The impact of advertising on the income of MSMEs in Ecuador

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Abstract

This research aims to evaluate the impact of advertising actions on sales levelin micro and small companies (MSMEs) operating in Ecuadorian territory. This investigation was initially based on the application of a survey to a sample of representative customers of micro and small companies. An in-depth analysis of the impact of advertising expenses on income in those organizations where it was found that there was a percentage of its customers who came to the organization motivated by advertising actions. As a main result, the existence of a high level of correlation between advertising expenses and income was verified, which are higher as these expenses increase and advertising actions remain stable over time. This implies that directors of MSMEs must evaluate their capability to carry out advertising expenses and to maintain these for long periods of time. The impact of advertising expenses on the income of organizations has been the subject of analysis for years, these investigations have been oriented fundamentally to the analysis of advertising in large industries, or of brands with a high level of prominence. However, the evaluation of this behaviour in the conditions of MSMEs is scarcely studied, and this type of company is the focus of this research. This study did not make a distinction between the effectiveness of the media chosen for the messages' distribution and the caliber of the advertising messages. Similarly, it failed to establish values or coefficients of relationship between the correlated variables.

1. Introduction

There is consensus in the literature about the importance of advertising to increase sales levels. Similarly, multiple investigations have been developed with the aim of estimating, measuring or moderating the real impact of advertising actions on sales. In significant companies or industrial sectors, the efforts have typically been made in relation to well-known brands (Jedi, Mela, & Gupta, 1999). (Balasubramanian & Kumar, 1990; Balasubramanian & Kumar, 1997; Tustin & Strydom, 2003); The results have not established a definitive conclusion and although they have shown significant correlation coefficients between the income of the

industries and the advertising actions, it has not been demonstrated that there is a causal relationship between the variables studied; With the development of the advertising options offered by the Internet and the applications that it supports, efforts have been oriented towards these new communication channels, where some mechanisms facilitate impact assessment (Cho, Zhao, & Zhang, 2020; Feng & Liu, 2018; Sahni, Narayanan, & Kalyanam, 2019). In this sense, with the development of theories and methodologies related to telemarketing (Vaughan, Corsi, Beal, & Sharp, 2021), progress has been made in evaluating the influence of advertising actions in achieving brand prominence.

Despite the aforementioned, it should be highlighted that the majority of these studies have been done in big cities or towns without taking into account the peculiarities of MSMEs, despite the fact that they are the most prevalent or representative form of business in most nations. On this aspect Balasubramanian and Kumar (1990) point out that at the macro level, advertising and promotion are powerful tools to achieve business growth, however, this behaviour is somewhat moderate at the micro level. In this sense, it should be noted that advertising expenses are frequently considerable and can add significantly to these tiny firms' cost structures. For this reason, the ability of these firms to determine the significance of advertising initiatives that may have on their sales is crucial.

MSMEs constitute a highly significant percentage of all companies (Krishnan & Scullion, 2017). According to the OECD report (OECD, 2015), more than 99 % of companies in the countries that make up the organization and the G20 are SMEs. MSMEs provide around 66% of the jobs in the European Union. A similar situation exists in the Asia Pacific region where 40% of employment coming from this sector. In the USA, about 99% of commercial companies are SMEs and they provide 52 % of total employment.

In Ecuador, according to the statistical report of the National Institute of Statistics and Census (INEC) (2018), the country has 6, 089, 518 companies. wherein 90.4% are made up of micro and small businesses. All of these businesses are privately held start-ups, and 90% of them are renewed annually. In Ecuador, more than 34 % of the economically active population works independently in micro-enterprises that have a maximum of nine workers.

Taking into account the previous antecedents, this research aimed to evaluate the impact of advertising actions on sales levels in MSMEs that operate in the Ecuadorian territory.

