MSI Webinar: Firms' Focus on Brand and Customer Management: Measurement, Development, and Financial Consequences

October 3, 2023 | Virtual | 12:00 pm – 12:30 pm EDT

Speaker:

Werner Reinartz – *Chaired Professor of Marketing, University of Cologne.*

Overview:

Werner Reinartz (University of Cologne) examines research he conducted with Simeng Han (Goethe University Frankfurt), Thomas Scholdra (University of Cologne) and Bernd Skiera (Goethe University Frankfurt). Beginning his discussion, Werner noted that marketing thoughts, priorities and strategies come in waves with some lasting longer than others. The research he conducted considers: What has happened to customer management (CM) as a strategy over time, how has it evolved, and what importance does it have today? In addition, the research aims to understand: What has happened to brand management (BM), "a go-to-market approach?" Taking into consideration a number of firm-level antecedents, to answer these queries focusing on CM and BM strategies, the researchers developed dictionaries based on the top five BM and CM textbooks. They then determined with the top bigrams (occurring simultaneously) based on the top five textbooks. Finally, they analyzed data from earnings calls (provided by public companies quarterly) which include data points and feedback on a variety of earnings-related subjects such as marketing strategy. While both strategies have increased since 2003, CM-focused strategies are more prevalent and have increased the most. However, firms must choose: attempting to focus on both strategies simultaneously resulted in negative performance. B2B firms showed a high CM focus for both products and services. B2C firms also focused more on CM for services but more on BM for products.

Takeaways:

Concepts

- When firms go to market they have to prioritize their strategy, resource allocation, above and below-the-line marketing spend, service, sales, KPIs (e.g., penetration vs. CLV), organizational focus (sales vs. marketing), distribution (outsourced vs. in-housed), etc.

  - Prototypes of how firms function can be distinguished by **brand vs. the customer as the focal strategy** as a unit of analysis, but this separation is not always clear or mutually exclusive.

    - **Brand Management (BM):** Strategic process of developing and sustaining the value of a firm's brands. It identifies and differentiates a firm's offerings from competitors to create distinct market value (Chernev, 2017).

- **Customer Management (CM):** Strategic process of increasing the value of a firm's customer base. It identifies the most profitable customers and aligns the firm's products with their needs ([Kumar & Reinartz, 2018](#)).

Brand Management Focus vs. Customer Management Focus

	Brand Management Focus	Customer Management Focus
Strategy Formula-tion	**Content** • Developing and sustaining **brand value** • Identifying needs of an **entire market or market segment** • Unit of analysis is brand/product • Key metrics are brand equity, awareness, penetration, and market share **Process** • Extend purchases into new product areas and acquire new customers	**Content** • Increasing **customer value** • Recognizing and accommodating **heterogeneity in economic value** of individual customers or segments • Unit of analysis is individual customer/segment • Key metrics are customer equity, reten-tion, profitability, and lifetime value **Process** • Continue or increase purchases of current offerings by current customers

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Implementation

- In a **brand management focus (BM)**, the firm manages the entire marketing mix execution for the entire market, the distribution is outsourced (in most cases), activities are R&D, mass media is the main form of communication, and **the execution is predominantly marketing-oriented.**

  - There is a **stronger association between advertising and R&D** expenses and a lesser association between selling, general and administrative (SG&A) and labor expenses.

- In a **customer management focus (CM),** the marketing mix execution varies across individual customers, the distribution is typically owned (as in the case of insurance and telecom companies), key activities are pricing and services, communication is mainly direct response, and **the execution is predominantly sales/service oriented.**

  - In a CM there is less focus on advertising and R&D expenses, and **more focus is placed on selling, general and administrative (SG&A) and labor expenses.**

Conceptual framework

- The **conceptual framework** states that **firms decide on pursuing a distinct marketing strategy**, which might be a BM-focused or a CM-focused strategy (though it could be both or neither).

o This decision is **driven by a number of antecedents** such as firm characteristics and firm decisions (e.g., allocations to SG&A, allocations to advertising, allocations to R&D, etc.), sales, and the industry they are operating in.

o **BM focus** has more of an effect on **revenue-type metrics** due to the generation of brand awareness among both prospective and existing customers.

