



## EFFECT OF ADVERTISING COST ON THE PROFITABILITY OF CONSUMER GOODS IN CALABAR MUNICIPALITY, CROSS RIVER STATE, NIGERIA.

**Inah, Egu Usang Ph.D<sup>1</sup>, Akeke, Mercy N. G. Ph.D<sup>2</sup> and Ekunke, Johnson Awhen<sup>3</sup>**

Department of Accounting, Faculty of Management Sciences, University of Calabar.

<sup>2</sup> & <sup>3</sup>Department of Vocational Education, Faculty of Vocational and Science Education, University of Calabar.

**Abstract:** The purpose of the study was to examine the effect of Advertising cost on the profitability of consumer goods in Calabar Municipal. Survey research design was used with population of 4,742 registered businesses in Calabar Municipal from which 250 were sampled using purposive sampling technique. The instrument for data collection and analysis was a structured questionnaire capturing the variables of interest). The Cronbach alpha reliability technique was adopted to estimate the internal reliability which yielded a coefficient of 0.82. Simple linear regression was used which shows a significant relationship between media advertising cost and the profitability of consumer goods in Calabar Municipality, Cross River. From the findings, it was recommended that companies need to maintain a cost-effective system of advertising with competent personnel, adopt cost effective means of advertising to increase profitability but with the objective of maintaining good image of the company.

**Keywords:** *Advertising cost, Consumer goods, Media cost, Production cost, Overhead cost.*

### Introduction

Advertising costs and advertising expenses are terms that are used interchangeably to mean the same thing. Advertising cost is the amount of money spent by a company to run advertisements during a specific time period. In the view of Kenton (2022), advertising expenses are related to marketing a company's brand products, services through media outlets. Other expenses should be included in the advertising budget, in addition to media purchases such as radio and TV spots, display advertisements in magazines and newspapers, and banner advertisements on websites. Copywriting, graphic design, commissions, lead generation, and broadcast production are examples of such expenses. A detailed advertising forecast takes overhead, production, media purchases, and commissions into account (Milano, 2022). Regardless the cost, advertising has an impact on the profitability of consumer goods.

The goal of any business venture is to make a profit. Hence, to stay in business, a company ought to make or improve on the sale of its products to make profit after deducting its operating costs. For most businesses, sales estimation is the focal point for budgeting their profit as this will help them to determine the unit cost of production which in turn influence material purchases. However, making sales decisions is a difficult task met

by some business executives. This is because prospective customers' demands are intractable to predict or precisely determined due to the irresistible circumstances external to the business firm. In view of the necessity of profit in business continuity, advertising cost must be kept low. Advertising is a technique adopted for the promotion of a business and its products. It is a key tool used in creating awareness about a product and conditioning the mind of a prospective customers or users to make a purchase decision. Advertising acts as a propelling force on consumers towards the patronage of a particular product.

Advertising is often funded by businesses to convince the public that their products would be beneficial to them. In the Nigerian economy, many producers work to increase demand for their goods and services. They don't only produce in the belief that consumers would learn about them through the impersonal interactions of the market. It is assumed that buyers won't necessarily go to significant measures to find out about a product's existence, value, fulfilling attributes, and where it may be acquired if it is made better. Information that enhances and makes the seller's job easy, supports customers in making swift decisions, apprises customers of the availability of a product, the price, location (where it is available), can be referred to as advertising.

Contemporary Marketing Research Journal (CMRJ)

An official Publication of Center for International Research Development

Double Blind Peer and Editorial Review International Referred Journal; Globally index

Available [www.cirdjournal.com/index.php/cmrvj/index](http://www.cirdjournal.com/index.php/cmrvj/index): E-mail: [journals@cird.online](mailto:journals@cird.online)



The end product of this is to increase sales and maximise profit which is one of the major aim, goals and objectives of any organisation. Akeke (2014) listed five major factors why more than half of small business fails within the first four years of their operation to include; under-capitalization/inadequate sales, lack of a big vision, lack of a clear plan, lack of focus and lack of expertise. Hence, making more sales will increase the turnover of the business and its profit margin. This however, is possible by much advertising though the process involves money (expenses). Advertising expenses or prepaid advertising are reported as operating expenses in the income statements. Organizations recoup this money by deducting the cost of advertising from total gross profit before calculating net profit. The researchers are interested to know whether advertising costs have any effect on the profitability of consumer goods in Calabar Municipality.

