

## **Impact of Advertising Expenditure on the Sales of the Textile Industry**

### **(A Case Study of Leading Textile Companies in Pakistan)**

Syeda Isbah Rizwan

The University of Karachi, Karachi University Business School, Pakistan

[isbah.rizwan22@gmail.com](mailto:isbah.rizwan22@gmail.com)

#### **Abstract**

This research paper investigates the influence of advertising expenditure on the sales of the textile industry in Pakistan. The study delves into the correlation between advertising expenditure and sales of the textile industry in Pakistan and finds out does advertising expenditure have an impact on the sales of the textile industry in Pakistan. In the course of this research, a global market overview was presented, and three textile firms were selected to test the hypothesis. The data was collected from customers of the selected industry, as well as marketing and sales managers from the selected companies. Interviews with the three managers and an analysis of 550 questionnaires were conducted to support the research findings. The collected data from the questionnaire were analyzed using SPSS (Statistical Package for Social Sciences). The results revealed that there is a positive link between advertising expenditure and sales in the textile industry. The study provides valuable insights for textile industry players in Pakistan on the importance of advertising expenditure in generating sales and enhancing market share. This research also serves as a basis for future research on the impact of advertising on other industries in Pakistan.

**Keywords:** Advertising Expenditure, Sales, Textile Industry, Global Market.

### **Introduction to the Issue Addressed**

*"Stopping advertising to save money is like stopping your watch to save time." – Henry Ford*

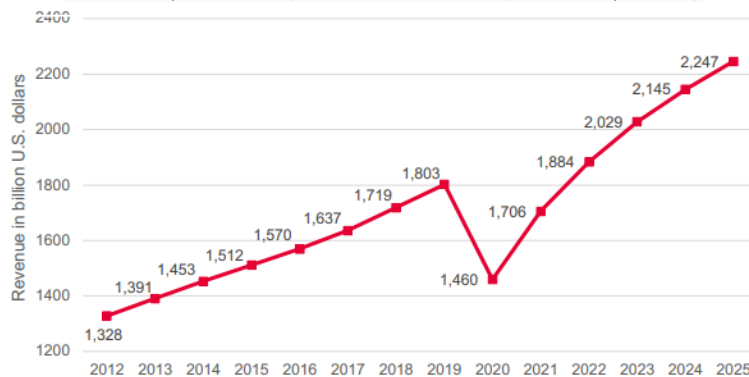
Since 1975, textile production has grown trifold in response to the growing population (IVC, 2012). This growth can be explained by the fact that the textile industry is rapidly directing its emphasis toward addressing the requirements of the general population, a strategy that is frequently referred to as "fast fashion." Textile suppliers' global fight for market monopoly is cost-optimizing value chains. This rivalry seeks worldwide market monopolization. Due to this, low-tech processes and cheap materials, as well as outsourcing industrial activities to countries with cheaper environmental and social norms and low labor costs, are becoming more appealing. As a result, there is apparel for sale that has a limited lifespan and is deemed disposable (Gözet, B., and Wilts, H., 2022). Due to these factors, textile companies are finding it harder to compete and survive in the market. Every company spends a lot to be at the top of the list, and the purpose of acquiring a name within the business is to enhance sales, which will ultimately raise profitability.

The study explores the impact of advertising expenditure on textile business sales in Pakistan and examines the industry from a global and national perspective. The research indicates that Pakistan's textile industry has experienced significant growth despite the COVID-19 pandemic due to various factors, including an increase in corporate advertising. The objectives of the study are to analyze the relationship between advertising expenditure and sales of leading textile companies in Pakistan, identify the most effective advertising strategies and media channels utilized by leading textile companies, and provide recommendations on how to optimize advertising expenditure to maximize sales growth. Advertising expenditure in order to maximize sales growth.

### An overview of the Textile Industry

Modern existence depends on the textile and apparel industry. The textile industry is the foundation of any nation's industrialization, and developing nations' economies are highly dependent on it (Mahamude & Mica, 2022). The textile and garment business accounts for 7% of global exports and employs 35 million people worldwide, illustrating its importance (Santos & Castanho, 2022). The ongoing war between Russia and Ukraine has negatively impacted the international economy's recovery from the COVID-19 pandemic, resulting in economic sanctions, commodity price increases, and supply chain disruptions. However, despite these challenges, the global textile market grew by 8.8% from 2021 to 2022, reaching \$577.83 billion. The market is expected to continue growing at an annual rate of 5.7% and reach \$722.32 billion by 2026, as shown in Figure 01. The Consumer Market Outlook predicts that the textile market will reach a value of \$2 trillion by 2026 (Statista, 2022).

