THE RELATIONSHIP BETWEEN ADVERTISEMENT COST, VOLUME OF SALE AND PROFITABILITY OF A COMPANY: A STUDY OF HOPE AND FAITH LIMITED

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Abstract

Virtually all business organizations, private or public enterprises are looking for ways of reducing the cost of producing their products and rendering their services to their customers. These organizations are doing this: in order to increase the profitability and hence the sustainability of their business entities. In spite of the above objective, one keeps on wondering the reason(s) why organizations still involve in incurring a large sum of money on advertisement despite the high quality and utility of their products and services. The objectives of this research work is to find reasons why organizations are still involved in incurring further cost on advertisement despite all efforts put in place to reduce cost of their products and to find out the relationship between advertisement costs and the profitability of these business organizations. This study is designed along the line of an ex-post-facto research design in which there was no treatment and manipulation of subject matter, instead it involved the collection of data from the records of the company consigned. Data collected were analyzed using Pearson product moment correlation coefficient for testing the hypotheses generated. Findings revealed that there is significant relationship between advertisement cost and the volume of sales. It was concluded that Enterprises need to advertise to promote sales and to inform the public of their product. The owners of Enterprises need not be afraid to invest on advertisement because it brings a high return in terms of sales.

INTRODUCTION

The cradle of civilization brought about increase in human wants. In fact, introduction, of money into the economic system was one of the factors that liberated the primitive economy of where goods were exchanged for goods to a modernized economy where items or products can be qualified in monetary value. Realizing the fact that human beings cannot single handedly produce Specialization on an aspect of the economy becomes very important. Hence, some specialized on productive activities, some render services, some are in constructive activities etc. It should be noted that in the olden days, not much was mentioned about advertisement because there were not many competitors vying for the teaming consumers but as the number of suppliers or producers continues to increase coupled with population explosion, it therefore, becomes important for these suppliers/producers to seek for ways of getting their products into the heart of their intending customers. This they do through the engagement of those who are in the service industry like advertising whose major duty is to persuade, educate and inform members of the society on the need to patronize a specified product. The foregoing therefore, was supported by David, (1978) when he defined dvertising as any paid form of non-personal communication of ideas or products in the media that is, Television poster cinema, radio, the internet, direct marketing, newspapers etc. Cost on the other hand may be meaningless without a proper understating 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 a 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.

Objectives of the Study

The broad objective of this study is to find out reason(s) why business organizations insist in, incurring advertisement cost: since their products are of high quality and with high utility in spite of effort put in place to reduce cost of production.

The study specifically tries to:

i. Assess the relationship between advertisement cOst and the volume of sales.

ii. To examine the impart of advertisement on buyer behaviours.

iii. To find out whether there will be change in the volume of sales when there is advertisement and when there are no advertisement.

iv. The study also evaluates the effectiveness of advertisement media. and gives answers to some of the criticisms leveled against advertising such as:

   a) Advertising raises consumer price.

   b) Advertising insults consumer's intelligence

   c) Much advertising is in bad taste.

   d) Advertising is a source of social unhappiness and discontent.

Research Questions

Typical research questions generated for the study include the following:

i. What effect does advertisement have on the profitability of business?

ii. What are: the relationship between advertisement cost and profitability of any usiness entity?

iii. What are the impacts of advertisement on buyer's behaviors.

Hypothesis

(1) HO- There is no significant relationship between advertisement cost and the volume of sales.

H1 - There is significant relationship between advertisement cost and the volume of sales.

Significance the Study

The significant of any 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 economy whether private or public in the following ways:

a) The funding will help the organizational policy formulation in terms of investments in the advertisement and market possibility.

b) The findings will help advertising industry to gain or readjust their programme to meet their desired objective.

c) The findings will enable advertising industry to critically reevaluate the whole practice of advertising if the findings of the study show that media advertising is ineffective.

LITERATURE REVIEW AND CONCEPTUAL FRAME WORK

When we talk of the relationship between advertising and sales two models as rightly depicted by George Belch (2003) can be observed, one of the model is called the concave downward function model which states that the effects of advertising budgets follow the law of diminishing returns.

