



EFFECTS OF ADVERTISING ON SALES AND PROFIT

ABSTRACT

The purpose of this study was to analyse the effects of advertising on sales and profitability of an organization. There was a vast amount of literature that was read on the topic, which not only showed that advertising does affect sales and profit but also that effective advertising strategies are continuously changing due to technology and globalization. The quantitative research design was adopted in this research and a questionnaire was used to collect all the necessary data. A total of 20 respondents participated in the closed ended questionnaire. The findings and results of this research show that indeed advertising plays a huge role in increasing sales and profitability of a company.

KEYWORDS: advertising, advertising media, profit, sales

CHAPTER 1

INTRODUCTION

Any business, regardless of its size, is in business to make money through sales. Any business enterprise aims to produce sales and profits (Raham, Rodriguez-Serrano, & Lambkin, 2019). If an organization wants to remain viable, then it must generate enough sales from its products to cover costs and make reasonable profits (Fraccastoro, Gabrielsson, & Pullins, 2021). Most organizations use sales forecasts as the starting point for determining their budgets and profits (Raham, Rodriguez-Serrano, & Lambkin, 2019). Sales estimates must be determined before production units are decided and production units in turn determine material purchases. For a business to make a profit, its outputs must exceed its inputs (Edeling & Fischer, 2016). The money that is invested in production and all other activities that assist in making the product available to consumers should be less than the return on investment that the company gets in the end (Agbeja, Adelajun, & Akinyemi, 2015). Sales are very crucial. It is therefore imperative for organizations to engage in programs that can influence consumers' decisions to purchase their products considering the importance of sales to business survival and the connection between customers and sales (Nzabirinda, 2021). This is where advertising comes in and plays a very fundamental role. The role of advertising is to facilitate the seller's job, assist the customer in deciding, informing them of the presence of a product, the price at which it is sold and manipulate them or influence into making a purchase (Agbeja, Adelajun, & Akinyemi, 2015). Additionally, it is used to inform consumers of a new product in the market and remind them of the already existing products and their benefits. When advertising has been fully effective and efficient it will result in increased sales and profit (Utama, et al., 2021).

OBJECTIVES

- To outline the impact of advertising on sales and profit
- To outline different advertising media and their significance
- To develop outline on the most effective advertising media

RESEARCH QUESTIONS

- What is the impact of advertising on sales?
- What are the different advertising media and what is their significance?

- What are the most effective advertising media?

IJSER

LITERATURE REVIEW

Advertising is explained as the presentation of ideas, goods and services by a third-party service provider who is not affiliated with the goods in any way, in exchange for money (Oputa & Ahmad, 2018). This simply means that sponsors charge a certain fee for them to provide a service of advertising the goods, ideas and services on behalf of their clients (Oputa & Ahmad, 2019). It is a tool that is used by organizations to make customers aware of the product and also entice them into buying it. In a market place, organizations are always competing to get the biggest cut from the consumers' disposable income, hence they use advertising to gain more buyer's attention with the hope that it will yield into increased sales and thus more profit (Utama, et al., 2021). Advertisements are used to persuade the customer into thinking that the products being advertised is the perfect product for satisfying their needs (Soberman & Yi, 2021). Advertisements are also used as a device to communicate to the larger public the brand value and quality through the inimitable display of characteristics and capabilities of a product (Sama, 2019). It can therefore be said that advertising aims at changing the behaviour of consumers. Consumer behaviour is the study of how individuals, groups and organizations come to a verdict to buy or not to buy a certain product. It is the study of actions and decisions taken by people individually or as a group who purchase goods and services for consumption (Soberman & Yi, 2021). It is therefore very crucial for an organization to understand what influences the behaviour of consumers before making any kind of advertisement. Lack of knowledge of what influences consumers will lead to ineffective advertisements that do not evoke interest nor grab the customer interest, thus, a loss for the advertising organization (Utama, et al., 2021). At the end of the day, organizations expect to make a higher return on their investment. The money that is made through the effects of advertising should be more than the initial investment into advertising otherwise an organizations' bottom-line would be badly affected (Agbeja, Adelajun, & Akinyemi, 2015). When consumers relate to the advertisement, they tend to realise the need for such a product in their life (Utama, et al., 2021). Products should offer solutions to day to day problems for consumers to relate to them and feel the need to buy them (Tang & Chan, 2017).

