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Article Title
Revisiting the carry-over effects of advertising in franchise industries

Citation
Park, K., Park, K., Jang, S., & Jang, S. (2016). Revisiting the carry-over effects of advertising in franchise industries. *International Journal of Contemporary Hospitality Management*, *28*(4), 785-800.

Abstract
Despite prior studies, little has been done to understand the advertising carry-over effect. The purpose of this study is to investigate the heterogeneous attributes of the carry-over effect by focusing on the differences between franchise and non-franchise firms.

Methods
The data were retrieved from the Compustat database and annual corporate financial reports (10-K) for five representative franchise industries from 1980 to 2009. Ultimately, 185 firms were included and 1,592 firm-year observations were analysed. This study used a Panel VAR (Vector Autoregression) to examine the effects of advertising on firm performance. We can control endogenous effects using Panel VAR, which also allows us to control unobserved firm-specific heterogeneity.

Results
This study found that advertising had no effect on sales growth or brand equity in the long run for non-franchise firms and further confirmed that non-franchise firms incur agency costs. In contrast, the effect of advertising on sales growth and brand equity was significant for franchise firms. A carry-over effect of advertising on brand equity was detected for franchise firms, but sales growth rapidly decreased after two years.

Conclusion
This study investigated the effects of advertising on sales growth and brand equity using the Panel VAR (Vector Autoregression) technique, which allowed us to estimate the long-run effect of advertising and to identify the different types of carry-over effects. Unlike previous studies of the advertising effect that used macroeconomic variables (Andras and Srinivasan, 2003; Srinivasan and Lilien, 2009), this study incorporated corporate-level variables to examine the relationship between advertising and its effects. The results of this study indicated that the advertising effect could differ between non-franchise and franchise firms because of agency issues. In terms of both sales growth and brand equity, there was a significant, long-run advertising effect only for franchises. The advertising carry-over effect on sales growth was “Fast-in-Fast-out”, whereas the carry-over effect of advertising on brand equity was “Slow-in-Slow-out”. This is an important feature of advertising activities because franchising is a common firm-level strategy used in particular industries. As we indicated earlier, prior studies

only focused on the long-lived influence of advertising on firm performance and claimed that this effect was advertising carry-over. Even though we applied the concepts of the delayed response effect and the customer holdover effect, they may only partially account for the details of the carry-over effect. For example, as the results indicated the sales growth of franchise firms could be described as “Fast-in-Fast-out”, which incorporates neither a delayed response nor customer holdover effects. In contrast, the results showed that the brand equity of franchise firms could be described as “Slow-in-Slow-out”, which incorporates both a delayed response and customer holdover effects. Thus, the proposed concept of the carry-over effect used in this study contributes to a better understanding of the ambivalent concept of the advertising carry-over effect. Finally, even though advertising could have asset-like characteristics, the existence of long-run effects varies depending on which business format a company adopts: franchise or non-franchise. Consequently, the proposed new concept of the carry-over effect could be helpful for future research.