With the shift from traditional to digital advertising, little research has explored how advertising in these different channels creates long-term value for companies.

An obstacle for researchers is that firms’ advertising disclosures are optional and currently limited. New research from the University of New Hampshire that uses novel media advertising data is starting to shed light on the topic.

In a study published in Management Science (https://pubsonline.informs.org/doi/10.1287/mnsc.2022.00387), Scarlett Song, assistant professor of accounting at the UNH Peter T. Paul School of Business and Economics, researched three categories of advertising:

- Paid search (online user searches)
- Online display (online banners, text ads, and video)
Through examining merger and acquisition deals, Song found that businesses that spend more on traditional and online display advertising had greater brand asset recognition and valuation in mergers and acquisitions, while paid search had more of an impact on immediate sales.

“Paid search is very close to immediate sales because the consumer can search it, click on it and directly buy the product they’re interested in, so it’s closer to revenue in terms of company performance,” Songs says. “Online display and traditional advertising are more about trying to have a positive brand association with the audience.”

Song’s research was motivated by the shift toward digital advertising and the lack of advertising data available from publicly traded firms. According to Song’s study, less than 30% of public firms shared advertising data in their annual reports, and those that did were vague.

**Research Question**

Internet advertising surpassed television advertising in 2016 and is now the largest advertising channel in the U.S., exceeding $100 billion annually since 2018. While digital has surpassed traditional advertising, very little research exists that explores what firms gain from advertising in the different channels. This study seeks to answer the following question: How do different advertising media affect brand asset recognition?

**Key Research Findings**

- Businesses allocating more resources to traditional and online display advertising experience greater brand asset recognition and valuation.
- Paid search advertising has a more immediate impact on sales than traditional and online display advertising.
- Investors react positively to recognized brand value, especially when firms invest more in traditional and online display advertising.

**Research Implications**

This research provides insights into the effectiveness of different advertising channels in building brand recognition and value. By understanding the impact of advertising strategies on brand assets and valuation, businesses can make informed decisions about their advertising investments. The study also highlights the importance of disclosing advertising data in total, as well as a breakdown of advertising into digital versus traditional. Ultimately, this research contributes to understanding the evolving advertising landscape and its implications for business performance and investor decisions.

Song says one of the most effective ways to evaluate the long-term value creation of various advertising channels is by examining mergers and acquisitions. The rationale behind this is that, in the U.S., advertising is reported in financial statements as expenses on income statements.

However, a company must recognize and value all its brand assets during mergers and acquisitions. This means that advertising activities, which build brand value, are recorded as brand assets during these deals.

Song’s study utilized a dataset covering annual advertising expenditures across various media outlets from 2010 to 2019. The final sample comprised 287 mergers and acquisitions involving U.S. publicly traded firms.

The data showed that an increase of 0.1% in traditional advertising as a percentage of sales was associated with a 17% increase in the probability of brand recognition. A similar increase in online display advertising led to a 41% increase in the likelihood of brand recognition.

Additionally, if a company increases its spending on traditional advertising by 1% relative to its total sales, the value of its brand (as considered in a merger or acquisition) is likely to increase by about 0.3% of its sales. Similarly, if the same company boosts its online display advertising spending by 1% of its sales, the brand value is expected to rise by approximately 0.7% of its sales.

Song says her research shows that investing in traditional and online display advertising builds brand value and can produce ongoing long-term economic benefits for investors or potential acquirers. In addition, disclosing such data can make a business more attractive and shape advertising strategies.

Song noted that the lack of advertising disclosure has always puzzled her, but executives are likely to question their necessity because such disclosures are not mandatory.

“They figure, ‘If it’s not required, why do we disclose it?’” Song says. “But my study shows that it’s important to investors, especially in the merger and acquisitions setting, when public companies need to have a higher brand valuation.”
Song argues that regulators could reconsider the general reporting framework for advertising, including recognizing some types of advertising as assets rather than expenses.

“The study shows that traditional and online display advertising are creating brand assets for the firms, but the current U.S. accounting reporting framework is not adopting that at all,” Songs says. “Going back 100 or 50 years ago, advertising was all traditional. The nature of advertising has changed, but the reporting framework has not.”

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