ADVERTISING MEDIA

Advertising can be either online or offline. Online advertising refers to those that are aided by technology and they are internet based (Bayer, Srinivasan, J, & Skiera, 2020). Online advertising can be easily traced as online platforms have analytical tools which show the amount of people the post was able to reach, how many people liked it and so on (Agbeja, Adelajun, & Akinyemi, 2015). There is also great potential of targeting as online advertising can be made to be visible to a certain group of people, for instance, a certain geographical location. In recent years, online advertising has significantly increased. This is due to the increase in demand of social networking online by people (Lin, et al., 2021). It is however very crucial to develop eye-catching online advertisements and ensure that they reach the target market or the targeted audience (Utama, et al., 2021). Importance of technology is gradually increasing and so is the need for online social network. The online community has become a very important part of people's life's, with people spending several hours per day on such sites (Maulana, et al., 2019). Online advertising mediums include social media marketing which utilises sites such as Facebook, email advertisements and search engine advertising (Lin, et al., 2021). Organization can therefore use this to their beneficial and distributing the adverts to

where consumers frequently visit. Online advertising has therefore gained popularity with people spending more and more time online. Offline advertising refers to all advertising that is made with the aid of traditional advertising media (Bayer, Srinivasan, J, & Skiera, 2020). Offline advertising mediums include newspapers, television adverts, billboards and radios and magazines. Due to the increased usage of the internet and online platform, organizations are slowly resorting to the online form of advertising to reach more audience and to also cut cost as the later are cheaper than the former (Karaxha, Ramosa, & Abazi, 2016). Offline media is also not able to reach target audience in cases where there are restrictions such as lockdown (Utama, et al., 2021).

RELATIONSHIP BETWEEN ADVERTISING, SALES, AND PROFITABILITY

Researchers have been investigating the relationship between advertising, sales and profitability for a very long time (Bayer, Srinivasan, J, & Skiera, 2020). Profitability is very important as the main purpose of private organizations is to make a profit. This profit is important for a company to continue operating in the foreseeable future. In today's world with increased globalization, companies face vast amount of competition from both local and international competitors (Fraccastoro, Gabrielsson, & Pullins, 2021). One way a company can make itself and its products stand out is through creative advertising. Thus, on yearly basis, firms spend huge amounts of money in advertising as an initiative to communicate and make their products known to a larger group of people with hopes that it will result in increased sales and profits (Raham, Rodriguez-Serrano, & Lambkin, 2019). The relationship between advertising, sales and profitability is best described by a concave downward graph. This graph shows that the relationship between these three aspects follow the law of diminishing returns. This means that sales and profits will increase only to a certain an extend as amount of money spend on advertising is increased. The gradual gain only continues to a certain point, after this point increasing the money spend on advertising will result in lower returns to a company (Karaxha, Ramosa, & Abazi, 2016). The money spend on advertising is expected to yield a high return for an advertising to be effective. This means that the money invested in advertising should result in sales whose amount is higher than that of advertising (Utama, et al., 2021). Advertising efficiency is a concept measures the proportion between advertising inputs and outputs (Agbeja, Adelajun, & Akinyemi, 2015). It states that for an advertising to be deemed effective it must minimize the cost inputs into advertising while capitalizing on advertising outputs such as exposure to consumer, influencing their purchasing decision and manipulating them into making an actual purchase of your product (Bayer, Srinivasan, J, & Skiera, 2020).

CHAPTER 2

METHODOLOGY

Research methodology refers to techniques that are adopted by a researcher while conducting a research (Mark, Lewis, & Thornhill, 2019). It is the approach one takes to dealing with research goals and questions. Mouton (2015) describes methodology as the means or methods of doing something. The methods selected by a researcher are be subject to the nature of the research and its research questions (Corbin & Strauss, 2015). This research's main aim it to outline the importance of nonverbal communication. Also, to find how nonverbal communication affects verbal communication.

