# Investing in marketing

## *Why marketing should be considered an investment rather than an expenditure*

Traditional accounting for companies has typically listed marketing budgets as expenditure. This has been based on the concept that marketing is an intangible asset that is not seen to increase the value of a company, or bring in revenue itself. Marketing has, therefore, become a side strategy that is only useful in highlighting the other strong aspects of a company. Innovation, for example, is recorded in as a separate asset on financial balance sheets as part of product investments. This is because innovation has been clearly linked to improved company value and performance, and is therefore an asset not a cost. Yet the work by Sydney-Hilton and Vila-Lopez (2019) has indicated that accounting that focuses on short-term profits by ignoring these intangible assets, relegating marketing, should be stopped. Marketing expenditures should be treated as investments, not costs, as assets would for a company. Marketing is how the world views a company, and the better the marketing, the higher a company is valued. This directly results in marketing investments permitting higher net income margins. But the right marketing strategy has to be adopted because not all of them lead to the same financial results.

Sydney-Hilton and Vila-Lopez (2019) have identified four marketing strategies against which they have measured the associated financial successes for *US Standard & Poor's 500-company index*, using longitudinal analysis across the years 2009-16:

1. brand investment/value – early building of a brand allows for a company to have the potential of future sales growth, resulting in customers becoming more willing to spend more;
2. communication investment – seen as an efficacy vehicle to get financial performance, this is a major choice for a company as various platforms to communicate brand values and identity now exist, with social media taking the forefront;
3. price investment – correctly gauging the pricing strategy is a key component of marketing as this directly links with customer perception of a brand or company, as well as their willingness to make a purchase; and
4. and service marketing investment – there has been a shift from goods marketing to service marketing, which has resulted in a focus on employees of companies having to satisfy customer needs as a primary concern.

These four marketing strategies are understood as being those most able to generate the greatest impact for a company. Their financial success has been measured by seven financial measures identified by Sydney-Hilton and Vila-Lopez (2019):

1. return on equity;
2. return on net assets;
3. return on gross investments;

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4. price to book ratio;
5. market capitalization;
6. net income margin; and
7. and Tobin's Q.

## Valuing marketing

Marketing is the creation of value for customers, which in turn makes them buy the products and services offered by the company. Marketing is seen as a significantly large component of the cost structure of many companies, which is why being able to reevaluate it as an asset rather than a cost would allow companies to realize the value of marketing more tangibly. It is widely accepted that as a company grows over the years, so too will the marketing budget. As long as the company continues to perform better each year, part of that financial success can therefore be attributed to its marketing strategy. This directly links marketing strategy to the tangible asset of financial performance. There is an increasing correlation between brand costs and results. This can be seen in things such as the boom in Corporate Social Responsibility (CSR) communications and marketing. Firms engaged with this have been able to sell their brand as responsible and demonstrate good corporate practices that have typically resulted in increased performance.

The work of Sydney-Hilton and Vila-Lopez (2019) indicates that out of the four marketing strategies – brand, communication, price, and service – only brand and price showed a significant and higher means in the last years of those considered. This means that marketing strategies that focus on brand investment/value, and price strategy should be preferred over others in terms of increasing financial performance of a firm. As Sydney-Hilton and Vila-Lopez (2019) point out, a platform for investors to better predict future trends for financial measures via marketing investments information would be beneficial for companies. Following this, out of the seven financial measures noted above, market capitalization was observed to have a significant influence on the marketing capabilities of companies. Therefore, market capitalization should be considered as a key indicator that investments in marketing are paying off, making the intangible asset tangible. The same was also observed for net income margin, which should be similarly considered as a key measure of marketing performance.

## Comment

The review is based on "Are marketing strategies correlated with financial outputs? A longitudinal study" by Erika Sydney-Hilton and Natalia Vila-Lopez, published in Journal of Business & Industrial Marketing.

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## Reference

Sydney-Hilton, E. and Vila-Lopez, N. (2019) "Are marketing strategies correlated with financial outputs? A longitudinal study", *Journal of Business & Industrial Marketing*, available at: https://doi.org/10.1108/JBIM-02-2018-0088