**Figure 01- Predicted Revenue by 2026 (Gözet, B., & Wilts, H. 2022) - Data source (Statista, 2022)**



Pakistan's textile industry is a strong and dynamic sector that contributes significantly to the country's economy. It generates 58% of export earnings, employs 39% of the workforce, and contributes 8.5% to GDP.

However, the sector has faced challenges such as increased production costs, energy tariffs, pricing, a lack of raw materials, obsolete technology, and a lack of investment. Despite these constraints, the industry has been growing quickly since Covid-19 restrictions were lifted, with a 26% rise in the first half of the fiscal year 2021-22. The country is shifting from exporting raw

materials to value-added products, with significant increases in exports of readymade garments, knitwear, bedwear, towels, and cotton textiles.

**Table 01: The export performance during the period 2016-2020.**  
Source: ("Performance of Textile Industry," 2021)

Products	2016-17	2017-18	2018-19	2019-20	2020-21
Cotton & Cotton Textile	12,205	13,220	13,031	12,212	15030
Synthetic Fabrics	204	310	298	315	370
Wool & Carpets	79	76	67	54	74
Total Textile	12,531	13,606	13,396	12,581	15474
All Exports	20,448	23,222	22,979	21,394	25304
Textile as % of Total Export	61.3%	58.6%	58.3%	58.8%	61.2%

High-value-added commodities have driven Textile export growth. Textile exports rose 22.94 percent in 2020-21.

Textile exports increased from \$12.526 billion to \$15.4 billion in 2020-21. Thirteen industries, including value-added textiles, had a double-digit export increase compared to the previous fiscal year. Currently, textile conditions are quite satisfactory. However, global input cost increases and currency rate changes have increased the export sector's working capital needs (Goheer, 2022).

### Research Methodology

There are a number of factors that can have an effect on a company's sales, and each element can have a different level of influence over those sales. Due to the fact that advertising is one of the most important and costly promotional techniques, the influence of this instrument needs to be investigated on its own in order to better comprehend its connection with sales (Sagal, 2015).

### Problem Statement

The textile industry in Pakistan has faced several challenges, including rising manufacturing expenses, outdated technology, and a shortage of raw materials. While recent growth in the industry has been attributed to the lifting of COVID-19 restrictions, further research is needed to determine other contributing factors. One potential factor is advertising, which has been shown to

drive up sales and have a positive impact on a corporation's financial performance. An analysis of annual reports from selected textile companies shows an increase in advertising expenses in the last two years. This study aims to explore the impact of advertising expenditure on the sales of the textile industry in Pakistan.

### **Review of Literature**

Agbeja, Oyedokun, Adedokun, O.J., Akinyemi, and Daramola from Joseph Ayo Babalola University, Osun State, conducted research on the impact of advertisements on the sales and profitability of a company. They highlighted that marketers have high expectations for a return on the advertising expenditure they make, and every year businesses put millions of dollars or naira into the advertising and public relations efforts of their brands. An advertising campaign that is properly planned and structured has the ability to increase awareness of a firm's products or brands in the area in which the organization works, all other factors being equal. The article cites Kotler (1988) in stating that advertising is one of the four primary tools used by businesses to direct persuasive communications to target customers and improve responses. The authors of the paper conducted research and found a strong relationship between marketing expenses and company profitability. The article recommends implementing the results of the research to achieve advertising goals, utilizing effective promotion mediums, and establishing reliable methods to determine profits generated through successful advertising (Agbeja et al., 2015).

### **Development of Hypothesis**

The income statement account, known as Advertising Expense, reports the total dollar amount spent on advertisements that were broadcast during the time period covered by the income statement. A company will pay this cost in order to market its goods, brands, and image through

various mediums such as radio, television, publications, the internet, and so on. On the revenue statement, the cost of advertising will be included in the section labeled "selling expenditures."