That is; as the amount of advertising increases, its incremental value decreases. This simply implies that those with greatest potential to buy will likely act on the first exposures, while those less likely to buy are not likely to change as a result of advertising. For the potential buyers, each additional advert will Supply little or no new information that will affect decision making process.

Thus, according concave-downward function model; lead to diminishing effect of advertising on sales.

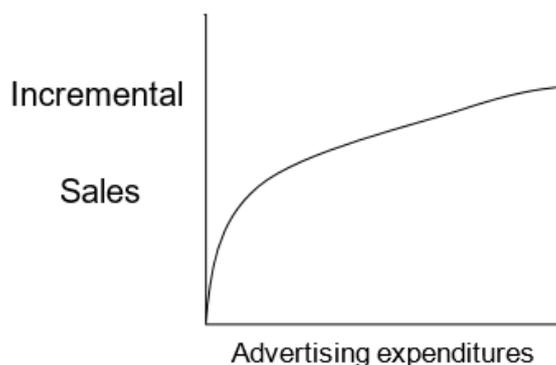**Concave Downward Response Curve**

Figure 1: The S Shape response curve

Source George E Belch (2003)

The second model is called the S-shaped response function. The shaped response functions identify 3 stages effect. The first stage on initial stages; here the advertising budgets have little

impact on sales. This is followed by the second stage whereby an increase in advertising budget brings about a rapid increase in the volume of sales. Up to a certain point beyond this point any increase in sales budget brings about little or no change in the volume of sales thus resulting in S-shape diagram as shown below.
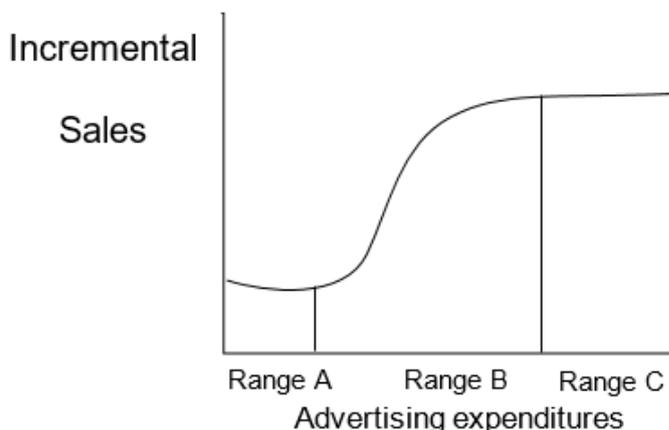
The S-Shape Response Function

Figure 2: The Shaped response curve

Source: George E. Belch

Akanbi etal (2011) defined advertising as a form of communication that attempts to interpret the quality of products, services and ideas in terms of customers' needs and wants.

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.

However, in spite of various advantages that can be derived from Advertisement, there have been a lot of criticisms and controversies over the years. In his book, an affluent society, Galbraith (1974), in Alabi (2008), confronts advertising with one of the most plangent attacks when he described it as an industry that leads to competitive fraud. 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 view, the Labour Party in Britain alleged in a paper discussion in 1972 that advertising encourages gross materialism and dissatisfaction. In similar fashion, economists believe that advertising is wasteful.

Virtually all business organizations, private or public enterprises are looking for ways of reducing the cost of producing their products and rendering their services to their customers. These organizations are doing this: in order to increase the profitability and hence the sustainability of their business entities. Inspite of the above objective, one keeps on wondering the reason(s) why organizations still involve in incurring large sums of money on advertisement

despite the high quality and utility of their products and services. The objectives of this research work therefore is to find reasons why organizations are still involved in incurring further cost on advertisement despite all efforts put in place to reduce cost of their products and to find out the relationship between advertisement costs and the profitability of these business organizations.

METHODOLOGY AND RESEARCH DESIGN

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 Hope and Faith Enterprise.

A purposive sampling method was adopted in selecting the enterprise. The turnovers of the company and the amount of expenditure on advertisement between years 2000-2007 were collected from the financial statement of the enterprise. The data collected was later on subjected to Pearson product movement correlation co-efficient to determine if there is any relationship between advertisement cost and the volume of sales of the enterprise.

The split-half reliability test was employed in computing the reliability of the items in the instrument. The method yielded a reliability of 0.81 that was considered to be very high and therefore acceptable for the purpose of the study data collected were processed, tabulated and statistically analyzed. This is done to determine if there is any relationship between advertisement costs and the volume of sales and hence the profitability of the company.

