ADVERTISING DECISIONS IN SMALL BUSINESSES- NEED FOR NEW DIRECTIONS

by

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In a recent review article on the subject of advertising and promotion for small businesses, Brennen¹ posed this question. "Why has so little research and writing been done on this very important subject?" He later suggested a list of topics for research that include an examination of advertising budget decisions and their allocation methods. Several explanations might be offered for this lack of research on such important decisions as advertising in small businesses. They include: (1) they are not major decisions for small businesses worth researching, (2) the advertising budgets are very small in small businesses and that no research on this topic will have any impact on the performance of the firms, (3) small businesses are no different from large businesses and hence no separate research is required. A careful analysis of these explanations shows that none of them are valid. Irrespective of the size of a firm or the size of the budget, advertising is an important function that is expected to have an impact on the sales volume. In addition, small business needs and strategies are quite different from those of larger businesses. In addition to the size of operations and budget, small businesses differ from larger firms on major target market characteristics that include the boundaries of the trading area and customer feelings and shopping behavior towards small businesses. Consequently, the necessity or relevance of different media options for advertising are expected to be significantly different. Suffice it to say that advertising decisions are important enough for small businesses and deserve careful investigation and yet it has been ignored in the past.

The main purpose of this study is to examine the methods used for setting advertising budgets in small businesses. A secondary purpose is to ascertain the attitudes of the decision makers on the importance of advertising budget.

Methodology and Results

Small businesses operating in the Chicago area were randomly selected for this study from the yellow pages. A local marketing research firm was contracted to conduct the telephone interviews with key executives responsible for advertising decisions in the firms. There were four hundred usable responses. The first question asked by the interviewer pertained to the identification of the executive responsible for advertising decisions in the firm. Call-backs were made until the appropriate person was contacted. Tables 1, 2, and 3 provide the descriptive statistics on the firms in this study.

The first substantive question asked related to the identi-

Table 1

Firms Classified by Size of
Annual Advertising Budget

	<u>Number</u>	<u>Percentage</u>
Less than \$2600	179	45%
\$2600 - \$3900	64	16
\$3901 - \$6500	50	13
More than \$6500	88	22
Response refused	<u>19</u>	<u>4</u>
	400	100%

Table 2

Firms Classified by Type of Business

	<u>Number</u>	<u>Percentage</u>
Food	68	17%
Automotive	61	15
Financial	39	10
Real Estate	58	14
All Others	<u>174</u>	<u>44</u>
	400	100%

Table 3

Firms Classified by Length of Time in Business

	<u>Number</u>	<u>Percentage</u>
Less than one year	18	4%
1 - 5 Years	112	28
6 - 10 Years	67	17
Over 10 years	<u>203</u>	<u>51</u>
	400	100%

fication of the method their firm used to determine the advertising budget. These results can be found in Table 4.

The most popular method for setting the advertising budget in small firms seems to be the least sophisticated and the most unsound method - Affordable Method. It is not to say that this method is not used by larger firms. We can recall the following explanation of this method: "Why it's simple. First, I go upstairs to the controller and ask how much they can afford to give us this year. He says a million and a half. Later, the boss comes to me and asks how much should we spend and I say 'Oh, about a million and a half.'"² But unlike the results of this study, this is not the popular method used for setting the advertising budget in larger firms. The percentage of sales method and the task method are the most commonly used methods in larger firms.³ And further analyzed, it is found that the

method of setting advertising budget does not vary with the type and the longevity of the business as shown in Tables 5 and 6.

Table 4

Method Used to Determine the Advertising Budget

	<u>Number</u>	<u>Percentage</u>
Percentage of Sales Method	75	19%
What the Company Can Afford	192	48
Match or Beat Competition	25	6
Task Method	52	13
All Others (Arbitrary, Don't Know)	<u>56</u>	<u>14</u>
	400	100%

Table 5

Budget Classified by Type of Business

	<u>Food</u>		<u>Auto</u>		<u>Financial</u>		<u>Real Estate</u>		<u>A l l Others</u>	
Percentage of Sales Method	11	17%	11	18%	2	5%	16	28%	35	20%
What Company Can Afford	37	54	29	48	13	33	24	42	89	51
Match or Beat Competition	6	9	4	6	3	8	2	3	10	6
Task Method	7	10	6	10	15	38	8	14	16	9
All Others	<u>7</u>	<u>10</u>	<u>1</u>	<u>18</u>	<u>6</u>	<u>16</u>	<u>8</u>	<u>14</u>	<u>24</u>	<u>14</u>
	68	100%	61	100%	39	100%	58	100%	174	100%

Table 6

Type of Budget Classified by Length of Time Firm Has Been in Operation

	<u>Less than 1 year</u>		<u>1-5 years</u>		<u>6-10 years</u>		<u>Over 10 years</u>	
Percentage of Sales Method	0	0%	19	17%	10	15%	46	23%
What Company Can Afford	12	67	59	53	35	52	86	42
Match or Beat Competition	0	0	9	8	4	6	12	6
Task Method	4	22	17	15	6	9	25	12
All Others	<u>2</u>	<u>11</u>	<u>8</u>	<u>7</u>	<u>12</u>	<u>18</u>	<u>34</u>	<u>17</u>
	18	100%	112	100%	67	100%	203	100%

The study further examined two important attitudes, one philosophical and the other strategic. Management, particularly the executives responsible for advertising, must consider advertising

an investment as opposed to an expense even though it may be treated as an expense for tax purposes.

