The Impact of Advertising On a Company's Stock Price

Conditions for Positive, Neutral, Negative, And Reverse Effects

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Marketers have made good progress in quantifying the impact of advertising campaigns on consumers, at least in the short run. These insights are important but do not address long-term metrics, such as company value. That leaves companies uncertain about the true value of marketing investments, such as advertising. This study synthesizes research from more than 250 journal articles on advertising's effects on company value. The authors discuss why there should be an impact and review conditions under which the effect is positive, neutral, or negative. Finally, they report on the reverse effect: how changes in company value affect future advertising spending.

INTRODUCTION

Why Evaluate the Link Between Marketing and Company Value?

Tactical marketing engagements such as media advertisements typically have well-defined objectives by which to measure their performance. Examples include television views, digital clicks or likes, and other forms of consumer reactions that can readily be tracked. When the stated objectives are more strategic—and typically higher up in the company's hierarchy—things become more ambiguous. Should the company try to boost revenue growth, market share, brand equity, or consumer loyalty? If all these goals matter, how can it make these difficult tradeoff decisions?

One well-known, valuable objective is the long-term financial health of the company. Long-term financial health implies sustained performance on a criterion that has both top- and bottom-line measures and can serve the interests of important stakeholders, such as investors, customers, and employees. For publicly listed companies, such a consensus metric is the company's stock price or, in other words, company value. The stock price is the consensus estimate of a company's expected future earnings, discounted by an appropriate risk factor. Consensus emerges because of continued interactions between demand and supply.

To use company value (*i.e.*, stock price and derived measures such as stock returns and

Management Slant

- Advertising has a generally positive impact on company value (stock price).
- The positive effect comes mainly from strengthening the brand in investors' minds.
- There is synergy between advertising increasing consumer value and investor value, except in the case of price promotions.
- Stock price movements can influence future advertising decisions that are not always in the company's best interest.
- Questions about the relationship between advertising and company value merit further research.

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market-to-book value) as a valid objective, an important question is the connection between marketing and stock price. All else being equal, good marketing initiatives should enhance stock price, and bad ones should harm it, but a fundamental difference exists between consumer behavior and investor behavior. Consumers buy products and services to meet immediate needs that may or may not extend into the future; investors are exclusively driven by future considerations, such as the expected growth of and return on a security. Investors are aware that timing matters and, as such, tend to act swiftly when buying or selling opportunities arise.

As a result of these investor motivations, stock prices behave as random walks (Fama, 1991). A random walk is a time-series process that has no mean, with a variance that increases with time. A stock price is a consensus estimate of the future value of a company. It changes only when new (unanticipated) relevant information is revealed, and the effect is incorporated immediately. This is the essence of the efficient market hypothesis, which is the cornerstone of financial modeling.

The public often interprets this random-walk behavior of stock prices as extreme short-term investor behavior. Indeed, stocks tend to adjust up or down quickly when the company releases new quarterly earnings that surprise the market. Although this represents an immediate price adjustment, it is not the same as extreme short-term behavior. The swift increase in stock price indicates that the net present value of that higher yield creates a more attractive investment opportunity.

Does this investor behavior support the objectives of modern marketing strategy? Marketing executives launch new products, build brands and customer relationships, and engage in other activities out of an inherently long-term motivation. Do efficient investors recognize the future potential of these marketing actions and assets, even if they do not result in immediate earnings improvements? This is the critical question that motivates much of the research stream on the interface between marketing and finance. If the answer is no, marketers will pursue their long-term goals at their own peril; that is, they will only be rewarded for any resulting shocks in earnings. If the answer is yes (even if conditional), it serves as evidence that Wall Street and Main Street are in sync with each other, and successful marketing initiatives will be rewarded by the investor community.

LITERATURE REVIEW

Methodological Challenges

Several real-world phenomena make it difficult to reliably estimate the effects of advertising on stock price. In particular, marketers must be able to isolate the advertising effect from that of other marketing initiatives such as product innovation. Likewise, they must be able to incorporate investor expectations about company performance, which may well be adjusted before the advertising takes place, because of, for example, the company's prerelease announcement. They must also account for possible reverse causality, such as when the evolution of a company's stock price leads to either increases or cuts in advertising spending (*i.e.*, the stock price affects advertising).

A detailed discussion of existing methodological solutions to these challenges is beyond the scope of this article. The authors direct interested readers to the methodological sections in Edeling, Srinivasan, and Hanssens (2021) and Srinivasan and Hanssens (2022).

Research Initiatives to Date

Although a few research articles on marketing and company value were published in the 1990s, the effort gained considerable momentum at the beginning of this century. In 2005, the Marketing Science Institute and Emory Marketing Institute jointly launched the "Marketing Strategy Meets Wall Street" initiative. This initiative funded various research proposals, leading to an inaugural conference at Emory University in 2007 and a special section of the *Journal of Marketing* in 2009. Since then, biennial conferences have been held in Boston, Frankfurt, San Francisco, Paris, and Chicago, with Cologne planned for 2024. As of 2021, more than 250 scientific articles on the topic have appeared in leading journals (Edeling *et al.*, 2021). This body of knowledge serves as the main source of inspiration for the present article.

One natural limitation of this research stream is that it is restricted to publicly listed companies. Privately owned companies do not have continuous stock prices and are only formally valued when a merger or acquisition occurs. The lessons learned from public companies, however, can help formulate important benchmarks for the valuation of private companies.