  ▪ **Branded companies differentiate their product and services** to lower customer search costs in addition to generating revenue by attracting new customers and protecting existing revenue from customer churn.

o **CM-focused** companies predominantly have an **impact on the gross margin** that companies achieve.

  ▪ The profitability of new and existing customers is at stake, and firms try to **increase the realized prices for high-potential customers** (who are less price-sensitive). In addition, **eliminating less attractive customers** leaves more experienced customers with a lower cost to serve.

o The researchers believe **if a firm tries to pursue both a BM and CM-focused** strategy, it will have a **negative impact** on performance.

  ▪ Firms cannot pursue two strategically opposed foci effectively.

Conceptual Framework
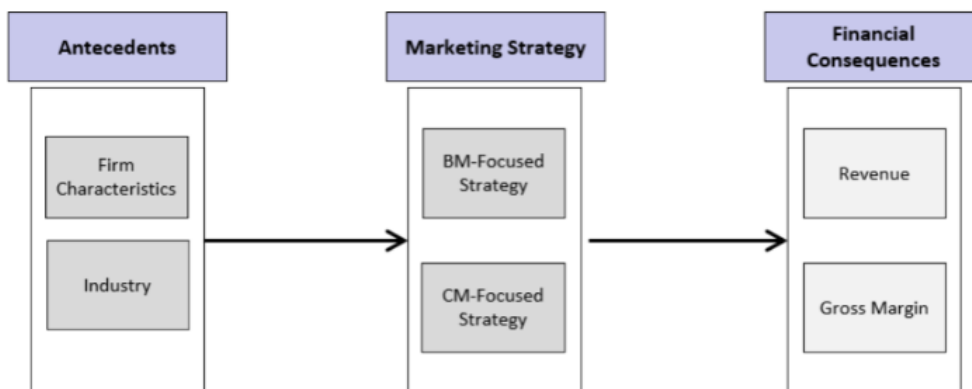
Problem: the strategies are not necessarily observable / and at least not easily measurable

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- **Problem: The strategies in the middle (Marketing Strategy) are not necessarily observable or easily measured** (see the above graphic).

- o To address this problem, the researchers looked at **earnings calls** (provided by public companies quarterly) which speak to a variety of earnings-related subjects, including **marketing strategy** (see the following examples).

Measuring Brand Management and Customer Management Focus
Earnings Calls

Kellogg's

Example: High brand management focus

"*Operating profit margin increased by about 40 basis points year-on-year, and this includes a substantial double-digit increase in brand building. This ramp-up in brand building will continue in Q2 and even a bit into Q3. In fact, we made the decision recently to add some incremental brand-building investment over the next couple of quarters [...].*"

Q1 2018 Kellogg's Earnings Call (published 03.05.2018)

ebay

Example: High customer management focus

"*We care that the customer cohorts we bring in have a positive customer lifetime value. [...] But I suspect that you'll see us evolve into acquiring healthy customer cohorts and reactivating our existing base are the 2 most important -- 2 most important priorities of our marketing spend.*"

Q1 2018 eBay Earnings Call (published 25.04.2018)

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- o **Based on information from earnings calls the researchers aimed to answer the following questions:**

Questions to be asked

- Has the role of BM been changing over time? If yes, in which direction and by how much?
- Has the role of CM been changing over time? If yes, in which direction and by how much?
- Have firms to do both? Can they do both? Or does it pull them apart?
- Are there structural situations that predicate the respective deployment?
- What does it mean in terms of performance consequences?

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Measuring BM and CM Focus

- **Step 1:** The researchers went about the empirics by **developing dictionaries for both** the **customer management (CM)** approach **and the brand management (BM)** approach. **They then built common bigrams** taken from the top five BM and CM textbooks, with the top five bigrams having to occur in the top five textbooks simultaneously.

- These dictionaries, built for both strategic directions (BM and CM), were then applied to quarterly earnings statements (published by companies), and from these the researchers built the measurement of focus on BM and CM.

- **Step 2: The researchers transcribed earnings calls** with the criteria that the companies were US companies trading on the New York Stock Exchange or NASDAQ with available transcripts from at least the past three years.

