TITLE PAGE

THE EFFECT OF ADVERTISING ON THE PRICE OF CONSUMER PRODUCTS

(A CASE STUDY OF SELECTED MANUFACTURERS IN KADUNA METROPOLIS)

PRESENTED BY

BEYIOKU **KOLAWOLE SAMSON**

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DECLRATION

I hereby declare that this project titled, THE EFFECT OF ADVERTISING ON THE PRICE OF CONSUMER PRODUCTS: A CASE STUDY OF SELECTED MANUFACTURERS IN KADUNA METROPOLIS has been written by me and thus the product of my effort. The best of my knowledge, no one has done a similar work at the time this project was being conducted. That all the sources of information not original to the study have been duly acknowledged by way of references.

....

BEYIOKU KOLAWOLE S. **DATE**

CERTIFICATION

This project entitled "THE EFFECT OF ADVERTISING ON THE PRICE OF CONSUMER PRODUCT": A CASE STUDY OF SELECTED MANUFACTURERS IN KADUNA METROPOLIS BY BEYIOKU KOLAWOLE SAMSON meets the regulation governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University Zaria, and is approved for its contribution to knowledge and literary presentation.

.....	31/10/99 .....
INTERNAL EXAMINER	DATE
.....	.....
EXTERNAL EXAMINER	DATE
Professor Usman A. Zakariya	
.....	31/7/00 .....
HEAD OF DEPARTMENT	DATE
.....	06/03/03 .....
DEAN, POSTGRADUATE SCHOOL	DATE

DEDICATION

Dedicated to my late loving father and my living loving mother.

ACKNOWLEDEMENT

I hereby acknowledge the abundance of the love of God, my creator and His increasing Grace shown to me, having sustained me this far. His divine care, protection and provision is beyond measure.

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ABSTRACT

Advertising and price are two variables that interplay to affect the buying decisions of consumers. While advertising informs consumers of product existence and its features, the cost associated with it can not be overlooked. This cost results in higher unit price for the product thereby creating "artificial" product differentiation.

Consumers, on the other hand, are price conscious when making their buying decisions, because the strive to attain maximum benefit from the purchased item at the least cost.

This study has, however, shown that while it is true that product differentiation leads to price competition with respect to consumer products, advertising does not necessarily increases the price of consumer products.

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CHAPTER ONE

1.1. INTRODUCTION

It has often been asserted that the political socio-economic values of any given society influence the effects of advertising to a great extent. The belief of many is that consumers must be insulated from the unfavourable economic effects at all costs. Any attempt to strengthen the firm's bargaining position has always being denounced without any objective look at the facts. For instance, the consumer might sought for advertising as a form of information, the manufacturers might advertise to enhance his position vis-a-vis the retailers, and the most cost-effective technique for communication in a competitive environment. Rather, the effects of advertising in a few highly visible product categories have been used as the model for all consumer products. In the words of Baver and Greyser (1967)

> "Statistical results have been misused and misinterpreted; and the business community, government regulators, economist, marketing researchers and consumer advocates have been engaged in a dialogue that never happens."1

1.2 STATEMENT OF RESEARCH PROBLEM

Considering the roles of advertising and pricing as the two variable co-operate to influence consumers' buying behaviour, the following research questions are raised:-

(1) Does the advertisement of consumer products significantly affect purchase decisions?

(2) Does the price of consumer goods affect purchase decisions?

(3) Does a good advertisement make a consumer less sensitive to the price of a product?

(4) Is advertising the most cost-effective device for wide spread communication with consumers and potential consumers?

(5) Does advertising by creating awareness of substitute products increase price competition among rival firms?

1.3 SIGNIFICANCE OF THE RESEARCH

The importance of this study will be better appreciated if one considers the huge sum of money and other company resources going to advertisement early due to the lull in market demand and the competitive nature of the global economy. It is therefore just appropriate at this time to justify the need for advertisement in the current dispensation.

1.4 OBJECTIVE OF THE STUDY

It is the broad aim of this study to show the impact of advertising on the price of consumer products. The study will also expatiate on the uses and advantages of advertising so as to reinstate the confidence of consumers in advertising who hitherto regard advertising as unwarranted expenditure.

In this regard, the views of the manufacturers and advertisers will be considered vis-a-vis those of the consumers on the influence of advertising on the price of consumer products.

It is also the objective of the study to see whether the high amount of company resources being expended on advertising is justifiable.

1.5 SCOPE AND LIMITATION OF THE STUDY

The study was restricted to manufacturers and consumers of consumer products and not other categories of products. Secondly, the questionnaires were administered on a

limited sample of selected manufacturers within Kaduna metropolis in the Northern part of the country

1.6 HYPOTHESES

(1) Advertising increases the price of consumer products.

(2) Product differentiation leads to price competition in the consumer product industry.

1.7 DEFINITION OF TERMS

(1) **Advertising**: The process of informing others of the existence and availability of a product and of creating a demand for the product. "Advertising is any form of non-personal presentation of goods and services or ideas for action openly paid for by an identified sponsor." Advertising is a marketing tool whose sole aim is to build preferences for advertised brands of services. It majors on superior performance on benefits that products can offer, on the special qualities of various brands (Chris. A. Doghudge).

(2) **Price**: The price of a product or service is a monetary value at which it is bought or sold.

(3) **Pricing:** Pricing on the other hand, is the process whereby a price is determined for a product or service.

(4) **Brand:** A word, phrase, or symbol attached to or referring to a good product line.

(5) **Brand loyalty**: Brands perceived by a group of consumers to offer the "best" combination and attributes will be purchased more often by that group of consumers.

(6) **Competition**: A market condition where there are very large numbers of products of a goods who serve very large numbers of consumers. No producer or consumer controls price.

(7) **Consumer products**: Goods sold to and used by the ultimate consumer.

(8) **Marketing Mix**: Combining product, distribution channels, pricing and promotion in the sale and distribution of goods.

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(9) **Market Segmentation** Certain groups of consumers with similar preference functions may perceive a subset of the total number of brands as being closer substitutes than the other brands.

(10) **Price in elasticity**: Consumers will be willing to pay more for the brands that come closest to offering a combination of attributes that correspond with their ideal brand.

(11) **Promotion:** To sell ideas to others.

FOOTNOTES

1. R. Baver, and S.A. Greyser, " The Dialogue That Never Happens", Harvard Business Review, 45 (November-December, 1976) p.2-14

CHAPTER TWO

LITERATURE REVIEW

2.1 HISTORICAL PERSPECTIVE OF MODERN MARKETING

Marketing is a crucial human invention. It embraces the activities we engage into satisfying economic needs and wants. Early in man's history it became clear that no household could be economically self-sufficient for long. Specialisation in production and the exchange of items produced with items needed were introduced. Thus marketing was born.

The 1970's and early 1980's have spelt hard times for most of the world's consumers and business firms. The 1973 oil crisis set of a round of further crisis, material and energy shortages, rampant inflation, economic stagnation, rising unemployment etc. These developments turned people from a mood of optimism to one of pessimism.

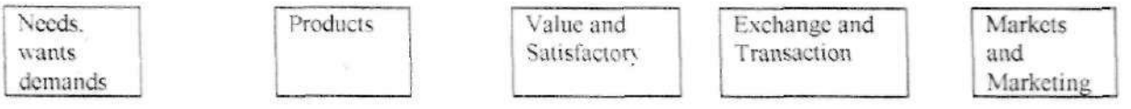
Throughout the 1960's, consumers in industrial nations enjoyed real gains in income and spent their money on a growing number of goods and services, new cars, television, foreign travels, higher education etc.

The succession of crisis starting in the 1970's robbed everyone of these dreams. Price shot-up, incomes stagnated, competition became keener, foreign goods invaded domestic markets and hurt domestic firms, bankruptcies mounted. Yet one fact stood out:

Human needs and wants abounded. Economic stagnation did not come out of satiety or the cessation of wants but out of failures of the world economic system to work. It halted and needed to be kicked into action again. The key to recovery could not rest alone on government adopting appropriate fiscal and monetary policies. Business firms had to do a better job of identifying strong needs, innovating better products and advertising and delivering them more efficiently so that consumers could afford them. In the past, too many companies saw the task as simply selling what they made. When customers interest flagged, these companies broadened their sales profile to try harder.

