



## Article Title

Cyclical effects of advertising on hotel sales, risk and return

## Citation

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## Abstract

This study examines the effects of advertising expenditure on Taiwanese hotel sales (and profitability), risk and returns. It further tests whether the effects of advertising expenditure on hotel sales (and profitability) risk and returns rely on the business cycle condition.

## Methods

The study sample includes seven publicly traded hotel companies: Ambassador Hotel, Chihpen Royal, First Hotel, Grant Formosa Regent Taipei, Hotel Holiday Garden, Landis Taipei and Leofoo Corporation. All seven hotels are tourist hotels.

## Results

Panel regression test results reveal that the ratio of advertising expenditure to total asset (AD) is significant in increasing hotel sales revenue in terms of occupancy rate (*Occupancy*) and revenue per available room, but is not significant in increasing hotel profitability in terms of return on assets and return on equity. The relationship between AD and Occupancy is found to be curvilinear (an inverted U-shape). Although AD has a negative impact on the risk of hotel stock returns, the effect is not statistically significant. Moreover, AD is found to have no significant impact on hotel stock returns. Finally, the effects of AD on hotel stock returns and risk of hotel stock returns vary significantly in different business cycle conditions.

## Conclusion

These findings support the argument of the study that the impact of advertising on hotel sales is relatively stronger during business cycle contractions and hence may have a relatively stronger influence on investors' perceptions about the riskiness of cash flows holding hotel stocks in business contractions than in business expansions. In other words, advertising brings good news to the hotel industry in business contractions and decreases investors' perceived riskiness of cash flows of hotel stocks, resulting in a downward revision in the discount rate. Consequently, while AD cannot significantly affect hotel stock returns, it does have a significant effect on hotel stock returns due to its strong impact on both hotel sales and risk of hotel stock returns in business contractions.