We asked the respondents if they agreed or disagreed with the statement that advertising should be considered an expense rather than an investment. The results are as follows:

Table 7

Advertising is an Expense, Not an Investment

	<u>Number</u>	<u>Percentage</u>
Strongly agree	79	20%
Agree	50	13
Somewhat agree	46	12
Neither	18	4
Somewhat disagree	51	13
Disagree	69	16
Strongly disagree	<u>87</u>	<u>22</u>
	400	100%

It is discomfoting to note that 45 percent of all the advertising executives interviewed are in some agreement with the statement, while 52% are in some disagreement that advertising is an expense rather than an investment. Additional analysis on the basis of type and longevity of the firms did not produce any difference in this attitude. The next question asked related to the respondents' attitude on advertising that has strategic implications.

The sales effort to move goods and services through distributive channels is related to the economic climate. That is to say, during prosperous periods, it is usually easier to sell goods than it is in recession periods. It is generally believed that it is not unusual to find evidence that selling effort is reduced during business downturns. Firms frequently cut their budgets at the very time that selling effort should be increased.

Why this anomaly? Advertising is considered an expense and thus, during periods of retrenchment, advertising is cut.

In order to measure this attitude among our respondents, we asked whether or not advertising expenditures should be cut when the economy is lagging. The results are in Table 8.

Once again, it is disturbing to see that 34 percent of the respondents who are responsible for advertising showing some form of agreement with the statement that advertising budget should be decreased in a declining economy. The type of business and the longevity of the firm once did not produce any difference in this attitude.

The respondents were also questioned about their attitudes and beliefs with respect to choosing the proper media in which to place their advertisements. Specifically, the respondents were asked to respond to two statements.

1. One statement said "Advertising is a science: consequently, it is more important to choose the

proper media to place ads than to be concerned about the advertising message."

2. The other statement said: "Most advertising directors have an instinctive feel for the media which will yield the best sales results."

Table 9 shows the responses.

Table 8

Advertising Budget Should be Decreased
in a Declining Economy

	<u>Number</u>	<u>Percentage</u>
Strongly agree	49	12%
Agree	38	10
Somewhat agree	48	12
Neither	27	6
Somewhat disagree	78	20
Disagree	85	21
Strongly Disagree	<u>75</u>	<u>19</u>
	400	100%

Table 9

Attitudes on Placing of Ads

	<u>Media is More Important than Message</u>		<u>Advertising Directors Have Instinctive Feel for the Media</u>	
Strongly agree	139	35%	84	21.00%
Agree	89	22	93	23.25
Somewhat agree	69	17	68	17.00
Neither	39	10	24	6.00
Somewhat disagree	17	4	61	15.25
Disagree	22	6	37	9.25
Strongly disagree	<u>25</u>	<u>6</u>	<u>33</u>	<u>8.25</u>
	400	100%	400	100.00%

Though both the advertising message and the median in which it is placed are very important to an advertisement's price, advertising managers believe that the message is less important than the carrier of the message.

In addition, the advertising directors believe they have an instinctive feel for the media which will yield the best results. This belief is probably inaccurate, nevertheless it accounts for the placement of messages in media that are improper. Small business owners are most likely to believe that they are blessed with an intuitive talent in placing advertising messages in media where they will yield the best results.

Conclusions

The results clearly indicate that many small firms are not treating advertising decisions seriously. The fact is that the majority of the responding firms use the "affordable method" for setting the advertising budgets in addition to holding the attitude that advertising is an expense and should be reduced during economic downturns. This is particularly serious when the respondents are advertising executives. Advertising executives, if not others in the firm, are generally considered the strongest believers in the advertising function.

The need for reassessment of advertising functions is clear. It is very important that small businesses understand the relevance of advertising in the overall management of the firm. It is also important, it seems, that the firms delegate the advertising responsibilities to persons who are trained in the area, believe in the potential power of advertising, and who can manage the advertising activities efficiently.

References

1. Brenner, W. H., "Small Business Enterprise and Promotions," in Marketing and Small Business/Entrepreneurship, (eds.) Hills, Barnaby, Duffins, International Council for Small Business, 1983, pp. 36, 38.
2. Kleppner, Otto, Advertising Procedure, Seventh Edition, Prentice Hall, 1979, p. 479.

Endnotes

1. William H. Brennen, "Small Business Enterprises and Promotions," Marketing and Small Business Entrepreneurship, (eds), Hills, Barnaby, and Duffins, International Council for Small Business, 1983, p. 36 and 38.
2. Quoted in Daniel Seligman, "How much for Advertising?" Fortune, December 1956, p. 123.
3. Otto Kleppner, Advertising Procedure, Seventh edition, Prentice Hall, 1979, p. 479.