

## **EFFECT OF ADVERTISEMENT COSTS ON THE PROFITABILITY OF SMALL AND MEDIUM SCALE ENTERPRISES IN ADO-EKITI**

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### **Abstract**

This study investigated the effect, if any, of advertisement costs on the sales of products or services and hence on the profitability of some selected small and medium scale enterprises in Ado-Ekiti Ekiti State of Nigeria. The investigation was carried out on five (5) small-scale enterprises randomly selected for the study. Personal interview was used to collect information from the Managing Director and Sales Managers. The instrument was designed to enable researcher answer questions related to research questions and hypothesis of the study. Responses for specific items were tabulated and mean and standard deviations were used to describe the study. The t-test statistical method was employed to test the hypothesis at 0.05 level of significance. The findings of the study are as follows: the impact of media advertisement cannot be overemphasized. It was also found out that advertising is not wasteful but it creates awareness to consumer of good and promotes sales. There was a high increase in the volume of sales after advertisement was made. This indicates that the more an enterprise advertises its product, the more the increase in volume of sales.

### **Introduction**

The term advertisement is variously defined by various authors. According to David and Jobber (1998) in Alabi (2008), the term advertisement refers to any paid form of non-personal communication of ideas or products in the prime media, which includes television, the press, poster, cinema and radio, the internet etc.

Cost on the other hand may be meaningless without a proper modifier for it to convey a clear meaning. For a proper understanding of a cost concept, it should not only be preceded by a modifier, but the context in which it is used should also be made clear. One general definition of cost is: Cost is a foregoing or sacrifice measured in monetary terms, incurred or potentially to be incurred, to achieve a specific purpose. Three basic features inherent in the definition of cost above are:

1. Cost is the measurement of foregoing or a sacrifice. The foregoing or sacrifice is represented by a current or future decrease in cash or other assets or an increase in current or future liabilities.
2. The uses of resources are measured in monetary terms. Resources that constitute the elements of cost are materials, labour and other services. These resources are expressed in different units. Money is a common denominator permitting the measurement of all resources in terms of a single unit.
3. Since a foregoing or a sacrifice is made to secure some specific benefits, cost should be measured in context of the stated objective.

The term profitability is coined from the word profit that simply means excess of revenue over and above the cost of production/purchasing an item. The meaning of the term small and medium scale enterprises varies from one country to the other. In Nigeria context, the term small and medium scale enterprises was formally defined by Companies and Allied Matters Act (CAMA), 1990 section 351 as any company that has the following characteristics:

- A private company with a share capital
- Its turnover for the year shall not exceed #2 million.
- its net assets value shall not exceed 31 million.
- All its shareholders are Nigerians. None of its shareholders is a government agency, corporation or its nominees and
- Its directors must collectively hold not less than 515 of the company's share capital

In juxtaposing the salient concepts from the topics as individually defined above, this study therefore seeks to investigate the effect, if any, of advertisement cost on the profitability of some selected small and medium scale enterprises in Nigeria.

Advertising is a major marketing communication tool. Advertising is persuasive and public. It tends to simplify and dramatize. As a channel of communication, it is relatively impersonal. It can perform a variety of functions such as informing, entertaining, persuading, reminding, reassuring, complementing, reinforcing and can actually add value to a product by-changing attitudes towards it

### **Statement of the Problem**

When people talk about whether or not companies should advertise their products or services, two schools of thought readily come to mind. The first school of thought otherwise known as pro-advertisement, argued that all companies should advertise their products or services because to this school of thought, advertisement serves the following purposes;

- Creates awareness (customers' interest and desire)
- Boosts sales (moving the demand curve to the right)
- Builds brand loyalty (to maintain it at the existing level)
- Launches a new product
- Changes customer attitudes – perhaps trying to move a product 'upmarket' or to dispel some widely held perceptions about the product.

