

Determinants of Advertising Activities for Sport, Entertainment, and Leisure (SEL) Firms

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**25-minute oral presentation
(including questions)**

Background

The principles of strategic management have been advocated for and used with varying degrees of success in the context of sport (Gerrard, 2003, 2005; Shilbury, 2012). One interesting application of the strategic management perspective is strategic sport marketing, defined as planning, implementing, and controlling components of the marketing mix to meet organizational goals and satisfy consumer needs (Shank, 2005). From this perspective, each marketing-related input is considered a strategic resource, which can be combined, altered, and reconfigured with other inputs (i.e., resources) over time. Additionally, this process of resource utility is impacted by intra-firm and extra-firm contingencies (Shank, 2005). This perspective is especially salient because managers are increasingly being asked to accomplish more with fewer resources (Shank, 2005). Therefore, using perspectives that emphasize the handling of resource acquisition and deployment are critical to sport organization success. This perspective has ushered robust theoretical discussions regarding the antecedents and outcomes of strategic sport marketing. However, the corresponding lines of research are not well developed and four primary limitations exist with the empirical examination of strategic sports marketing.

First, Zaharia et al. (2016) stated that much of the research in this area has utilized indirect measures of behavior (e.g., purchase intentions) rather than direct behavioral assessments (e.g., purchases). Second, Funk and colleagues (2016) asserted that research in this domain has been limited to cross-sectional analyses that fail to consider trends over time. Third, others in sport management have asserted that much of our field's research (i.e., marketing included) fails to adopt a multilevel perspective (Cunningham, 2010). Finally, sport marketing and consumer behavior research has focused almost exclusively on: (a) the sport spectator as the sole consumer and (b) the sport team/franchise (PSF) as the firm. A comparative dearth of literature has addressed other categories of sport consumers and/or other categories of SEL firms.

The purpose of this paper is to address all four concerns in the context of advertising behavior among four SEL industry segments. In doing so, we hope to reveal some temporal and multilevel influencers of organizational advertising budgets as well as the efficiency with which advertising dollars are deployed. We do so in the context of SEL firms that are by their nature experiential-based and participatory in nature, which in turn allows for the examination of the sport participant as the consumer (Shank, 2005).

Hypotheses

The study aims to reveal determinants of advertising spending for our sample of firms. As a starting point, and as is the basis of contingency frameworks, we note industry-level differences in the allocation of resources (Porter, 1981; Shank, 2005). Therefore, we posit:

H1a. There will be significant differences between SEL industry segments' advertising spending.

H1b. SEL segment 4 (listed below) will report significantly higher advertising budgets than the other segments.

H1c. SEL segment 4 will report significantly higher advertising efficiency than the other segments.

Also, firm-level characteristics are a strong driver of performance and thus competitive advantage (Wernerfelt, 1984). In the context of predicting advertising behavior, we expect differentiation to play an important role. Porter

(1980) explained that differentiated firms produce high-quality products, often passing along costs to the consumer in the form of higher prices. Naturally, persuading consumers to be less price sensitive and cultivating a high-quality brand image is difficult to achieve with minimal advertising resources. Therefore, we expect:

H2a. Firms that compete as differentiators will be associated with higher advertising budgets.

H2b. Firms that compete as differentiators will be associated with higher advertising efficiency.

Method

Sample. We obtained financial and accounting data for 1,565 firm-year observations tied to 178 firms within four SEL industry segments (1. apparel, piece goods & footwear; 2. eating and drinking places; 3. hotels, sporting and recreational camps; 4. amusement parks, theatres, bowling, racing, physical fitness, orchestras, and golf).

Measurement. Our dependent variables are: (a) advertising expense and (b) advertising efficiency. Advertising expense is the logarithmic transformation of organizational yearly advertising-related spending. Advertising efficiency is the logarithmic transformation of advertising expense divided by sales. The independent variable in H1 is an indicator variable corresponding to one of the four SEL industry segments. We will repeat the regression equation four times, leaving out a different baseline group each time to ensure a complete analysis. The independent variables in H2 is differentiation, which we operationalize as the confluence of two accounting metrics: (a) cost of goods sold (COGS), and (b) research and development (R&D) expenditure. We also include a vector of control variables to minimize any spurious relationships, thereby increasing the validity and reliability of our results.

Analyses. To test the first set of hypotheses, we will regress our controls and predictors on: (a) advertising expense and (b) advertising efficiency, using robust standard errors to account for heteroscedasticity and year fixed effects to control for time dependencies. To test the second set of hypotheses, we regress our controls and independent variables on: (a) advertising expense and (b) advertising efficiency using the generalized method of moments (system GMM) estimator first described by Arellano and Bond (1991) and later updated by Arellano and Bover (1995) and Blundell and Bond (1998). Using the system GMM estimator has four advantages: (1) it accounts for volatility of the outcome variable and its relationship to (i.e., dependence on) previous years' values, (2) it accounts for effects of unobserved firm-specific heterogeneity, (3) it accounts for endogeneity between predictors and outcome variables, and (4) it accounts for autocorrelation and heteroscedasticity of the dependent variable.

Expected Results

In regards to our first set of hypotheses, we expect to see significant differences between each of the four SEL industry segments, with group 4 having the strongest positive coefficient in relation to each of the other segments. In regards to the second set of hypotheses, we expect to see significant and positive coefficients for both COGS and R&D expenditure in both regressions. We expect to have the analyses and interpretation complete in the coming month but not in time for the abstract submission deadline.