'Sales' includes all the activities involved in selling an offering in exchange for something of value. Many consider sales to be the food that the business needs to survive in the long run. But while the term 'sale' refers to the actual transaction, the term 'sales' also encompasses all the activities which lead to this transaction (Pahwa, 2022)."

Based on this and the literature review discussed, we hypothesize:

H: Sales of the Textile industry is affected by Advertisement expense.

### **Explanation of Hypothesis**

As defined by the Advertising Association of the UK, "*Advertising* is a means of communication with the users of a product or service. Advertisements are messages paid for by those who send them and are intended to inform or influence people who receive them." (What Is Advertising? Definition of Advertising, Advertising Meaning, 2022). The impacts of advertising may be broken down into two categories: intermediate effects, such as the influence it has on customer beliefs and attitudes, and behavioral effects, which relate to purchasing behavior and can have an impact, for instance, on the choice of the brand (Vakratsas and Ambler, 1999). The sales of any company are affected by several factors, and each factor has a varying degree of impact on it. Even in a marketing strategy, the different promoting activities have different degrees of impact on the sales of an organization. Considering advertisement is one of the main paid promotional tools, its impact needs to be studied separately to help understand its relationship with sales (Sagal, 2015).

## Sampling Technique

The study used two sources for data collection, customers of the textile industry in Karachi and managers of selected textile enterprises in Pakistan. A convenience sampling method was used to obtain a sample of 550 customers who completed a questionnaire consisting of eleven questions. For the second source, data was collected from managers and heads of sales and marketing departments in five stock-listed textile companies in Pakistan using the interview method with open-ended questions. The table below shows the sources of the primary data collected for the study:

S. No	Primary Source	Population	Sampling method	Sample size	Research Instrument
1.	Customers	Karachi, Pakistan: 16,839,950	Convenience Sampling	550	Questionnaire
2.	Managers (sales and marketing)	55 listed on the stock exchange	No Sampling	5 companies	Interviews

### An Overview of the Selected Companies

The study reviewed the annual financial reports of five publicly traded firms in the textile industry listed on the Pakistan Stock Exchange. The researchers analyzed the changes in two variables, advertising expenses and total sales, over a period of ten years. The data was of a secondary nature and was used as a basis for the study. The changes in advertising expenses and sales for each company were depicted in separate figures.

**Gul-Ahmed Pakistan**

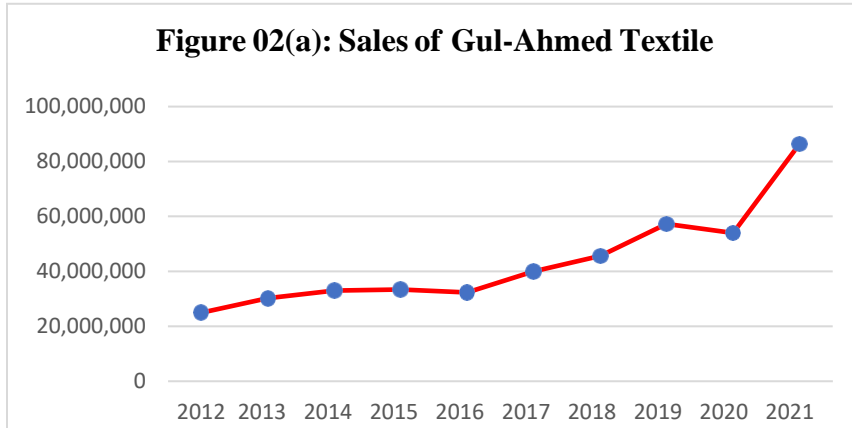


Figure 02(a), illustrating the growing sales of Gul-Ahmed textile firms in 2021, seems to represent the prediction of increasing sales in the textile sector by the year 2026,

which is in accordance with the data from (Statista, 2022). Figure 2(a) shows a slight decrease in sales in 2020, the year when the Covid-19 pandemic had completely taken over industries all around the world and halted their functions.

