International Journal of Hospitality Management 31 (2012) 257–265

Contents lists available at ScienceDirect

International Journal of Hospitality Management

journal homepage: www.elsevier.com/locate/ijhosman

Duration of advertising effect: Considering franchising in the restaurant industry

Kwangmin Park[a,1], SooCheong (Shawn) Jang[b,*]

[a] Department of Foodservice Management, College of Hospitality and Tourism Management, Sejong University, Gwanggeto-Gwan Rm 610, Seoul, South Korea
[b] School of Hospitality and Tourism Management, Purdue University, West Lafayette, IN 47907-0327, United States

ARTICLE INFO

Keywords:
Advertising
Duration
Sales growth
Intangible value enhancement
Long-term effect
Short-term effect
Error correction model (ECM)

ABSTRACT

How long do the effects of advertising actually last? This issue has received increased attention in the fields of marketing, accounting, and finance. However, despite the importance of advertising for firm management, research on the effective duration of advertising costs still remains in the exploratory stage. To address this research need, this study investigated how long advertising costs function to increase sales and intangible value in association with franchising in the restaurant industry. The results of this study showed that advertising expenditures had a positive short-term effect on sales growth, whereas advertising did not significantly impact sales growth in the long run. However, when advertising expenditures were considered together with franchising, the long-term interaction effect was positively significant. The results suggest that advertising has long-term positive effects on sales growth only in restaurant firms using a franchising system. This implies that advertising costs should be recognized as investment-like assets only in franchising restaurant firms. On the other hand, advertising ratio had both positive short-term and long-term effects on intangible value. In addition, once the advertising ratio was associated with franchising, the long-term interaction effect was negatively significant. More detailed explanations and implications are included in the conclusion.

© 2011 Elsevier Ltd. All rights reserved.

1. Introduction

Advertising is perceived as one of the most important vehicles for boosting sales and enhancing product or service recognition in a market. However, researchers in marketing and accounting/finance have questioned whether the effects of advertising on firm performance are long-lasting (Baghestani, 1991; Chauvin and Hirschey, 1993; Dekimpe and Hanssens, 1999; Hirschey and Weygandt, 1985; Peterson and Jeong, 2010; Wang and Zhang, 2008; Wang et al., 2009). Even though the question is critically important to firm management, the duration and magnitude of advertising effects have yet to be accurately determined within academia (Peterson and Jeong, 2010; Wang et al., 2009). The essence of this ambiguity is related to the manipulation of advertising outlay in accounting regulations. Under general accounting rules, advertising outlay is perceived as an expense. Since the effects of advertising are short-lived and quickly disappear, they should be counted as a one-time expense in an accounting period. However, if the effects of advertising actually last longer, current accounting rules would not correctly reflect the nature of advertising outlay. If the effects are long-lived, then advertising outlay should be perceived as an investment behavior and should be amortized for the effective period.

In the restaurant industry, advertising is a common tool for marketing practitioners to acquire customer attention and build brand equity in the market (Hsu and Jang, 2008). Gallo (1999) stated that the restaurant industry had strong growth in advertising expenditures, with over 95% of advertising budgets allocated to television. In addition, a professional advertising research company (Crain Communication, Inc.) reported that in 2009 alone McDonald's Corp., Yum! Brands, and Burger King Holdings, spent 1,236.4, 882.4, and 401.9 million dollars, respectively, on advertising. These restaurant companies were ranked 23rd, 39th, and 83rd among the top 100 U.S. advertisers. Unlike the technology industry where a high technology level is a major driver of firm value, for the restaurant industry advertising is believed to greatly contribute to corporate value. Despite the materiality of advertising in the hospitality industry, however, little attention has been devoted to the effects of advertising in hospitality academia. In a rare study on the topic, Hsu and Jang (2008) claimed that advertising expenditures had a positive influence on a restaurant firm's intangible value. However, Hsu and Jang (2008) found that while the current year's advertising was positively significance, the prior year's advertising did not significantly affect intangible firm value. These results highlight the possibility that advertising outlay is short-lived in terms of generating intangible value in the restaurant industry. However, the analyzed model and data were not appropriate for accurately

* Corresponding author. Tel.: +1 765 496 3610.
E-mail addresses: kmpark@sejong.ac.kr (K. Park), jang12@purdue.edu (S. Jang).
[1] Tel.: +82 02 3408 3186.

0278-4319/$ – see front matter © 2011 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ijhm.2011.05.001

determining the duration of advertising effects because they did not take franchising or a long enough time span into account.

Advertising outlay in the restaurant industry is also unique because many firms use the franchising system. Most large chain restaurants simultaneously operate company-owned and franchised stores under franchise contracts. The franchise contract between franchisor and franchisee includes the terms of advertising fees. In general, franchisees pay a flat rate for advertising fees depending on the store's sales volume. This means that the franchisor, rather than the franchisee, advertises for the brand and the franchisee takes advantage of the franchisor's brand assets. Thus, the franchising system plays a pivotal role in advertising in the restaurant industry because advertising expenses are usually included in franchising fees and do not appear as a separate expense account. In particular, there are specialized local master franchisors in the restaurant industry that operate franchising stores in a region under a contract with franchisors. For example, Morgan's Foods, Inc. operates through wholly owned subsidiaries of KFC restaurants. Due to the franchising contract with KFC, Morgan's Foods, Inc. is required to pay a 4% royalty on gross revenue to KFC and to pay an additional 5.5% of gross revenues in the form of franchising fees for national and local advertising. Consequently, Morgan's Foods, Inc. does not *directly* have any advertising expenditures because the advertising fee is recorded as a franchising fee rather than an advertising expense. This suggests that local franchising companies have systematically different features in the restaurant industry in terms of advertising outlay. Due to the unique nature of the restaurant industry, the effects of advertising cannot be accurately estimated without considering franchising. This is one of the unique contributions of our study that will add a new perspective to the literature. Thus, the objective of this study was to examine the effective duration and magnitude of advertising outlay in terms of sales growth and intangible value enhancement under franchising systems in the restaurant industry.