2. Literature Review

Spenser examined the differences between informative and persuasive advertising in 1967 and came to the conclusion that it was actually very difficult to draw distinctions between the two. He also made a claim that advertising would always be a recoverable cost. Unfortunately, these arguments remain in the expository field without experimental evidence to support the assessments. A laudable attempt to clarify the accounting mechanisms that make it possible to establish the economic impact of advertising was made by Tucci and Tucker (1993), who conducted an analysis of the difficulties that advertising imposes on accounting when it comes to distinguishing whether the money invested in advertising is part of an expense or becomes an asset in this regard on the one hand they stated "…Some believe that advertising costs should be as expenses incurred, since the magnitude and timing of the related benefits is too uncertain to allow these costs be capitalized as an asset…"(p. 40), and on the other they cited:

The proposed accounting standard defines advertising costs as "...the promotion of an industry, an entity, a brand, a product name, or specific products or services so as to create or stimulate a positive entity image or to create or stimulate a desire to buy the entity's products or services The proposal also notes that advertising is one kind of customer acquisition activity, and the reporting requirements for other kinds of customer acquisition activities are outside the scope of the proposal (Tucci & Tucker, 1993).

Balasubramanian and Kumar (1990) identify the variables and the extent to which they affect the indicator that indicates the relationship between advertising and promotion costs and revenue levels by doing research with the goal of developing a mathematical model. In this sense, the authors make the point that these studies must take into account the variations among various industries, various businesses within an industry, and changes through time for both businesses and industries. This comment is significant because it presupposes that the studies carried out on this subject must analyze the possible differences between these four possible segments. The aforementioned researchers additionally study the possible incidence of the variables: market growth, market concentration, market share, and the profit margin in time *t*. This analysis was developed by the consumer market for products or services and the industrial market.

The authors propose an econometric model that manages to explain the relationship between the variables, but in the same way the authors themselves point out that this model does not imply causal relationships between the variables under investigation. It is the opinion of the authors of this research that the recognition of this limitation is highly significant because the levels of correlation found between the variables are favourable, there are numerous factors that might affect the income margin, and it is impossible to tell how much of the income was earned as a result of spending on advertising and promotion.

Jedi et al. (1999) carry out a study where they value the influence of the promotion and advertising actions of well-known brands on the sales levels, in a closed locality. The researchers concluded that, in the long term,

advertising favourably influences "brand value", while promotions negatively affect it. In addition, they argue that with time, demand elasticity in the face of declining prices reduces.

A similar study is carried out by Tustin and Strydom (2003) to measure the impact of advertising and promotion on different types of private label industries in South Africa. The aforementioned researchers value the impact by measuring the percentage that advertising and promotion expenses represent with respect to the income levels of the organizations.

Brettel and Spilker-Attig (2010) compared the effectiveness of Internet advertising in the United States and France, finding that on-demand channels have a stronger effect on short-term success than other channels and that this behaviour is conditioned by culture. In accordance with this, they advise that the advertising costs in the various channels be adapted to the product provided and the target audience. Correspondingly, they recommend that the advertising expenses in the different channels can be adjusted according to the product provided and the customers to whom they are oriented. Another study related to Internet advertising is reported by Feng and Liu (2018) who, among other conclusions, states that "…performance-based advertising reduces the uncertainty associated with advertising performance and therefore marketers should have a stronger incentive to advertise. However, this is true only when advertising performance is not significantly over measured…" (p.1037).

A more recent study carried out by Feng and Liu (2018) delves into the influence of the Internet on advertising actions, this time specifically in relation to direct communication between customers through the Internet and its influence on the demand for a logistics chain. Another similar study related to the incidence of advertising through social networks and direct communication between customers was developed by Cho et al. (2020) in the context of golf courses, and it finds a direct impact of this form of advertising on how customers feel such kind of service. Another study related to the effectiveness of advertising actions on the Internet is the research carried out by Study of the impact of Internet advertising is the one developed by Sahni et al. (2019) who evaluate the impact of planned and targeted advertising using the knowledge of clients' historical interests.

Some conclusions can be drawn from the review of the state of the art: although progress has been made in the analysis of the influence or impact of advertising actions on sales levels, the results have not been conclusive; the main investigations have focused on large industries and well-known brands; The incidence of advertising actions has not consistently been separated from other promotional actions in various studies, where the impact of the elasticity of demand caused by changes in price or benefits to the consumer is more obvious; since it is often simpler to manage the impact of advertising efforts in this communication and sales channel, research aimed at this objective in the area of Internet sales has increased recently.

3. Methodology

For the development of the research, the steps described below were followed.

3.1. Design of Measuring Instruments

For the development of the investigation, some analysis and instruments were applied in a staggered manner. The first step was to describe the businesses in terms of their spending on advertisement and the different media channels they employ. Those companies where advertising costs exceeded an average of $ 150.00 per year were selected for the field study.

The field investigation was divided into two stages. In the first, the owners of the organizations collaborated with the application of the instrument and the customers who visited the companies that were under evaluation. The applied instrument had three basic questions, with the response options shown in Table 1.

Table 1. Question categories of the applied instrument.

Why do you visit the place?	Advertising media that motivated the visit	Action taken
☐ Previous purchase	☐ Internet	☐ Purchase
☐ Exploration	☐ Radio	☐ Do not buy
☐ Personal reference	☐ Television	
☐ Advertising	☐ Press	
	☐ Fences	
	☐ Mobile advertising	

The companies where the percentage of customers who stated that they visited the premises as a result of advertising actions were greater than 7 % were chosen to carry out an analysis of the level of correlation between advertising expenses and income.

3.2. Definition of the Population and the Sample

According to the data provided by the Institute of Statistics and Census of Ecuador (INEC) dated December 2018, 815419 micro or small businesses were registered in the country, as shown in Table 2. For

this population, a sample size by Equation 1. The expression was applied considering both populations independently.

$$n = \frac{N*p*q*z^2}{e^2*(N-1)+z^2*p*q}$$ (1)

Where:

N: population size.

p: probability of success (0.5).

q: probability of failure (0.5).

e: investigator error (5%).

z: constant of the normal distribution: 1.96 for the 95.5% confidence level.

Because many businesses indicated that they were not interested in cooperating with the investigation, did not engage in costly advertising campaigns, or lacked the information necessary for the study, it was not possible to complete the study using the entirely planned sample. Hence, the real value of the investigator's error (e) was determined from Equation 2. As it can be seen in Table 2, in all cases an investigator's error of no more than 10% is ensured, which is considered admissible.

Table 2. Composition of the population and the research sample.

Type of companies	Population	Sample		Actual value of e
		Plan	**Real**	
Micro	773772	384	165	0.09
Small	41647	381	152	0.10
Total	815419	1422	317	

$$e = 0.98 \sqrt{\frac{N-n}{n*(N-1)}}$$ (2)

The selected companies were representative of commerce, gastronomy, personal services and production as shown in Table 3.

Table 3. Distribution of companies by type of economic activity.

Type of economic activity	Micro				Small			
	Number of companies	%	Number of respondents	%	Number of companies	%	Number of respondents	%
Commerce	78	47	1532	49	72	47	901	56
Gastronomy	29	18	653	21	31	20	316	20
Personal services	46	28	839	27	42	28	378	23
Production	12	7	73	2	7	5	22	1
Total	165	100	3097	100	152	100	1617	100

The number of companies under investigation were reduced according to different criteria as shown in Table 4 and described as part of the results.

Table 4. Sample size reduction.

Companies	Micro	Small
Initially selected	165	152
With advertising recognition	68	77
With continuous and high expenses in publicity	6	8

3.3. Information Processing

In addition to the analysis of the relative frequencies presented in each of the correlation analysis that was carried out through the Pearson correlation coefficient to evaluate the level of relationship between the variables "advertising expenses" and "income in general". This analysis was carried out considering both the behaviour of the variables continuously over five years, differentiating by year and evaluating how the expenses of previous years could be correlated with the income of subsequent years. The existence of substantial differences between the type of company, the type of economic activity it engages in, advertising expenses, and its influence were also investigated using an analysis of variance (ANOVA).

4. Results

Table 5 shows the results that the respondents expressed regarding what motivated them to visit the establishment.

Table 5. Reason for visiting the business premises.

Type of company & economic activity		Number of respondents	Previous purchase		Exploration		Personal reference		Advertising	
			Num	%	Num	%	Num	%	Num	%
Micro	Commerce	1525	915	60.0	228	14.9	228	14.9	154	10.1
	Gastronomy	661	416	62.9	85	12.8	85	12.8	75	11.3
	Personal services	842	505	59.9	126	14.9	151	17.9	60	7.1
	Production	83	49	59.1	9	10.8	18	21.7	7	8.4
Small	Commerce	903	559	61.9	108	11.9	126	13.9	110	12.2
	Gastronomy	311	186	59.8	43	13.8	49	15.7	33	10.6
	Personal services	383	248	64.7	45	11.7	60	15.6	30	7.8
	Production	21	13	61.9	2	9.5	4	19.1	2	9.5

As it can be observed, the prior purchase is the primary factor that influences the decision to choose the premises. The other three possibilities are roughly but equally distributed, with the minimum tendency of slightly lower in comparison to advertising actions. The total number of individuals who stated that they visited the place for advertising actions made it possible to reduce the universe of study, considering as non-significant the organizations where the advertising impact was not recognized by their customers. The composition of the organizations with which the study continued is shown in Table 6.

Table 6. Distribution of companies with impact of their advertising.

Type of economic activity	Micro		Small	
	Number of companies	%	Number of companies	%
Commerce	33	49	38	49
Gastronomy	14	21	14	18
Personal services	18	26	21	27
Production	3	4	4	5
Total	68	41	77	51

This result allowed us to observe that the percentage of micro-enterprises that show an impact with respect to the total was lower than in small companies. This behaviour was observed in the different sectors under analysis. Which, among other things, can be an indication of the amount of money allocated for this purpose.

As it is mentioned in the example below, for those who admitted that they visited the organization through advertisements, and the advertising medium they used for this purpose was also examined. Table 7.

Table 7. Advertising media references.

Type of company & economic activity		Internet		Radio		TV		News-papers		Bill boards		Social networks	
		Num	%	Num	%	Num	%	Num	%	Num	%	Num	%
Micro	Commerce	121	78.5	8	5.2	8	5.2	5	3.2	7	4.5	5	3.2
	Gastronomy	58	77.3	3	4.0	4	5.3	6	7.7	2	2.6	2	2.6
	Personal services	44	73.3	5	8.3	6	10	2	2.9	1	1.6	2	3.3
	Production	6	85.7	1	14.3	0	0	0	0	0	0	0	0
Small	Commerce	76	69.1	10	9.1	9	8.2	10	7.9	3	2.7	2	1.8
	Gastronomy	26	78.8	3	9.1	1	3.1	1	3.8	2	6.1	0	0
	Personal services	24	80.0	4	13.3	1	3.3	0	1.8	1	3.3	0	0
	Production	2	100	0	0	0	0	0	4.7	0	0	0	0

there is a majority of internet predominance as a communication media, and radio, television, Newspapers, Billboards and social networks have a very low impact. It was established that advertising on social networks generally impact people who live or work near business premises. In the same way, it was analyzed whether the individuals who visited the store based on advertising stimulation ended up making the purchase or not. The results are shown in Table 8.

Table 8. Purchase decision

Type of company &economic activity		Purchase decision			
		Yes		No	
		Number of companies	%	Number of companies	%
Micro	Commerce	81	52.60	73	47.40
	Gastronomy	53	70.70	22	29.33
	Personal services	38	63.33	22	36.67
	Production	3	42.90	4	57.14
Small	Commerce	68	61.80	42	38.18
	Gastronomy	25	75.80	8	24.24
	Personal services	21	70.00	9	30.00
	Production	1	50.00	1	50.00

On this occasion, it is observed that the purchase decision materializes in a general way between 50 and 70 % of the customers and is slightly higher in small companies compared to micro companies.

Once these elements were characterized, it was decided to proceed and analyse the behaviour of the advertising expenses of the companies under analysis, initially through two fundamental variables: the continuity of the expenses and their amount. It should be made clear that the length also takes into account how frequently the campaigns are run; for example, a monthly length indicates that the campaign ran only for one month of the year, whilst an annual length indicates that it ran for the entire year.

Table 9. Behaviour of the length of advertising campaigns.

