THE INFLUENCE OF ONLINE DISPLAY ADVERTISING ON SALES AND FIRM VALUE

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ABSTRACT

In this study, we find positive associations between online display advertising and future sales and firm value, using a rich advertising dataset that spans two decades. While the magnitude of theses associations varies over the last twenty years, we find that online display advertising continues to be positively and significantly associated with future sales and firm value over the long-term. This study contributes to the literature by demonstrating that even with the ever-growing number of digital advertising options available, as a well-established advertising medium, online display advertising continues to generate significant value for firms, making it an important consideration for inclusion in firms' comprehensive advertising strategies.

Keywords: *Advertising; Display advertising; Firm Performance; Firm Value*

1. INTRODUCTION

Online advertising is an important component of conducting business in the modern economy, with US advertisers alone currently spending more than $200 billion dollars annually (IAB, 2023). The modalities and media choices available to firms to communicate with their customers through advertising have expanded rapidly in recent years. In addition to traditional advertising media options, such as TV, magazines, or billboards, advertisers can now select from a host of emerging media choices. As online advertising expenditures have progressively increased since the introduction of internet advertising in the 1990s, the number of online advertising options have also expanded at an unprecedented pace in recent years. As part of this expansion, advertisers must now make decisions to choose from seemingly innumerable digital media options, ranging anywhere from the earliest form of online display advertising, such as *banner* advertisements, all the way to interactive *connected TV (CTV)* advertisements, such as those streaming through connected devices, such as Roku or Apple TV media players.

Given the extensive number of advertising media options available, making strategically informed advertising decisions can be challenging for firms (Danaher et al., 2010), particularly when seeking to forecast the impact of current advertising expenditures on future sales and firm value. Additionally, while the impact of using well-established advertising media, such as TV or print advertising, has been extensively studied and documented (Sorce and Dewitz, 2007; Rubinson, 2009; Moorman et al., 2022), many emerging digital advertising options haven't been available long enough to fully assess their long-term financial impact. One of the exceptions is *online display advertising* which, although a form of digital advertising, has been actively utilized as a marketing communication medium for more than two decades (Novak and Hoffman, 1997; Hofacker and Murphy, 2000).

In this research, we investigate the long-term effects of online display advertising on meaningful long-term benefits to firms, in terms of future sales and firm value. Previous empirical research into the relationship of advertising to sales and profits has resulted in confounding results. For example, Hollis (2005) demonstrates that advertising contributes to brand building, which predicts increased probability of purchases, thus increased sales. In addition, Luo and de Jong (2012) cite several studies that find that advertising "boosts future sales and profits of the firm." On the other hand, Meyer and Ujah (2017) find a negative relationship between marketers' discretionary advertising expenditures and return on assets, return on sales, and return on cash. Additionally, Erickson and Jacobson (1992) and Han and Manry