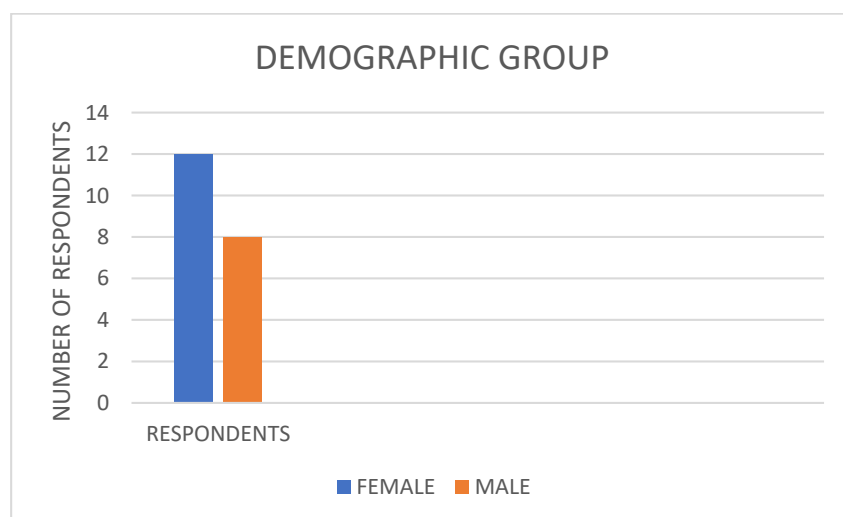
RESEARCH DESIGN

Research design is arrangement of analysis of data collected that aims to combine the research purpose with economy in procedure (Mark, Lewis, & Thornhill, 2019). To achieve the main objectives of the study, primary data is going to be used and questionnaires are going to be used to gather such data. Primary data is the data that has been collected for the first by the researcher for the purposes of that research (Corbin & Strauss, 2015). Primary data include surveys, observations, questionnaires, interviews etc. Secondary data includes journal articles, books, internal records etc (Yin, 2018). Primary data is current and gives a better realistic view to the researcher concerning the theme under consideration. A questionnaire is a data collection instrument that is used for gathering useful comparable data information from the respondents (Mark, Lewis, & Thornhill, 2019). Data collection will be in a form of a questionnaire of which both set of open and closed ended questions will be ask. The research will therefore use qualitative data analysis tools.

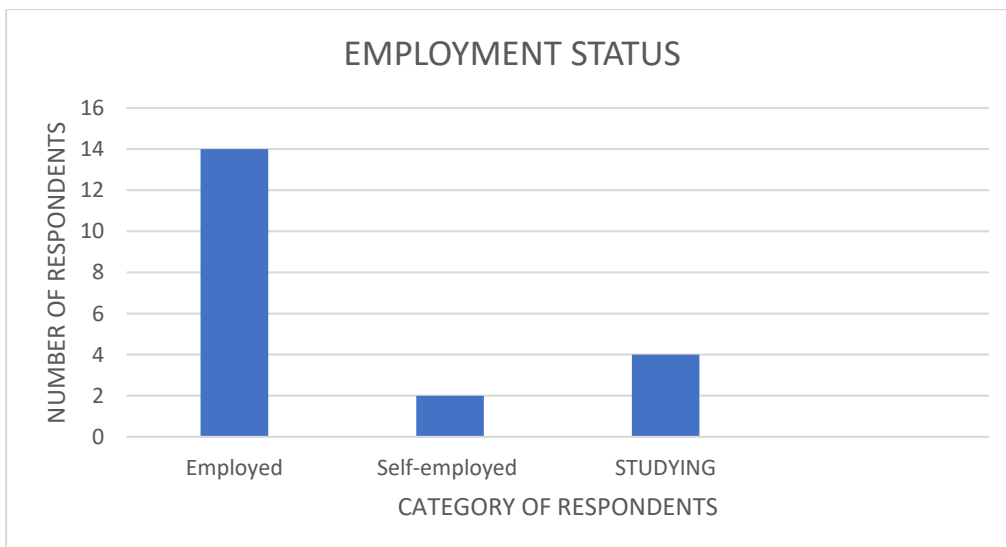
DATA ANALYSIS

Data analysis is the process linked with surfacing meaning and understanding from different data sets that may be gathered during the action of research project (Mark, Lewis, & Thornhill, 2019). It systematically applies logical and statistically methods to condense, describe and evaluate data. The data will be collected and analysed using the statistics analysis (Corbin & Strauss, 2015). Statistical analysis refers to a process by which a meaningless series of data is given meaning through meaningful interpretation of research findings mainly using mathematical operations and statistical tests. Using this statistics analysis, the findings of the literature review will be validated. Data will be analysed using descriptive statistics (mean, standard deviation and graphs) (Mark, Lewis, & Thornhill, 2019).

