Publication: Asian Scientist
Date: 5 March 2014
Headline: Helping Marketing Strategists See The Bigger Picture

Helping Marketing Strategists See The Bigger Picture

By Singapore Management University
March 5, 2014

Associate Professor Kapil Tuli of the SMU Lee Kong Chian School of Business studies the impact of marketing strategy on a company's share price and financial risk.

AsianScientist (Mar. 5, 2014) – By Prime Sarmiento – A successful marketing strategy highlights a product's unique selling proposition (USP), encouraging consumers to choose a specific brand over the thousands of others that line the shelves of retail stores. This translates into stronger sales and brand loyalty among its target market. Much of marketing research thus revolves around understanding and catering to consumers' needs and wants.
For Kapil Tuli, Associate Professor of Marketing at the Singapore Management University's Lee Kong Chian School of Business, however, designing a marketing strategy should go beyond USP and brand management.
Professor Tuli's research focuses on the impact of a company's marketing activities (advertising, product placement and search engine optimisation, for example) and marketing assets (customer satisfaction and brand quality) on its share value. He began work in this field in 2004, as a PhD student at Emory University studying how the concepts and tools used in marketing interact with the American equities market.

Considering risk in addition to returns

Professor Tuli studies several aspects of marketing, including brand quality, customer relationships and strategy. His research has revealed that how a marketing plan is executed has a direct impact on a listed company's share price and financial risk.

"In evaluating the financial impact of marketing actions and assets, it is important to not only look at how they impact returns but also consider their risk implications," Professor Tuli says.

Together with his collaborator, Professor of Marketing Sundar G. Bharadwaj of the University of Georgia, Professor Tuli used financial data from American companies to study the effect of customer satisfaction on the risk of the stock returns of these companies. They found that increases in customer satisfaction can lower the volatility of a firm's stock returns and also reduce its systematic risk (also known as the 'beta' of a firm's stock price).

A key implication of the study is that marketing managers need to be aware of their contribution to reducing the risk of a firm's stock returns.

"Most marketing managers under-sell the benefits of risk reduction afforded by marketing assets such as high customer satisfaction rate," he says.

That said, Professor Tuli also notes that the prospect of higher returns and the pressure to maintain quarterly targets are some of the factors that might force marketers to unwittingly design strategies that will increase the company's financial risks.

Together with Professor Bharadwaj and Professor Andre Bonfrer of the Australian National University, Professor Tuli used financial data from publicly-listed American companies to study the effect of brand quality on shareholder wealth.

The researchers found that perceived brand quality has a significant impact on a company's financial risk. In a highly competitive industry, brand quality has a stronger impact on the company's stock returns and consequently, on shareholders' wealth.

These findings suggest that any investment meant to improve brand quality must also boost the company's reported earnings and competitiveness, says Professor Tuli. Hence, listed companies may also need to disclose brand quality improvements, he says.

Outsourcing with care

Professor Tuli also applies his research to current industry trends. For example, recent moves by American companies to outsource their customer relationship management (CRM) operations to developing countries may appear to be good for a company's bottom line. But, as Professor Tuli's latest study has revealed, outsourcing CRM – a key marketing tool – can actually erode a company's market value.

The study was done in collaboration with marketing professors Kartik Kalaignanam of the University of South Carolina, and Tarun Kushwaha and Jan-Benedict E.M. Steenkamp of the University of North Carolina.

Professor Tuli and his colleagues collated CRM outsourcing announcements made by 111 publicly-traded American firms between January 1996 and December 2006. To analyse the impact of these announcements, they employed the event study method – a common statistical method used to assess the impact of events such as mergers and acquisitions, earnings disclosure, regulatory changes and even natural disasters on a company's shareholder value.

Their analysis revealed that outsourcing is beneficial if the company only outsources its back-office information system operations. A company making such an announcement usually enjoys a positive effect on stock price. But a company announcing that it is outsourcing its front-office CRM systems will not get the same optimistic response from investors.

"CRM outsourcing is more beneficial to firms that are high on information technology capabilities and low on marketing capabilities, and less beneficial when it concerns pre-sales CRM," Professor Tuli says.

Professor Tuli attributes this to cultural differences between the companies' American customers and customer service personnel, who are citizens of other countries and unfamiliar with American culture.

"While outsourcing of customer relationship management function might lower costs initially, it can lower customer satisfaction and therefore harm long term profitability. This is likely to happen if one tries to outsource the customer facing pre-sales function to a firm that operates in a culturally different environment," he says.

The study found that, on average, the market value of firms outsourcing to culturally distant countries declined by US$82 million.

"Our findings reveal that CRM processes significantly moderate the relationship between shareholder value and outsourcing firm capabilities and resources. The adverse effects of CRM outsourcing by strong marketers are four times stronger when outsourcing concerns pre-sales CRM than post-sales CRM," says Professor Tuli.

Professor Tuli and his colleagues advise listed firms with strong marketing expertise to think twice before outsourcing pre-sales activities. These companies, however, might consider outsourcing post-sales CRM processes to culturally distant countries, since this does not appear to have any adverse effect on shareholder value.

He currently collaborates with colleagues in the United States (Georgia Institute of Technology and University of Tennessee) and Europe (Tilburg University in Netherlands and Goethe University in Germany) to study the reaction of investors and financial analysts to marketing actions such as brand licensing agreements, spending on marketing and R&D, and the disclosure of customer metrics by publicly-listed firms.

Advice for future marketers

Professor Tuli says that his findings make a strong case for marketing managers considering the impact of marketing plans on a firm's stock price. This insight continues to inform not only Professor Tuli's research work but also the advice he gives as a mentor to future marketers. He encourages his students to consider how their future marketing campaigns may affect a company's stock price.

"If marketers do not know how their actions affect shareholder value, they are unlikely to have a say on the major strategic decisions taken by the top management of the firm. Importantly, if they cannot articulate their impact on shareholder value, they are likely to be more vulnerable to cost cuts initiated by top management under pressure from stock markets or when faced with a recession," he says.

Asian Scientist Magazine is a media partner of the Singapore Management University Office of Research.