Direct and Indirect Effects of Marketing on Company Value

The authors provide an overview of how various marketing activities (advertising, in the example) can affect company value (Joshi and Hanssens, 2010; See Figure 1). One route is through tangible metrics that investors care about: Marketing creates additional revenue that exceeds the marketing cost, thus generating increased earnings. Insofar as these increased earnings are unanticipated by investors, they can drive up the stock price. The same argument holds for negative developments, such as product recalls or competitive actions that pose a revenue threat to the brand. This influence route is observable from transactional and financial data, provided the incremental revenue effect of marketing actions can be estimated. It is, thus, an indirect effect; that is, advertising only

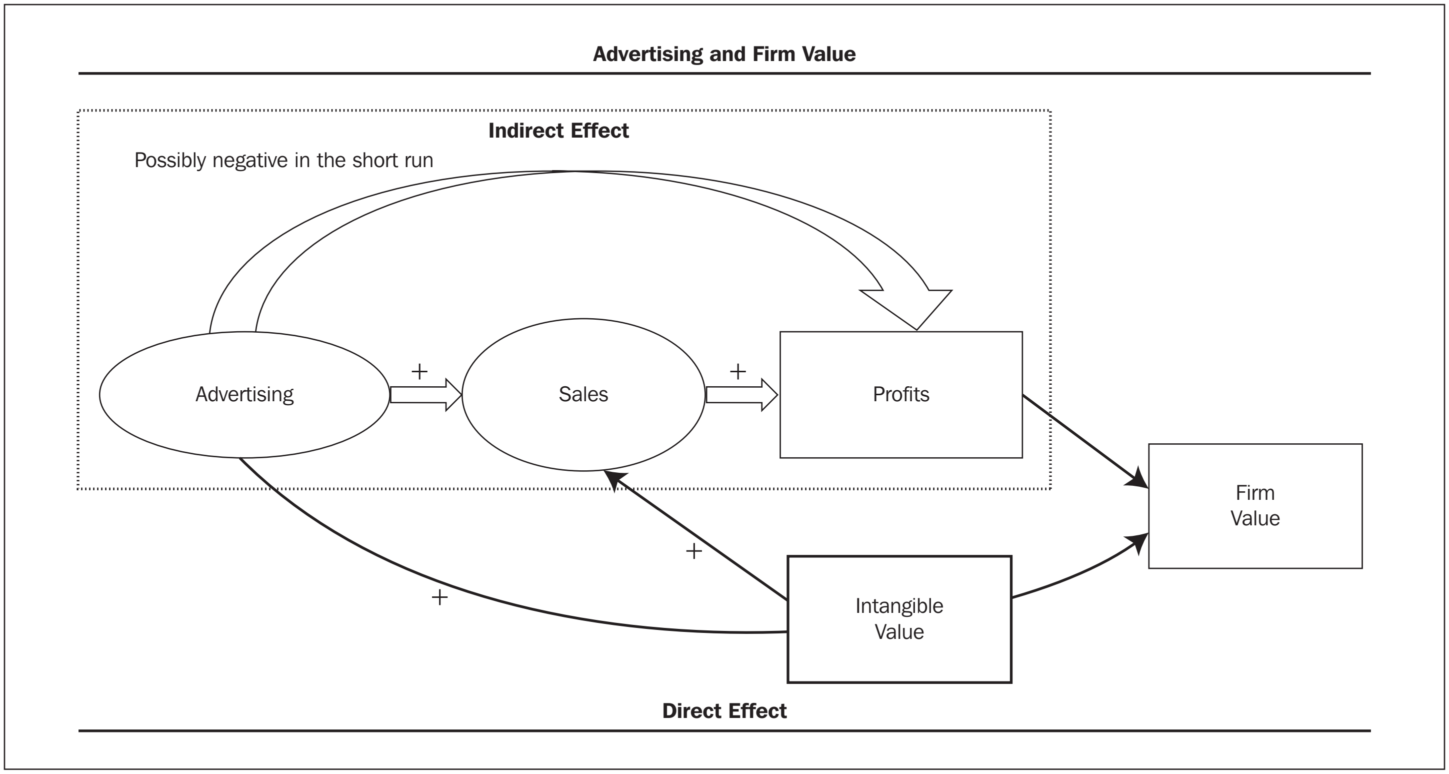

Figure 1 Marketing and Firm Value
Note: + = positive effect. Source: Joshi and Hanssens, 2010.

affects stock price if it results in an unanticipated increase in earnings performance. The authors refer to this as Mechanism 1.

The second influence route is direct, through marketing's creation of market-based assets that investors anticipate will increase the brand's future earnings. The best-known asset is the brand, and insofar as investors perceive marketing as creating additional brand value, they may incorporate that into their financial valuation. This route is more of an attitudinal influence channel, in that it operates on the belief that future cash flows will be affected in ways that are not yet observable. Thus, from a measurement perspective, this direct effect requires a demonstration that the asset creation resulting from advertising will benefit future earnings performance. In the following sections, the authors present two additional mechanisms (Mechanisms 2 and 3) that explain this connection.

Much of the prevailing literature on marketing and company value relies on this dual influence, which addresses previously unexplored investor behavior questions. For example, if superior marketing makes existing customers more satisfied with a brand and this increased satisfaction results in higher consumption and better word-of-mouth in the future, are investor markets able to anticipate these future financial improvements and act swiftly to take advantage of them?

Mechanism 1 (Indirect Route): Advertising Affects Transactional and Financial Data. The first (indirect) route is easy to understand, as it only includes tangible metrics of earnings generation. Advertising influences consumer behavior, which, in turn, is financially advantageous to the company. A dollar spent on advertising has the immediate effect of reducing profits by one dollar, and its effect on sales can be immediate. In some cases, however, advertising may not immediately generate enough incremental sales to replace this dollar of profit, and advertising is, therefore, an investment in future sales and profits. The measurement challenge here is to demonstrate that advertising is responsible for additional earnings creation.

