Marketing partnerships: Stock prices don't always run with the bulls

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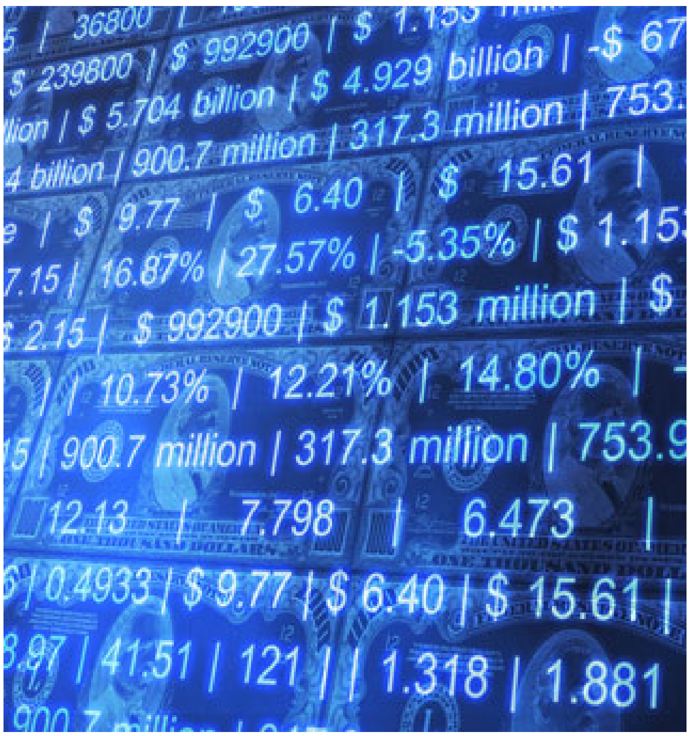

When two companies form a marketing alliance, investors always herald that as good news and send the companies' stock prices sky high, right? Well, maybe not. As a new study in the *Journal of Marketing* shows, marketing alliances can reduce equity risk, but only as long as the alliance is a new one and if the two companies' existing network of partners is not too interconnected.

"Most research on marketing alliances has focused on the value of firms in the wake of the alliance," write the authors of the study, Felipe Thomaz (University of South Carolina) and Vanitha Swaminathan (University of Pittsburgh). "Our study goes in the other direction by looking at the impact of alliances on risks, in particular, the stock market risks to a firm."

The authors examined two kinds of equity risk. One is called "idiosyncratic" risk, which involves investor expectations of a firm's own volatility and other firm-specific factors unrelated to the broader financial market. The other is known as "systematic" risk and pertains to a firm's exposure to macroeconomic developments such as fluctuations in exchange rates and the price of energy. The authors used an event study approach and data from the SDC Joint Ventures/Strategic Alliances database to test several hypotheses about the relationship between alliances and risk.

The authors found that marketing alliances reduce equity risk in general. But when it comes to the two specific kinds of risk, idiosyncratic and systematic, the findings are more nuanced. A marketing alliance reduces idiosyncratic risk, but only if the alliance is a new one. At the same time, if a company has a dense network of partners, a new alliance can increase idiosyncratic risk as well as systematic risk.

"The bottom line is that managers should carefully evaluate not only the benefits but the risks associated with strategic alliance partners before embarking on a new alliance. Although company can lower its equity risk after forming a new partnership, those benefits can be erased by the company's own and the partner's existing network of alliances," the authors write.

More information: Felipe Thomaz and Vanitha Swaminathan. "What Goes around Comes Around: The Impact of Marketing Alliances on

Firm Risk and the Moderating Role of Network Density." Forthcoming in the *Journal of Marketing*.

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