

The Impact of Advertisement Expenses on Profitability of Food and Personal Care Products Companies in Pakistan

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Abstract

This research examined impact of advertisement expenses on profitability of Food and personal care product firms listed in Pakistan Stock Exchange. 10 years data were gathered from consolidated annual financial statements of nine companies over a period of 2009 to 2018. The profitability was measured by Return on Assets. Advertising expenses was independent. The regression model was used and the data were analyzed through SPSS software. It was concluded that advertisement expenses has a significant positive impact on profitability.

Keywords: Advertising, Advertising Expenses, Profitability, Return on Assets, Pakistan

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Introduction

Companies use various types of advertisement for the promotion of their goods and services. It plays a key role and helps the organizations to achieve its goals. Advertising expenditure has a direct effect on customer satisfaction. When advertising increases it creates awareness and good perception in the mind of customer that leads towards customer satisfaction (Hameed, 2013). So it is important to know about effects of advertisement expenses on profitability of Food and personal care product firms listed in Pakistan Stock Exchange.

(Hsu & Jang, 2008) collected data between 2000 and 2005 of restaurant firms and examined that advertisement expenses has positive effects on intangible value of

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resturent. (Singh, Sharma, & Mahendru, 2011) find out that previous years sale effects current year sale and the sale effects the advertismment as well as profit. They also find out that there is impact of profit on advertismment. (Riaz, Furqan, & Siddique, 2015) collected data from 2008 to 2012 of the commercial banks and measured the profitability of the banks by return on equity. They concluded positive impacts of advertisement expenditure on return on equity for private banks. (Markota, Aljinović Barać, & Knezović, 2015) collected data of 67 firms and find out that promotional cost has significants effects on financial performance. (Sharma & Husain, 2015) collected four years data of 16 telecom companies. They used regression analysis and examined that firm profitability and marketing expenses are positive correlated.

Problem statement

To find the effects of advertisement expenses on the profitability of Food and Personal Care product firms listed in Pakistan Stock Exchange.

Objectives

The aim of this research is

- To examine the effect of advertisement expenses on profitability of Food and Personal care product firms listed in Pakistan Stock Exchange.
- To know about advertising expenses and to which extent the advertising expenses effect the profitability.
- To know about relation between advertisement expenses and financial performance and to give proper suggestion on the basis of the result.

Significance of the study

This research study was done to know about effect of advertisement expenses on the profitability of food & personal care products companies in Pakistan. This study would be helpful to the decision and policy maker in Pakistan and also in other countries. It would be also helpful to the other researchers, students who want to know about effects of advertisement expenses on Profitability of food and personal care products companies. One of the most important benefit of this research study is the contribution to existing knowledge.

Literature review

M. J. Hirschey (1978) and Notta & Oustapassidis (2001) examined that advertisement through television has a positive effects on the firm's Profitability. M. Hirschey (1982) , Gisser (1991), Israeli, Adler, Mehrez, and Sundali (2000) and SADRAEI, Zabihidan, and Balaghi (2011) found advertisement has significant impacts on profitability.

Eng & Keh (2007), Aworemi, Oyedokun, Ajagbe, and Wojuade (2008), Al-Nimer and Yousef (2015) and Acar and Temiz (2017) examined significant positive relation

between advertising expenditure and firm financial performance while Meyer & Ujah (2017) and Hossain & Islam (2019) find out negative relation.

Agbeja, Adalakun, & Akinyemi (2015) found significant relation between profitability and marketing expenditures. Leach & Duncan Reekie (1996), Adeyeye and Akanbi (2011), Jindal (2015) and Assaf, Josiassen, Mattila, and Cvelbar (2015) examined that advertisement expenditure has positive impact on the sale.

Park & Jang (2012) investigated using franchising system advertisement expenses has positive long term effects on the sale of restaurant firms. Chen (2015) found no significant impact of advertisement expenditure on hotel stock return. Kim, Jun, Tang, and Zheng (2018) collected data from 1991 to 2012 of 119 restaurant firms and examined that advertising fail to increase profit but improve consumer demand.

