Virginia Tech
Pamplin College of Business

**The Feiertag Academy-to-Industry Collection**

**Department of Hospitality & Tourism Management**

362 Wallace Hall (0429)

295 West Campus Drive

Blacksburg, VA 24061

## Article Title

Advertising efficiencies in the hospitality and tourism industry

## Citation

Bhagwat, Y. N., & DeBruine, M. (2008). Advertising efficiencies in the hospitality and tourism industry. *Acta turistica*, *20*(2), 200-218.

## Abstract

Advertising provides growth in sales volume for the new products and services. The hospitality industry relies heavily on advertising through travel journals and travel sections of print media, television media, and the Internet. The hospitality industry encompasses hotels, cruise lines, theme parks and holiday resorts. The focus of this paper is to investigate the long-term relationship between accounting defined changes in earnings and changes in advertising expenditure by estimation of the degree of advertising leverage -- a measure similar to degree of total leverage.

## Methods

This study employs STATA's cross-sectional regression model (xtreg) to estimate the intercept and slopes in the following log-linear model establishing the relationship between Advertising Expenditures (A) and Sales

## Results

This study develops and measures the earnings elasticity of advertising expenditures (coined the degree of advertising leverage or DAL) using a log-linear model. Advertising intensity varies in the industry from a low of about 2.5% for Casinos and Speedways to 5% for Cruise Lines and over 10% for Hotels. The findings show the effectiveness of advertising as a tool for maximizing earnings and company value in tourism-related industries.

## Conclusion

This study developed and measured the earnings elasticity of advertising expenditures (coined the degree of advertising leverage or DAL) using a log-linear model. The results obtained for the ten year period from 1997 – 2006 indicate that - on average - a 1% change in advertising results in a .81% change in sales and a .81% change in operating income for all companies included in the study. However, different industry operators were affected differently, and further analysis of the data supported the hypothesis that industries with a higher advertising intensity also had a higher earnings elasticity of advertising. The ratio of DAL on Earnings to DAL on Sales (the DAL Ratio) is useful for monitoring the impact of changes of advertising investments on profit margin – a popular measure that is closely monitored by the investment community. We showed mathematically how a company's profit margin increases from additional investments in advertising as long as its DAL Ratio is greater than 1. Our analysis of the data indicates that hotel and tourism industry operators, as represented in this study, appear to operate at an effective level of advertising–related investments and have little reason to increase current advertising efforts for the sake of enhancing financial valuation drivers such as profit margin and rate of return on assets.