- **Step 3:** The researchers **generated a measure** to operationalize the BM and CM focus (see formula below).

$$\frac{Number\ of\ BM\ (CM)bigrams}{Total\ number\ of\ bigrams\ in\ transcript} * 100$$

Results

- **What is the development of BM-focus and CM-focus over time?**
  - Over the time period of 2003 - 2019, it was observed that **both BM and CM strategies are up**, with CM leading the way. In addition, the level of CM focus is significantly higher than the BM focus over time.
    - Companies appear to practice either BM or CM as distinct strategies with few attempting to do both simultaneously.
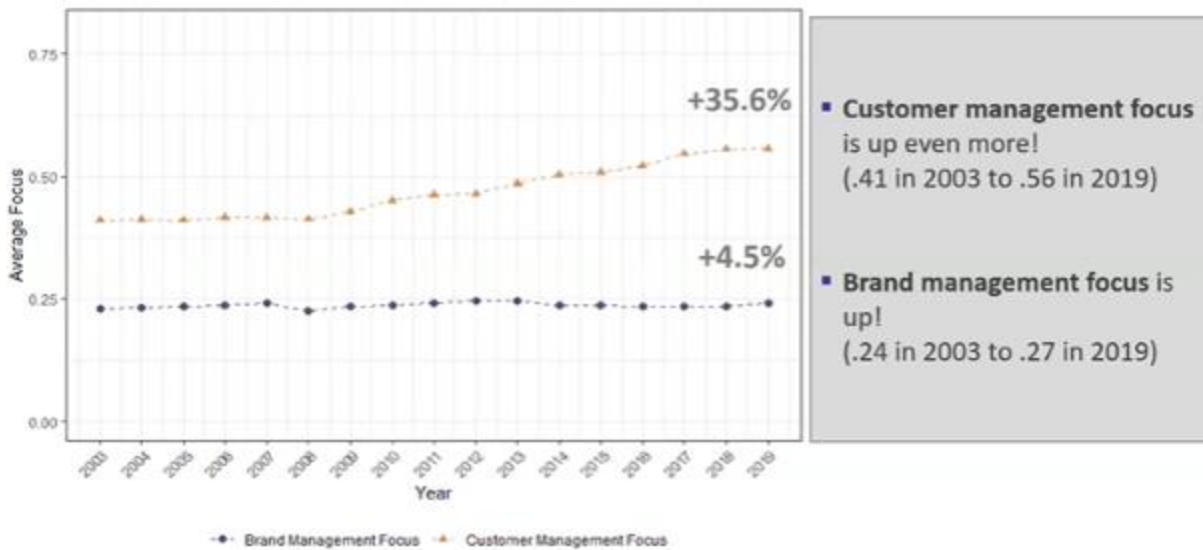
  - All **industry sectors exhibited a higher CM focus** in 2019 than in 2003.

  - B2B companies focused on CM for both products and services, as did B2C companies for services. B2B companies focused on BM for product marketing.

- o Firms of **all types indicated a higher CM focus** in 2019 than in 2003.

- o BM focus remains more stable.

- o Zooming in on the company **Capital One** showed them **periodically focusing on BM while launching large advertising campaigns** but with a **substantial increase in CM** focus in 2010.

  - ▪ This is due to the growth of Capital One into physical retail banking, engaging in more TV advertising and brand building.