#### **Statement of the problem**

One of the primary goals of advertising is to increase sales and profits. Profitable advertising is effective advertising. Reaching the right target audience is the most effective way to increase sales and profits. Effective advertising, in essence, is the ability to forecast the comparative forte of alternative advertising approaches and increase their competence in encouraging sales for more profit. Unfortunately, many business owners in Nigeria today, lack the ability to strike a balance between advertising and profitability. This is especially true when it is extremely difficult for businesses to develop appropriate advertising strategies that will reduce costs and yield higher profits. Some businesses are also concerned about how and when to develop and implement product advertising strategies. It is also regrettable to note that many businesses are befuddled by the problem of effectively managing advertising in a way that adds economic value to their organization.

It is even more concerning to note that as of 1979, when the army handed over power to civilians, several companies were operating in Nigeria, all of which have now gone bankrupt, but the story is not the same for some foreign companies operating in the country, such as Julius Berger Nigeria Plc, Guinness Nigeria Ltd, Breweries Plc, and others. Many companies in Cross River State have long since gone out of business, including the Calabar Cement Company Ltd, Sherwood

Industries, Nigerian Newsprint MFG CO. Ltd, Opobo Boat Yard Ltd, and others.

Consumer goods, which are the final items or things that a producer produces in an effort to maximize profit and meet customer demand, have seen significant setbacks, notably in Cross River State. On the basis of the aforementioned, one starts to wonder whether government regulations, exorbitant advertising costs, or ineffective advertising methods may be blamed for the failure of the majority of businesses. This makes the study necessary to determine the extent to which high costs of advertising affect the profitability of consumer goods in the Nigerian.

#### **REVIEW OF RELATED LITERATURE**

Advertising costs are expenses incurred in the promotion of an entity, business, brand, goods or service. Advertising costs are categorized as those expenses associated with marketing a company's brand, product, or service via media outlets (Kenton,2022). Production costs comprise direct and indirect costs by businesses in the production process. These include labor, raw materials, consumables and general overheads (Adam, 2022). Advertising production costs are the expenses incurred in the creation and design of appropriate advertising media for a business.

Profitability is a concern's capability to use its possessions to engender returns that surpass their expenditures. In other words, this is the ability of a company to generate profits from its operations. Edward and Duffy (2014) established degree to which the value of a farm's sales proceeds exceeds its production cost entails its profitability.

A study carried out by Habib (2019), advertisement expenses and profitability using regression model concluded that advertisement expenses have a impact on profitability. In like vein, Hassain and Islam (2019) carried out similar study in Bangladesh and found out that sales incentives have relationship with profit. Agbeja, Adelokun and Akinyemi (2019) investigated the effect of advertising on sales and profitability of a company using regression analysis which yielded positive relationship between marketing expenses and profitability of the firm.

Mutia and Ahmad (2016) examined the impact of production costs on the net income of PT. Indorama Synthetics TBK). using regression analysis which shows that production costs partially affect net income a firm. Muhammad, Nazifah, Murniyanto and Asep (2021) in



their study on production cost and profitability yielded similar result.

Kabiru and Zulaikha (2014) studied the impact of overhead cost apportionment on the determination of selling prices in a manufacturing industry and discovered that overhead costs has a significant impact on the selling price of a product. Raji (2016) replicated the research on the a manufacturing company in Nnewi and obtained the same results.

The reviewed literature shows scanty studies on advertising cost and profitability of consumer goods particularly in the study area in which this study is justified. The study would close the knowledge gap occasioned by this “academic negligence” in the study area.

### METHODOLOGY

The study employed a survey research design. The study's population consisted of 4,742 registered business owners in Calabar Municipality, Cross River State. A sample of 250 respondents was drawn at random from Calabar Municipality's ten political wards. A structured questionnaire called the Advertising Cost and Profitability of Consumer Goods Questionnaire was used to collect and analyze data (ACPCGQ). The instrument was divided into two sections. Section "A" contained the respondents' demographic information, whereas Section "B" contained 15 items drawn from the research variables and graded on a five (5) point rating scale. Respondents were free to select the option that best reflected their views, with no interference from the

**Table 1: Simple linear regression results of media advertising cost and profitability.**

**Dependent Variable: Profitability (PROF).**

Variable	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
MAC	.249	.762	.758		.78551	1.848

F-ratio = 15.625; Sig = 0.000; n = 239. Independent Variable = Media Advertising Cost (MAC).