The answer in the long run is to monitor the customer's changing needs and wants and to adjust the company's products, services, method of distribution to the new needs and wants to the market place. This answer is called marketing philosophy. It is the difference between calling on a customer and saying, tell me what I can do to help you make or save money and achieve your objectives better. The sales approach is product centred, the marketing approach is consumer centred.

Thus, we can now define marketing as a social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.



While in most manufacturing organisations, all promotional function i.e. advertising, personal selling, publicity and sales promotion are handled singly by the

marketing department, in others where sales and marketing are considered as two different departments like in the case of Lever Brothers Nig. Plc, the marketing department handles only the research and development aspect while the sales department implements the research findings through promotion.

For any discussion on sales promotion to be complete, it is necessary to treat it side by side with all the other elements of the promotion mix stated above. This is more so because these promotional mix element are just a posed since none of them succeeds as a promotion without the influence of the others. It is in view of the above that sales promotion alongside with the other promotion mix is chosen to be discussed as seen by some authors in the marketing context.

The earliest evidence of man's attempts to communicate a visual message to his fellow men is that of the wall inscriptions and hanging signs used by Egyptians and subsequently by the Greeks and Romans. These signs were designed to communicate the simple and indisputable fact of man's trade. Such early visual communication and the subsequent advent of the printing press and the development of the art of communication during the last century clearly influenced the birth and growth of advertising.

Advertising has thus become one of the four major tools companies use to direct persuasive communication to target buyers and public. It consists of non-personal form of communication conducted through paid media under a clear sponsorship.

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The commonly heard consumer argument for why manufacturer advertising must raise the product price level is, "somebody must pay". The assumption is that if a company spends money to advertise its brands, it must be recompensed by a higher price to the consumer. No consideration is given to the other detriments of advertising level. Further, advertising is seen in isolation from the communications mix available to firms and the information mix available to consumers.

The commonly heard argument for why manufacturer advertising lowers the product price level is its ability to increase "market efficiency." Historically, the rise of mass transportation allowed for mass production and mass distribution. But for these to be successful, communication was the necessary antecedent (Chandler 1977).[3]

Of the available methods, advertising is regarded in the business community to be the cheapest ways of informing people to know about a product, the most efficient tool of manufacturers' mass markets that have many brands in each product category, and the most effective method for manufacturers to obtain distribution for their products. The price of a product must reflect its manufacturing and marketing costs as the most efficient marketing tools are employed.

> "It is always the case that advertised brands sell for more than their unadvertised counterparts, even allowing for any superiority in advertised brand quality. But this is simply an observation of the relative prices of different kinds of brands, which is quite consistent with the possibility that in the absence of advertising the absolute price of all brands in the category might be higher. And of course, many of the imitative private labels might not exist at all" (Steiner, 1973)[4]

2.2 WHAT IS ADVERTISING

Advertising has been variously defined. For the purpose of this research work, I shall adopt the one developed by the American Marketing Association (1960). The Association sees advertising as

> "... any form of non-personal presentation of goods and services or ideas for action openly paid for by an identified sponsor"[5]

To have a broader look at advertising, I shall take a look at three more definitions. Iyanda (1982) defines advertising as

> " part of the process of selling goods and services and it is basically used to try and improve company's sales, its profitability and its market share".[6]

Groome (1976) defines advertising as

> "a method of mass communication, combining economy, speed, control and responsibility".[7]

Crawford (1960) on the other hand sees advertising as

> "the art of persuading people to do frequently and in large number, something you want them to do".[8]

As long as the goal of the marketer is to market the product as efficiently as possible, advertising and pricing cannot be divorced from each other. While advertising promotes the product on one hand, pricing attempts to obtain an optimum level of product sales on the other hand.

The Marketing Controller of Lever Brothers Nigeria Ltd in 1986 defined pricing "as the process whereby a price is determined for a product or service". The price of a product or service is the monetary value at which it is bought or sold. Several factors influence the setting of price. These are:-

(1) **MARKET OR BRAND STRATEGY**: Low or high price positioning and profitability objectives.

(2) **COST**: The unit below which prices cannot fall without incurring losses, the importance of future costs vs today" prices and fixed vs variable cost relationship and volume;

(3) **SUPPLY vs DEMAND**: The economist's supply and demand curves, increase in the total supply forcing down price, and increase in the total demand forcing up price, and price elasticity of demand;

(4) **COMPETITION**: The price response to marketing forces and positive effort by competitors to get together and agree to a price.

(5) **CONSUMERS' REACTION**: Level of disposable income, position of product or service in the hierarchy of needs, reaction to price changes;

(6) **LEGAL CONSTRAINTS**: Price control, resale price maintenance, price surveillance, tariffs, import/export regulations;

(7) **THE ECONOMIC ENVIRONMENT**: Both short and long term.[9]

2.3 ADVERTISING AND PRICING

Communication is very necessary to inform the consumer on the potentials of the products and services the consumer is interested in having.

Most consumers in Nigeria are rather interested in the price of need with little additional attention on the price and non-price attributes of the products and services of need. Particularly in depressed economy as experienced world-wide currently the consumer is concerned with the value obtain per unit of Naira spent. It is therefore eminent that pricing policy relates well with advertisement for a sound economic consideration and consumer behaviour to be rational.

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Advertisement on an item of about N30,000 value will yield no result in an environment where the target group have a disposable income of about N4,000. It therefore appears reasonable to weigh the proposal for advertisement against price that can be affordable by targeted consumers.

For advertisement to be effective and successful the management of a firm must develop an innovative and result-oriented pricing strategy to meet prevailing economic situation

This is particularly so in a period of inflation with increasing cost situation.

All elements of price fixation particularly cost should be adjusted to reduce price to affordable level to make advertisement reasonable and effective with expected results.

Extra charge for services once included as part of the floor price, reducing the percentage of cash in quantity discounts inclusion of price escalators clauses in the long term contract. This provides for price increase in line with increase in the government index of consumer prices on wholesale price and so on without necessarily increasing product price directly.

However, in a period of economic boom the use of advertisement positioning a product as a quality and prestigious brand and low price will raise the doubtful perception of product quality by consumers.

The pricing policy adopted by an organisation must be in harmony with the message carried by the advertisement to ensure success.

2.4 EVALUATING ADVERTISEMENT EFFECTIVENESS

Evaluating the effectiveness of an advertisement is very necessary for designing and promoting an advertisement campaign. An advertiser should weigh the effectiveness and appropriateness in terms of location of posters, bills etc. as well as the mental and psychological disposition of the target group. Several other issues relating deliverance, perception and response are also considered to enable the advertiser win more patronage.

Evaluation of advertisement effectiveness has therefore assumed more scientific dimension in recent days.

Advertisement as a business therefore attracts a lot of skill by agencies involved due to its growing sophistication.

Advertising effectiveness is therefore measured through regular research means on the consumer behaviour and response to advertisement as a market mix element. These studies determine -

- Advert catch
- Advert retention potential
- Resultant response of advertisement

Series of such continuous studies are therefore necessary to ensure situational effectiveness of advertising.

Checklist of Unilver plan for Effective Advertising include the following principles:-

1. It must involve consumers
    - It gets and retains attention
    - It solves the consumers problem.
2. Must be consumer-oriented
3. Emphasises sales ideas
4. Emphasises persuasive strategies
5. Must be unique and competitive
6. Must be reliable
7. Must be clear and precisely detailed.
8. Specific with brand emphasis
9. Employ appropriate medium
10. Ensures sales

If the principles stated above are adhered to, then the advertising programme should be capable of achieving expected results.

2.5 BENEFITS OF ADVERTISING

Many different views are held by several schools of thought on the roles and benefits of advertising to the organisation. Some postulate that advertising helps to diminish the organisation's profit by increasing per unit cost of the product or service. They therefore propose that an already accepted and widely purchased items deserve no further advertising.

