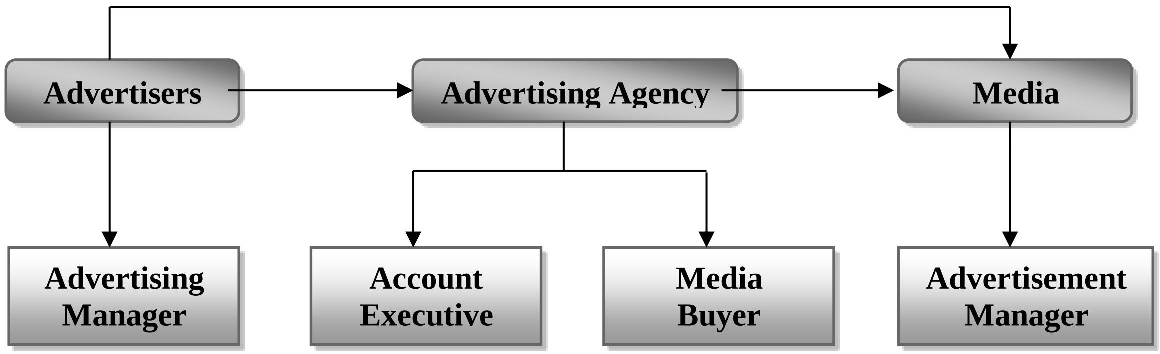

Figure 2.12 Advertisers, Advertising agencies and the Media

Source: Kasali, 1992

Figure 2.12 above shows that the advertiser could immediately be connected with the media's side without going through the advertising agency. This could happen because several reasons:

1. The advertiser's side possibly is not a big company so they do not feel that they need the agency's advertisement service. This may because the cost that is possibly too large compared with the total budget of advertising.

2. The advertiser's side could possibly be a large company that felt they must form a special division in the company that specially handled advertising activities as that was carried out by the advertising agency. Therefore the advertising service was not handed over to the advertising agency.

3. Sometimes the advertisement manager immediately contacts the advertiser to get an advertising order and immediately will hand over the specific order through the advertising agency that was appointed.

2.4. ADVERTISING AGENCIES

Advertising agencies are businesses in the service industry which control every aspect of an advertising campaign (Kasali, 1992). Their size and scope vary from agency to agency and some range to different kinds of businesses. Some advertising agencies have only one or two major clients while others have hundreds of clients spread throughout the country or the world. Generally, an advertising agency is able to manage an account, purchase media access and sometimes provide creative services for a client. A manager must make the decision whether or not to use an advertising agency's services, this decision depends heavily on the company's financial resources and its advertising strategies. Within the agency there are professionals who specialize in managing an account, meaning they organize, create and place advertising. This is done so that it will meet objectives better than most small businesses can do by themselves; however the expense of using such a service is often too expensive for smaller companies. Some small to mid-sized businesses still find that advertising agencies can help them plan and monitor their advertising strategies. An agency's expertise and resources are very useful when businesses decide to plan a broad advertising campaign that will need a large amount of resources. Other than helping the planning process, an agency can also assist in maintaining and analyzing a business's advertising strategy.