- o Zooming in on the company **Nike** showed a **sustained primary BM focus** but a **substantial increase in CM focus** in 2015 as more firms began to push a D2C strategy.
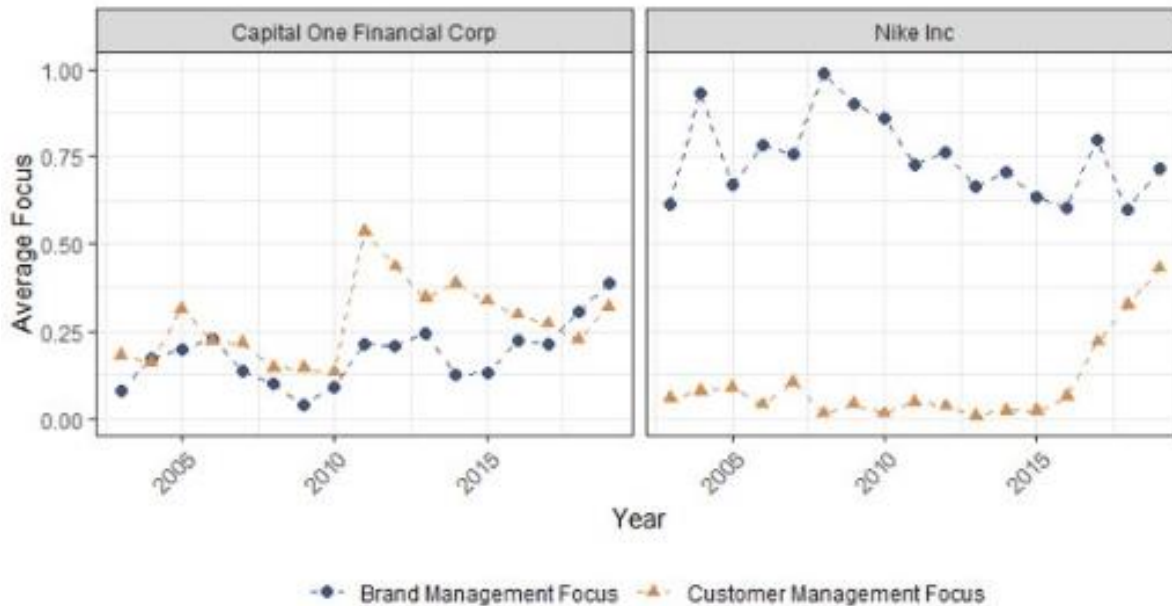
- • The final step to **formally analyze these developments was to build a simultaneous model of the antecedents and performance consequences** to identify whether the antecedents correlate with the CM or BM activity.

  - o The results indicated that advertising spending is positively correlated with BM activities, whereas SG&A spending was not correlated with BM activities.

  - o CM activities show the opposite, with a positive correlation between SG&A spending and CM activities such as deployment of sales and service staff. Advertising spending was not significantly correlated with a CM focus.

  - o In terms of firm age, **younger firms are engaging in more CM activities.**

The below graph shows the most important antecedents that were put into the model and how they correlate with BM or CM activities.

Formal Analysis (Antecedents)

Strategy	Driver	
BM_{it} / CM_{it}	$FirmAge_{it}$	Firm age in years of firm i at time t
	$TotalAssets_{it}$	Total assets of firm i at time t (proxy for firm size)
	$Leverage_{it}$	Leverage [calculated as total debt/equity] of firm i at time t.
	$SG\&A_{it}$	Selling, general, and administrative expenses (scaled by total assets) of firm i at time t
	$Advertising_{it}$	Advertising expenses (scaled by total assets) of firm i at time t
	$R\&D_{it}$	Research and development expenses (scaled by total assets) of firm i at time t
	Staff intensity$_{it}$	Labor expenses (scaled by total assets) of firm i at time t
	$IndustryGrowth_{jt}$	Growth rate of average gross profits (scaled by total assets) in industry j at time t
	$CompetitiveIntensity_{jt}$	Herfindahl-Hirschman Index of industry j at time t
	$BusinessType_i$	Indicator for industry type of firm i (1 = B2B-product, 2 = B2B-service, 3 = B2C-product, 4 = B2C-service)
	$TimeTrend_t$	Linear trend over time t
	Industry$_j$	Fixed effects for industry j

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- To model outcomes such as **sales revenue** and **gross margin**, strategic focus (BM, CM, both, or neither) was supplemented with data on **industry growth**.
  - o Results showed that in terms of **sales revenue**, there was a **positive association with BM focus** and a **negative association** with firms that **focused on both CM and BM** at the same time.

Formal Analysis (Antecedents)

Strategy	Driver	
Sales revenue$_{it+1}$	BM focus	Brand management focus of firm i at time t.
	CM focus	Customer management focus of firm i at time t.
	BM x CM focus	Interaction of BM and CM focus of firm i at time t.
	BM x CM focus x Industry Growth	Interaction of BM and CM focus with Industry Growth of firm i at time t.
	$FirmAge_{it}$	Firm age in years of firm i at time t.
	$TotalAssets_{it}$	Total assets of firm i at time t (proxy for firm size).
	$(-) Leverage_{it}$	Leverage [calculated as total debt/equity] of firm i at time t.
	$SG\&A_{it}$	Selling, general, and administrative expenses (scaled by total assets) of firm i at time t.
	$Advertising_{it}$	Advertising expenses (scaled by total assets) of firm i at time t.
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	$IndustryGrowth_{jt}$	Growth rate of average gross profits (scaled by total assets) in industry j at time t,
	$CompetitiveIntensity_{jt}$	Herfindahl-Hirschman Index of industry j at time t.
	$TimeTrend_t$	Linear trend over time t.
	$Quarter_t$	Fixed effects for quarter of the year at time t.
	Industry$_j$	Fixed effects for industry j.