Contrarily marketers insist that advertising should not only be viewed to attract sales and increase profit and consumer per unit price but as an instrument for consolidation and survival of business. Also the product and service information assists awareness of real or expected potentials of the item both to users, and participants in such industries. The result is the capacity build-up in the industries of the advertised items. With the finally to mass production and high economies of scale.

For a product or service that have attained market saturation, advertising helps spread sales and ensure availability to consumers, force price down and bring about brand awareness and loyalty.

Others still argue against advertising being beneficial say it deceives the consumer to the benefit of the producer. In trying to review the economic models of advertising and

pricing one recognises differing assumptions of the influences of advertising on the price sensitivity of consumers.

The first model, advertising being equal to market power looks at advertising as persuasive communication tool use by marketers to be less sensitive to price and therefore increasing the firm's marketing power.

The second views advertising as information which increases consumer price sensitivity and stimulates competition among firms.

From the first model - Advertising as market power, advertising has been conceptualised as affecting consumer preferences, tastes changes product attributes as well as differentiates the products from competitive ones.

It is believed that firms isolated from market competition and rivalry, concentration increases the discretionary power of leaving firms. High profit from advertising marketed products give more incentives to advertisers.

The advertising as information model evolving from information model (Strigler 1961) postulates that such information informs consumers on product or service attributes but does not change the consumer behaviour to the items. Proponents of this model stress that since advertising serves to increase awareness and or item attributes the consumers needs to search for information on the products is reduced (Nelson 1974, 1975).

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Advertising increases information and knowledge on number of substitutes hence the price elasticity of demand while reducing price-cost margin. It also serves consumers by raising product variety thereby permitting firms to exploit economies of scale in production and distribution resulting in lower consumer prices. Consumers may become more price - sensitive and purchase "best value". The relationship between price and quality affects elasticity for any given product.

Advertising permits entry of new brand by communicating product attributes to consumers. Competitive offerings can be easily compared while competitive rivalry is increased. Efficient firms retain their position while inefficient ones leave permitting new entrants who facilitate innovations. Informed consumers pressure organisations to reduce their prices and improve quality.

Obvious effects on profit due to increased competition and operational efficiency is felt.

2.6 PRODUCT DIFFERENTIATION

Advertising enables the products and services in an industry to be differentiated by various means.

1. Description of products are made possible by product attributes or benefit offered to consumers.

2. These attributes differ from brand to brand.
3. Each consumer responses differently to various attributes.
4. All brands are not perceived by consumer as perfect substitutes. This implies they are differentiated.
5. Selection of brand is not specifically based on price.

EFFECTS OF ADVERTISING

Apart from product differentiation, increased brand loyalty and price elasticity of demand, new attributes are introduced into the industry's choice criteria mostly product attributes as claimed in advertisement cannot be measurable for effective assessment advert impact. Advertising influences the combination of attributes to be classified as ideal.

2.7 ADVERTISING AND COSTS

There are many strong arguments and empirical evidence that in certain cases, advertising contributes to economies of scale in the production and distribution of consumer products. However, it is not clear what the magnitude of these economies are for most products. Nor is it clear that existing products would lose substantial economies of production and distribution if advertising were diminished or discontinued. It seems likely that new products might not reach the sales levels necessary for these economies quickly, or a all, without advertising.

The supposition that advertising contributes to marketing or communications efficiency also has some empirical support. The strongest possibility for achieving

communications efficiency occurs at the market level and for broad shifts in distribution strategies. Advertising permits the unadvertised brand to take advantage of markets which advertising creates - markets which otherwise might not exist, or otherwise would take more time and money to develop fully.

Advertising, it has also been argued, reduces consumer search costs. Unfortunately, the evidence on the value of the reduced costs of consumer search has not been quantified - nor is it likely that it will be in the near future. Retail advertising also reduces prices to consumers through increased price competition.

Two economic models of advertising and price sensitivity have been reviewed. The first model, Advertising = market power, views advertising as a persuasive communications tool that marketers use to make consumers less sensitive to price and to increase the firm's market power.

According to this model, advertising affects consumer preferences and tastes, changes product attributes, and differentiates the product from other competing products.

Critics of advertising such as Vance Packard charge that "many of us are being influenced and manipulated far more than we realise, in the patterns of our everyday lives." Packard believes that scientific probing into subconscious motives have given advertising agencies unprecedented skill in moulding buyers thought processes and purchasing decisions."[1]

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Advertising is believed by some people to be too shrill, too persuasive, too all encompassing and too insistent. Some people like Raymond A. Baver (1967) dispute this position, point to the fact that people observe only few measures out of the thousands they are exposed to. Advertising, according to them is only one of the several influences on a person's behaviour.

Advertising is said to make consumers become brand loyal and less price sensitive, and perceive fewer substitutes for advertised brands. Steiner (19778) found that branded aspirin, such as "Bayer", which has been said to be physically identical to private label products selling at less than half the price, continues to hold more than 95% of the market. Aggressive advertising has helped build a toering reputation premium such that consumers are unwilling to purchase for lower priced generic substitutes of identical or virtually identical efficacy.

Advertising leads to "artificial" product differentiation which leads to increased prices. Unfortunately, there seems to be no single way to measure product differentiation let alone determine how much is excessive or attributable to the effects of advertising.

Although the literature provides no single operational definition of the phenomenon, the concept of product differentiation occupies a central position in theories of advertising's economic effects. Most studies focus on situations were advertising s presumably able to increase the perceived differentiation of physically homogeneous

products and enable highly advertised brands to command a premium price and, or enjoy high brand loyalty from consumers.

Firms with product that enjoy a high level of brand loyalty are insulated from market competition and potential rivals, leaving the firm with more discretionary power.

It is believed that lower consumer price sensitivity for observed brands having higher advertising intensity. This result suggests that consumers having brand preferences are also willing to pay higher prices for their preferred brands. Consumers feel that their choices are better than others and so they feel that higher prices are worth it. It has been evidenced that one can cause shifts in preferences and perceptual structures in favour of his product through advertising. In the short run, advertising increases the cost of goods advertised. This can be seen not to prevail in the long run. It has been proved to the public that advertising stimulates demand and practically compels the shopkeeper to stock the goods advertised.

2.8 ADVERTISING AND PRICE SENSITIVITY

Comanor and Wilson (1974) used multiple regression analysis with a short and long run measure of price elasticity. The long run measure was significant at the 5% significance level as long as profits were included as an independent variable. It should be noted that prices are sensitive to model specification and that the measure of price elasticity is with respect to industry-wide factory price.[15]

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Lambin's (1976) large-scale economitric study includes four simple regressions (four measures of advertising intensity) on a sample of 18 - 23 brands. The results contain one significant positive correlation between advertising intensity and price elasticity.

Schultz and Vanhonacker (1978) analyse 45 monthly observations on a frequently purchased branded goods. They were led to conclude that brand loyal customers are "more" price sensitive.[16]

Prasad and Ring (1976) found negative interaction between relative price and media exposure indexes. Higher retail prices were found to reduce the effectiveness of advertising.[17]

Wittink (1977) found a positive relationship between sensitivity of market share to relative retil price and concluded that advertising increases retail price sensitivity.[18]

When interpreting these studies, it should be emphasized that a relation between advertising and price insensitivity is not enough to infer that advertising causes price inelasticity. None of these studies control explicitly for advertising content. Advertising's impact on price should largely depend on the kind of advertising campaign undertaken. Some campaigns may inform consumers about prices, reduce their search and increase their price consciousness. An example of such a campaign might be one which "Datril" directed against "Tylenol". Shortly after this campaign was aired, "Tylenol" reduced its prices to "Datril's level.

Keeping these caveats in mind, we conclude that each of the two basic views of advertising has some degree of support from published empirical evidence. Some studies show that advertising decreases price sensitivity, while others report that advertising increases price sensitivity.

