Advertising during a Recession May Yield Increased Earnings Later

March 30 2009

Firms that are able to increase advertising during recessions are likely to have stronger future earnings, according to a new study by researchers at Oregon State University and Western Oregon University.

Roger Graham, professor of accounting at OSU, and Kristina Frankenberger, professor of marketing at WOU, examined associations between company earnings and advertising expenditures during five recessions since 1971. Graham and Frankenberger are presenting their results at the European Marketing Conference in May.

According to Graham, general accounting principles treat advertising as an operating expense rather than an investment. While advertisers may regard advertising as an investment, and therefore an asset, Generally Accepted Accounting Principles, or GAAP, treats advertising as an expense, which suggests that advertising has no future (i.e., asset) value.

“Without evidence that advertising is an asset that provides a future financial benefit, the natural proclivity among firms is to reduce advertising during recessions,” Graham said.

The researchers studied data from five recessionary periods since 1971, sampling data from more than 3,000 firms listed on the public stock exchange that demonstrated a four-year advertising contribution to earnings.

Graham said they found that when adjusting for inflation, advertising expenditures contributed to increased earnings by firms for up to three years. The greatest impact occurs in the year immediately following the recession, and especially for firms offering consumer goods or industrial products, as opposed to firms offering services.

As a case in point, Audi reported in the February issue of Advertising Age that it will increase its 2009 advertising budget by 15 percent, specifically to take advantage of a soft advertising spending market.

“Audi has already seen increases in its brand awareness and purchase consideration that executives attribute to the ability to market aggressively while other auto makers cut back,” Frankenberger said.

In addition, Graham said the research showed that decreasing advertising during a recession might result in immediate loss of earnings, but does not have an effect on earnings up to one year after the recession ended.

Because of this result, Graham suggested that companies that are currently facing tough times do not necessarily have to keep doing the same amount of advertising.

“If a company is right on the edge, they may not be hurt by decreasing their advertising expenditures,” he said. “It is more important to keep the doors open. But if a company has the money, it can give them a competitive edge.”

Provided by Oregon State University (news : web)

Citation: Advertising during a Recession May Yield Increased Earnings Later (2009, March 30) retrieved 10 April 2024 from https://phys.org/news/2009-03-advertising-recession-yield.html