Sahay & Pillai (2009) identified positive effect of advertising expenditure on intangible value while Joshi & Hanssens (2010) found that advertisement has a positive effect on the market capitalization of firm.

Research methodology

Ten years data were collected from the annual financial statements of nine Food and personal care products companies over a period 2009 to 2018. Two variables were used to investigate the effects of advertisement on profitability of food and personal care products companies. Profitability is the dependent variable and was measured by return on assets and was taken as Net profit after tax / Total Assets. Advertising expense is the independent variable and was taken as Advertising Expenses / Revenue.

The hypothesis of this research study are given below:

H₀: Advertisement expenses has no significant positive effect on Profitability.

H₁: Advertisement expenses has significant positive effect on Profitability.

Model for this research study is given below which was used to test the hypothesis

$$ROA = \alpha + \beta ADV + \epsilon$$

ROA represents Return on Assets

α represents constant

β represents coefficient

ADV represents Advertisement Expense

ϵ represents the error term

The data were analyzed through SPSS software to get the result.

Table 1: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	90	-.20	.46	.0996	.09913
ADV	90	.00	.15	.0654	.03735
Valid N (listwise)	90				

The above table shows the Descriptive statistics of Dependent variable (Profitability) and independent variable (Advertising Expenses). Ten years data were collected of food and personal care products companies from 2009-18. Total number of observation is 90. The mean value of ROA (return on assets) is 9.96% and its standard deviation is 9.913%. The standard deviation of 9.913% shows that the value of profitability decrease or increase from its mean by 9.913%. The mean of advertising expenses is 0.0654 and its standard deviation is 0.03735.

Table 2: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.347 ^a	.120	.110	.09351
a. Predictors: (Constant), ADV				

Table 2 shows the model summary. R^2 value is 0.120 which reveals that 12% of the variation in Return on Assets is explained by Advertising Expenses.

Table 3: ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	.105	1	.105	12.027	.001 ^a
	Residual	.770	88	.009		
	Total	.875	89			
a. Predictors: (Constant), ADV						
b. Dependent Variable: ROA						

Table 3 shows validity of a regression model. The value of F is 12.027 and significance value is 0.001 which is lower than 0.05, which represents that the model statistically significant and valid.

Table 4: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.039	.020		1.978	.051
	ADV	.920	.265	.347	3.468	.001

a. Dependent Variable: ROA

Table 4 represents the summarized result of regression model. The Sig. value of ADV(Advertising Expenses) is 0.001 which is less than 0.05 which represents that advertisement expenses is significant and its coefficient is 0.920 it means a positive relation between advertisement expenses & profitability. The result is similar with results of Eng and Keh (2007), Al-Nimer and Yousef (2015) and Acar and Temiz (2017).

Conclusion

This research examined impact of advertisement expenses on profitability of food & personal care products firms. 10 years data were gathered from consolidated annual financial statements of nine companies over a period of 2009 to 2018 consists of 90 observations. The profitability was measured by Return on Assets. Advertising expenses was measured by advertising expenses / revenue. Regression analysis was used and data were analyzed through SPSS software. The result showed positive & significant impact of advertisement expenses on profitability of Food & personal care products companies in Pakistan and hence the hypothesis that Advertisement expenses has significant positive effect on Profitability is accepted.

Limitation and recommendation

This research study only considered the advertising expenses and there are also other various factors which effects the firm's profitability. Only 10 years data were collected of 9 companies. This study is only limited to the food and personal care products sector of Pakistan. Profitability was only measured by ROA (Return on Assets). One variables was used as dependent variable and only one variable was used as independent.

It is recommended that organizations should advertise their products and services. It is also recommended to include all firms listed on Pakistan Stock Exchange and include other variables to examine their impact on profitability.

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