Table 1 shows that the correlation coefficient of the variable is .249; which implies that there is a weak relationship between media advertising cost and profitability of consumer goods. The R<sup>2</sup> of .762 indicates that the total variation is effective in determining the relationship between media advertising costs and consumer goods profitability. More so, the result shows that the adjusted R<sup>2</sup> = .758 which is not far off from .762, implies that the variation in the dependent variable

researchers. Positive responses were ranked 5, 4, 3, 2, and 1 on the five (5) rating scale, while negative responses were ranked 5, 4, 3, 2, and 1. After the instruments were administered, 239 copies of the questionnaire were returned with the assistance of research assistants who gathered data from each ward for the researcher. The instrument's face and content validity were determined first by two lecturers in the department of Vocational Education, and then by two experts in measurement and evaluation from the University of Calabar, who thoroughly scrutinized the instrument before the final draft was administered to the respondents. A trial test was conducted on 40 respondents from outside the study area to determine the reliability of the test instrument. The reliability coefficient (r) was calculated to be 0.85. This indicated that the instrument was stable enough to generate data for the study. The simple linear regression technique was used as a statistical tool.

### ANALYSIS AND DISCUSSION OF RESULTS

#### Data presentation and analysis

The table below contains the analytical details relating to the respondents' findings. Of the 250 questionnaires distributed to respondents, 239 copies (95.0 percent) were correctly filled and returned to the researchers, while 11 copies (5.0 percent) were not returned by the respondents to the researchers. However, based on the results of the preceding analysis, 239 was determined to be the workable sample size used in the data analysis and to be a true representation of the study population.

(profitability of consumer goods) can be accounted for by 76% of media advertising cost. A cursory look at the table shows an analysis of variance result of (F= 15.63, P-value = .000, hence, P<.05). This suggests that the percentage contribution is significant. As a result, the null hypothesis is rejected and its alternative accepted, implying that there is a significant relationship between media advertising cost and consumer goods profitability in Calabar Municipality, Cross River State.



**Table 2: Simple linear regression results of advertising production cost and profitability.**

**Dependent Variable: Profitability (PROF).**

Variable	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
APC	.161	.826	.822	.80047	1.905

F-ratio = 6.268; Sig = 0.013; n = 239. Independent Variable = Advertising Production Cost (APC).

Table 2 shows that the variable's correlation coefficient is .161, indicating that there is a weak relationship between advertising production costs and consumer goods profitability in Calabar Municipality. The R<sup>2</sup> of .826 indicates that the total variation is effective in determining the relationship between advertising production costs and consumer goods profitability in Calabar Municipality. Furthermore, the result shows that the adjusted R<sup>2</sup> = .822, which is close to .826, implies that 83% of the variation in the dependent variable

(profitability) can be accounted for by advertising production cost. A quick glance at the table reveals an analysis of variance result of (F=6.27, P-value = .013, thus P.05). This suggests that the percentage contribution is significant. As a result, the null hypothesis is rejected and its alternative accepted, implying that there is a significant relationship between advertising production cost and consumer goods profitability in Calabar Municipality, Cross River State.

**Table 3: Simple linear regression results of advertising overhead cost and profitability.**

**Dependent Variable: Profitability (PROF).**

Variable	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
AOC	.162	.626	.622		.80028	1.900

F-ratio = 6.386; Sig = .012; n = 239. Independent Variable = Advertising Overhead Cost (AOC).

Table 3 shows that the variable's correlation coefficient is .162, indicated a weak relationship between advertising overhead cost and consumer goods profitability. The R<sup>2</sup> of .626 indicates that the total variation is effective in determining the relationship between advertising overhead cost and consumer goods profitability. Furthermore, the result shows that the adjusted R<sup>2</sup> = .622, which is close to .626, implies that 63% of the variation in the dependent variable (growth of small and medium-sized businesses) can be accounted for by job creation. A quick glance at the table reveals an analysis of variance result of (F= 6.39, P-value = .012, thus P.05). This suggests that the percentage contribution is significant. As a result, the null hypothesis is rejected and its alternative accepted, implying that there is a significant relationship between advertising overhead cost and consumer goods profitability in Calabar Municipality, Cross River State.

