Strong marketing department drives firm performance, researcher finds

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Hui Feng and her colleagues developed a new scale to measure marketing department power and capabilities. Credit: Christopher Gannon, Iowa State University

Company executives take note - marketing matters.

Not only does marketing pay off in the short-term, but it has a positive effect on long-term shareholder returns, according to new research from Iowa State University's College of Business. Hui (Sophia) Feng, lead author and assistant professor of marketing at Iowa State, says the study provides clear evidence of the marketing department's value.

"During the economic crisis, the first thing firms cut was the marketing budget and staff," Feng said. "The marketing department contributes to both the short-term and long-term, so managers should not be short-sighted and cut the marketing budget and staff just because of a crisis or poor quarterly figures. Managers need to look beyond one quarter or one year and see marketing is important."

The study, published in the *Journal of Marketing*, measures marketing department power, and a firm's ability to build and leverage brand equity and customer relationships. To objectively calculate these measures, Feng and colleagues Neil Morgan and Lopo Rego, at Indiana University's Kelley School of Business, developed a new scale to measure marketing department power and marketing capabilities using publicly available data for more than 600 firms in the U.S. over a 16-year period. It is the first study to take such a comprehensive and objective approach.

To determine the marketing department's power, researchers compared head count, compensation, the number of responsibilities and rank of job titles of marketing executives to executives in each firm's top management team. Feng says while many marketing professionals are concerned they are losing power or being marginalized, the data show just the opposite to be true.

"There is this panic that marketing is losing a seat in the boardroom, and that marketing doesn't really have a say in the strategic direction and the decision making," Feng said. "We found that the power of marketing departments actually increased. Not only did it increase for firms that

didn't have a marketing department before and created one later, but also for firms that already have a marketing department."

More than power, marketing has value

Power struggles aside, marketing departments are often criticized for a lack of accountability, Feng said. That's because it's difficult to measure whether specific outcomes, such as sales, are a direct result of an advertising or social media campaign. To overcome this barrier, researchers compared how well the firms used their available resources to build brands and customer relationships, and their ability to turn these resources into cash flows. This allowed researchers to estimate the firms' return on investments in building and leveraging its brand and customer relationships.

This research shows that strong marketing department power is associated with strong short-term and long-term firm performance, Feng said. Researchers controlled for firm size, number of strategic business units and competitive intensity. They also conducted several tests to verify the validity of the results.

"Structurally, the marketing department not only improves performance by increasing a firm's capability to perform marketing activities, but also directly increases performance, because they influence the strategic decisions made by the top management team and direct their attention to marketplace issues," Feng said.

Marketing professionals can use that influence and their knowledge of the customer base to help guide the firm on decisions about a new product line or other ventures, she added.

The trade-off and management lessons

While marketing's overall impact is positive, Feng says there is some give-and-take. For example, building brands and customer relationships takes time and resources. The return on that investment is not immediate, which negatively affects the short-term return on assets, the study shows. However, once the brand is established, a firm can leverage it to generate more cash flow and benefit the long-term shareholder return.

"For example, if Burberry or Gucci were on sale, more people are going to buy it than a less famous brand on sale. Firms benefit in the long-term after building a strong brand," Feng said.

Feng cautions that there is a limit to how often a firm can leverage or "milk" its brand, despite the cash-flow brought in by leveraging these brands. If famous brands, such as Burberry or Gucci are on sale too often, people won't buy any regular-priced products. Repeated sales promotions can tarnish the brand image or make it seem less pristine, so there is a balance. Regardless of the trade-off, Feng says the overall takeaway for managers is simple.

"It's very straightforward - invest more in marketing and give marketing a stronger voice in the top management team. It's convincing evidence for marketing professionals to justify an increase in the budget and staff, request more seats and influence in the firm's top management team and show that powerful marketing departments create value both in the short-term profitability and long-term shareholder value," Feng said.

Provided by Iowa State University