

## MSI Webinar: Marketing and Firm Value

January 31, 2023 | Virtual | 12:00 pm – 1:00 pm EST

### Speakers:

Dominique Hanssens - *Distinguished Research Professor of Marketing, University of California, Los Angeles*

Shuba Srinivasan - *Professor of Marketing, Boston University*

### Overview:

In this MSI Webinar, Shuba Srinivasan (Boston University) and Dominique Hanssens (University of California, Los Angeles) discussed the shift from the traditional marketing focus on success in the marketplace (e.g., sales or share), towards **a focus on the contribution of marketing activities to firm value**. In the webinar, the speakers examined the findings from their book on this subject, "Marketing and Firm Value." In the opening, Hanssens argued the need for an update in the "marketing and finance interface" and cited CEO of BlackRock, Larry Fink, who has said "a company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders," which should include the value of customers, employees, suppliers, communities, etc.

Shuba Srinivasan provided background on the academic research on what constitutes firm value. Srinivasan considered the stock market reaction to brand building and new products and how investor behavior in turn influences managers and the different types of marketing activities the firm engages in. In her discussion, Srinivasan explored the marketing-finance interface by considering stock prices as a recognized metric of firm health and the **efficient markets' hypothesis** (EMH) "which states that all value-relevant information about firms is incorporated immediately and fully in their stock prices." Srinivasan supported her argument on the link between marketing and firm value by providing a variety of evidence from the relevant literature.

Dominique Hanssens began his part of the discussion by examining marketing beyond branding and firm value. In particular, he highlighted specific elasticities (percent change metrics) of different marketing actions and to the extent to which they can increase firm value. Other topics detailed by Hanssens included the increased value of customer relationships in addition to brand value—and their relative impact on firm stock prices. In addition, he noted the positive effects and challenges that come with product innovation.

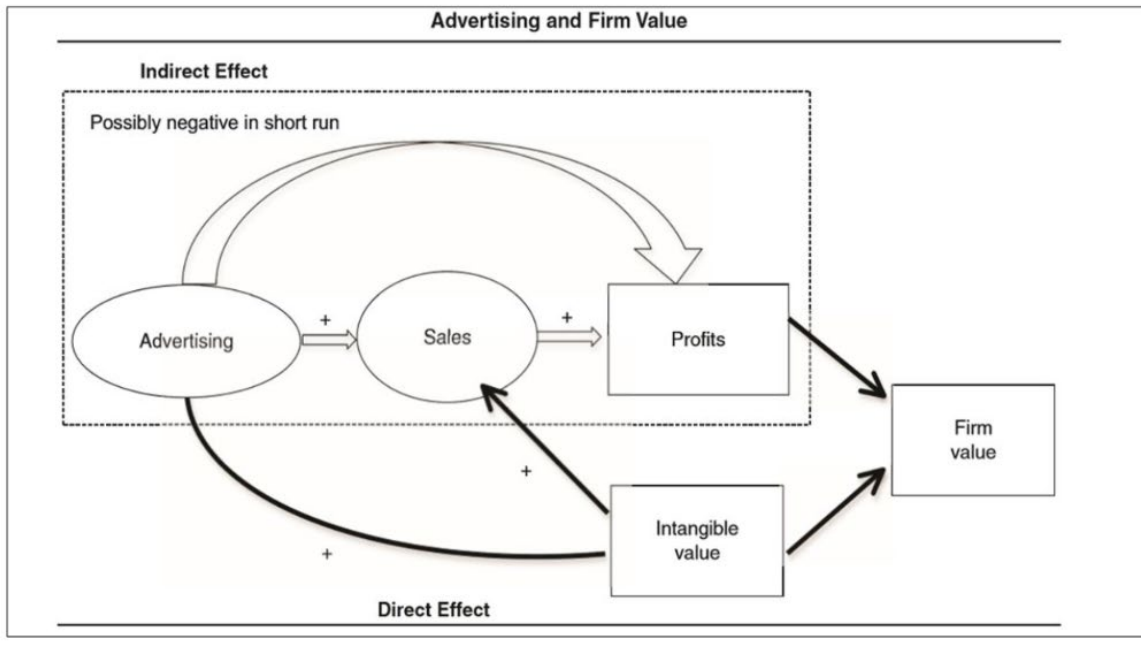
### Takeaways

- From a strategic perspective, **the value of the firm in many respects is the “ultimate metric of the success of an organization.”**
- It is **very myopic to only look at shareholder value as the ultimate value of the firm** (which should also consider customer value, employee value, supplier value, etc.).
- **Firm value needs to be considered as a function of** marketing and other drivers.

