Introduction

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Demonstrating the value created by the marketing function to business operations and financial performance has become very important in many organizations. Top managers are constantly challenging marketers to document marketing's contribution to the bottom line and link marketing investments and assets to metrics that matter to them. This handbook relates marketing actions to various types of risk and return metrics that are typically used in the domain of finance. This unique handbook provides current knowledge of this marketing–finance interface in a single, authoritative volume and brings together new cutting-edge research by established marketing scholars on a range of topics in the area.

The research on the marketing–finance interface spans tactical and strategic marketing actions related to the creation, communication, delivery, and appropriation of the value proposition. The chapters draw on theoretical developments in economics, accounting, finance, psychology, and cutting-edge statistical and econometric approaches.

This handbook consists of 12 further chapters and is an attempt to bring together state-of-the-art research by established marketing scholars on various topics related to the marketing–finance interface. These chapters are specifically written for this handbook and cover both methodological and substantive issues. They are based on a thorough academic review, including multiple revisions of the initial chapters by the authors.

OVERVIEW OF THE CHAPTERS IN THE HANDBOOK

The chapters are organized into three major parts, labeled Parts I, II, and III. Part I covers the metrics and methods related to the understanding of firm value. Part II covers topics that are in some sense fundamental to the marketing–finance interface. These topics deal with the creation, communication, delivery, sustaining of value and its relationship to firm performance. Part III focuses on marketing actions and the destruction of firm value.

Part I Metrics and Methods

Chapter 1 by Kumar and Umashankar describes the several marketing metrics intended to increase marketing's accountability within the firm and justify spending firm resources on marketing initiatives. In addition, they suggest that there is an increasing shift from product-based metrics to customer-level metrics. They review prominent streams of customer metrics and link them to firm performance. Specifically, the five major domains of customer-based metrics include customer value metrics (what is the worth of the customers), cognitive and affective value metrics (how customers think about the firm), customer satisfaction metrics (the extent to which customers' expectations have been met or exceeded), retention and acquisition metrics (which customers to retain), churn and winback metrics (the customers to leave and the ones to win back), and the referral metrics (the value of customer referrals). This chapter provides insights that allow firms to (1) select the right customers for targeting, (2) understand the behavior and perceptions of their customer base, (3) optimally allocate marketing resources, (4) acquire and retain high-value customers, (5) cultivate customer relationships, (6) invest in building customer-valued brands, and (7) retain customers with valuable social capital.

In Chapter 2, Luo, Pauwels, and Hanssens review various time-series methods as the primary research tool for evaluating the pricing of marketing actions and marketing assets. They argue that since the effects of marketing actions occur over time, the investment community could overestimate or underestimate the financial impact of a marketing action or marketing metric, resulting in mispricing or departures from full market efficiency. This chapter presents the classification of mispricing and how time-series models can be employed to test it empirically. They show that time-series models can be implemented at the stock portfolio level and at the individual stock/firm level across time periods. Finally, they provide insights on the mispricing of both returns and risk due to marketing.

In Chapter 3, Mizik describes a new approach for valuing branded businesses. In this conditional multiplier valuation method, information about consumer perceptions of the firm's brands is incorporated directly into the valuation of the enterprise. This method was validated using a large sample of US-based publicly traded companies. The results show a significant improvement in predictive accuracy of enterprise valuation – models incorporating brand perceptions show a 16 percent average out-of-sample reduction in mean absolute error of enterprise value estimates. This chapter starts with discussion of the discounted cash flow and multiplier-based valuation analyses and then follows up with how the multiplier-based valuation approach can be implemented and extended to account for the role of brand perceptions. Finally, the chapter applies the conditional multiplier approach to illustrate the valuation of Hewlett-Packard in 2005. Using the estimated parameters from the model, along with HP's actual measures of return on sales and brand perceptions, the author estimates a value multiplier and thus actual value of Hewlett-Packard's enterprise value-to-sales.

In Chapter 4, Hutt, Tarasi, and Walker review the application of financial portfolio theory in marketing and show how this theory provides the basis for identifying the risk–return tradeoffs in both individual customers as well as market segments. In this chapter, they suggest that the risk associated with an individual customer does not arise solely from the probability of defection but is also affected by the variability in their purchases. In addition, they show that individual customer risk influences the risk associated with the entire customer base and thus, the company itself. An important highlight of this chapter is the introduction of a new customer risk metric, the customer reward ratio. The authors show how this measure can be used to assess the reward-on-risk for customers.

Chapter 5, by Srinivasan and Sihi, focuses on marketing information disclosures – any information the firm discloses about its marketing activities and programs, marketing assets, and marketing personnel. Accordingly, marketing information disclosures are disclosures about the firm's products, prices, distribution channels, entry into new markets, marketing alliances, and appointments (departures) of marketing executives. In this chapter, they first discuss the mandatory requirements for disclosure of marketing information by publicly listed firms and subsequently show that there is considerable discretion in how and what managers reveal regarding their marketing programs and spending. In the next section, they discuss the costs and benefits of marketing information disclosures and then propose a conceptual model that examines the antecedents and consequences of marketing information disclosures. Finally, they identify several research questions for marketing scholars to pursue.