One encounters two separate difficulties when translating the findings on price sensitivity into conclusions about price levels or when doing empirical research on advertising and price levels.

First, marketers do not behave the way economic theory predicts: decreased price sensitivity is not necessarily translated into higher prices. Marketers must deal with many factors not incorporated into simple demand curves. One supermarket chain has been known to post signs on its shelves to warn consumers of price hikes that management considers unjustified. Obviously such real world complications intervene between concepts of price elasticity and the actual prices charged.

One might predict that manufacturers who succeed in reducing the elasticity of demand via advertising will raise their prices to increase profit. Nevertheless, it is not obvious that the increased ability to raise prices will lead to that outcome. Few firms are able to estimate the price elasticity of demand in their markets with any degree of precision, and rarely do they know what a profit - maximazation price would be. The

kinds of experiments required to establish price sensitivity accurately are expensive and unreliable.

2.9 HOW ADVERTISING INCREASES PRODUCT DIFFERENTIATION

Common assumptions about products and consumers are:-

1. Different brands possess varying amounts of these attributes.
2. Products can be described according to various product attributes or benefits provided to the consumer.
3. Consumers do not perceive all brands as perfect substitutes for each other.
4. Consumers differ according to their desire for various attributes.

Therefore, "product differentiation" is said to exist. Price is not the sole criterion for selecting a brand to purchase.

Both price insensitivity and brand loyalty could be created by any number of factors such as higher product quality, better packaging, favourable use experience, and market position. They are probably related to each other but may not be the result of advertising.

Moran (1978) reports that price inelasticity brand loyalty, and profit margins on sales are highly correlated, but does not detail the product categories studied nor the methodologies and measurements employed.[19] However, there is theoretically no reason why product differentiation could not lead to more price competition. If competitors feel that a leading brand has differentiated its product by advertising, they may cut prices to compete. The reaction need not always be to increase advertising. In fact Lambin (1976)

finds that rival brand advertising stimulates active competitive rivalry, firms respond by means of their own advertising as well as by price and quality adjustment.[20]

The second economic model of advertising and price sensitivity is that Advertising equal Information. This model regards advertising as informative, increasing consumers' price sensitivity and stimulating competition among firms. The model has been derived from the information theory (Stigler 1961).[21]

Rom J. Markin (1979) asserts that advertising informs and sells. Further, he enumerated the purpose of advertising as follows -

(a) To remind customers and potential customers
(b) To create awareness
(c) To presell products and ideas
(d) To reduce customer dissonance
(e) to reach a selected target audience
(f) To alert and sensitize all members of the marketing channels.[22]

But there is also a consensus that advertising confuses people by giving them a bewildering choice of items and claims. As a result of this, consumers usually end up making the wrong decisions. People do not know which of the much advertised brands are the best. Crawford (1960) feels that this is particularly true but is of the opinion that part of maturity is being able to make choices and one of the functions of advertising is to provide the kind of information necessary to help make a buying decision.[23]

Some of the experts are of the opinion that advertising informs consumers about product attributes and does not really change the way they value those attributes. Proponents of the Advertising equal Information model stress that because advertising serves to announce a product's existence and, or, major attributes, the consumer's need to search for information about the product is reduced (Nelson, 1974, 1975).[24]

According to Ornstein (1977), "By increasing information advertising increases the number of substitutes known to buyers thereby increasing price elasticity of demand and reducing price-cost margins ... Advertising serves consumers by increasing product variety and by permitting firms to exploit economies of scale in production and distribution - which in turn yields lower consumer prices."[25]

More explicitly this view holds that, "The worst, most frivolous advertising you can imagine at least tells the customer that there is a product of this type, what function it is expected to perform, in what kind of outlet it can be purchased, and so forth. And that is what breaks down product monopolies-announcing alternative supplies. From advertising, we learn where a product is sold, and we look; that leads to price competition, even if the price itself is not advertised." (Bork Solicitor General of the United States, 1979).

Advertising makes consumers more price-sensitive and buy "best value." Only the relationship between price and quality affects elasticity for a given product.

Advertising makes entry possible for new brands, according to the second model, because it can communicate product attributes to consumers. Advertising allows consumers to compare competitive offerings easily and competitive rivalry is increased. Efficient firms remain, inefficient ones leave, new entrants appear.

More informed customers put pressure on firms to reduce the price and improve the quality. Innovation is facilitated via new entrants.

Major criticisms of the Advertising = Information model revolve around the difficulty of presuming the consumer to be a perfect judge of the merits of competing brands. In particular, critics, question the assumption that consumers have well-informed rankings of desired product attributes which are unaffected by advertising. On the contrary, much of the consumer behaviour literature, suggest that advertising can be a powerful source in determining consumer choice criteria by,

(1) Influencing the attributes consumers consider important, and
(2) Introducing new product attributes into their set of choice criteria (Sheth 1974).

2.10 RELATIVE ADVERTISING LEVELS AND RELATIVE BRAND QUALITY

An early Federal Trade Commission (1933) study of canned fruits and vegetables in supermarket chains assessed relative quality and found a clear, strong, positive correlation between quality and advertising. "The chances of purchasing a high grade of canned goods could be greater when selecting at random from a group of advertised

brand." However, Cole et al (1985) and others looked at similar data (mostly "fancy" brands) with very mixed weak results.[26]

Telser (1964) argued that while advertised goods might have the same average quality as non-advertised goods, they vary less in quality. He cited some food categories as examples.[27]

Marquardt and McGann (1975), who studied 1,828 items in 131 product categories in 1973 concluded that while "the nature of the product brand (private vs national) is not significantly associated with differences in product quality, the products manufactured by heavy advertisers earn a disproportionately high number of good product ratings relative to products manufactured by firms that do not advertised heavily."[28]

Rotfeld and Rotzoll (1976) who studied 12 product categories with 14 sets of ratings, used two agencies measurement for 1973 and 1972, obtaining somewhat weak conclusions from their spearman rank correlation coefficients. "Do heavily advertised products tend to be of higher quality? On the basis of this study, the answer was, "possibly."[29]

Lambin (1976) used fairly objective criteria to measure the quality of 21 brands in 6 product classes in 7 countries. While he offered no direct results, he did offer estimates of a rival's reaction in its advertising budget to a firm's changes in product quality. The

interpretation is that a rival's advertising budget will decrease in response to a given firm's increase in product quality.

More recent evidence of Farris and Reibstein (1979) and Farris and Buzzel (1979), using the PIMS data base of business unit and the business' own assessment of quality relative to their major competitors, found a relationship to exist between advertising and quality, but not at any significant level, especially when price is taken into consideration.[30]

2.11 ADVERTISING AS PRACTISED IN NIGERIA

"There are two different ways by which organisations practice advertising. This could either be through the use of in-house advertising where the organisation sets up its own advertising department which takes care of all advertising activities including the developing of suitable advertisement for their promotional campaigns, booking space on air with media etc. This method however, is not common in Nigeria as most use the second method whereby the services of an advertising agency are employed. Where an agency is used there are some steps which are usually followed by the companies.

The advertiser first, makes sure that the product or service to be advertised is in existence and the benefits derivable from it known. Next, the brands marketing strategy is prepared which normally includes information about the market, that is defining the market class on income grouping members of home, strong or weak areas, distribution pattern, competing brands and so on. Other information that are included are the consumers aimed at, the brand information, competitive activities and information about

the company product group and brand, short term, long-term, national and regional objectives, the share of the market estimated over time, brand position aimed at and the level of patronage. Also, the strategy and tactics for achieving short and long-term objectives and the planned advertising budget.

Though, currently, there is a short supply situation in many product fields, yet we still have multifarious goods and services in Nigeria. Therefore, it is still very important that people are informed about the merits of these goods and services so that they can exercise one of the fundamental human rights, that is, freedom of choice. In this country, thousands of people including those in the remote riverine areas are reached instantly and simultaneously by a sales message from a radio station for less than N917 per 30 secs. Personal calls or customers, with the poor condition of the roads, the traffic jams and almost non-existent telephone system would run into much bigger costs.