1.



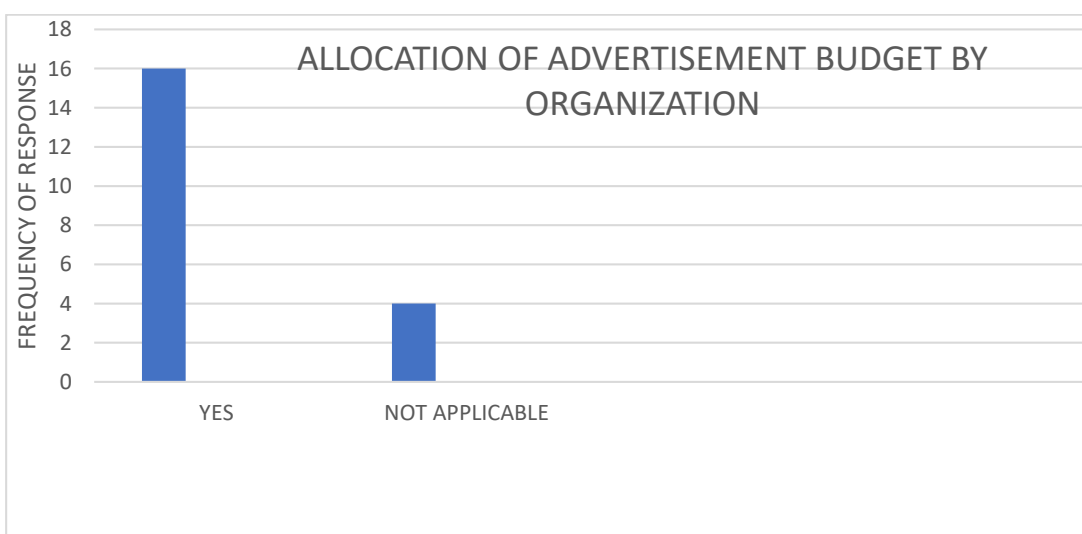
2.



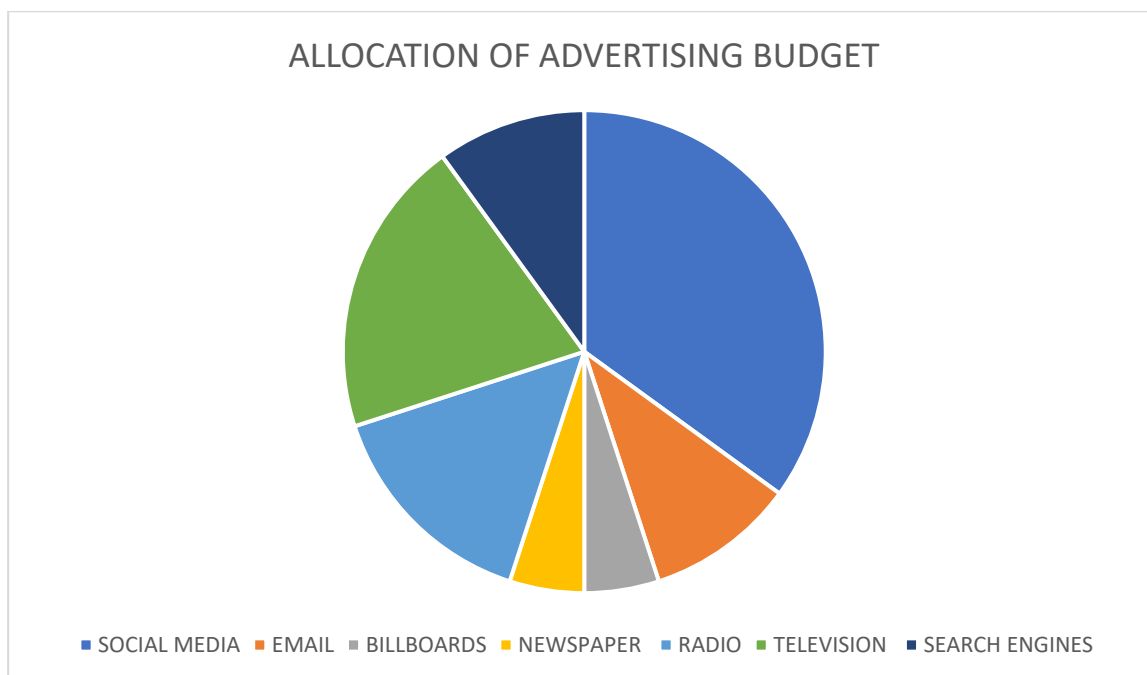
3. Advertising has significant importance