In the second (direct) route, advertising creates an asset that generates future cash flows. The latter is explained by two mechanisms: one focused on information asymmetry and the other on the future cash flow generation of brand assets.

Mechanism 2 (Signaling): Advertising Conveys Useful Information to Investors. Research shows that information asymmetry between companies and investors, in which management has access to unique economic information that investors do not, affects stock markets (Myers and Majluf, 1984). The signaling framework (Spence, 1973) suggests that companies can convey this unique information to shareholders through various signals, including advertising.

Studies in marketing have used a signaling perspective to explain the effects of brand assets on company stock prices (Agrawal and Kamakura, 1995; Lane and Jacobson, 1995; Mathur and Mathur, 1995). Companies with high brand equity gained through increased advertising expenditures tend to have a greater breadth of ownership, as investors perceive greater and more accurate information flows about these companies (Grullon, Kanatas, and Weston, 2004). In addition, companies with strong brands have reputation effects that signal lower risks of company stock to investors (McAlister, Srinivasan, and Kim, 2007; Rego, Billett, and Morgan, 2009). In a similar vein, researchers have argued that advertising reduces information asymmetry between companies and investors by signaling to the marketplace (Luo and de Jong, 2012).

Investors tend to prefer holding stocks of well-known companies, as they are cognitively unable to apply the same level of expertise across an entire universe of stocks (Frieder and Subrahmanyam, 2005). Advertising can help attract a disproportionate number of investors who make their investment decisions on the basis of brand familiarity rather than fundamental economic information (Grullon *et al.*, 2004; Singh, Faircloth, and Nejadmalayeri, 2005). Investors are also sensitive to signals of a company's action beyond publicly available information (Ross, 1977), and they favor companies with more reliable and greater information flows (Klein and Bawa, 1977; Merton, 1987). In summary, advertising can serve as a signal to investors about a company's competitive viability and convey unique economic information that is known only by management. This, in turn, can increase investor confidence, leading to higher stock prices.

Mechanism 3: Brand Assets Create Future Cash Flows. Research shows that investors perceive advertising as contributing to future cash flows because it creates intangible brand assets that reduce company vulnerability (Srinivasan and Hanssens, 2009). Indeed, market-based assets such as brands can increase shareholder value by accelerating cash flows, increasing their level, and reducing their volatility and vulnerability (Sharp, 2010; Srivastava, Shervani, and Fahey, 1998).

Stock prices should fully reflect available information (Fama, 1970), so investors make decisions that are based on expectations of how marketing activity, such as advertising, will affect future cash flows. Advertising expenditures enhance company value by building market-based assets, an effect that would usually be far less immediate. For example, Apple's advertising of successive generations of the iPhone resulted in the acceleration of, and increases in, cash flows because of advertising-generated advantages of a strong brand, including customer loyalty, marketing communication effectiveness, and perceptions of superior product–market performance.

Advertising not only increases cash flows but also reduces their volatility by enhancing the perceived quality of products (Aaker and Jacobson, 1994). Higher perceived quality can reduce price sensitivity among consumers, thus safeguarding cash flows from negative market shocks (Sivakumar and Raj, 1997). The vulnerability of cash flows is also minimized by strong brands, which are better equipped to weather marketing crises and competitive actions (Aaker, 1996). Kellogg's success in the third quarter of 2009, despite the economic downturn, was due to its strong brand loyalty (Skidmore, 2009).

In summary, insofar as advertising enhances investors' perception of brand equity (signaling framework), increased brand equity creates future cash flows for the reasons the authors have described. In combination, this explains the direct effect (*i.e.*, why advertising can influence company value by increasing the company's brand asset). In a subsequent section on advertising and brand equity, the authors discuss extant empirical findings on how advertising influences company value by increasing brand equity.

Advertising actions (expenditures) and marketing assets have different roles in a company's value-creation process (Edeling and Fischer, 2016). Expenditures are a flow variable (*i.e.*, a flow of money during a specific period), whereas marketing assets are a stock variable (*i.e.*, value of the asset at a specific moment in time; Hanssens and Dekimpe, 2008). As such, they differ considerably in terms of their contribution to the discounted future cash inflows and outflows of the company. The authors' review of empirical findings makes the distinction between the two.

Empirical Findings on Advertising and Company Value

From an empirical perspective, different metrics can capture company value. Among them, market capitalization, stock returns, and market-to-book value are the most frequently used. A comparative evaluation of these metrics is beyond the scope of this article. The authors refer readers to Srinivasan and Hanssens (2009) and Edeling *et al.* (2001) for detailed discussions.

Given the multitude of empirical findings on the linkage between advertising and company value, and in the interest of space, the authors present an overview of selected findings that are based on their importance for the practice of advertising. The authors summarize the findings of the advertising, financial, and market effects for both action and asset metrics (See Figure 2). Note that the entries (1) are based on regression coefficients; (2) contain

Stock Return Findings: Most-often analyzed marketing variables

Marketing variable (category)	Stock return +	Stock return 0	Stock return –
Advertising expenditures (actions)	12	8	5
Customers satisfaction (assets)	12	9	0
New production introductions (actions)	15	5	0
CSR (actions)	3	4	4
Alliances (configuration)	12	4	4
Customer-based brand equity (assets)	8	11	0
R&D expenditures (actions)	1	2	1
Product quality (assets)	5	5	0
Financial brand equity (assets)	2	2	0
Product recall (actions)	1	2	5
Earned social media volume (assets)	7	2	0
Earned social media negative sentiment (assets)	0	1	7
Earned social media positive sentiment (assets)	2	1	0
Myopic management (actions)	2	1	5

Identified groups

- Only positive or neutral findings
- Mixed positive and negative findings, but predominantly positive
- Mixed positive and negative findings, more or less balanced
- Stong overweight of negative effects

Figure 2 Overview of Selected Findings on Marketing and Stock Returns
Note: + = positive effect; 0 = nonsignificant effect; – = significantly negative effect; CSR = corporate social responsibility; R&D, research and development.

main effects only; and (3) distinguish among significantly positive, nonsignificant, and significantly negative effects.

