



On the Value Relevance of Retailer Advertising Spending and Same-store Sales Growth

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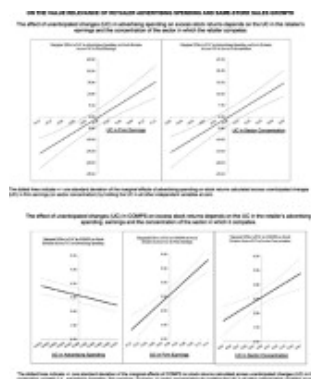
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Abstract

In response to recent calls to study factors that determine a retailer's stock price, this study draws on signaling theory to examine the impact of two key marketing metrics that are widely disclosed by retailers to investors, advertising spending and growth in same-store sales (COMPS), and highlights the moderating role of various firm- and sector-specific factors. Using a stock-response model estimated on a sample of 1,646 observations for 257 retailers, the authors find that the value relevance of advertising spending and COMPS depends on the financial condition of, and the competitive pressures faced by, the retailer. In addition, the positive effect of COMPS on stock returns is found to be stronger in the presence of decreases in advertising spending.

Graphical abstract

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Highlights

► We build and empirically test a theoretical framework that outlines the impact on the retailer's stock returns of two key marketing metrics disclosed by retailers to investors: advertising spending and growth in same-store sales (COMPS). ► Using a stock-response model estimated on a panel of 257 retailers, the authors find that the value relevance of advertising spending and COMPS depends on the financial condition of, and the competitive pressures faced by, the retailer. ► Also, the effect of COMPS on stock returns is stronger in the presence of decreases in advertising spending.

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Keywords

Value relevance; Advertising spending; COMPS; Same store sales growth; Earnings; Leverage; Firm value

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