	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	15	75%
AGREE	5	25%
DISAGREE	-	-
STRONGLY DISAGREE	-	-

4.



5.



6. Evident profit increases due to advertising

FACTOR	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	19	95%
AGREE	1	5%
DISAGREE	-	-
STRONGLY DISAGREE	-	-

RESULTS

In this research conducted, there was a total of 20 respondents. Twelve of them were females and there were eight males. Most people who participated in this research were employed, followed by two who are unemployed and finally two that are self-employed. Out of the 20 respondents, 15 of them strongly agreed that advertising was. This was the highest score making up 75% of the total respondents. A smaller number of only 5 people agreed that advertising was equally important. There are no respondents who disagreed nor strongly disagreed to the statement in question. This therefore, supports the literature that was found that advertising is very crucial for any business. The 16 people that agreed that they had advertising budget include those people who had formal employed and those self-employed. The four people that chose not applicable are those that recorded as students and thus do not make any advertisements, nor do they have any budget set aside for it. Therefore, it is evident from these findings that advertising is taken very highly in commercial environments with business setting aside a budget whose purpose is to strictly fund advertising. Online advertising

media took the lead as compared to the traditional offline advertising media. Majority of the respondents agreed that they use majority of their budget and efforts into social media. This is because the online presence on social medias is rapidly and people spend majority of their time on these applications. Facebook is one of the most used and popular social networking sites. It has more 2.8 billion monthly active users (Fraccastoro, Gabrielsson, & Pullins, 2021). On average, people spend 145 minutes per day on social media. Companies are slowly shifting from the traditional methods of advertising. This theory is supported by the collected data as it is evident that they allocate smaller budgets to them. This is because the traditional advertising media do not have the capability to reach a wider audience like the those that are aided by technology. The other reason why online advertising is gaining popularity is because of the ease of finding the advert, it is literally one search way. It can be stored online and re-shared at any point in time making it possible for people to still see adverts that were made long time ago. Unlike the traditional adverts who are not easily accessible, for instance if one was not listening to the radio when an advert was made they miss out on such information. Or in the case of television they miss out if they are not watching the television and if it is the newspaper they miss out if they do not read it. Moreover, the traditional advertising media are very expensive as compared to online advertising media. Hence, in an effort to reduce costs while also ensuring that target audience are reached, companies now resort to online advertising. The research findings prove the importance of advertising for any given company. All the respondent agreed that the performance of their current or previous employer significantly increased because of advertising. With 95% of the strongly agreeing that advertising increased their organization's performance and only one person agree. The fact that none of the respondents opposed this statement is proof of the high importance of advertising. These findings support the literature that advertising has a positive, direct relationship with sales and profitability. When advertising increases, sales and profits also increase and when advertising decreases sales and profits decrease.

CONCLUSION AND SUGGESTIONS

CONCLUSION

The research was able to achieve its main purpose. Derived from the objectives the main purpose was to outline the effects of advertising on sales and profitability. It is evident from the research conducted that advertising plays a very important role in increasing sales and profits for a given organization. An increase in advertising has a direct effect on the sales and profits as it leads to an increase. However, it is important for organizations not to advertise just for the sake of doing it as this will not be effective and will only result in a loss for a company. Companies should take time to come up with very strategic adverts that are able to capture the attention of the buyer and make them want to buy the product.