Advertising has helped raise the standard of living of the people. Consider the home-made black soap that was used for washing and bathing in the fifties. Today, it has been replaced by hygienically manufactured toilet soaps and detergents.

Advertising has also helped improve the quality of locally manufactured goods. But for advertising we would not have been aware of the locally manufactured goods, and of the differences between them and their imported counterparts. Advertising, thus, forces our manufacturers to raise the standard of their goods so as to compete favourably with imported ones. And not so long ago, a Federal Ministry of Industry spokesman

emphasized the need to advertise to publicize the high standards now achieved by locally manufactured products

FOOTNOTES

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CHAPTER THREE

RESEARCH METHODOLOGY

The present study attempts to prevent an objective evaluation of the effect of advertising on the price of consumer products. It has reviewed arguments and empirical evidence published on both sides. The study emphasises the perspectives of there diverse groups, the economists, from where we take the basic model of the nature of competition in a market and the nature of a rational consumer's search for information. The consumer's who respond to what is important to them in terms of psychological satisfaction, and the manufacturers, who use advertising as a part of corporate strategies to maintain a differential advantage in the market place, support retailers, and tell consumers about their product.

ASSUMPTIONS

It is assumed that:

a. The respondents within the two sample categories have equal access to information.

b. The consumer' and the manufacturer' are representatives of the whole population of the study.

3.1 METHODS OF DATA COLLECTION

Three major means were to be used in the process of data collection, which are

i. Questionnaire

ii. Oral Interview

iii. Secondary Data

QUESTIONNAIRES

This techniques involves sending out questionnaires to collect information. The respondent fills in or answer the questions asked therein and sends back the questionnaire to the researcher. Questionnaire offer easy and inexpensive ways of obtaining information. It can be sent to several or a large number of people widely scattered at low cost so that the sample size may be increased considerably when the need arises. Further, the risk of bias and mistakes on the part of the interviewers is absent. It is generally a quicker means of collecting data and avoiding the respondent interviewer interaction which may lead to induce influence. It allows time for thoughts and reflections and consultations with others and avoid any embarrassment in answering questions of personal nature and such answers are more reliable.

The questionnaire of this research was designed to investigate whether or not advertising has impact on the price of consumer goods or products.

INTERVIEWS

This can be defined as soliciting information by the process of conversation between the interviewers and the respondent. Personal interviews are usually the best and are probably the most popular in survey.

The researcher envisaged that the sensitive nature of the topic may not permit respondents to express the full truth in the questionnaire. In the light of this short-comings, the interviews were to arguments the conduct of extensive research. While questionnaires may be subjected to misinterpretation depending on the perception of the

respondent, this could be minimised if oral discussions are held between the researcher and the respondent.

Beyond this generally accepted features, a wide range of views on the subject matter would be discussed that could be helpful in exposing certain truths that may both be covered by the questionnaire. Oral interviews are extremely powerful method of research when appropriately used.

SECONDARY DATA

The research exercise was started with the collection of secondary data from various relevant books in the library, publications, in journals, national newspapers and unpublished materials relating to the topic were carefully examined.

3.2 DATA ANALYSIS TECHNIQUES

At the end of the study the data collected was analysed using tabulations percentages and statistical computations (chi-square test) to support the findings and test the hypotheses. There were two analysis of the responses of the sample

a. Analysis of the responses of the consumer

b. Analysis of the responses of the manufacturers

Separate questionnaires were designed for the manufacturers and the consumer. The questionnaires for the manufacturers consisted of 19 questions and they differed from the questionnaire given to consumers in that they were academic. The questionnaire was designed to assess the responses of manufacturers to questions relating to advertising levels and price sensitivity. It covered questions relating to brand loyalty, product

differentiation, rival price elasticity, retail advertising, the advertising budget and the relationship between advertising levels and sales. It also tested the two economic models of advertising and price sensitivity, namely, advertising equal market power and advertising equal information.

The consumers' questionnaire consist of 19 question. It was divided into two parts as the manufacturers' questionnaires the first part asking the research oriented questions, and the second part asking for personal data. The questions were formulated in a comprehensive way, in simple language, to make it easy for the respondent to understand and answer. The questions were framed to probe individuals personal tastes, preferences, loyalties, attitudes and opinions about the products they buy as well as their buying patterns.

Both questionnaires had a mixture of both open and closes ended questions, although the letter were more in the manufacturers questionnaire.

There was no time limit; the respondents were given ample time to complete their questionnaire

3.3 POPULATION OF STUDY

The population of study consisted of 100 consumers and 15 manufacturers of consumer products in Kaduna.

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TABLE 1A

SAMPLE SIZE CONSUMERS **SAMPLE SIZE**

MANUFACTURERS

SEX	F	%
MALE	44	44
FEMALE	56	56
TOTAL	**100**	**100**

SEX	F	%
MALE	10	66.67
FEMALE	5	33.33
TOTAL	**15**	100

There was no sex discrimination. Both males and females were used as respondents. Minimum age of the respondents was 18 years with a minimum educational level of secondary school certificate and income of above N2000.

INCOME GROUP - TABLE II

SALARY PER ANNUM	F	%
BELOW 2000	16	16
2,000 - 5,000	10	10
5,000 - 10,000	36	36
10,000 - 20,000	24	24
20,000 AND ABOVE	14	14
TOTAL	**100**	**100**

3.4 CONSTRAINTS

In a study like this there cannot but be certain shortcomings of the method used Therefore, there are some of the problems encountered in using this particular methodology

Firstly, many members of the population were not ready to fill the questionnaires. Most of them felt that it was a waste of time more so, since the study was not of direct advantage to them. They has to be convinced about what the study was meant for and how much their co-operation would be appreciated

Secondly, some people look the questionnaires but never took the pains to fill or return the questionnaires. Out of those that were returned, many were not properly filled, and thus were unusable. Out of 200 questionnaires that were administered to consumers only 100 were completed and returned. Out of 30 questionnaires that were administered to manufacturers, only 15 were returned

In additional to these, the use of open- ended questions posed some problems some did not bother to answer and some wrote irrelevant things. It look some effort to separate the useful information from the total information supplied. Apart from this, there was the possibility of biased answers

FOOTNOTES

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CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 DATA PRESENTATION

INTRODUCTION

The data presented below are derived from questionnaires administered on consumers and manufacturers of consumer goods. The first six tables (3-8) represented the views of consumers while the other five tables (9-13) are those of the manufacturers sampled.

TABLE 3: FREQUENCY DISTRIBUTION OF MEDIA THROUGH WHICH WHICH ADVERTISEMENT IS NOTICED

Response Category	Frequency	Percentage
Television	35	35
Radio	5	5
Billboard	8	8
Newspapers	29	29
Magazines	14	14
Journals	9	9
Total	100	100

Table 3 explains the media through which respondents noticed advertisement of consumer goods.

Responses from consumers showed that the medium of advertising that is patronized mostly was found to be the television with 35%, followed closely by the newspaper with 29%. Then magazine, journal, billboard and radio had 14%, 9%, 8% and 5% respectively.

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TABLE 4 FREQUENCY DISTRIBUTION TO WHAT EXTENT ADVERTISING AFFECTS PURCHASE DECISIONS

Response Category	Frequency	Percentage
To a great extent	14	14
To some extent	50	50
To a little extent	36	36
To no extent	0	0
Total	100	100

There were four response categories, namely, 'to a great extent', 'to some extent', 'to a little extent', and 'to no extent'.

To a great extent, responses were 14%

To some extent, responses were 50%

To a little extent, responses were 36%

To no extent, responses were did not receive any patronage.

TABLE 5: FREQUENCY DISTRIBUTION AS TO WHAT EXTENTS DOES PRICE OF A PRODUCT AFFECT PURCHASE DECISION.

Response category	Frequency	Percentage
To a great extent	26	26
To some extent	54	54
To a little extent	12	12
To no extent	8	8
Total	100	100

The responses were as follows:- To a great extent, 26% of the consumers believed that the price of a product affected their purchase decision.