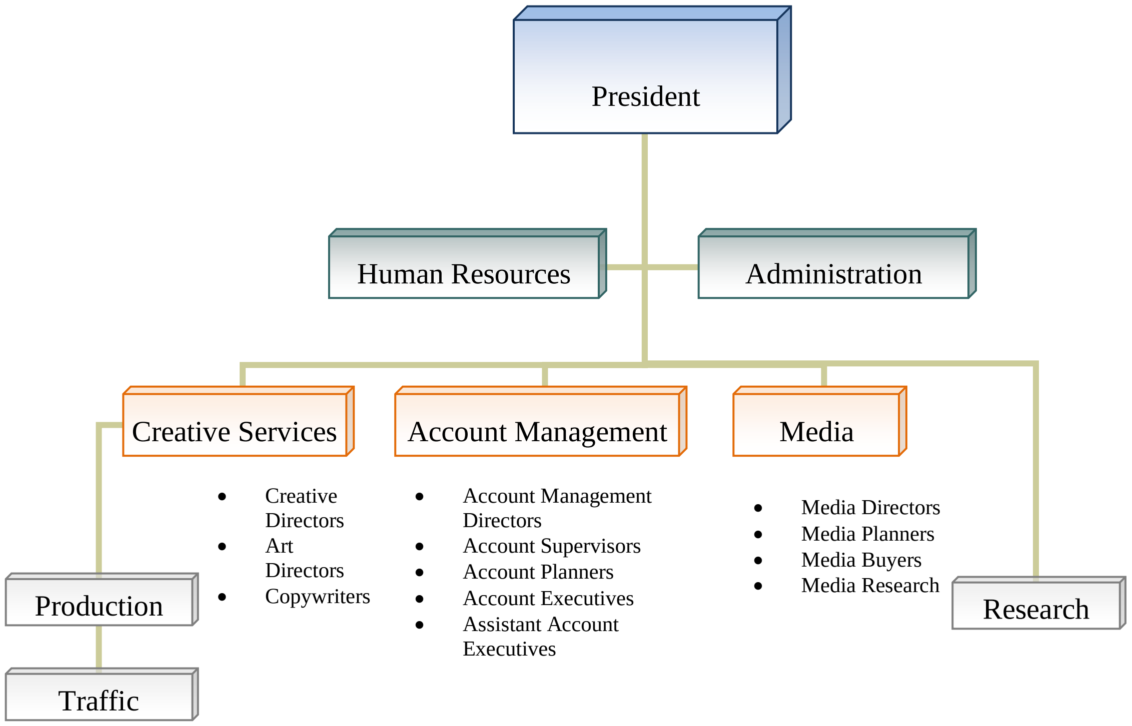

Figure 2.13 Organizational Chart for Full Service Ad Agency

Source: Duncan, 2005

Depending on its size, some agencies will have different departments which work on the separate parts of an account. An account manager or the account planning department will coordinate the work of these departments to insure that all the client's needs are met. The departments within a full-service agency will be shown in Figure 2.13.

1. Research

   The research department is in charge to provide clients with details regarding the audience of the final advertising campaign as well as information related to the market of the product being advertised. Information that the research department provides should include market research so that a much more focused ad campaign can be conducted. With specific information such as the market for the campaign, advertising can be specifically directed to the ideal target audience.

2. Creative Services

   Most advertising agencies have employees who specialize in many creative areas that provide quality as well as professional services. For example, graphic designers are in charge of the presentation of printed ads, the copywriters are in charge of providing the text for those printed ads, and the art department is in charge of providing the needed pictures or images for those printed ads. In some cases in-house photographers are employed to reduce costs of hiring external photographers. Employees in the creative service department are responsible for the development of the advertising platform which basically sets the theme of the ad campaign. The final product produced by the agency should already be fully developed and ready to be distributed.

3. Media Planning or Buying

   Besides researching potential target markets, another service provided by an agency is the actual placement of the finished advertisement in various media. This is done to reach a maximum number of audiences. An agency will be able to negotiate any of the terms of a contract which were made for placing ads in any specific media. For full service advertising agencies, they will deal directly with television, radio, newspapers and magazine representatives. Nowadays, some agencies even branch into direct mail marketing and point of purchase incentives. There are many new media where agencies can reach out and place their ad campaigns. For example, there has been an increase in internet advertising in the last decade. Some agencies even use outdoor advertising which include the use of billboards, public signs or even signs on public transportation like buses.

2.4.1. ADVANTAGES AND DISADVANTAGES OF USING ADVERTISEMENT AGENCIES

Companies seeking to increase their sales or customers, advertising agencies provide them with the needed resources and expertise (Kasali, 1992). It is the agency that brings together all the professionals in different fields to produce a high quality advertisement. Usually advertisement agencies are knowledgeable about business strategies and media placements. A very important factor in launching a successful media campaign is the experience and connections that these agencies have.

One particular disadvantage when using an advertisement agency is the added difficulties in dealing with new people. A company needs to be very careful when choosing the right agency, and reaching an acceptable and good ad campaign could prove to be time consuming and taxing. Companies that choose to advertise through an agency should watch what they are receiving for their investment. Cost is probably the most important factor that must be considered carefully when choosing to advertise through an agency.

2.5. THEORETICAL STUDIES

To properly understand the theoretical concepts of analyzing a company's performance in chapter 4, a list and definition of several financial concepts will be made. The financial concepts include financial reporting, efficiency, leverage, liquidity and profitability measurements. The definition and types will be described below.

2.5.1. FINANCIAL REPORT

Every financial or non-financial organization needs to have financial reports to keep track of their financial activities in a certain period (Weygandt, et al, 2008). Conditions of the company are seen through the use of financial reports. The information which is available in financial reports is very useful for banks or other external parties such as creditors, the government or potential investors. Financial reports basically show a company's performance and position. There are many types of financial reports; however this research will focus on a company's income statement and balance sheet.