DATA PRESENTATION AND ANALYSIS

The data for the study was extracted from the financial statement of the company as shown in the table below. The table displays the cost of advertisement and the Corresponding sales volume for the years under consideration.

Table 1: Advertisement cost and corresponding sales volume for the years 2001-2007

Year	Advertisement Cost	Sales Volume
2003	2,174,750.00	38,103,096.00
2004	2,957,668.00	47,508,668.00
2005	3,468,792.00	46,859,356.00
2006	4,072,091.00	53,651,781.00
2007	5,349,226.00	62265,413.00

Source: Extract from financial statement of the company between 2003-2007

When Advertisement cost is plotted against the sale volume, a graph as shown below is obtained.
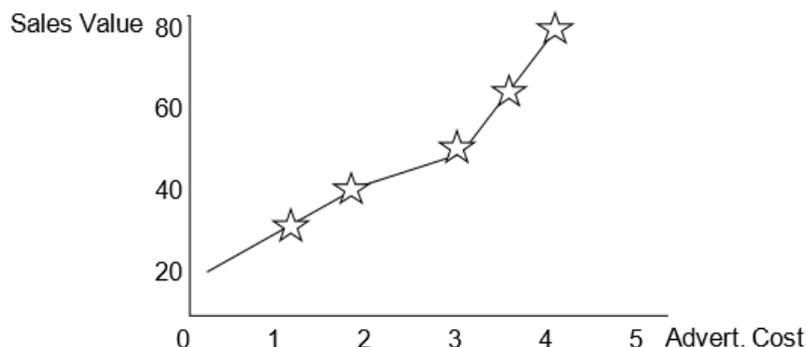
The data collected is subjected to Pearson product movement correlation co-efficient to determine the relationship between Advertisement cost i.e the dependent variable and volume of sales which is independent variable. Since Pearson's correlation co-efficient express the strength of the relationship on a scale ranging from -1 to +1. A positive value (close to +1) indicate a strong positive relationship in which an increase in one variable implies an increase in the value of the second variable while a negative relationship (close to -1) indicates that an increase in one variable leads to decrease in the other variable, The result is as presented in table 2 below:

Table 2=

Year	Advertisement Cost in 000,000	Sales Volume in 000,000	xy	x^2	y^2
2003	22	381	8382	484	145161
2004	29	475	13775	841	225625
2005	34	469	15946	1156	219961
2006	41	537	22017	1681	88369
2007	53	622	2809	2809	386884
	179	2484	93086	6971	1266000

Source: Pearson product movement correlation from annual report of the company

$$r = \frac{n\sum ny - \sum n \sum y}{n\sum n^2 - (\sum n)^2 n\sum y - (\sum y)^2}$$

From the computation the value of r is + 0.98. This implies that there is a significant positive relationship between advertisement cost and the volume of sales.

DISCUSSION

The findings from the study showed that there is a significant positive relationship between advertisement cost and the volume of sales, for the period under review. The finding shows that advertisement accounted for 0.98 or 98% increase in sales while other factors which are extraneous factors accounted for 2% increase in sales volume. This result corroborates the ascertaining of Kotler and Armstrong (1980) which states that advertising promote, ideas, goods and services through Mass Media such as newspaper, magazines, television or radio.

CONCLUSION

Based on the findings of the study, the following conclusions were drawn.

1. The impact of media advertisement cannot be overemphasized. It is important marketing strategy.

2. There was a high increase in the volume of sales after advertisement

3. Finally, it was found that advertising is not wasteful but creates awareness to Consumers of goods and promotes sales.

RECOMMENDATION

From the statistical analysis, it can be recommended that;

1. Small-scale enterprises should not be afraid of investing advertisement because it will influence their sales volume as long as the quality is high.

2. Small-scale enterprises should adopt penetrating pricing policy to attract consumers. Workers should be motivated to increase morale.

3. The quality of the products or services should be given priority and the product should be designed to attract consumers. enterprises should have real understanding of

4. Small-scale enterprises should have market situation and consumer needs. This would help them to know what product to introduce into which market and at what time.

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