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  - o In terms of **gross margin**, the results indicate a **positive association** with those firms that have a more **CM-focused approach** and a **negative association with firms that do both.**

Formal Analysis (Antecedents)

Strategy	Driver	
Gross margin $_{it+1}$	BM focus	Brand management focus of firm i at time t.
	CM focus	Customer management focus of firm i at time t.
	BM x CM focus	Interaction of BM and CM focus of firm i at time t.
	BM x CM focus x Industry Growth	Interaction of BM and CM focus with Industry Growth of firm i at time t.
	FirmAge$_{it}$	Firm age in years of firm i at time t.
	TotalAssets$_{it}$	Total assets of firm i at time t (proxy for firm size).
	(−) Leverage$_{it}$	Leverage [calculated as total debt/equity] of firm i at time t.
	SG&A$_{it}$	Selling, general, and administrative expenses (scaled by total assets) of firm i at time t.
	Advertising$_{it}$	Advertising expenses (scaled by total assets) of firm i at time t.
	R&D$_{it}$	Research and development expenses (scaled by total assets) of firm i at time t.
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- o A **simulation app was developed** to take all the **data points analyzed which can then be plotted by company, business sector, industry, B2B or B2C**, etc. to find out overall customer management (CM) approach over time as seen in an example with Deere & Co and Baker Hughes (see graphic below).

  - ▪ Results for B2B companies John Deere and Baker Hughes showed on average the CM approach increased over time.

Brand & Customer Management Focus

Simulation App:

https://xyzyxz.shinyapps.io/BMCM

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Key Findings and Implications

- BM and CM activities increase over time. CM much more so
  - → high continued relevance; consider the high importance of a CM strategy in general

- Characteristic patterns and evolutions in each industry sector and business type
  - → Beware of 'industry rules' of a go-to-market strategy

- Distinct impact on performance metrics (revenue, gross margin)
  - → avoid negative financial consequences of dual emphasis

- Choice between BM and CM seems volitional
  - → need to make a distinct pick

- Measurement approach as benchmarking tool
  - → diagnose competitors and industries

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Sources:

Capturing retailers' brand and customer focus.
Source: Han, S., Reinartz, W., & Skiera, B. (2021). *Journal of Retailing, 97*(4), 582–596.

This article uses information from two data sources, Compustat and Nexis Uni, and textual analysis to measure and validate the brand focus and customer focus of 109 U.S. listed retailers. The results from an analysis of their 853 earnings calls in 2010 and 2018 outline that on average, both foci increased over time. Although both foci vary substantially, brand focus varies more widely across retailers than their customer focus. Both foci are independent of each other. Specialty retailers have the highest brand focus, and internet & direct marketing retailers have the highest customer focus. A positive correlation exists between a retailer's customer focus and its profitability, but not between a retailer's brand focus and its profitability. The authors use the results to generate a research agenda that can direct future research in further systematically exploring firms' brand and customer focus. [Abstract from the authors].

The business model: How to develop new products, create market value and ake the competition irrelevant.
Source: Chernev, A. (2017). Cerebellum Press.

This book offers a systematic approach to identifying market opportunities and developing breakthrough business models. It outlines the key principles of business model generation, presents a value-based framework for developing viable new offerings, and provides a set of practical tools for creating a meaningful value proposition that drives market success. The business model framework outlined in this book applies to a wide range of companies-- startups and established enterprises, consumer packaged goods companies and business-

to-business enterprises, high-tech and low-tech ventures, online and brick-and-mortar entities, packaged-goods manufacturers and value-added service providers, nonprofit organizations and profit-driven companies. [Description from the publisher].

Customer relationship management.
Source: Kumar, V., & Reinartz, W. (2018). Springer.

