Product Innovations, Marketing Investments and Stock Returns

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Associate Professor Shuba Srinivasan
A. Gary Anderson Graduate School of Management, University of California

Abstract
Under increased scrutiny from top management and shareholders, marketing managers feel the need to measure and communicate the firm value of their actions. In particular, how do customer value creation (through product innovation) and customer value communication (through marketing investments) affect stock returns? Examines conceptually and empirically how product innovations and marketing investments for such product innovations lift stock returns by improving the outlook on future cash flows. We address these questions with a large-scale econometric analysis of product innovation and associated marketing mix in the automobile industry. We find that investors react favorably to companies that launch innovations, particularly pioneering innovations, backed by substantial advertising support, in large and growing categories. Finally, we quantify the stock return benefits of increasing advertising support for new-to-the-company versus new-to-the-world products.

Presenter: Shuba Srinivasan
Email: shuba.srinivasan@ucr.edu