- Supports the activities of the distribution channel (e.g supporting a .pull' strategy)
- Build the company or brand image
- Reminds and reassures customers
- Offsets competitor advertising – business may be defining market share by responding to competitor's campaign with their own advertising.
- Boosts public standing: Companies can boost their public standing with generally approved campaigns such as care force the environment.
- Supports the sales force- Advertising can make the job of the sales force easier and more effective by attracting leads from potential customers and perhaps motivate them by boosting the profile of the business
- Stimulates enquiries on a particular product
- Increases customers' confidence in a particular product
- Correct any misconception(s) about a product
- Sustains customer's loyalty in fighting against competition by constantly reminding them of existence of a product/service.
- Informs customers about price changes, special offers, discount, clearance sales etc.
- Gains entrance into new markets and expands the existing ones
- Fosters good relationship with dealers as well as increase their confidence.
- Creates a favourable business image (goodwill) for the company
- Creates awareness on a new brand name or company image.

The advocates of this school of thought are: Habson (1974), Phallar (1978), Thompson (1996), Thomas (1998), Hirschi (1999), Barke (1973), Omotayo (1981) and a host of others.

To the other school of thought, however, companies should not embark on advertisement may generate the problem listed below:

- Advertisement may lead to competitive fraud
- It encourages gross materialism and dissatisfaction
- It raises consumers price
- It insults consumer's intelligence
- It is a source of social unhappiness and discontent.

This school of thought is championed by J.K. Galbraith (1974) when he confronted advertising with the one of the most plangent attacks, for he described it as an industry that leads to competitive fraud. Others are Vance Packard (1963), Winton (1961), Enyenbe (1990), Osisima (1986) etc.

What prompted the researcher to embark on this study is to find out empirically which of these schools of thought is correct.

### **Objective of the Study**

The purpose of this study is to determine the effect, if any, of advertisement costs on the volume of sale of products or services and hence on the profitability of some selected small and medium scale enterprises in Ado-Ekiti, Ekiti State of Nigeria.

The study also seeks to answer the question is media advertisement effective? And gives answers to some of the criticisms: leveled against advertising such as

- a) Advertising raises consumer price
- b) Advertising insults consumer intelligence
- c) Much advertising is in bad state
- d) Advertising is a source of social unhappiness and discontent.

### **Research Questions**

Typically, research question generated for the study include the following:

- a) What effect does advertisement have on the profitability of business?
- b) Is there any relationship between advertisement cost and profitability of any business entry?
- c) Does advertisement influence buyers' behavior?
- d) Who bears the burden of advertisement cost?
- e) Is it the producers or the consumers?

### **Hypothesis:**

H<sub>0</sub> – There is no significant difference between the volume of sales of period of advert and period when there is no advert

H<sub>1</sub> – There is no significant difference between the volume of sales of period of advert and period when there is no advert.

### **Significance of the Study:**

The significance of any study contains the benefits of the study, to this end the benefits that shall accrue from this study are many. Specifically, the findings will be of significance to the economy in the following ways:

- a) The findings will help the organizational policy formulation in terms of investment and market possibility.
- b) The findings will help advertising industry to gain or re-adjust their programs to meet their desired objectives or critically re-evaluate the whole practice of advertising if the findings of the study show that media advertising is ineffective

The study will draw attention to further research into media advertisement in Nigeria as a whole.

### **Review of Literature**

Advertising is an impersonal form of promotion and it involves transmitting standard message through media to a large number of intended receivers. Its effects pull the product through the distribution channel by appealing directly to the product users. Advertising is being undertaken

by firms to create awareness about ideas, products and services. It is also to increase company's sales' volume and profit.

However, in spite of various advantages that can be derived from advertisement, there are a lot criticisms and controversies surrounding it. In his book, *An Affluent society*, J.K. Galbraith (1974), confronts advertising with one of the most plangent attacks when he described it as an industry that leads to competitive fraud, Vance Packard (1963) also expressed his fear about advertising charge that many of us are being influenced and manipulated for more than we realize in the pattern of our everyday life. As if reaffirming their views, the Labour Party in Britain alleged in a paper discussion in 1972 argued that advertising encourages gross materialism and dissatisfaction. In similar fashion, economists believe that advertising is wasteful.