The authors show that advertising has a predominantly positive effect on stock returns, along with that of other marketing-mix actions such as product innovations (See Figure 2). Some studies, however, have revealed zero and even negative effects of advertising (*e.g.*, Srinivasan, Hsu, and Fournier, 2012), so the present review focuses on conditions under which the authors expect a beneficial effect. Other marketing variables and assets also show mixed results, although negative developments, such as negative social media sentiment, tend to have a more consistently negative impact.

Advertising Actions

Several studies have demonstrated that advertising can have an impact on a company's stock returns, in addition to its effect on top- and bottom-line performance (Grullon *et al.*, 2004; Joshi and Hanssens, 2009). Meta-analyses have shown that advertising expenditures can increase a company's market value (Conchar, Crask, and Zinkhan, 2005; Edeling and Fischer, 2016). Specifically, advertising can boost a company's visibility with investors, leading to a direct effect on its market capitalization (Joshi and Hanssens, 2009). Advertising can serve as a signal of a company's financial well-being (Gifford, 1997; Mathur, Mathur, and Rangan, 1997). Investors who recognize the benefits of enhanced brand equity resulting from increased advertising (Barth, Clement, Fosthr, and Kasznik, 1998; Rao, Agarwal, and Dahlhoff, 2004) may factor in the long-term effects of advertising when evaluating a company's value, rather than solely considering its current cash flows. In summary, the routes that determine the impact of advertising on stock price include both direct and indirect effects. In what follows, the authors review various aspects of the effects confirmed in scientific literature.

Using a sample of companies that raise significant amounts of equity capital, Grullon *et al.*, (2004) found that such companies increase their advertising significantly more than companies with greater financial leverage (*i.e.*, higher levels of debt than equity capital). This finding suggests that advertising can enhance a company's perceived financial stability. Communicating the differentiated added value created by product innovation can yield greater company-value effects for these innovations, with results that are even stronger for pioneering innovations (Srinivasan, Pauwels, Silva-Risso, and Hanssesns, 2009). Advertising also can enhance market penetration, make launching product extensions easier, and increase customer loyalty, which ultimately reduces cash flow volatility (Fischer, Shin, and Hanssens, 2016) and overall company risk.

Advertising also can influence investor portfolio choices. As noted previously, individual investors tend to prefer holding stocks of well-known companies (Frieder and Subrahmanyam, 2005), and companies that advertise more frequently tend to have a relatively higher number of individual stockholders, whose buy-and-sell decisions may be less coordinated (Xu and Malkiel, 2003). This scenario could reduce systematic risk. Similarly, investors are more likely to buy stocks of companies with higher advertising expenditures, in anticipation that these efforts will lead to the creation of higher profile and more glamorous brands, which, in turn, can lead to "glamour stocks," with more positive investor sentiment (Billett, Jiang, and Rego, 2014). Consistent with this notion, advertising as well as research and development can lower a company's systematic risk (McAlister *et al.*, 2007; Osinga, Leeflang, Srinivasan, and Wieringa, 2011). Osinga *et al.* (2011) found that direct-to-consumer advertising in the pharmaceutical industry can increase idiosyncratic risk, although this increase does not affect investors who maintain a well-diversified portfolio. They argue that the increase in idiosyncratic risk likely occurs because investors perceive such advertising as a risky investment given its limited sales impact.

In a meta-analysis based on a comprehensive analysis of nearly 500 estimates from 83 different scientific studies, Edeling and Fischer (2016) found that the elasticity of company value from advertising actions is .04. This low elasticity, taken at face value, might lead to the perception that advertising has little impact on company value. A closer examination, however, reveals that the dispersion of elasticities both below and above zero implies the opposite: that advertising is a valuable activity for companies, with the caveat that not all the elasticity estimates are obtained in causal settings. An exception is the work of Assael, Ishihara, and Kim (2021), who found that sales lift from television advertising is more effective for light brand users, in a causal setting. Whereas some companies may overinvest in advertising, and others may underinvest, many companies also effectively manage their advertising expenditures in alignment with their financial objectives. Marketers can learn from these successful companies and their management strategies, such as Bayer's budget allocation approach (Fischer, Albers, Wagner, and Frie, 2011), to optimize their own advertising efforts.

Temporal aggregation of advertising actions also matters. Using minute-by-minute television advertising data covering some 300 companies, 327,000 advertisements, and $20 billion in advertising spending, another recent study assessed the real-time effects of television advertising on investors' searches for online financial information and subsequent trading activity (Liaukonytė and Žaldokas, 2022). Those researchers' causal identification strategy accounts for the exposure of viewers in different U.S. time zones to the same programming and national advertising at different times, thus enabling them to control for contemporaneous confounding events. Their findings show that an average television advertisement leads to a three-percent increase in Electronic Data Gathering, Analysis, and Retrieval (or, EDGAR) system queries and an eight-percent increase in Google searches for financial information within 15 minutes of the advertisement's airing. These searches translate into greater trading volume on the advertiser's stock, driven primarily by retail investors. Liaukonytė and Žaldokas validated their findings on retail investor advertisement-induced trading with hourly data from Robinhood, a retail trading platform. They also show that advertisements induce searches and trading of companies other than the advertiser, including close rivals. Taken together, their findings indicate that extant advertising originally intended for consumers has a nonnegligible effect on financial markets.