To some extent, 54% believed that this was true.

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To a little extent, 12% believed that it was so and

To no extent, 8% did not believe that price affected their purchase decisions at all.

TABLE 6: FREQUENCY DISTRIBUTION AS TO WHETHER ADVERTISING IS THE MOST COST-EFFECTIVE MEANS OF COMMUNICATION

Response category	Frequency	Percentage
Yes	80	80
No	20	20
Total	100	100

To which responses were 80% in the affirmative while 20% in the negative to if they agreed that advertising is the most cost-effective device for widespread communication with consumers and potential consumers.

TABLE 7: FREQUENCY DISTRIBUTION AS TO WHETHER ADVERTISING INCREASES PRICE COMPETITION

Response Category	Frequency	Percentage
Yes	66	66
No	34	34
Total	100	100

66% of the respondents agreed that advertising by creating awareness of substitute product increases price competition among rival firms. On the other hand, 34% of the respondents agreed to the contrary.

TABLE 8: FREQUENCY DISTRIBUTION AS TO WHETHER ADVERTISEMENT MAKES CONSUMERS PRICE SENSITIVE

Response Category	Frequency	Percentage
Yes	56	56
No	44	44
Total	100	100

56% of the respondents agreed that a good advertisement makes consumers less sensitive to the price of product while 44% respondents disagreed.

TABLE 9 FREQUENCY DISTRIBUTION AS TO WHETHER ADVERTISING IS THE MOST COST EFFECTIVE DEVICE FOR COMMUNICATION

Response category	Frequency	Percentage
Yes	100	100
No	0	0
Total	100	100

100% of the manufacturers felt that the most cost effective device for communication in a world of mass marketers is advertising while none of the respondent felt otherwise

TABLE 10: FREQUENCY DISTRIBUTION AS TO KNOW PRODUCT DIFFERENTIATION LED TO PRICE COMPETITION

Response category	Frequency	Percentage
Yes	68 67	68 67
No	31.33	31.33
Total	100	100

68 67% of the respondent agreed that product differentiation led to price competition among rival firms and 31.33% respondent disagreed to the above.

TABLE 11 FREQUENCY DISTRIBUTION AS TO WHETHER ADVERTISING INCREASES AWARENESS OF SUBSTITUTES FOR A PRODUCT

Response category	Frequency	Percentage
Yes	100	100
No	0	0
Total	100	100

100% of the respondents seemed to agree that advertising, by increasing the awareness of substitutes for a product led to increase in price elasticity of demand and reduced price cost margin. None of the respondents held a contrary view.

TABLE 12: FREQUENCY DISTRIBUTION AS TO WHETHER BRAND LOYAL CUSTOMERS ARE MORE PRICE SENSITIVE

Response category	Frequency	Percentage
Yes	40	40
No	60	60
Total	100	100

40% of the manufacturers accepted the fact that brand loyal customers are more price sensitive while 60% of the manufacturers agreed otherwise.

TABLE 13: FREQUENCY DISTRIBUTION WITH REGARDS TO WHETHER HIGHER RETAIL PRICES REDUCE THE EFFECTIVENESS ADVERTISING

Response category	Frequency	Percentage
Yes	63.33	63.33
No	36.67	36.67
Total	100	100

63.33% of the respondents believed that higher retail prices of consumer goods reduce the effectiveness of advertising. The remaining 36.67% held a negative view on the above issue.

4.2 TESTING THE HYPOTHESES

1. H1: Advertising increase the price of consumer products. This hypothesis requires a one-tailed test and the critical region is to one side of the distribution with the area equal to the level of significance.

RULE OF THUMB

Expected frequencies are computed on the basis of hypothesis Ho. If under this hypothesis the computed value of x2, given by the equation

$$X2 = \frac{(Of - ef)2}{ef}$$

where:

Of	=	observed frequencies
ef	=	expected frequencies
x^2	=	chi square

Is greater than the critical value x^2, it would then be concluded that the observed frequencies differ significantly from expected frequencies and would therefore reject 111 at x^2 0.95) x = 0.05 critical value otherwise, the hypothesis Ho would be accepted or at least not rejected

Observed frequency

Answer	Observed frequency
Yes	66
No	34
Total	100

Expected Frequency

Answer	Expected frequency
Yes	50
No	50
Total	100

Calculation Of X^2

of	ef	of-ef	(of-ef)2 / ef
66	50	16	5.12
34	50	-16	5.12
		Total	10.24

Degree of freedom = (c - 1) (r - 1)
where

c = number of columns
r = number of rows

∴ (2 - 1) (2 - 1) = 1
x2 0.95 at 1 degree of freedom is 3.84

Since the computed value of x2 is greater than the critical value x2 0.95 at 1 degree of freedom, it would then be concluded that the observed frequency differs significantly.

From the expected frequency and thus the alternative hypothesis **H1**, will be rejected.

2. Ho: Product differentiation leads to price competition in the consumer products industry.

   Hi: Product differentiation does not lead to price competition in the consumer products industry

Observed Frequency

Answer	Observed frequency
Yes	10
No	5
Total	15

Expected Frequency

Answer	Expected frequency
Yes	7.5
No	7.5
Total	15

Calculation Of X^2

of	ef	of-ef	(of-ef)2 / ef
10	7.5	2.5	0.83
5	7.5	-2.5	0.83
		Total	1.66

x^2 0.95 at 1 degree of freedom is 3.84 since computed value of x2 is less than the critical value x^2 0.95 at 1 degree of freedom, it would then be concluded that the observed frequencies do not vary significantly from the expected frequencies and thus the alternative hypothesis Hi is accepted.

On the basis of a test of significance we have rejected Hypothesis 1 that says - Advertising increases the price of consumer products' at = 0.05 significance level, that is, we could say that such an event could happen with the probability of only 0.05 or only 5 times out of 100 times if the given hypothesis was true.

In the case of hypothesis 2 the obtained value of x2 is less than the expected value of x2 at = 0.05, hence the hypothesis that product differentiation leads to price competition in the consumer product industry is accepted, that is, such an event could happen 95% of the time if the given hypothesis was true. We can conclude from the results, assuming that hypotheses are true, that more often than not, advertising does not increase the price of consumer products, and product differentiation leads to price competition in the consumer products industry.

4.3 INTERPRETATION OF DATA

The analysis of the research findings revealed the following facts that are characteristics of the effect of advertising on the price of consumer products.

It was discovered that most Nigerians take note of advertisements. This is to say that advertising in Nigeria on the whole, has partially succeeded in its function. It has

drawn attention and created interest among existing or potential consumers of consumer products. Therefore it may be inferred that consumers regard an advertisement as that which has something to offer them, like more information about a new, or existing product or service

The most popular medium of advertising was found to be the television, followed closely by the newspapers. The magazines, journals and billboards came in between, and very few listened to advertisements on the radio. Keeping the income close range chosen for the study in mind, one can say, that, most of the consumers who formed the sample of the study, were probably those owning television sets, and hence watched a lot of television. The sample also, perhaps, were mostly working men and women with busy careers that allowed them enough time to read newspapers but not enough time to browse through magazines and journals, or even listen to the radio.

When asked to rank in order eight given choices, the factors that influenced their purchase decision, most consumers marked advertising as fifth. This finding was supported by the findings of a later question which revealed that advertising affected the consumers' purchase decision only to a "little extent."

The factor that was ranked the highest value out of eight was "product quality." It is clear that consumers do not see any relationship between level of advertising and product quality. This conclusion is supported by two later findings. The first instance is where consumers were asked if they would purchase such consumer products as

detergents, coffee and tea, soft drinks and toothpaste, majority said "yes" only in the case of cosmetics, did they think otherwise, and their answers were mostly "No". The second instance is where they were asked if they believed that an advertised product is of better quality than an unadvertised product and the majority did not think so.

The finding of this study goes against the findings of some earlier researchers who tried to assess the relationship between relative advertising levels and relative brand quality such as FTC (1933), Telser (1964), Rotfeld and Rtozoll (1976) and Farris and Reibstein (1979).