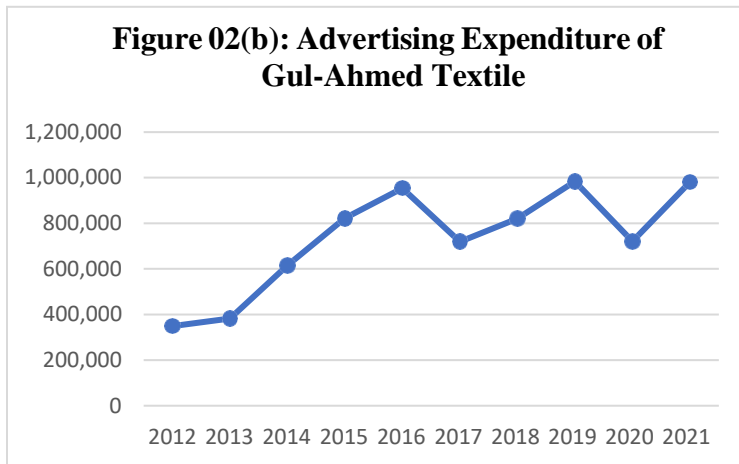
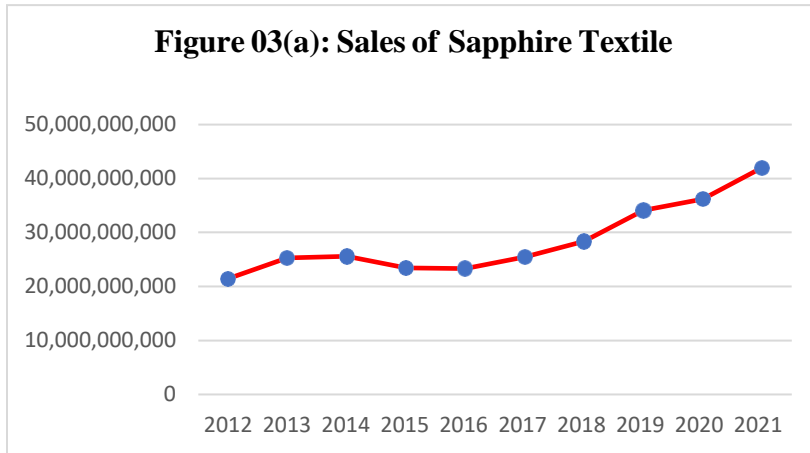


Figure 02(b), with a blue line, shows the change in advertisement expenses, and it seems that the company had cut down its advertisement expenses in 2020, the same year the sales went down. If we take a look at the line chart that

illustrates the amount of money spent by the company on advertising, we can see that Gul-Ahmed has pushed for an increase in that amount in 2021. It is clear that the findings of the earlier research indicating a rise in sales as a result of an increase in advertising expenditures provide credence to the hypothesis that advertising does have an effect on sales.



**Sapphire Textile Limited**



Taking the analysis further, we took a look at the changes in advertising expenses and sales of another company, Sapphire Textile. Figures 03(a) and 3(b) depict the progress of both variables: Conforming to the

predicted trend of the textile industry, Sapphire textile, too, showed an increase in sales after the Covid-19 pandemic restrictions were lifted. However, if we compared it to the sales of Gul-Ahmed Textile in 2020 (see Figure 03(a), Sapphire Textiles didn't experience a decrease in sales during 2020.