2. Literature review

2.1. The accounting perspective of advertising outlay

The Financial Accounting Standards Board (FASB) specified guidelines for advertising costs, which are stated in position (SOP) 93-7. In SOP 93-7, the FASB described advertising outlay as "*the promotion of an industry, an entity, a brand, a product name, or specific products or services so as to create or stimulate a positive entity image or to create or stimulate a desire to buy the entity's products or services*" or "*one kind of customer acquisition activity*". Based on SOP 93-7, a firm can account for advertising outlay as either an expense or an asset. In general, however, advertising outlay is treated as an expense. If advertising outlay is to be accepted as an asset, it should be verified through clear, rational and systematic methods, which indicate that a certain amount of revenue was generated during a certain period by specific advertising expenditures. In reality, however, it is difficult to identify the effective duration and magnitude of the effects of advertising upon revenue generation.

Prior studies have investigated the effects of advertising using several different methods. Some researchers examined whether advertising influences corporate sales (Abdel-Khalik, 1975; Duffy, 1999; Megna and Mueller, 1991; Palda, 1965; Yiannaka et al., 2002; Wang and Zhang, 2008). Others investigated whether advertising outlay is related to intangible firm value (Chauvin and Hirschey, 1993; Comanor and Wilson, 1967; Peles, 1970; Hirschey, 1982; Hirschey and Weygandt, 1985; Joshi and Hanssens, 2010). As Ali Shah and Akbar (2008) indicated, earlier studies focused more on the relationship between advertising outlay and sales, while recent studies have tended to examine the effects of advertising on the intangible value of firms. Nevertheless, due to the diverse nature of businesses, the effective duration of advertising outlay can differ from one industry to another. Due to a lack of research, whether the effects of advertising in the restaurant industry are short-term or long-term is still uncertain. Consequently, we argue that the theoretical rationale for the appropriateness of accounting regulations on advertising outlays in the restaurant industry is ambiguous at best.

2.2. Advertising and sales

Several prior studies (e.g., Dean, 1951; Jastram, 1955; Nerlove and Waugh, 1961; Palda, 1965; Simon, 1969; Picconi, 1977; Hula, 1988; Megna and Mueller, 1991; Yiannaka et al., 2002) found that advertising costs had long-term effects in some industries, while other studies (e.g., Abbott et al., 1997; Duffy, 2001) found only short-term effects on sales. The initial evidence for the long-term effects of advertising on sales was provided by Hollander (1949), who stated that advertising had a "carry-over effect" on sales. Following Hollander (1949), several studies found that advertising activities had long-term effects, as explained above. On the other hand, Clarke (1976) and Dekimpe and Hanssens (1995) claimed that most measurable effects of advertising outlay disappeared within a few months, which means that the effects of advertising are only in the short-term. Duffy (1996) also failed to find long-term effects of advertising outlays on sales in the cigarette and food manufacturing industries. On the other hand, Lee et al. (1996) contended that earlier studies neglected the simultaneous causal relationship between advertising and sales. That is, advertising activities might affect sales growth, while increased sales could simultaneously enhance advertising activities. Thus, to examine the validity and reliability of the effects of advertising, researchers should incorporate the proper econometric tools in their analysis. As Ali Shah and Akbar (2008) indicated, prior studies may have ignored the endogeneity from the simultaneous causal relationship between sales and advertising. Further, they may have also neglected autocorrelation problems in the typical lagged models. Thus, this study employed a sounder econometric method to address potential endogeneity and autocorrelation issues.

2.3. Advertising and intangible value

As explained earlier, recent studies have increasingly dealt with the relationship between advertising and intangible firm value (Ali Shah and Akbar, 2008). In the marketing field, the conceptual model of the brand value chain (BVC) developed by Keller and Lehmann (2003) supports this relationship. Keller and Lehmann (2003) argued that advertising activities affect consumer mindset and, consequently, change consumer behavior (Vakratsas and Ambler, 1999). These behavioral changes ultimately enhance the market capitalization of a firm. Some scholars (e.g., Assmus et al., 1984; Vakratsas and Ambler, 1999; Fazio and Zanna, 1981; Wicker, 1969; Givon and Horsky, 1990) argued that behavioral effects are stirred by advertising activities but decay quickly because they tend to be inconsistent and weaker than behavioral changes associated with habitual and loyalty behavior. Thus, the effects of advertising are short-lived according to this rationale. Other studies, however, argued that advertising activities contribute to the formation of brand recognition, knowledge and attitude in customers (Smith, 1993). The effects of advertising can accumulate in customers' mindsets (Alba and Hutchinson, 1987; Vakratsas and Ambler, 1999). Thus, vigorous advertising activities could have long-term effects on consumer brand attitude. Thus, even though advertising costs might not immediately change customer behavior, the accumulated effects of advertising could improve brand attitude in the long run (Campbell and Keller, 2003; Kent and Allen,

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات