# Can marketing lift stock price?

By Thomas Oosthuizen

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Marketing remains a company expense that is questioned by many a CEO and FD. While this is not always justified, it is true that few marketing departments are definitive about the results of their activities.

As marketers, we prefer to call marketing expenses an investment - there is sufficient empirical evidence to support that - yet many non-marketing executives see it as an expense. This makes marketing expenses easy to cut during an economic decline.

Focusing on results means marketers becomes more business-focused. Too often marketing budgets "get a life of their own", with activities purely based upon historic spend, rather than activities being questioned for their contribution to business growth.

**Marketers need to use a more definitive measure for results and use diagnostic analysis to review and align how results are achieved.**

We all measure brand awareness, brand perceptions and brand preference but, while these may be indicative of market results, they are hardly ever definitive. I do not underestimate their importance and have used them myself. Yet they are merely contributory rather than definitive.

*The acid test of marketing investment is whether marketing creates shareholder value.*

I remember years ago reviewing a MA dissertation by Amelia Soares, where she indicated a link between company awareness among the general public and the share performance of the company. In the same vein, the recovery of IBM in the '90s first occurred among consumers, but eventually translated into the company being valued higher by the stock market.

These studies clearly indicate that consumer measures are indicative of company value, even if they are not conclusive measures in their own right.

*The market seems to expect a relationship between satisfied customers and share price.* One can hardly imagine dissatisfied consumers paying a company well for its products and services over an extended period of time. It is just a fact that eventually patience will wear out and at worst customers will defect, but at least customers will expect to pay less for lesser expectations. This is largely what happened to the global airline industry.

Let us return to metrics.

The main focus of any marketing intervention is to attract customers, retain them and grow their value to the company.

Customers produce the revenue and profit margins of a company. The more customers - at greater value and higher profit margins - must translate into a more valuable company (the only exception is when the costs of a company are way above industry norms, indicating inefficiency).

Customer growth for a company can be translated as:

1. Attracting customers within the desired target profile: this means marketing spending the resources where the greatest benefit is derived.
2. Attracting more of them than competitors: this means attracting more of the desired customer profile than competitors.

3. To do this, we must sell a superior advantage. The balance of consumer perception must be on value, rather than price only.

4. Managing the perception of value customers derive from the company: that means retaining the balance between the benefits customers derive and the investment they make. This is a function of customer satisfaction and their perception of competitive offers. While satisfied customers may not automatically give a company more business, it is a sound platform for expansion.

5. Retain customers: This means retaining your base for growth. Losing customers not only erodes your base for growth, it also costs marketing and infrastructural monies to replace them.

6. Expand the sales of products and services to them: which will increase their revenue to the company. Retaining customers makes them available to sell more products and services to, thereby expanding the value they have for the company. Most research suggests we need to actively sell to existing satisfied customers to grow their business with the company.

*If a company can thus grow customers, retain them, grow their value perception and the revenue acquired from them, it will be successful. If it can do that without jeopardising the margin of profitability, the company will grow and so will its shareholder value.*

Whereas the positive multiplier effect of the above factors will culminate in a high investment value, the negative will undermine the investment value of a company.

We need to directly measure the relationship between customer value to the company and its impact upon company valuation.

In the *Summer 2011 MIT Sloan Management Review*, the author asks the question as to whether marketing can create shareholder value in raising stock prices.

While most marketers will endorse the fact that marketing works in building brands, improving brand image and driving sales, the relationship between marketing and investor value is not always that clear. Although we as marketers will anecdotally believe it, isolating the effect of marketing is complex.

For a CEO, shareholder value is the most important objective: most will stand and fall by their ability to grow the investment value of their companies.

If we can indeed prove that marketing can create shareholder value, it will mean that marketing will be seen as a business tool rather than an expense.

**According to the above article, customer lifetime value (CLV) is the most important determinant of company investment value.**

The lifetime value is defined as "the discounted net present value of the expected cash flows from a customer". The above article states if two companies have the same expected customer lifetime value, the one with the lower level of risk will have a higher market valuation. Marketing is the instrument that enables the sustained flow of cash to the business.

If the business is marketed well, the flow of business will be sustained. If the business is not marketed well, the flow of business will be erratic, hence more risky. We can therefore deduce that a company that operates in multiple markets should be less risky than one that only operates in one market.

The article states that projected cash flows can be measured through the likelihood that a customer will defect in future. This is a function of customer satisfaction, market growth, customer loyalty and the costs and effort involved in switching brands. So, while bank customers may not be that satisfied, the effort involved in switching prohibits change. This means the revenue streams of banks are more consistent.

The empirical study that was conducted by Kumar & Sham (2011) in the article above indicated a very strong link between marketing programmes that grow the lifetime value of customers and the share performance of the company.

Using the lifetime value of customers, the study divided them into three groups: high CLV; medium-to-low CLV and negative CLV. The contribution of each group to the company bottom line was determined. The top 10% of customers represented 90% of the company profit.

We need to use different marketing strategies to strengthen the lifetime value of a given customer group. We need to analyse CLV segments to determine what marketing activities are required to achieve growth.

**The marketing budget should align to the growth opportunities in terms of future CLV.**

- The one company tested in this survey adapted its acquisition strategy to prospects that closely match the profile of existing high CLV customers.
- One company aligned its activities to the retention of high CLV customers through special rewards. It also incentivised customers for buying additional products.
- At the lower CLV levels, customer promotions were focused on a minimum spend level before they qualified for incremental products.

*Activities increased the CLV of (all) customers, relative to their contribution to the bottom line, while reducing churn, thereby the vulnerability of future revenue streams.*

**The alignment of revenue and profit growth objectives to CLV meant all marketing activities were directly aligned to company growth - and measured this way.**

The two experimental companies they used in the study increased their stock market valuation way beyond their sector peers, by 33% and 58%. In the consumer goods company, the performance against the top three competitors was almost 4:1 (50% against 15%). In the B2B business, it was almost 3:1 (33% against 12%) - one can understand why it is lower as B2B relationships are complex and decisions often purely price-based.

*Once we have segmented CLV, we can use existing brand and other measures to "unpack" the contribution of various elements to grow this value.* If the brand needs to be strengthened within a given segment, we can leverage brand awareness and perceptions. If we need to retain customers, we need to ensure they are satisfied.

*Every single marketing activity needs to relate back to the lifetime value of the customer and how that can be optimised.*

Is this the most definitive MORI metric? I think it goes a long way towards that.

## ABOUT THOMAS OOSTHUIZEN


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