An early Federal Trade Commission (F.T.C) study of canned fruits and vegetables found a clear, strong, positive correlation between quality and advertising.1 Rotfeld and Rotzoll based their study on twelve product categories, to the question "do heavily advertised products tend to be of higher quality" they were answered with a "possibly."2

Telser argued that while advertised goods might have the same average quality as non-advertised goods, they vary less in quality.3

Reibstein and Farris, and Buzzel and Farris found a relationship to exist between advertising and product quality, but not at any significant level, especially when price is taken into consideration.4

Lambin, on the other hand, found that based on his research a rival firm's advertising budget will decrease in response to a given firm's increase in product quality. The findings of the questionnaire administered to manufacturers revealed that advertising, by stimulating rival competition, did not necessarily lead improvements in product quality.5

Marquardt and McGann (1975) found that products manufactured by heavy advertises earn a disapproportionately higher number of good ratings relative to products manufactured by firms that do not advertise heavily.6

When consumers were asked, to what extent the price of a product affected their purchase decision most of them answered by saying "to some extent." In an earlier question they ranked "price" 2nd out of 8 criteria that could be used in making a purchase decision. We also learnt that product quality came before price when ordering the criteria even in these times when per capita income is steadily on the decline and the economy is ridden with inflation. Perhaps, that is the very reason why customers are very choosy and fussy; they would like to ensure that their hard-earned money gets the best buy. Therefore, the buyers market continues to exist.

Most consumers felt that advertising affects the price of the advertised products that they buy. They also felt that advertising increases the price they pay for the products they buy.

There are man strong arguments and empirical evidence that in certain cases, advertising contributes to economies of scale in the production and distribution of consumer goods and services. It also seems that new product might not reach the sales levels necessary for economies of scale as quickly, or at all, without advertising. However, most manufacturers, felt that sales increased less than proportionately to the advertising budget, in the present research.

Advertising, it has also been argued, reduces consumer search costs. Retail advertising also reduces prices for consumers through increased price competition. However, Prasad and Ring (1976) found that higher retail prices reduce the effectiveness of advertising.7

Thus, without advertising, the consumer will perhaps be paying more for the products he buys due to increased marketing costs.

Both manufacturers and consumers agreed in majority that advertising is the most cost-effective device for communication in a world of mass marketers. The supposition that advertising contributes to marketing or communications efficiency also has some empirical evidence. Advertising permits an unadvertised brand to take advantage of markets which advertising creates. Markets which otherwise might not exist, or otherwise would take more time and money to develop fully. There is support of this fact in the research finding.

According to Ornstein (1977), who believed in the advertising equal Information model, by increasing information, advertising increases the number of substitutes known to buyers thereby increasing price elasticity of demand and reducing price cost margins. He also stated that advertising serves consumers by increasing product variety, and by permitting firms to exploit economies of scale in production and distribution which in turn yields lower consumer prices.8

The above model results in better informed customers who put pressure on firms to lower prices and improve quality.

From the research finding of this study, it seems evident that a marginal increase in the advertising budget does not necessarily affect the price of the product as mostly advertising costs are absorbed as administrative overheads. Advertising costs generally make up only 10 - 15 percent of the total costs of the product.

On an average, more advertising makes consumers less sensitive to changes in the prices of products.

The above finding is in keeping with the economic model of advertising and price sensitivity that states that "Advertising equal market power, which views advertising as a persuasive communications tool that marketers use to make consumers less sensitive to price.

According to Vance Packard, "many of us are being influenced and manipulated for more than we realize, in the patterns of our everyday lives. "He has gone on to state that scientific probing into subconscious motives has given advertising agencies unprecedented skill in moulding buyers thought processes and purchasing decisions.9

Advertising is said to make consumers more brand loyal and less price sensitive by influencing preferences and tastes, changing product attributes and by differentiating the products from competitive offerings.

Most manufacturers felt that brand loyal customers are less price sensitive. This finding was supported by majority of consumer who confessed that in the case of certain product or product brands to which they owed their loyalty, a price increase will not change their buying behaviour.

Steiner (1978) found that branded aspirin, such as "Bayer" enjoyed 95 percent share of the market as compared to private label products, that were physically identical and sold at half the price.10

Advertising leads to "artificial" product differentiation which leads to increased product prices Studies have shown how advertising is presumably able to increase the perceived differentiation of physically homogeneous products and enable highly advertised products to command a premium price and, also enjoy high brand loyalty from consumers.

Lambin (1976) found a negative correlation between advertising intensity and price elasticity at the 5 percent level of significance.11

Moran (1978) found that price elasticity, brand loyalty and profit margins on sales are all highly correlated.12

However, Schultz and Vanhonacker (1978) choose to differ. Based on their findings, brand loyal consumers were more price-sensitive.12

The findings of the above research are aimed at finding a relationship between advertising intensity and the price of consumer products. The two hypotheses that were tested revealed that advertising does not increase the price of consumer products, and that product differentiation leads to price competition in the consumers products industry.

Thus, it can be said that two opposite forces are at play, the one, where, advertising, by contributing to economies of scale and stimulating price wars among rival firms, can cause prices to drop, and the other, where, advertising, by creating "artificial" product differentiation can enable highly advertised brands to command a premium price.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 SUMMARY

This study has expounded on the effect of advertising on the price of consumer products. It has shown the interrelationship of advertising and cost.

The findings of the research revealed that there is a high level of awareness of advertisements among Nigerians. In essence, advertising on the whole has partially succeeded in its function. It has drawn attention and created interest among existing or potential consumers of products. Hence, it can be concluded that consumers regard advertisement as that which has something to offer, like more information about a new or existing product and service.

The study revealed that the most popular medium of advertising consumer products was television. This was followed closely by the newspaper. The magazines, journals, billboards came in between, and very few people listened to advertisement over the radio. Keeping the income close range chosen for the study in mind, one can say that most of the consumers who formed the sample of the study were probably those owning television sets, and hence watched a lot of television programmes. The sample also, perhaps, were mostly working men and women with busy careers that allowed them

enough time to read newspapers but not enough time to browse through magazines and journals even listen to the radio

5.2 CONCLUSIONS

Based on the findings of this research, advertising does not increase the price of consumer products. However, product differentiation through advertising increases price competition among firms. Thus, the study revealed an interplay of two antagonistic forces in the consumer product industry.

Based on the answers to the research questions, it was discovered that advertising affects the purchase decisions of consumers only to some extent. Price of the product plays a more important role in the process.

Most consumers felt that good advertising made a consumer less sensitive to the price of a product, especially, in the case of those products they were loyal to.

It was also disclosed that advertising, by creating awareness of substitute products, increased price-competition among rival firms.

Advertising, the majority acclaimed, is the most cost effective device for wide spread communication with consumer and potential consumers.

5.3 RECOMMENDATION

It appears from the findings of the study that although, consumers believe that advertisements have something to offer them in the form of information as regards a product or service, which is clearly indicated by the fact that all those tested claimed to take note of advertisements, they still believe that marketers are using advertising as a tool to manipulate and trick them into making buying decisions that would ultimately increase their market power. This scepticism could perhaps be reduced if manufacturers of consumer products re-examine their advertisements, and sought to analyze them in terms of the amount of useful information given about their products to the users. They may use the checklist given earlier in the chapter on literature Review to analyse the effectiveness of their advertisements so that it means much more than a display of visual effects of lour and music.

Advertisements should also be realistic. If something is too fantastic or not supported by hard facts, the consumer will tend to think that he is being fooled. A realistically made advertisement that shows the actual benefits of using the product, that also justifies the price, or the change in price of the product, is much better appreciated by the consumer.

When making an advertisement, both the manufacturer's and the consumers interests must be considered before it can be effective in achieving its purpose.