RECOMMENDATIONS

- Companies should include advertising in their annual budgets as it is very important. It is a very important activity that has significant impact on the performance of an organization, therefore it should be taken with high regard.
- With the increase in usage of technology and social media, companies should put more focus on online advertising to reach a higher audience. Also, by using technology aided adverts, they will be able to receive real statistical records of how many people were reached, how many liked the advert and so on and so forth. From

this information, companies can device plans going forward on ways to increase their audience and have more impact and influence on consumers.

- Companies should take significant time in the process of acquiring most talented people in the advertising or marketing field as this could make or break a company. Competent people in this field will be able to device and come up with effective and efficient marketing campaigns that will result in a lot of return of investment for the company.

IJSER

References

- Agbeja, O., Adelajun, O. J., & Akinyemi, D. (2015). Analysis of the Effect of Advertising on Sales and Profitability of Company. *International Journal of Novel Research*, 2(3), 81-90.
- Bayer, E., Srinivasan, S., J, R. E., & Skiera, B. (2020). The Impact of Online Display Advertising and Paid Search Advertising Relative to Offline Advetising on firm Performance and firm Value. *International Journal of Research in Marketing*, 37, 789-804.
- Corbin, J., & Strauss, A. (2015). *Basics qualitative Research Techniques and Procedures for Developing Grounded Theory* (3rd edition ed.). London: Sage.
- Edeling, A., & Fischer, M. (2016). Marketing's Impact on Firm's Value: Generalizations from a Metal-analysis. *Journal of Marketing Research*, 53(4), 515-534.
- Fraccastoro, S., Gabrielsson, M., & Pullins, E. B. (2021). The Integrated use of Social Media, Digital and Traditional Communication tools in the B2B Sales Process of International SME's. *International Business Review*, 30.
- Karaxha, H., Ramosa, B., & Abazi, A. (2016). The Influence of Advertisements in Increasing Sales in Kosovo. 6(2).

- Lin, Y., Ahmad, Z., Shafik, W., Khosa, S. K., Almaspoor, Z., Alsuhabi, H., & Abbas, F. (2021). Impact of Facebook and Newspaper Advertising on Sales: A Comparative Study of Online and Print Media .
- Mark, N. K., Lewis, P., & Thornhill, A. (2019). *Research Methods for Business Students* . Pearson Education Limited .
- Maulana, M. I., Kee, D. M., binti Rosli, I. N., binti Borhan, N., binti Azir, N., & Huey, W. M. (2019). MAPS, Malaysia Company . *International Journal of Tourism and Hospitality in Asia Pacific* .
- Nzabirinda, E. (2021). Scientific Research on Effects of Advertisements on Sales Revenues.
- Oputa, E. A., & Ahmad, F. (2018). The Influence of Semiotic Advertising Efficacy on Gen-Y Purchase Intent of Smart Phone. *Journal of Applied Business and International Management*, 3(2), 79-87.
- Oputa, E. A., & Ahmad, F. (2019). Semiotic Advertising by International Firms. A comparative Study of Premium Smart Phone Brands in China, South Korea and USA. *International Journal of Applied Business and International Management*, 4(1), 38-45.
- Raham, M., Rodriguez-Serrano, A. M., & Lambkin, M. (2019). Advertising Efficiency and Profitability: Evidence from the Pharmaceutical industry.
- Sama, L. R. (2019). impact of Media Advertisements on Cosumer Behaviour. *Journal of Creative Communication*, 4(1), 54-68.
- Soberman, D. A., & Yi, X. (2021). Designing the Content of Advertising in Differentiated Market. *International Journal of Research in Marketing*.
- Tang, M. J., & Chan, E. T. (2017). The Impact of Online Advertising on Generation Y's Purchase Decision in Malaysia. *International Journal of Humanities and Social Sciences*, 11(4), 973-981.
- Utama, A. G., Nair, R. K., Cheng, W. E., Kee, D. M., Chen, Z., Cheng, M. R., . . . Talesara, S. (2021, October). Influences of Advertising on Buying Brhaviour. *International Journal of Accounting and Finance in Asia Pacific*, 4(3).
- Yin, R. K. (2018). *Case Study Research and Applications; Design and methods* (6th edition ed.). London: Sage.