An earlier study demonstrated the importance of using high-frequency data; it found only reverse causality when using low-frequency data, such as annual observations, to evaluate the relationship between advertising and company value (*i.e.*, higher company value creates more advertising spending; Focke, Ruenzi, and Ungeheuer, 2020). This is the opposite of their finding on short-interval data. Their own analysis on daily data supports the findings of Liaukonytė and Žaldokas (2022) that advertising attracts investor attention, which, in turn, creates a trading volume increase. By contrast, they find no evidence of a short-term effect on stock returns. This result "does not preclude potentially slow-moving investor recognition effects or effects on sales–because of building brand recognition" (Focke, Ruenzi, and Ungeheuer, 2020, p. 4712).

Focke, Ruenzi, and Ungeheuer's (2020) results suggest that conditions exist that render the effect of the relationship between advertising and company value stronger, weaker, or even nonexistent. An important qualification of the relationship between advertising and company value is the distinction between publicly listed companies that are tracked by financial analysts and those that are not (Du and Osmonbekov, 2020). That study found that the relationship between advertising and company value is stronger for companies that are not tracked. Thus, investors view advertising as a signal of company well-being when no external objective information is available. For tracked companies, investors prefer using the projections and advice offered by financial analysts, and, therefore, the impact of advertising is much weaker.

Feedback Effects of Market Value on Advertising

The preceding results establish that investors interpret advertising actions, and, therefore, marketers should incorporate investor behavior in their advertising spending decisions. One earlier researcher noted that "sophisticated managers have found that they can learn a lot if they analyze what the stock price tells about the market's expectations about their company's performance," (Rappaport, 1987, p. 57) He argued that managers who ignore important signals from stock price do so at their own peril. The central premise here is that managers look to stock returns for information, actively respond to that information, and do so differently depending on whether it is good news or bad. Specifically, managers adapt their advertising in response to stock price

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return and volatility signals (Park, Chintagunta, and Suk, 2019); that is, there are feedback effects from financial performance to advertising. Companies also react to a greater unpredicted proportion of abnormal returns to new drug approvals by increasing the marketing budgets for these products (Park, Chintagunta, and Suk 2019). This managerial practice of listening to the stock market is rewarded in the product market in this case, as postapproval advertising sales elasticities are also higher. A related study found that companies increase their advertising expenditures significantly when the general investor sentiment (measured by variables such as number of initial public offerings in the market) is high (Mian, Sharma, and Gul, 2018). That study showed, in contrast with Park *et al.*, (2019), that such a practice should be avoided, as advertising effectiveness is lower when sentiment is high.

The opposite pattern (*i.e.*, reducing advertising spending when economic conditions are harsh) is a form of myopic marketing management – that is, the practice of "overemphasizing strategies with immediate payoffs at the expense of strategies with superior but more distant payoffs" (Mizik, 2010, p. 594). This pattern occurs frequently (20 percent of observed cases) and has more severe long-term negative consequences than the effects of accruals-based earnings manipulation (Mizik, 2010). Research indicates that marketing myopia is especially common among companies that use share repurchases to increase short-term earnings per share and that its long-term negative consequences extend beyond the financial market to the product market in terms of a higher number of product recalls (Bendig, Willmann, Strese, and Brettel, 2018). The good news is that companies can reduce myopic management by increasing marketing's relevance in the organization, including by having a powerful marketing department and a chief executive who has a marketing background (Srinivasan and Ramani, 2019).

In summary, advertising has a predominantly positive effect on company value; it affects cash flows, decreases systematic risk, and increases idiosyncratic risk of the company. In addition, the feedback effects from stock market performance to advertising expenditure may or may not be beneficial to the company. Overall, the effect of the relationship between advertising and company value is stronger for companies that are not tracked by financial analysts.

Sponsorships and Price Promotions

Sponsorship refers to an "investment, in cash or in kind, in any activity, in return for access to the exploitable commercial potential associated with that activity" (Meenaghan, 1991, p. 36). Sports sponsorship has become an important advertising tool for companies (*e.g.*, Eshghi, 2022). The sports sponsorship literature is equivocal about the value that these announcements generate, with conflicting results on how they affect shareholder wealth (Cornwell and Kwon, 2020). Some studies show a positive impact around the announcement date (Abril, Sanchez, and Recio, 2018; Clark, Cornwell, and Pruitt, 2002), whereas others indicate a negative effect (*e.g.*, Martinez and Janney, 2015) or mixed results (*e.g.*, Cobbs, Groza, and Pruitt, 2012).

One recent study addresses these contradictory findings by undertaking a meta-analysis on stock reactions to sport sponsorship announcements, using 3,192 of these announcements taken from 36 studies and 41 samples (Eshghi, 2022). On aggregate, these announcements drew the attention of shareholders, given the positive and significant cumulative abnormal return; but this positive effect mostly occurred in the 1990s and became negative in the 2000s. Eshghi also found that shareholders viewed sports sponsorship investments favorably when there was a functional and geographic congruence between sponsors and sponsored events.

In summary, sponsorships have a positive impact on company value, although their effect has deteriorated over time. Further research is necessary to examine the conditions under which a beneficial effect is likely to occur.

As for price promotions, they can have a negative impact on brand equity, despite their ability to generate short-term increases in sales and revenue (Mela, Gupta, and Lehmann, 1997). The negative effect of promotions on brand equity is primarily through a lowering of the price premium. The per-unit margin of the promoted brand may be affected, leading to increased switching from higher to lower margin brands, or vice versa. Although several studies have examined the impact of price promotions on revenues, the impact on company valuation is relatively underresearched. Overall, research shows that investor reactions to price promotions are negative (Pauwels, Silva-Risso, Srinivasan, and Hanssens, 2004; Srinivasan *et al.*, 2009).