Sales play an important role in advertising. It is a major source of income for any kind of company. In the case of advertisement agencies, their major source of revenue comes from selling their services. Usually to make a sale, a company must pay a cost. This is called cost of goods sold. In the case of a service provider such as an advertisement agency, these costs may include paying the staff so that the service can be performed. So these costs are necessary for the company to get income.

Other than using income statements to review a company's performance, internal or external parties can view three other types of financial reports. Those reports are as follows:

1. Balance sheet

   According to Weygandt, et al (2008), *a balance sheet is a summary of a company's assets, liabilities and total equity at a certain period.* These three parts of a balance sheet gives investors an idea of what the company owns and owes and the total amount invested by other investors.

2. Statement of retained earnings

   This financial statement specifically shows a company's retained earning changes in a given period of time. Sometimes it is also known as an owner's equity statement or shareholders equity statement. This statement can be attached to a balance sheet or an income statement.

3. Statement of cash flows

   This statement is made to review a company's cash flow activities especially their financing, operating and investing activities. All inflows and outflows are purely cash. There are no receivables or payables in this financial statement.

The purpose of financial statements is to provide the necessary data regarding a company's financial performance and position so that internal and external users can apply the information in their financial decision making (Weygandt, et al, 2008).

Financial statements include assets, liabilities and equities which show a company's financial position. While on the other hand, they also include reported income and general company expenses to show their financial performance. There are two general users that make use of the financial statements:

1. Internal Users

   This includes owners and managers who use financial statements to help them make business decisions that will affect the continuity of the business. Internal users also include stockholders who review these financial statements which is a part of the management's annual report.

2. External users

   This particular group includes banks, governments, potential investors and other outside parties. They review a company's financial statements to better understand the position and performance as mentioned above. For example, a potential investor would review financial statements to assess the possibility of investing in a business.

2.5.2. PERFORMANCE MEASUREMENT

Financial ratios are used to analyze the financial reports of a particular company; therefore a manager for example can see the performance of the business and interpret the financial strengths and weaknesses of that company. According to Gitman (2003),*"ratio analysis is a calculation and interpretation of financial ratios to analyze and monitor the company's performance"*. He also stated that "*to do financial ratios it is basically done by conducting two analyses",* which include:

1. Cross sectional analysis

   A cross sectional analysis is an analysis in which it compares the financial ratios of multiple companies in the same time.

2. Time series analysis

   Time series analysis is an evaluation of the company's performance by comparing previous performances with recent ones.

2.5.2.1. Profitability Measurement

The profitability ratio is intended to measure the efficient use of firm's assets in running the operational activities. According to Ross, et al (2008), the most commonly used profitability ratios are the return on equity (ROE), return on assets (ROA), and profit margin (PM).

1. ROE is a true accounting calculation that measures the company's bottom-line in comparison to the amount of money the shareholders have invested. Since this an accounting calculation, it should be referred to return on book equity (ROBE). ROE is calculated based on net income as compared to the total shareholder's equity.

2. ROA is a true accounting calculation that indicates how profitable a corporation is when referring to their total available assets. In other words, ROA shows the efficiency level of the management in using the firm's assets to generate revenue. Since this is an accounting calculation, it should be referred to return on book asset (ROBA). ROA is calculated by simply dividing net income by total assets.

3. PM is a true accounting calculation by simply dividing net profit after taxes by the firm's total revenue. The major disadvantage of using PM is that it becomes difficult to make comparisons across firms with different levels of expenditures. It should be noted, however, that since this is also another accounting calculation, a smaller PM is not necessary bad for companies. When firms lower their sales prices, it is expected that sales volume rise, but PM shrinks. The firm's

operating cash flow may rise or slide. Hence, the level of profitability may also increase or decrease. In short, though firms may appear to lose money in their sales, but they make it up in higher volume.

4. Market value ratios include additional information from the market, particularly the firm's stock price and number of shares outstanding. The most common sets of market value ratios to note the profitability ratio include earnings per share (EPS), price-earning ratio (PER), price-sales ratio (PSR), market-to-book ratio (MTB).

2.5.2.2 Liquidity Measurement

The liquidity measurement is intended to evaluate the firm's ability to repay its liabilities, both short-term and longer-term obligations. For the short-term liquidity measures, current assets and current liabilities are emphasized. One major advantage of these current assets and liabilities is that their book values are often mirroring the market values.

Account receivables turnover is the period between the selling of the product or service until the time they receive money for their goods or services. This is a good way to measure a company's efficiency in making sales and also how liquid their account receivables are.