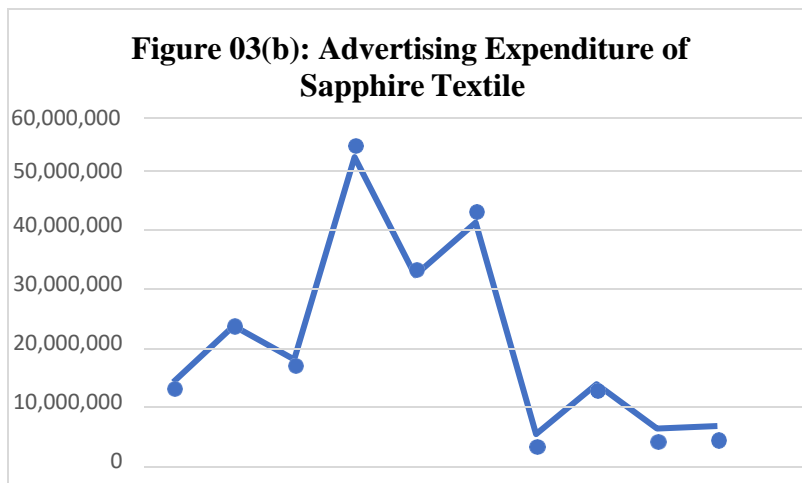
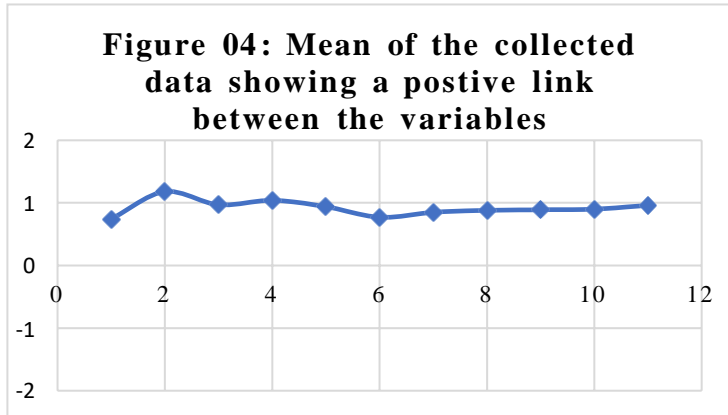


Figure 03(b) shows the change in advertisement expenses, and it seems that Sapphire Textile, just like Gul-Ahmed, decided to cut down on advertisements during the year 2020. However, unlike Gul-Ahmed, its sales didn't

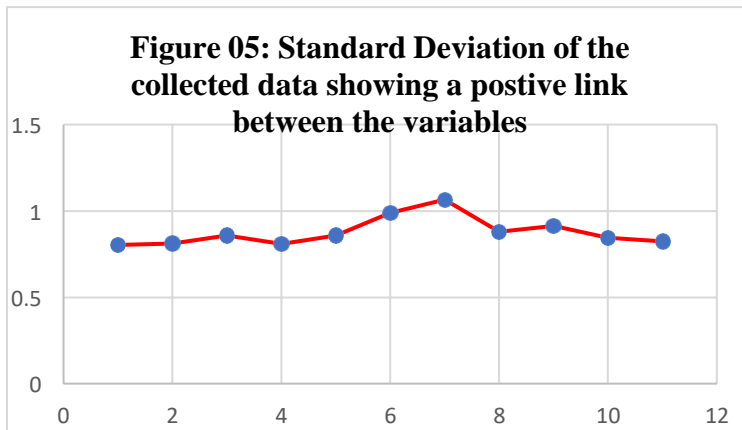
decline but rather showed a slight increase during 2020. The results of data collected from the annual reports of Sapphire Company don't conform to the results of the studies mentioned in this study's literature review. The advertisement expense, unlike what different studies showed, doesn't seem to have an impact on the sales of Sapphire Textile's sales in 2020.

**Results**



The data was collected through a questionnaire filled out by around 600 customers, and the responses were analyzed using the statistical software SPSS. A Likert scale was used to assign codes to categories of

agreement, ranging from strongly agree to strongly disagree. Mean scores falling within the range of 0 to 2 suggest that respondents agreed with the statement, while mean scores less than zero indicate disagreement. The mean is a measure of the average for the data collected, and it is obtained by dividing the sum of responses by the total number of responses. Figure 04 shows the results of the questionnaire, displaying the question numbers on the horizontal axis and the mean calculated for each question on the vertical axis. The article notes that the mean value of each item



is greater than 0.5, indicating that the majority of the responses collected for each question agreed with the statements in the questionnaire.

The standard deviation for each questionnaire item is displayed in

Figure 05, with the highest SD being 1.065 for item 7, indicating that the data for this item are scattered and farther from the mean value. The lowest SD is 0.802 for item 1, indicating that the responses to this item are closest to its mean. The closer the standard deviation is to zero, the more closely the data points correspond with the mean. The value of the mean that is greatest shows that

the majority of respondents had the same viewpoint about the variable in question, and the lowest value for the standard deviation indicates consistency among the responses regarding the particular variable.