Another study found that direct-to-physician price promotions in the pharmaceutical industry have a positive effect on idiosyncratic risk, which is consistent with the negative impact on stock returns (Osinga *et al.*, 2011). The negative impacts on returns and volatility are likely due to two reasons: Price promotions may both signal desperation and project lower company earnings. Managerial inertia may explain why the short-term sales success of promotions makes them attractive for managers to continue using them (Nijs, Srinivasan, and Pauwels, 2007). This results in a vicious cycle of competitive promotion escalation, eventually eroding brand equity, profit margins, and company value. In summary, price promotions have a negative impact on brand equity and company value in the long run.

Digital Advertising

In the digital age, the rapid dissemination of new information and the availability of new performance metrics have led to a discussion of investor effects that are unique to online advertising. Companies allocate their advertising expenditures across online and offline channels, and research suggests that online advertising has stronger targeting and tracking abilities, whereasoffline advertising is more effective at brand building (Bleier and Eisenbeiss, 2015; Li and Kannan, 2014).

The limited evidence on online communication actions suggests that the impact of online advertising on company value falls between the effects of offline national and regional advertising. For example, Sridhar, Germann, Kang, and Grewal (2016) found that a one-percent increase in national advertising decreases regional advertising effectiveness by .08 percent and online advertising effectiveness by .43 percent. Similarly, a one-percent increase in regional advertising decreases national advertising effectiveness by .35 percent and online advertising effectiveness by .36 percent. By contrast, a one-percent increase in online advertising decreases national advertising effectiveness by .15 percent and regional advertising effectiveness by .03 percent. These negative interaction effects among the three media types suggest weak communication integration or a ceiling effect of the impact of advertising in general. Other researchers have demonstrated that paid search advertising has a more positive effect on sales than offline advertising, possibly because it is closer to the actual purchase decision and has enhanced targeting abilities (Bayer, Srinivasan, Riedl, and Skiera, 2020). They also found that display advertising has a relatively more positive effect on Tobin's q (a measure of company value) than offline advertising.

Social media communications and apps are part of a broader set of digital and social media tools that can affect performance outcomes. Social media communications can be categorized in terms of paid, owned, and earned social media. Various studies have examined the impact of social media on company value. Researchers have found that a company's owned social media has both direct and indirect effects on abnormal stock returns, with both the volume and negative sentiment of social media affecting stock prices significantly (Colicev, Malshe, Pauwels, and O'Connor, 2018). Mobile apps also play a crucial role, with the intended purpose of the app (*e.g.*, social interaction versus purchase) moderating the effect on company value (Boyd, Kannan, and Slotegraaf, 2019; Cao, Liu, and Cao, 2018). App designs emphasizing social-oriented features have a positive effect on company value, and those emphasizing transaction-oriented features have a negative effect.

Research has also extensively examined earned online buzz, especially in social media. Negative chatter can hurt company performance, whereas positive chatter does not have an equivalent positive impact on company value (Colicev *et al.*, 2018; Tirunillai and Tellis, 2012). Negative chatter can also positively affect competitor stock returns but affects them negatively during product recalls (Borah and Tellis, 2016; Tirunillai and Tellis, 2012). Social media, however, appears to be a stronger predictor of stock returns and risk than traditional online buzz metrics, such as online search and web traffic (Luo, Zhang, and Duan, 2013). X (formerly Twitter) tweets and Amazon product reviews are critical predictors of abnormal returns (Bartov, Faurel, and Mohanram, 2018; Huang, 2018). In summary, online digital advertising and social media actions by companies have a positive effect on company value, whereas negative sentiment on social media has a negative impact on stock prices.

Examining the Connection Between Advertising and Brand Equity

Advertising can boost company value by increasing the company's brand asset combination (*i.e.*, through the direct effect), as discussed previously. The authors now discuss extant empirical findings on how advertising affects company value through its effects on brand equity.

Advertising can affect brand equity through three routes (Keller and Lehmann, 2006). First, it enhances customer-based brand equity, essentially moving the consumer forward through a hierarchical sequence of events, including cognition (*e.g.*, awareness, knowledge); affect (*e.g.*, liking, desire); and, ultimately, behavior (*e.g.*, purchase, loyalty) (Vakratsas and Ambler, 1999). Second, advertising can boost market-based brand equity by differentiating brands that can then be leveraged to extract superior product-market performance. Third, advertising can serve to influence financial-based brand equity by building intangible asset value (Joshi and Hanssens, 2009).

Customer-Based Brand Equity. Research provides strong evidence that metrics of advertising-generated brand equity—such as brand stature, as measured by Young & Rubicam's Brand Asset Valuator model—are positively associated with shareholder value (Pahud de Mortanges and Van Riel, 2003). Brand distinctiveness

Investors tend to prefer companies with highly recognized brands, as the greater the familiarity with the company, the more information investors can access.

plays a critical role in enhancing a company's communication with stakeholders, leading to growth in sales, market share, and profitability (Wong and Merrilees, 2008). Perceived brand relevance and energy, two key metrics in the updated Young & Rubicam Brand Asset Valuator model, provide incremental information to accounting measures in explaining stock returns (Mizik and Jacobson, 2008). Those researchers also found that the effects of brand esteem and knowledge on stock returns are reflected in current-term accounting measures, as well as in brand relevance and energy. Their study suggests that companies working to increase brand differentiation may not receive immediate abnormal returns but may do so in subsequent periods. Other researchers estimated a model in high-technology markets (*e.g.*, Apple, Compaq, IBM) that assesses brand attitude and its incremental value relevance to stock market performance (Aaker and Jacobson, 2001). They found that a change in brand attitude has a significant influence on stock returns, comparable with that of unanticipated returns on equity.