#### 4.2 Discussion of results

The results of hypothesis one shows that there is a significant relationship between the cost of media advertising and the profitability of consumer goods. This is because advertising costs are prepaid expenses that are

added to the income statement at the end of the period. To recoup the money spent on advertising, a company will raise the prices of its product, which will inevitably affect demand for that product. The implication of this is that the company's expected profit at a given time will be adversely affected. The result of this study synchronized with the findings of Agbeja, Adalakun and Akinyemi (2019), who evaluated the impact of advertising on a company's sales and profitability using regression analysis concludes that there is a relationship between marketing expenses and firm profitability.

The finding of hypothesis two demonstrates a significant relationship between advertising production costs and consumer goods profitability. This is because, in order for a company to realize its expected profit, the costs of producing billboards, handbills, flyers, and so on are factored into the selling price of the product. This will have an impact on the demand for such a product, slowing the organization's profit. The finding of this study precisely agreed with the finding of Mutia and Ahmad (2016) who in their study determined the effect high cost of production has on net income of a company.



The result indicated that production cost partially affect the net profit of a company.

The outcome of hypothesis three reveals that there is a significant relationship between advertising overhead cost and consumer goods profitability. This study's findings corroborate those of Kabiru and Zulaikha (2014), who investigated the impact of overhead cost on selling price of a manufacturing industry and found out that overhead costs has impact on the selling price of a product.

#### Conclusion

Based on the findings, it was concluded that advertising costs such as media purchase, production, and overhead have an impact on a company's profit margin. Every business exists solely to make a profit. If the company's advertising costs are high, the company's profit will suffer. In contrast, a high advertising cost leads to a low level of profitability. Advertising system need to be managed by a method that promotes the company and its products with good reputation(s). To cut costs, alternative advertising media such as word-of-mouth or outdoor advertising can be used. Companies should ensure they use appropriate medium to check mate their cost for the purpose of profit maximization. Spending much on advertising and its associated expenditure, will cause in increment on the cost invariably influencing the profitability of the company.

#### REFERENCES

- Adam, H. (2022). Production costs: What they are and how to calculate them. *Corporate finance and accounting*, 5(1), 67-74.
- Agbeja; Adelokun, J. O & Akinyemi, D. (2019). Analysis of the effect of advertising on sales and profitability of company. *International Journal of Management and Network Economics* 2(3):81-90.
- Akeke, M. N. G. (2014). Small scale business failure: Implication to Nigerian economy: *International Journal of Arts and Humanities*, 01(4), 324-335.

- Edward, W, & Duffy P. (2014). *Farm management*. Encyclopedia of agriculture and food system.
- Habib, U. (2019). The impact of advertisement expenses on profitability of food and personal care products companies in Pakistan. *International Journal of Management, Accounting and Economics*, 6 (12), 906-912.
- Hassain, M. & Islam, T. (2019). Effect of advertising expenses and sales incentives on financial performance: Dissecting the cases of two market leaders. *Journal of bus in and economic research*, 9 (1), 69-83.
- Kabiru, I. D. & Zulaikha, R. S. (2014). Impact of overhead costs apportionment on selling price determination in Malaysian Automobile Manufacturing Industry. *Asian journal of finance and accounting*, 6 (1), 12-23.
- Kenton, W. (2022). Advertising costs: Definition and how it works in marketing. Retrieved From Investopedia.com on 5<sup>th</sup> December, 2022.
- Mahabubur, R; Angeles, M. R. & Lambkin M. (2019). Advertising efficiency and profitability: Evidence from the pharmaceutical industry. <https://www.sciencedirect.com/science/article/pii/S0019850118301573>.
- Milano, S. (2022). Examples of advertising expenditures. *Journal of advertising and marketing*, 2 (3), 34-46.
- Mutia, W. & Ahmad, A. (2016). The effect of production cost to net profit: A case study of PT. Indorama Synthetics TBK). *Business and management studies journal*, 3 (2), 29-41.
- Raji, A. (2016). The effects of overhead cost in the selling price of a product: A case study of Innoson vehicle manufacturing co. Ltd Nnewi, Anambra state. Unpublished Masters thesis.