However, Habson (1974), the founder of one of the Britain most successful advertising agencies, feels that advertising is an integral part of industry and it contributes like other factors to the process of production, According to Phalla (1978). Advertising is not just for few companies but also for well-established organizations that are either seeking to increase their market share or develop customers' loyalty and the corporate image invaluable capital asset called goodwill.

Ideally, advertisement as a part of creative marketing mix, should be a dialogue rather than monologue. It should not just stop at media replacement but should in its entirety encompass feedback mechanism so as to periodically monitor its impact in the ever-never berating vicious and spiraling marketing.

Incidentally, the relationship between advertisement cost and sales and hence the profitability is a question that has challenged scholars for years and remains unresolved. According to Thompson (1996) at one end of the continuum are the views that advertisement is a catalyst to sales and increased share of the market which at the other end, it is contended that advertisement in its entirety does not precipitate sales. Both views are correct and incorrect. A complementary study by Thomas (1998) possibly presents evidence that advertisement can effectively push the demand curve to the right and at the same time destabilize leading firms market shares in the sense of systematically causing such firms to lose shares overtime to small rivals. A study Hirsch (1999) opined that the effect of advertisement is to "upset" the market share stability of competing firms.

This is demonstrated by the fact that high advertising levels are often associated with greater sales and growth in non-leading firms as compared to leading firms.

Fighting big firms where the barriers to entry are low. This view could practically be negated if big firms continue to advertise intensively as well as maintain if not increase their advertisement costs.

### **Research Methodology**

This study is designed along the line of an ex-post-facto research design in which there was no treatment and manipulation of subject instead it involved the collection of data from records of five (5) small and medium scale enterprises.

A stratified random sampling method was adopted in selecting five (5) small and medium scale enterprise from the total population. The sample consisted of five (5) entities that have just started advertising their products in the last six months. For the five companies, their turnovers were also collected for another six months when they engaged in advertisement.

The major instrument used for data for this study was the financial statement of the companies involved and through personal interview. The personnel interviewed were the Managing Directors and the Managers. The reason for choosing this sample of persons was that the information required could only be given by the Management staff of the enterprises.

The face and content validity of the instrument used were established. The data that were collected and analyzed had already been audited by certified External Auditors of these companies.

The split-half reliability test was employed in computing the reliability of the items in the instrument. The method yielded a reliability 0.78 that was considered to be very high and therefore acceptable for the purpose of the study for the achievement of the goals of this research work, the groups of data collected were processed, tabulated and statistically analyzed through the use of student t-test. This is done to know whether there is a significant difference between the profitability of the companies when no advertisement cost and the volume of sales and hence the profitability of the companies.

## **Results and Discussion**

This section presents the results and discussion of the table of results based on the hypothesis drawn from the research questions for the study and the summary of the study findings.

### **Hypothesis**

There is no significant difference between the volume of sales when there is advert and when there is no advert. This hypothesis was tested using student, t-test at 0.05 level of significance. The results from the five (5) small-scale enterprises selected by using student t-test were shown below for each enterprise.

Table 1: COMPANY A: t –test for the significant difference I n the volume of sales after advert vs before advert.

Period	Mean	SD	N	df	t-cal	t-table
SMAA	596.7	80.4	6	10	2.23	2.99
SMBA	158.3	8.2	6			

Note: SMAA= Six Months After Advert

SMBA= Six Months Before Advert

The results in table 1 indicates that there was a significant difference in the volume of sales when there was advert and when there was no advert. The t-calculated value of 32.99 at 10 degree of

freedom was higher than the table value of 2.23 that shows a statistically significant result, hence, hypothesis was therefore rejected.

Table 2: COMPANY B: t –test for the significant difference in the volume of sales after advert vs before advert.