### **Discussion**

The questionnaire used to gather data in this study showed encouraging results that supported the hypothesis. Specifically, the majority of customers surveyed believed that watching an advertisement from a clothing company influenced them to purchase from that brand. Furthermore, advertising was found to play a significant role in the process of persuading buyers to search for specific items when shopping, with a high percentage of respondents agreeing that they seek out advertised products in stores. Additionally, the majority of respondents (80.7%) preferred to purchase from companies that they frequently saw in advertisements, and advertisements were found to be effective in increasing sales by promoting new product launches and sales opportunities. The results are in agreement with the findings of (Agbeja et al., 2015), who state in their article that an increase in advertising expenditure will boost the performance of sales and that when sales are increased, then profits are also increased. The research findings indicate that consumers are more likely to be attracted to brands that convey an image of affluence and glamour, and advertisements that suggest high quality can influence purchasing behavior. However, the results also show that pricing plays a significant role in consumer purchasing decisions, with a majority of survey respondents stating that an increase in price would affect their choice to buy an item. Failure to consider pricing in marketing efforts can negatively impact sales, as shown in a previous study by Kotler (1988), which found a link between marketing costs and company profitability. To maintain efficiency in advertising, the advertising and personnel departments should consider both the price and quality of the medium used.

### **Remarks from the Textile Companies' Managers**

This study also involved gathering data from the textile industry by conducting interviews with industry experts to support the hypothesis. The Marketing Manager of one company explained that marketing is crucial for brand awareness and informing customers of new products, discounts, and specials. Another respondent from a different company emphasized that even well-known brands need to allocate a significant portion of their marketing budget towards advertising to remain top-of-mind for consumers, especially with the increase in competition and expansion into global markets. The third manager stated that advertising is important for maintaining trust among customers, as people are willing to pay a premium for brands they trust, even with the emergence of lower-priced local brands. Effective advertising and communication can help textile companies maintain their customer base despite rising prices and increased competition.

### **Conclusive Remarks and Recommendations**

The study found a direct and positive connection between advertising expenditure and sales in the textile business. This result was reached by deducing several individual components of advertisement expenditure, such as price, frequency, and quality. Each one indicated that advertising expenditure positively affects sales. As an outcome of this, the connection has a feedback effect with one another, as seen that the sales increase with the increase in advertising expenditure. The study recommends that Textile firms allocate a significant portion of their marketing budget to advertising to maintain their brand awareness and communicate value to their customers. Advertising is also found to be important in the successful use of other promotional tools, such as sales and discounts, in effectively communicating with the general public.

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## Appendix

### Appendix A- Questionnaire for Customers

Rate the impact of the following elements on the sales of Textile Companies (Pakistan).

	Elements	S.Agree	Agree	Neutral	Disagree	S.Disagree
1	Buy an article when see an ad.					
2	Find articles in stores shown in ads.					
3	Ad of your favorite brand for new collection makes you want to go shopping.					
4	Raising prices affect your buying intention of a certain article?					
5	Ads reflecting the quality of product make you buy from that brand.					
6	Expensive ads make you trust the brand's credibility.					

7	Go shopping when see an ad promoting sale/discount.					
8	You buy from brands that you frequently see in ads.					
9	Ads from new brands make you want to try their collection.					
10	Do you believe ads play a major role in helping you make a buying decision?					
11	Do you prefer buying brands showing ads than the ones that don't?					

### Appendix B- Interview Questions asked from the Managers

Please answer the following:

1.	There are several factors contributing to the recent in the Textile industry of Pakistan growth. In your opinion, are the internal factors on the part of textile companies contributing to this growth?
2.	Considering the prevalence of e-marketing, do you believe that advertising has a substantial impact on the sales of textile companies?
3.	In light of recent developments in marketing efforts done by textile companies, do you believe that a textile firm can survive and compete in the market without significant advertising expenditures?
4.	Does your company spend on advertising in addition to other promotional activities? If so, how much impact do you believe it has on your sales? If not, is it due to budgetary constraints or because the company believes it is performing well in terms of sales without advertising expenditures?
5.	We have seen that some textile companies in Pakistan place little emphasis on advertising, except for a few brands that we see online and on TV, yet their annual sales continue to rise. However, compared to those that spend a considerable fraction of their finances on advertising, their growth appears to be less significant. Share your thoughts on this.
6.	Considering advertising expenditure has an impact on sales, what impact do you expect to see on sales if a company cuts off its advertisement expenditure?