#### *Marketing and Finance Interface*

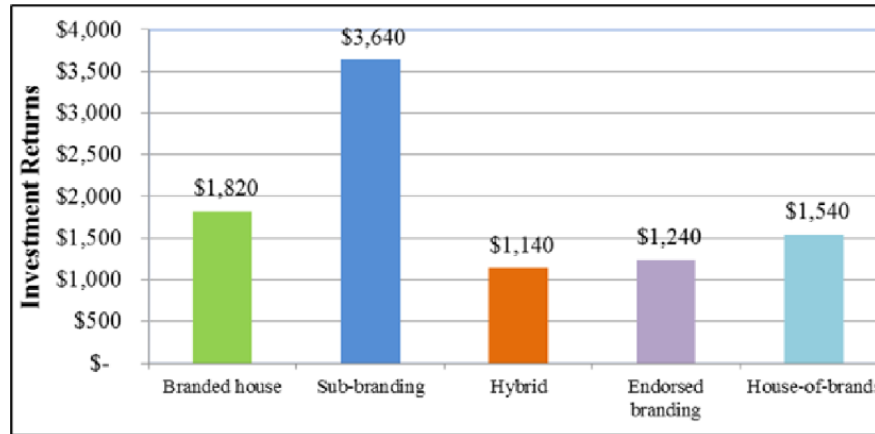
- **"Stock price is a recognized consensus metric of a firm's economic health** and, as such, marketers are well served by knowing which of their actions, if any, either lift or depress stock prices."
- **"Finance literature on asset pricing relies heavily on the efficient markets' hypothesis (EMH),"** which specifies that **"all value-relevant information about firms is incorporated immediately and fully in their stock prices."**
- **Efficient market's hypothesis (EMH)** can be expressed in three forms:
  - **Weak efficiency** (only historical information on the firm is incorporated),
  - **Semi-strong efficiency** (historical data plus newly emerged public information)
  - **Strong efficiency** (semi-strong efficiency plus private information).
    - **This has been ruled out** empirically due to the illegality of insider (private) information in stock trading.
- There is a general consensus in the financial community that **market efficiency (EMH) lies between its "weak and semi-strong form."**
  - This indicates a vital "connection with the marketing discipline" due to the nature of marketing, which most always involves the release of new and publicly available information (i.e. introduction or success of a new product, information on advertising programs, etc.).
    - **News about marketing can affect stock prices**, favorably or unfavorably, based on the news, creating a link between marketing and firm value.
    - Stock market valuation should be in sync with product market valuation because **actions driving value in product markets should be reflected in the value of the firm.**
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*\* The below graphic demonstrates the link between marketing and firm value through a direct or indirect route.*

**Marketing and Firm Value (Source: Joshi and Hanssens 2010)**

- A quantitative synthesis of the literature showed that marketing **variables such as customer satisfaction, new product introductions, brand equity, or earned social media volume containing positive sentiment can have a positive effect on firm stock.**
- Conversely, the synthesis of the literature showed that marketing **variables such as product recalls, negative customer sentiment on earned media or marketing myopia can have detrimental effects on the value of the firm.**
- **Insights from brand equity literature:**
  - Strong brands "deliver higher monthly stock returns, with lower risk."
  - Stock returns from firms that have a corporate branding strategy ("branded house") are higher than for firms that have many brands with different names ("house of brands").
  - **Investments in portfolios that consist of sub-branded strategy firms resulted in much higher returns.**

## Empirical Results on Returns: Value of \$1000 invested (over a 10-year period)



### Marketing Overall and Firm Value

- **In terms of elasticity**, numerous studies have indicated a variety of marketing actions have **varying positive effects on the value of firm**.

### How about Marketing Overall and Firm Value?

	Firm Value Elasticity	
Advertising	.04	Edeling-Fischer JMR 2016
Brand Assets	.33	Edeling-Fischer JMR 2016
Customer Relationship Assets	.72	Edeling-Fischer JMR 2016
Innovation	+	Sood-Tellis MKS 2009

- **Research on mergers and acquisitions demonstrate an increase, in recent years, on the value of customer relationships and a decline of brand value**, due to new assets driven by technology.
- **Customer relationships** (customer satisfaction), though they are not financial metrics, **have a great impact on firm stock prices** because satisfied customers

are more likely to be brand loyal. Additionally, satisfied customers tend to increase their consumption of a brand and/or recommend it to others.

- **Product innovation can have very positive effects** on the value of the firm but is **also risky and expensive, making it a challenge.**
- In terms of **firm value impacting marketing decisions:**
  - **Myopic management** for the short term has negative stock market consequences.
  - **Firms that are or become publicly** listed tend to focus more on minor product innovations.