Another group suggested that customer loyalty, a customer-based brand equity metric, has a more significant impact on company value than margin or acquisition cost (Gupta, Lehmann, and Stuart, 2004). Specifically, their research showed that a one-percent increase in customer retention results in a five-percent increase in company value. This finding underscores the importance of customer relationship management, in which retaining customers is crucial (Thomas, Blattberg, and Fox, 2004). In addition, perceived quality positively affects brand profitability, market share, customer perceived value, and stock prices (Aaker and Jacobson, 1994). Others also found that brand familiarity and perceived quality influence investor preferences, with investors influenced more by brand visibility than by brand quality perceptions (Frieder and Subrahmanyam, 2005). Investors tend to prefer companies with highly recognized brands, as the greater the familiarity with the company, the more information investors can access.

In a more recent study, researchers reexamined the brand equity impact of advertising and found that Super Bowl advertising resulted in improved stock performance, with a stronger effect on brands with higher preevent brand equity; notably, customer-based brand equity mediated this improvement in stock performance (Raithel, Taylor, and Hock, 2016). Those researchers also demonstrated that advertising and other investments can increase customer-based brand equity, which, in turn, affects financial leverage and credit spread, ultimately leading to higher levels of financial resources Fischer and Himme, 2017). These findings are consistent with Huberman's (2001) study, which highlights a significant impact of advertising on financial outcomes.

A separate study demonstrated that changes in brand quality, as measured by EquiTrend, improve stock returns and reduce idiosyncratic risk, thereby enhancing shareholder wealth (Bharadwaj, Tuli, and Bonfrer, (2011). Unanticipated negative changes in brand quality, however, can erode shareholder wealth by increasing systematic risk. Research has also shown that customer-based brand equity has a negative association with both debt-holder and equity-holder risks of companies (Rego *et al.*, 2009). In summary, customer-based brand equity is positively related to company value and negatively related to both idiosyncratic and systematic risk.

Market-Based Brand Equity. Studies have examined the link between customer-based brand equity and market-based brand equity models to demonstrate that customer mindset measures affect the brand's performance in the market (*e.g.*, Srinivasan, Vanhuele, and Pauwels, 2010). Researchers have shown that revenue premium (*i.e.*, resulting from higher sales and/or higher price premium) as a measure of brand equity not only is stable but also reflects changes in brand value over time (Ailawadi, Lehmann, and Neslin, 2003); however, these researchers did not consider stock performance impact. This area would benefit from additional research, including an assessment of the impact of market-based brand equity on risk. Insofar as market-based brand equity results in a revenue premium for brands, it is likely to have a positive effect on company value.

Finance-Based Brand Equity. Brand valuation consultancies such as Interbrand and Brand Finance periodically measure finance-based brand equity. An older study provided evidence for the reliability of brand value estimates using Interbrand's methodology, showing that such estimates are significantly and positively associated with advertising expenses, brand operating margin, and brand market share (Barth *et al.*, 1998). Brand value estimates are positively related to share prices even after controlling for recognized brand assets and analysts' earnings forecasts. Another study from the same time frame found a positive relationship between financial brand value and market-to-book ratio using Interbrand's estimation of brand equity (Kerin and Sethuraman, 1998). More recently, Madden, Fehle, and Fournier (2006) demonstrated that investing in branding and cultivating strong brand assets can lead to higher shareholder value with less risk. By contrasting a portfolio of 111 companies' brands listed on Interbrand's World's Most Valuable Brands at least once between 1994 and 2001 against a benchmark, they showed that brand value creation positively affects company value. Others further supported the importance of brand metrics by showing that they can improve the predictive power of company value, reducing prediction error by a significant 16 percent (Mizik and Jacobson, 2009). Although discussion about the inclusion of brands in financial statements is ongoing in the accounting community (Barth *et al.*, 1998; Lev and Sougiannis, 1996), it is generally accepted that brands operate as intangible assets of a company.

Simon and Sullivan's (1993) technique for estimating finance-based brand equity revealed that investors do not disregard brand equity when valuing firms. Their study showed that finance-based brand equity indicators are reflected in stock prices, responding to both positive and negative marketing events. Specifically, the researchers observed the introduction of Diet Coke and the Food and Drug Administration's approval of aspartame for use in soft drinks as events that enhanced customer-based brand equity and market-based brand equity, whereas the introduction of New Coke shifted demand to competitors. In addition, studies on the Tylenol poisonings and Ford-Firestone product recall provide evidence of the significant impact of crises on brand-name capital depreciation and subsequent losses in company market value (Govindaraj, Jaggi, and Lin, 2004; Mitchell, 1989). Overall, research indicates that improvements in finance-based brand equity have a positive impact on company valuation, whereas deterioration has a negative impact; improvements in finance-based brand equity can also reduce company risk.

From a practical perspective, marketing departments are facing increasing pressure to demonstrate the value relevance of their marketing investments to maintain their influence within the company (Verhoef and Leeflang, 2009). A more recent study found that the elasticity of company value with respect to brand strength is .33, whereas the elasticity of company value with respect to customer relationship strength is .72 (Edeling and Fischer, 2016). This implies that marketing actions that are intended to strengthen the brand or improve customer relationships should be treated as investments rather than mere expenses, as they can significantly affect company value. Brand relationships may also contribute to customer relationship strength (Calder, Malthouse, and Omatoi, 2023), and in some sectors in which brand associations such as prestige are important, one metric (brand) may be a subset of the other (customer relationship), which could explain the higher company-value elasticity for customer relationships. These findings are encouraging for marketing managers for three reasons. First, they highlight the value relevance of marketing and its potential impact on company value. Second, they suggest that there is still room for further marketing investments to drive company value. Third, they provide a direct link to marketing practice, as managing marketing assets is a more actionable approach for marketers than managing shareholder returns. Taken together, the findings on advertising's link to company value highlight the direct signaling role of advertising and its effects through brand quality and brand equity.