2.5.2.3 Leverage Measurement

To measure a company's leverage, calculating the DER and DAR is important. DER is a way to measure a company's financial leverage by calculating the total liabilities/debt divided by the total equity. This ratio shows the proportion of equity and debt the company is utilizing to finance its assets. DAR is a way to measure a company's financial leverage in relation to their assets. Meaning it is used to see whether the company's assets are sufficient to pay their total debt.

2.5.2.4 Liquidity Measurement

Current ratio is a way to determine whether a company's current assets are sufficient enough to cover current liabilities or their short term debt. The current assets of a company can be seen by reviewing their balance sheet; generally a company's current assets include cash and accounts receivable. On the other hand, a company's current liabilities usually include accounts payable which signifies their short term debt to suppliers.

REFERENCES

Duncan, Tom (2005), *Principles of Advertising & IMC*, 2nd Edition, McGraw Hill Professional, New York: USA.

Ebert, Ronald J., and Ricky W. Griffin (2005), *Business Essentials*, 5th Edition, Pearson Prentice Hall, International Edition, New Jersey: USA.

Gitman, Lawrence J. (2003), *Principles of Managerial Finance*, 3rd Edition, Addison-Wesley, New York: USA.

Kasali, Rhenald (1992), *Manajemen Periklanan: Konsep dan Aplikasinya di Indonesia*, PT Pustaka Utama Grafiti, Jakarta: Indonesia.

Kotler, Philip, Gary Armstrong, Swee Hoon Ang, Siew Meng Leong, Chin Tiong Tan, and David K. Tse (2005), *Principles of Marketing: An Asian Perspective*, Pearson Prentice Hall, New Jersey: USA.

Levine, David M., D. Stephen, Timothy C. Krehbiel, and Mark L. Berenson (2005), *Statistics for Managers*, 4th Edition, Pearson Prentice Hall, New Jersey: USA.

Ross, Stephen A., Randolph W. Westfield, and Bradford D. Jordan (2008), *Corporate Finance Fundamentals*, 8th Edition, McGraw-Hill, New York: USA.

Santoso, Singgih (2009), *SEM, Konsep dan Aplikasinya pada AMOS*, PT Elex Media Komputindo, Jakarta: Indonesia.

Schiller, Bradley R. (2006), *The Economy Today*, 10th Edition, McGraw-Hill, New York: USA.

Wells, William, Sandra Moriarty, and John Burnett (2006), *Advertising Principles and Practice*, 7th Edition, Pearson Prentice Hall, New Jersey: USA.

Weygandt, Jerry J., Donald E. Kieso, and Paul D. Kimmel (2008), *Accounting Principles*, 8th Edition, John Wiley & Sons, Inc, New Jersey: USA.

Zikmund, William (2003), *Business Research Methods*, 7th Edition, Thomson South-Western, Ohio: USA

Zimmerer, Thomas W, Norman M. Scarborough, and Doug Wilson (2008), *Essentials of Entrepreneurship and Small Business Management*, 5th Edition, Pearson International Edition, New Jersey: USA

……. (2009), "*Asia Top 10 Internet Countries*", available online at www.internetworldstats.com**,** accessed in June 10, 2009 at 3 PM

……. (2009), "*Bank Indonesia Interest Rate 2004 – 2008*", available online at www.bi.go.id, accessed in May 20, 2009 at 7 PM

…… (2009), "*Bath and Body Works advertisement*", available online at www.bathandbodyworks.com, accessed in June 10, 2009 at 5 PM

…… (2009), "*Indonesian GDP per capita 2004 – 2008*", available online at www.indexmundi.com/indonesia, accessed in May 20, 2009 at 7:30 PM

…… (2009), "*Indonesian inflation rate 2004 – 2008*", available online at www.indexmundi.com/Indonesia, accessed in May 20, 2009 at 8 PM

…… (2009), "*Palang Merah Indonesia advertisement*", available online at www.palangmerah.com, accessed in June 10, 2009 at 9 PM

…… (2009), "*Nike Advertisement*", available online at www.xroads.virginia.edu/am483_97, accessed in June 7, 2009 at 8 PM

…… (2009), "*US Department of Health and Human Rights public advertising*", available online at *http://download.ncadi.samhsa.gov/prevline/avd222.pdf,* accessed in June 11, 2009 at 7 PM

…… (2009), "*US dollar to Rupiah Exchange Rate*", available online at www.oanda.com, accessed in May 19, 2009 at 10 PM