Type of company & economic activity		Length of the advertising campaign											
		Monthly		Bimonthly		Quarterly		Four-monthly		Biannual		Annual	
		Num	%	*Num*	%	*Num*	%	*Num*	%	*Num*	%	*Num*	%
Micro	Commerce	14	42	7	21	5	36	3	21	2	14	2	14
	Gastronomy	6	18	4	12	2	33	1	17	1	17	0	0
	Personal services	7	21	4	12	3	43	2	29	1	14	1	14
	Production	2	6	1	3	0	0	1	50	0	0	0	0
Small	Commerce	14	37	8	21	6	43	5	36	3	21	2	14
	Gastronomy	5	36	3	21	2	40	2	40	1	20	1	20
	Personal services	7	33	5	24	3	43	3	43	2	29	1	14
	Production	1	25	1	25	1	100	0	0	1	100	0	0

Table 9 shows the behaviour of the duration of the advertising campaigns by periods of the year. As can be seen, in general, in the MSMEs studied, they assume advertising expenses in a discontinuous manner and not stable over time. This behaviour was similar in both types of companies. Only 18 companies advertise with at least 6 months of the year and 7 of them throughout the year.

The results referring to the amounts of advertising expenses in the companies are summarized in Table 10. A cost was considered modest if it did not exceed $1,000 per year, and large if it exceeded $3,000 between the two amounts. As you can see, advertising expenses in more than 90% of companies do not exceed $ 3 000.00 per year.

Table 10. Volume of advertising spending.

Type of company & economic activity		Low		Medium		High	
		Number of companies	%	Number of companies	%	Number of companies	%
Micro	Commerce	22	67	8	24	3	9
	Gastronomy	9	64	4	29	1	7
	Personal services	13	72	5	28	3	17
	Production	2	67	1	33	0	0
Small	Commerce	25	66	9	24	4	11
	Gastronomy	9	64	4	29	1	7
	Personal services	14	67	5	24	2	10
	Production	3	75	0	0	1	25

To delve into the impact of advertising, the companies that showed an expenditure of more than $ 3 000.00 per year were selected. In these companies, the level of correlation between advertising expenses and income was studied. This analysis was carried out in two different ways: in the first, the advertising expenditure variable was correlated with the income variable during the 5 years, in the second, the advertising expenditure variable of the first year was correlated with the income of each of the 5 years and each year studied separately.

Table 11 shows the results of the correlation analysis between each of the years for one of the companies under study. In this particular case, it was the only one in which the available data allowed the analysis to be carried out over 7 years. As can be seen, in general, as the years increase, the correlations between advertising expenses and income tend to be more significant. In the same way, a correlation coefficient was found between advertising expenses and general income of 0.704 with a significance of 0.01.

Table 12 shows the behaviour of the correlation coefficient and the variables analyzed in the companies under study for 5 years. This table shows a behaviour similar to that described above for the rest of the companies, regardless of the type of company.

Table 11. Correlation of advertising expenses with income.

		I1	I2	I3	I4	I5	I6	I7
G1	Pearson correlation	0.368	0.429	0.579*	0.547	0.612*	0.612*	0.602*
	Sig. (Bilateral)	0.239	0.164	0.049	0.066	0.034	0.034	0.038
G2	Pearson correlation		0.431	0.577*	0.548	0.620*	0.620*	0.609*
	Sig. (Bilateral)		0.162	0.050	0.065	0.032	0.032	0.035
G3	Pearson correlation			0.553	0.517	0.544	0.544	0.547
	Sig. (Bilateral)			0.062	0.085	0.067	0.067	0.066
G4	Pearson correlation				0.557	0.526	0.526	0.528
	Sig. (Bilateral)				0.060	0.079	0.079	0.077
G5	Pearson correlation					0.485	0.485	0.480
	Sig. (Bilateral)					0.110	0.110	0.114
G6	Pearson correlation						0.772**	0.784**
	Sig. (Bilateral)						0.003	0.003
G7	Pearson correlation							0.841**
	Sig. (Bilateral)							0.001

Note: **. The correlation is significant at the level 0.01 (Bilateral).
*. The correlation is significant at the level 0.05 (Bilateral).

Table 12. Advertising expenses versus income in companies with high advertising expenses.