Period	Mean	SD	N	df	t-cal	t-table
SMAA	452.3	225.5	6	10	2.23	93.0
SMBA	170.8	32.62	6			

Note: SMAA= Six Months After Advert

SMBA= Six Months Before Advert

The results printed in table II above indicates that there was a significant difference in the volume of sales when there was advert than when there was no advert. The t-calculated volume of 93.0 at 10 degree of freedom was greater than the table value of 2.23 leading to the rejection of the hypothesis

Table 3: COMPANY C: t –test for the significant difference in the volume of sales after advert vs before advert.

Period	Mean	SD	N	df	t-cal	t-table
SMAA	627.5	291.3	6	10	2.23	3.9
SMBA	162.5	35.7	6			

Note: SMAA= Six Months After Advert

SMBA= Six Months Before Advert

The results printed in table 3 above indicates that there was a significant difference in the volume of sales when there was advert than when there was no advert. The t-calculated volume of 3.9 at 10 degree of freedom was greater than the table value of 2.23 leading to the rejection of the hypothesis.

Table 4: COMPANY D: t –test for the significant difference in the volume of sales after advert vs before advert.

Period	Mean	SD	N	df	t-cal	t-table
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SMAA	432	106.29	6	10	2.23	3.56
SMBA	150	53.52	6			

Note: SMAA= Six Months After Advert

SMBA= Six Months Before Advert

The results printed in table IV above indicates that there was a significant difference in the volume of sales when there was advert than when there was no advert. The t-calculated volume of 3.56 at 10 degree of freedom was greater than the table value of 2.23 leading to the rejection of the hypothesis

Table 5: COMPANY E: t –test for the significant difference in the volume of sales after advert vs before advert.

Period	Mean	SD	N	df	t-cal	t-table
SMAA	418.33	106.29	6	10	2.23	6.26
SMBA	114	53.52	6			

Note: SMAA= Six Months After Advert

SMBA= Six Months Before Advert

The results printed in table V above indicates that there was a significant difference in the volume of sales when there was advert than when there was no advert. The t-calculated volume of 6.26 at 10 degree of freedom was greater than the table value of 2.23 leading to the rejection of the hypothesis.

### **Discussion**

The findings from the study of each of the five (5) small-scale enterprises shows that there is a significant difference between the volume of sales when there was advert compared to the period when there was no advert. This view was supported by Kotler and Armstrong who said that advertising promotes ideas, goods and services through Mass Media such as new paper, magazine, television or radio. This view also according Habson (1974) supports advertising as an integral part of industry that contributes like other factors to the process of production.

This finding also corroborates the assertion of the following researchers. Nweke (1991), Eziokwu (1992), Sunni Adebo Lawal(1980), owoborode (1993) and jide Oladele (2001). This finding negates The Labor Party of Britain in a paper discussion in 1972 which contend that advertising encourages gross materialism and dissatisfaction. It also negates the belief of economists that advertising is wasteful. Advertising is not wasteful, but its fulfilling. One of the objectives is that it boosts sales (i.e moving the demand curve to the right)



Finally, a desk top interview with the Managers of all these enterprises showed that they all treated the costs of advertisement as part of selling and distribution costs and passed same to their customers at selling price.

### **Conclusion**

Based on the findings of this study, the following conclusions were drawn:

1. The impact of media advertisement cannot be overemphasized. It is an important marketing strategy.
2. There was a high increase in the volume of sales after advertisement was made. This indicates that the more an enterprise advertises the more increase in sales volume
3. The small-scale enterprises under study should put more emphasis on advertisement so as to achieve their objective, i.e, to boost their sales.
4. Finally, it was found that advertising is not wasteful but it creates awareness to customers and also promotes sales.

### **Recommendations**

From the statistical analysis, it can be recommended that:

1. Small-scale enterprises should not be afraid of investing in advertisements because they will influence their sales volume as long as the quality is high.
2. Small-scale enterprises should adopt a penetrating pricing policy to attract customers. Workers should be motivated to increase morale.
3. The quality of the product or service should be given priority, and the products should be designed to attract customers.
4. Small-scale enterprises should have a real understanding of market situations and customer needs. This would help them to know which product to introduce into which market and at what time.

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