VirginiaTech
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

The strategic value of advertising expenditures in the tourism and hospitality industry.

Citation

By: Rui Qi; Cárdenas, David A.; Xichen Mou; Hudson, Simon. Tourism Economics, Nov2018, Vol. 24 Issue 7, p872-888, 17p. Publisher: Sage Publications, Ltd

Abstract

The purpose of this study is to investigate the strategic value of advertising expenditures in the tourism and hospitality industry. Adopting a market-based valuation approach and longitudinal analysis, this study assesses the magnitude of advertising value by comparing the magnitude of the value with those from other expenses and book value. Results show that the economic benefits from advertising expenditures, unlike other expenses, don't expire in the current period. Furthermore, advertising expenditures are significant strategic investments in intangible assets, providing greater future economic benefits than other assets. In addition, there is no significant heterogeneity regarding the effectiveness of advertising expenditures across subsectors in the tourism and hospitality industry.

Summary

This study investigated the economic effects of advertising expenditures on firms' market values in the tourism and hospitality industry. Market-based valuation approach and longitudinal analysis were selected as robust theoretical framework and methodological model. The findings of this study indicated that advertising expenditures in the tourism and hospitality industry have strategic asset value captured by the market participants. This suggests that tourism and hospitality advertising provides greater future economic benefits than the average return of net assets. In addition, there is no significant heterogeneity among different subsectors in the tourism and hospitality industry regarding the advertising's effectiveness.

Within tourism and hospitality context, the economic benefits from advertising expenditures didn't expire fully in the current period, unlike other expenses. Results showed that advertising expenditures had a larger positive impact on firm market value than other expenses. Controlling other variables as constant, a $1-million increase in advertising expenditures would lead to an approximate 0.4198% increase in firm market value. On the contrary, controlling other variables as constant, a $1-million increase in other expenses would lead to a 0.0116% increase in firm

market value. This large difference in magnitude indicated that advertising expenditures should not be fully expensed and may have some future economic benefits, like assets.