This book presents an extensive discussion of the strategic and tactical aspects of customer relationship management as we know it today. It helps readers obtain a comprehensive grasp of CRM strategy, concepts and tools and provides all the necessary steps in managing profitable customer relationships. Throughout, the book stresses a clear understanding of economic customer value as the guiding concept for marketing decisions. Exhaustive case studies, mini cases and real-world illustrations under the title "CRM at Work" all ensure that the material is both highly accessible and applicable, and help to address key managerial issues, stimulate thinking, and encourage problem solving. The book is a comprehensive and up-to-date learning companion for advanced undergraduate students, master's degree students, and executives who want a detailed and conceptually sound insight into the field of CRM. The new edition provides an updated perspective on the latest research results and incorporates the impact of the digital transformation on the CRM domain. [Description from the publisher].

Uniting the tribes: Using text for marketing insight.
Source: Berger, J., Humphreys, A., Ludwig, S., Moe, W. W., Netzer, O., & Schweidel, D. A. (2020). *Journal of Marketing*, *84*(1), 1–25.

Words are part of almost every marketplace interaction. Online reviews, customer service calls, press releases, marketing communications, and other interactions create a wealth of textual data. But how can marketers best use such data? This article provides an overview of automated textual analysis and details how it can be used to generate marketing insights. The authors discuss how text reflects the qualities of the text producer (and the context in which the text was produced) and impacts the audience or text recipient. Next, they discuss how text can be a powerful tool both for prediction and for understanding (i.e., insights). Then, the authors overview methodologies and metrics used in text analysis, providing a set of guidelines and procedures. Finally, they further highlight some common metrics and challenges and discuss how researchers can address issues of internal and external validity. They conclude with a discussion of potential areas for future work. Along the way, the authors note how textual analysis can unite the tribes of marketing. While most marketing problems are interdisciplinary, the field is often fragmented. By involving skills and ideas from each of the subareas of marketing, text analysis has the potential to help unite the field with a common set of tools and approaches. [Abstract from the authors].

Firm-level political risk: Measurement and effects.
Source: Hassan, T. A., Hollander, S., van Lent, L., & Tahoun, A. (2019). *The Quarterly Journal of Economics, 134*(4), 2135–2202.

We adapt simple tools from computational linguistics to construct a new measure of political risk faced by individual U.S. firms: the share of their quarterly earnings conference calls that they devote to political risks. We validate our measure by showing that it correctly identifies calls containing extensive conversations on risks that are political in nature, that it varies intuitively over time and across sectors, and that it correlates with the firm's actions and stock market volatility in a manner that is highly indicative of political risk. Firms exposed to political risk retrench hiring and investment and actively lobby and donate to politicians. These results continue to hold after controlling for news about the mean (as opposed to the variance) of political shocks. Interestingly, the vast majority of the variation in our measure is at the firm level rather than at the aggregate or sector level, in the sense that it is captured neither by the interaction of sector and time fixed effects nor by heterogeneous exposure of individual firms to aggregate political risk. The dispersion of this firm-level political risk increases significantly at times with high aggregate political risk. Decomposing our measure of political risk by topic, we find that firms that devote more time to discussing risks associated with a given political topic tend to increase lobbying on that topic, but not on other topics, in the following quarter. [Abstract from the authors].

Marketing excellence: Nature, measurement, and investor valuations.
Source: Homburg, C., Theel, M., & Hohenberg, S. (2020). *Journal of Marketing, 84*(4). 1 – 22.

Marketing excellence is a foundational principle for the discipline that is gaining increasing attention among managers and investors. Despite this, the nature of marketing excellence and its effectiveness remain unclear. This research offers insight by addressing two questions: (1) How do managers understand and exercise marketing excellence? and (2) How do investors evaluate marketing excellence? Study 1 merges insights from 39 in-depth interviews with senior executives and secondary data from 150 firm strategies to find that marketing excellence is a strategy type focused on achieving organic growth by executing priorities related to the marketing ecosystem, end user, and marketing agility. Study 2 quantifies the impact of marketing excellence on firm value by using a machine learning algorithm and text analysis through an original dictionary to classify the text from 8,317 letters to shareholders in 1,727 U.S. firm annual reports. Calendar-time portfolio models reveal abnormal one-year returns of up to 8.58% for marketing excellence—returns that outpace those associated with market orientation and marketing capabilities. Findings offer guidance to managers, educators, and investors regarding how marketing excellence manifests—paving the way for the allocation of firm resources to ensure that marketing drives organic growth. [Abstract from the authors].

Subject Tags: leveraging data, marketing analytics, organizational structure, research methods, modeling