Marketing actions that are intended to strengthen the brand or improve customer relationships should be treated as investments rather than mere expenses, as they can significantly affect company value.

CONCLUSIONS

Contributions

This article makes three contributions. First, it summarizes the empirical findings on the advertising spend and company value relationship. Second, it explains the conditions that affect the relationship and the mechanism (*i.e.*, how advertising spend affects company value). Third, it suggests and sets up a future research agenda. By advertising their brands and products, companies serve the interests of both their customers and their investors. Despite the popular belief that investors care only about short-term earnings, the literature confirms that investors are able to project the impact of companies' advertising into the future and make investment decisions accordingly. Thus, Wall Street is reasonably in sync with Main Street, and insofar as consumers react positively to company advertising, investors will follow or even anticipate these reactions. Investors infer that advertising spend signals management confidence in the future of the company (*i.e.*, growth in sales and profits).

Of the two influence routes in Figure 1, the direct route is stronger, and to the extent that advertising enhances brand value, that impact translates into higher company value. For the indirect route (*i.e.*, from advertising to sales to profits), the effect has some contingencies. In particular, advertising spending should not be excessive but within reasonable levels, in line with advertising's effectiveness and the company's profit margins. In addition, if investment analysts track the company, advertising is less likely to affect stock price, and vice versa. Finally, the interaction of advertising with other marketing-mix variables matters. When a company innovates and then supports that innovation with advertising investments, a stronger stock price impact occurs. Conversely, price promotions have a negative effect on stock price, so their amplification with advertising will not be positive.

Future Research Agenda

The present review emphasizes the role of investors in the formulation and implementation of advertising investments. The evolution of the interface between marketing and finance has resulted in a large body of empirical research that is based on econometric models that help quantify the relationships. Given the review's focus on the relationship between advertising and company value, the authors review the findings from prior research to provide a rich research agenda for marketing scholars in this domain.

Several important questions about the relationship between advertising and company value await further research. With the growth of digitalI and Internet advertising, the authors call for research on whether the trend in diverting resources from television to digital advertising affects the long-term health of intangible brand assets. For example, Adidas acknowledged that a focus on advertising efficiency rather than effectiveness, driven by a fiduciary responsibility to shareholders, led it to overinvest in digital advertising at the expense of long-term brand building (Graham, 2019). Relatedly, how has the relationship between advertising and company value changed in the past decades since information flows (*i.e.*, the internet) have become more pervasive? How might the relationship change in the future? Some relationships may have fundamentally changed over time (*e.g.*, sponsorships). Another question is whether other mechanisms need to be revisited, given access to better data and models. On the topic of digital advertising, additional studies on investor reaction to company risks around data privacy and data breaches are warranted. When "going-dark" advertising periods are not available in historical data, research could use an experiment to create going-dark conditions and measure their impact (Hartnett, Gelzinis, Beal, *et al.*, 2021).

In addition, research on the use of machine learning and artificial intelligence in companies and their relevance for the link from advertising to company performance could enhance understanding of the value-risk tradeoffs attendant with their use. The information landscape is changing with the advent of ChatGPT and large language models. How will companies' utilization of these technologies influence stock prices? These technologies fit more closely with marketing efforts (*e.g.*, a company changing its products to incorporate these technologies), but they also apply to advertising. On the topic of corporate responsibility, increasingly salient are socioeconomic and political issues, many of which have the potential to damage company value when companies, their marketing campaigns, or the behaviors of individual corporate leaders run afoul of these trends (Fournier, Srinivasan, and Marrinan, 2021). Given rising stakeholder expectations regarding socioeconomic and political issues such as immigration, gender, #MeToo, race, political ideology, income inequality, and gun control, companies can easily find themselves in situations—whether by intended action or by unintended association—in which they must endure bad publicity, consumer protests, value-damaging boycotts, or worse. For instance, on April 1, 2023, Bud Light introduced an advertising campaign in collaboration with Ms. Mulvaney, a transgender social media influencer with 10.8 million followers on TikTok. Bud Light's social media advertising campaign met with immediate widespread disapproval, resulting in a 23-percent decline in sales and a significant erosion in company valuation for its parent company, Anheuser-Busch InBev SA. Its stock price dropped 20 percent, from $66.53 on April 3, 2023, to $53.40 on May 3, 2023 (O'Kane, 2023). Further research is warranted on these emerging risks that generate stakeholder attention, brand devaluation, and attendant company value drawdowns. The feedback relationship (*i.e.*, stock price changes influencing advertising decisions) remains ambiguous, and the circumstances under which the feedback loop is helpful or damaging to the company remain unknown. Executives should avoid the negative aspects of the feedback loop created by myopic management. In addition, although external conditions can make the connection between advertising and company value stronger or weaker, other such conditions need to be uncovered. On the topic of influence mechanisms between advertising and finance, future research could investigate how investor expectations, investor attention, and actual net present value of future cash flows jointly affect stock returns and which mechanisms are more important in which situations.

Managerial Implications

The main managerial implications of this research stream are fourfold: Advertising that lifts sales lifts company value; advertising lifts brand assets; advertising works better in conjunction with new products (*i.e.*, value communication goes hand in hand with value creation); and advertising conveys information to investors, although only when the company's stock is not tracked. Overall, marketing executives have some assurance that their advertising efforts are being noticed by the investor community and have a generally positive impact on company value. The effect is different for tracked versus untracked companies, as well as for retail versus institutional investors. Long-term brand-building efforts are not punished by Wall Street; rather, in most cases, they are appreciated and incorporated in metrics of company value. Future research should further examine the conditions under which the effects are positive or nonsignificant. JAR

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