Part II Creating, Communicating, Delivering, and Sustaining Value and Firm Performance

The focus of the next set of chapters is on creating, communicating, delivering, and sustaining the value and how it impacts a firm's performance.

In Chapter 6, Sorescu provides a comprehensive review of how innovation creates shareholder value. First, she discusses the determinants of successful innovation. The author suggests that the returns to innovation are different when (1) innovation is measured using patents versus new products, (2) innovation is radical versus incremental, (3) innovation is generated by the firm alone, or due to an alliance, or is outsourced from another firm or from an open community of inventors. In the next section, the discussion is focused on the metrics used to measure the value of innovation. In the final section, the focus is on how innovation affects shareholder value. Finally, the author provides directions for future research in this area.

In Chapter 7, Srinivasan, Hsu, and Fournier provide a comprehensive review of the literature on branding and shareholder value. They use the insights from this literature and provide a process framework that explains the brand–finance link. The chapter starts off with a discussion of why shareholder value (i.e., stock returns and risk) is an appropriate metric to assess brand performance and brand value. The main metrics discussed include concepts such as Tobin's Q, abnormal returns, and idiosyncratic and systematic risk. The discussion of brand equity includes three distinct perspectives – customer-based, product market-based and finance-based. Next, the chapter provides a nice discussion of two key process mechanisms for how branding affects shareholder value (the brand-as-information and brand-as-asset routes). In the following sections, the authors review the antecedents of brand equity creation and then discuss brand management tools such as advertising and promotion for building brand equity and influencing shareholder value. In the last section, the authors outline key gaps in our understanding in this area. Some of the key research topics include how brands' participation in social media drives shareholder value, the theory of risk as it pertains to brands and brand equity, and value-destroying consequences of brand crisis events.

Chapter 8 by Gielens and Geyskens describes the impact of distribution channel decisions on shareholder value. In the first part of the chapter, the authors provide an overview of the extant literature. They conclude that very little research has been done linking distribution channel decisions to shareholder value despite the long-term nature of the distribution decisions. In addition, their review indicates that the majority of the research has focused on channel design issues whereas channel coordination issues have not been addressed in the marketing–finance interface. In the next section, the authors elaborate on potential research avenues in both the channel design and channel coordination areas. In terms of channel design, the discussion emphasizes both the channel intensity and multichannel decisions and their impact on firm value. In terms of channel coordination, the authors explain how the three main coordination mechanisms (vertical integration, partnerships with distributors, and the use of power) affect shareholder value. Finally, in their summary, they provide different ways in which future research can examine whether and how distribution channel decisions affect shareholder value.

In Chapter 9, Verhoef and Pennings focus on the marketing–finance interface. They start with a detailed review of the extant literature on the marketing–finance interface and then develop potential strategies for improving this link between marketing and finance. They approach this interface from three different perspectives. The first perspective focuses on the power and influence of marketing and finance departments within the firm. The second perspective takes a cross-functional view, while the third perspective examines how the marketing–finance interface affects relationships between marketing and its key stakeholders such as customers and channel partners. In the final analysis, they conclude that it is imperative for marketers to understand the intricacies of finance to improve marketing's role in the domain of finance.

In Chapter 10, Kurt and Hulland examine the interrelationship between marketing strategy, corporate financial policy, and firm value. In the first part of the chapter, they focus on how marketing strategy affects and is affected by corporate financial policy. For example, equity financing plays a crucial role in supporting major increases in marketing spending. Thus, a better understanding of the connection between marketing strategy and firms' acquisition of equity capital through initial public offerings (IPOs) and seasoned equity offerings (SEOs) is critical to longer-term success. In the second part, the authors focus on the interactive effects of marketing decisions (e.g., advertising and promotion) and corporate financial policy on firm value. Specifically, they examine how corporate financial policy decisions of firms and their industry rivals moderate the link between marketing strategy and firm value. In conclusion, this chapter develops a neat contingency theory of the marketing–finance interface that goes beyond examining simple main effect relationships.

Part III Marketing Actions and Value Destruction

In Chapter 11, Chakravarty and Grewal focus on how short-term concerns for firm performance and shareholder value drive marketing activities. For example, they argue that a tactic called REAM (real activities management), the practice by which managers deviate from their planned marketing-related expenditures to deliver current period earnings that maintain or increase stock prices, can be a major concern to marketing professionals and academics. They not only discuss different ways in which REAM could destroy firm value but also examine how the incidence of REAM can be reduced.

In the last chapter (Chapter 12), Liu, Chen, Ganesan, and Hess examine the link between product-harm crises and firm value. They start by documenting major trends in product-harm crises across different industries and show how product recalls influence the stock market. In the next part, they discuss the impact of various strategies firms use to manage product-harm crises and how it impacts firm value. In the final section, they document major data sources for research, regulatory processes associated with product recalls, and methodological issues such as endogeneity. This chapter concludes with an excellent discussion of potential areas for research such as the role of media during product-harm crises.