Type of company		Company	General	Años				
				I	II	III	IV	V
Micro	Commerce	A	0.38	0.40*	0.40*	0.44*	0.47**	0.51**
		B	0.43*	0.37	0.43*	0.58**	0.55**	0.61**
		C	0.41	0.38	0.37	0.46**	0.47**	0.52**
	Gastronomy	D	0.36	0.32	0.35	0.37	0.38	0.43**
	Personal services	E	0.42*	0.38	0.39	0.38	0.43*	0.48**
		F	0.44**	0.42	0.45**	0.46**	0.48**	0.47**
		G	0.35	0.37	0.43*	0.43	0.44**	0.45**
Small	Commerce	H	0.41*	0.40	0.39	0.44**	0.43*	0.44**
		I	0.31	0.27	0.29	0.31	0.32	0.33
		J	0.39	0.35	0.38	0.41*	0.44**	0.46**
		K	0.42*	0.38	0.41	0.42*	0.43**	0.47**
	Gastronomy	L	0.50**	0.48**	0.47**	0.52***	0.5*6	0.60****
	Personal services	M	0.44*	0.43*	0.43*	0.42*	0.4*	0.38
		N	0.39	0.36	0.41*	0.45**	0.44**	0.46**
	Production	O	0.42*	0.35	0.38	0.42**	0.43**	0.46**

Note: * Significant; ** Very significant; *** Highly significant.

Finally, an ANOVA analysis was carried out to evaluate the existence of significant differences between the variables including type of company, type of activity, advertising expenses versus the impact of advertising. The results can be seen in Table 13.

Table 13. Variable relationship test.

	ANOVA		Association Measure	
	F	**Sig.**	**ETA**	**ETA squared**
Impact * Type of company	0.494	0.483	0.059	0.003
Impact * Type of activity	0.589	0.623	0.111	0.012
Impact * Spending level	7.002	0.002	0.995	0.991

Note: * Statistically significant.

As can be seen, the type of company or the type of activity do not show relationships with the impact of advertising, but the relationship between the level of spending and the impact of advertising expressed in the level of income of verified companies.

5. Discussion and Conclusions

The observed results corroborate that the relationship between spending on advertising actions and their influence on income is not direct or immediate. It was found that in certain organizations where the level of spending on advertising is relatively high (considering the type of company) and continuously over time, there is a level of correlation between advertising spending and income. However, in organizations that do not meet these conditions, the influence of advertising expenses on the results are difficult to corroborate. These results coincide with those reported by Tucci and Tucker (1993). Similarly, despite having corroborated the existence of a level of correlation between advertising expenses and future income, the authors of this research coincide with Balasubramanian and Kumar (1990) and Balasubramanian and Kumar (1997) when they realize that there are many different factors influencing the income or sales margin, and it is impossible to say with certainty how much of each is due to the amount spent on advertising and promotion.

Another result that coincides with previous research is the predominance of the Internet as an advertising media over other communication channels (Cho et al., 2020; Feng & Liu, 2018; Sahni et al., 2019).

In general, it can be concluded based on the results achieved that the variation in income levels in organizations is caused by several factors of personal references, customer explorations and advertising actions. For this reason, the impact of advertising will only be expressed as a percentage (small according to the results achieved) of the variation in revenue.

Similarly, equation (3) can be used to express this fluctuation in advertising income as a percentage. According to the target audience, the relationship coefficient should depend on the amount spent on advertising, the consistency of spending over time, the caliber of the message, and the communication channels used. Variation in revenue from advertising = Coefficient * Advertising expenditure + C (3)

Where "C" would be the value of a constant in the equation of the correlation line that could change for each specific context.

5.1. Limitations and Future Research

This research did not distinguish between the quality of the advertising messages and the effectiveness of the selection of the media chosen for the messages. Similarly, it failed to establish values or coefficients of relationship between the correlated variables. The necessity to continue looking into these kinds of interactions is not entirely excluded, even though this effort cannot be solely relied upon the intended outcome.

From the developed research, a group of postulates to be observed emerge. The relationship between investments in advertising and income is not straightforward, although it is not entirely dismissible. The likelihood of observing a more substantial impact on income becomes higher as advertising expenditures increase and are consistently maintained over an extended period. The directors of the MSMEs must evaluate, according to their financial availability, their capacity to carry out advertising expenses and to maintain these for long periods of time.

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