SUGGESTIONS FOR FUTURE RESEARCH

Advertising is an admittedly sensitive subject. Frequently social and political values of the times have blocked responsible commentary. Too many different languages and concerns have kept the state of published research at a surprisingly low level. It is hoped that the following suggestions will promote some useful and much needed research:-

1. **Relative Prices: Putting the data together**

Industrial organisation economists have concentrated on causes and effects at the manufacturing level, and to a great extent, on the effect of advertising on profitability. Marketers have mostly been concerned with the consumer price level and differences due to the nature of the product, consumers and the like. The questions asked have also been quite different since the relevant concerns are public policy on the one hand, and business management on the other. By bringing together these two sets of data, research on the relationship of advertising to the spread of retail prices could likely be improved. Furthermore, some unpublished propriety studies might exist, release of some of these data even in disguised form, could be invaluable.

2. **Absolute Price Level: Establishing Bench Marks in Micro-economic Experiments**

To answer the question of the effect of manufacturer advertising on the absolute price level of a product category, we could ideally take a market with no advertising, advertise, and see what happens. Unfortunately, there are many practical obstacles to this approach, including finding such a market.

However, by the use of historical data we may be able to approximate this experiment. Steiner (1978), for example, examined the bicycle industry and demonstrated how advertising reduced consumer price.

Another indirect method of approaching the question of absolute price level is to use cross-national comparisons as a benchmark for price level. In particular, it has been found that the richer a country, the more is spent proportionately on advertising (Simon, 1970). Careful market comparisons can be made between different countries for example, developed versus undeveloped, but it must be kept in mind that other differences in the markets (supply or demand conditions) can also cause the relationships discovered.

Also, simulation studies such as Bloom (1976) present excellent possibilities for directly measuring the effect on retail price of taxing, limiting, or eliminating advertising in a mature product category (in Bloom's case, the nutritional international sub-market of the ready-to-eat breakfast cereal industry). The results are very sensitive to the model specification, and the computer costs can be substantial. However, simulation studies do offer the possibility of establishing standards for comparison under given assumptions in particular product market.

Another interesting simulation analysis was done by Dolrajswamy, McGuire and Staelin (1979). They analysed various outcomes of advertising levers, wholesale prices, and retail prices for the case of a duopoly market that distributes through exclusive

retailers. Although, they concluded that manufacturer advertising raises retail price, the generalisability of the results is reduced by the assumption that retailer and manufacturer advertising is substitutable and that costs do not vary with volume.

3. An expanded model of the retailer's role

Research is also needed on specific brand and market situations, the role of the retail sector, and the incentives to the manufacturer to advertise. Policy makers must likewise develop a better understanding of vertical marketing relationship.

Ideally, a theoretical model of competition at the retail level could be developed to aid study of these vertical relationships. Even the Steiner model posits a fairly simplistic view of the retailer as such from the manufacturer's vantage point. The retailer distributes products and sometimes competes with the manufacturer via private labels. Understanding the reasons for the emergence of chain stores and private labels in some product categories and not others, would be one use of such a model.

With an expanded model of the retailer's role, we hope that models of advertising can elucidate the situations where manufacturer advertising raises or lowers the consumer price for a product category. The next step will be to determine which product categories have those properties at a particular time. Well controlled cross-sectional empirical tests, such as some examining the relationship between manufacturer advertising and gross margins, would be beneficial. Only then will public policy be able to speak out responsibly on the effect of manufacturer advertising on consumer prices of products.

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Questionnaire for products consumer

(1) Do you take note of Advertisements?
Yes ..... No:.....

(2) If "Yes" to above, which type: Television:....., Radio:.....,
Billboard:....., Newspaper: ....., Magazines:....., Journal:.....

(3) What makes you buy the specific brand of consumer goods, example: Detergents, Beverages, Toilet Soap, Tooth paste, Margarine"
(i) The product has utility
(ii) The advertisement:.....
(iii) The product's quality.....
(iv) The product's price .....
(v) The product's attractive packaging .....
(vi) Everybody uses it
(vii) It comes along with a free gift, or a promise of good things to come
(viii) It boost your ego

(4) To what extent does advertising affect your purchase decision?
(i) To a great extent
(ii) To some extent
(iii) To a little extent
(iv) To no extent

(5) To what extent does price of a product affect your purchase decision?

(i) To a great extent
(ii) To some extent
(iii) To a little extent
(iv) To no extent

(6) Would you be aware, purchase and consume the following product without advertised"
(i) Detergents: Yes ..... No .....
(ii) Coffee/Tea Yes: ..... No: .....
(iii) Cosmetics: Yes: ..... No: .....
(iv) Soft drinks: Yes: ..... No: .....
(v) Tooth Paste Yes: ..... No: .....

(7) Do you think advertising increases the price you may pay for a product?
Yes ..... No:.....

(8) Do you think advertising affect the price of product?
Yes: ..... No:.....

(9) Would you agree to the statement that advertising is the most cost effective device for wide spread communication with consumers and potential consumers?
Yes:..... No: .....

(10) Would you buy a consumer product that is not advertised?
Yes: ..... No: .....

(11) Do you think advertising by creating awareness of substitute products, increases price competition among rival firms?
Yes: ..... No: .....

(12) Does a good advertisement, make consumer less sensitive to a change in the price of a product?
Yes:..... No:.....

(13) Do you believe that an advertised product is of better quality than an unadvertised product?
Yes: ..... No:.....

(14) Are you loyal to particular brand of consumer products to the extent that a price increase in those products will not change your purchase behaviour?
Yes:..... No:.....

(15) What is your age?
(i) Below 20 years
(ii) 20 to 30 years
(iii) Above 30 years

(16) What is your occupation?.....

(17) What is your educational qualification?
(i) School certificate
(ii) NCE
(iii) OND
(iv) HND
(v) B.Sc
(vi) MBA
(vii) Ph.d
(viii) Other specify .....

(18) Sex: Female: ..... Male:.....

(19) Please tick your appropriate income tax

(i) Below N2000 per annum
(ii) N2000 to N5,000 per annum
(iii) N5,000 to N10,000 " "
(iv) N10,000 to N20,000 "

Questionnaire (Manufacturers)

(1) Do you agree that advertising is the most cost effective device for communication in a world of mass marketers?

Yes:..... No: .....

(2) Which school of thought do you agree with

(i) Advertising - Information, where advertising is regarded as informative, increasing consumer awareness and hence his price sensitivity, and stimulating competition among firms.

(ii) Advertising - Market power, where marketers use advertising to increase the firm's market power.

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(3) Can product differentiation lead to price competition?

Yes:..... No:.....

(4) (i) Should manufacturers counter increase in rival brand advertising by a price cut?

Yes:..... No:.....

(ii) Why:----------

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(5) Does advertising by increasing the awareness of substitutes for a product lead to increase in price elasticity of demand and reduced price cost margins?

Yes:..... No:.....

(6) Does advertising necessarily lead to product improvement by stimulating rival competition?

Yes:..... No:.....

(7) Should brand loyal customers be more price sensitive?

Yes: No

(8) Is there a negative relationship between advertising intensity and price elasticity of a product?

Yes No

(9) Do you increase advertising budget for reasons other than for increasing sales?

Yes No

(10) If "Yes" to question 9, for what other reasons?

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(11) Do higher retail prices reduce the effectiveness of advertising?

Yes No

(12) What relationship have you observed between level of advertising and sales volume in your industry?

(i) Sales increases proportionately to the advertising budget:.....

(ii) Sales increases more than proportionately to the advertising budget:.....

(iii) Sales increases less than proportionately to the advertising budget:.....

(13) Does advertising increase the market share of the company?

Yes No

(14) What percentage of the total production cost does advertising occupy?----------

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(15) (i) Is there any cause to believe that advertising can sometimes help lower the price of goods and services?

Yes No

(ii) If "Yes" why do you think so?

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(16) What is your age?

(i) Below 20 years

(ii) 20 to 30 years

(iii) Above 30 years

(17) What is your occupation?----------

(18) What is your educational qualification?

(i) School certificate

(ii) NCE

(iii) OND

(iv) HND

(v) B.Sc

(vi) MBA

(vii) P.hd

(viii) Others - specify----------

(19) Sex: Female ---------- Male ----------

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