



Article Title

Does advertising spending improve sales performance?

Citation

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Abstract

Hotel managers and investors commonly analyze the impact of advertising spending on firm performance. This paper investigates such an impact using a comprehensive framework incorporating the moderating effects of hotel size and star ratings.

Methods

To test their hypotheses, they used a two-step approach. In the first stage, they estimated sales performance using the dynamic stochastic frontier approach, and in the second stage, they tested the effects of advertising and the two moderators on sales performance. they used a sample of 65 hotels from Slovenia and Croatia over a 6-year period (2007–2012), resulting in 390 cases.

The study was conducted from October to December 2013. they created a brief online questionnaire in Slovene and Croatian languages, and distributed it to 205 hotel companies in Croatia and Slovenia.

Results

All these results confirm that Model 2 is the best fit and hence they use it for our hypothesis testing. The results from Model 2 demonstrate that advertising spending has a significant and negative influence on the sales performance gap (i.e. positive influence on performance), supporting H1. H3 suggests that the influence of advertising on sales performance is stronger for larger firms than for smaller firms. The coefficient of the interaction term between advertising spending and size is negative and significant (i.e. positive influence on sales performance) indicating that the relationship between advertising spending and performance becomes stronger for larger hotels, hence supporting H2. H3 suggests that the influence of advertising on sales performance is stronger for firms with higher star ratings. The coefficient of the interaction term between advertising spending and star rating is positive, supporting H3.

Conclusion

The findings help to understand why advertising is sometimes less effective or even ineffective. The impact of advertising spending on sales performance appears stronger for hotels that are larger than for smaller hotels. The implication is that smaller hotels may not be able to reap the same benefits from advertising.

They also contribute to the hospitality literature by suggesting that efficient advertising expenditures may require higher star ratings. The finding that a higher star rating enhances the positive effects of advertising spending on sales is critical to understanding the efficacy of advertising campaigns. Hotels should align their advertising spending with their star ratings; such that hotels with higher ratings could build on this strength in advertisements campaign, and hotels with lower ratings may need to focus on other cues (rather than star rating) on which customers can base decisions. The size of a hotel similarly determines benefits garnered from advertising, and could also influence the advertising content.